1

BUSINESS OBJECTIVES

Unit Structure:

1.0 Objectives

1.1 Introduction

1.2 Business Objectives

1.3 Dynamics of Business and its Environment

1.4 Types of Business Environment

1.5 Summary

1.6 Exercise

1.0 OBJECTIVES:

After studying this unit the student will be able to –

- Understand the concept of Business and its Functions and Characteristics
- Know the dynamics of business and its environment
- Explain the concept of Business Environment
- Discuss the Types of Business Environment

1.1 INTRODUCTION:

About Business:

Meaning

The term business refers to an organization or an enterprise engaged in any commercial, industrial, or professional activity. Some businesses are profit oriented, whereas some are non-profit that operate for a charitable mission or to serve society. In terms of capital formation and management - businesses can range from sole proprietorship to partnership firms, to multinational companies at large (private or public limited).

Traditionally business included activities aimed at making profit through production and marketing. What the organizations produced, was sold to the customers without much of a choice. But now, in the present day context, it has become more of customer oriented and service oriented than the traditional method.

For example, Uber and Ola started with the concept of aggregating taxi drivers and providing transportation services to the customers under their brand name.

Business is a generic term which comprises of all primary and ancillary activities which are involved in the production and distribution of goods and services.

1.1.1 Definitions of business

1. According to Keith Davis, "Business may be defined as any form of commercial activity to satisfy the economic wants of people at a profit."

2. According to Lewis H. Haney, " Business is a human activity directed towards producing or acquiring wealth through buying and selling activities".

3. According to James Stephenson, "business is the sum total of all the processes that are engaged inthe removal of hindrances of persons (trade), place (transport and insurance, and time (warehousing) in the exchange (banking) of commodities.

4. According to Merriam-Webster Dictionary, "business is the activity of making, buying, or selling goods or providing services in exchange for money."

1.1.2 FUNCTIONS / NEED of BUSINESS:

1. The prime function of business is meeting and satisfying the needs of customers through regular supply of goods and services.

2. Business plays a key role in generating employment opportunities. It can be self-employment (entrepreneurship) or in different areas such as production, marketing, logistics and supply chain management, banking, finance, insurance, etc.

3. Business contributes to government revenue through various taxes, duties and fees.

4. Business touches all aspects of personal and social life of people due to its reach of varied goods and/or services.

5. In order to make a country rich, strong and self sufficient, business facilitates industrial and service development which leads to increased foreign exchange by exporting goods and/or services. This also caters to capital formation in the economy.

1.1.3 CHARACTERISTICS OF BUSINESS:

1. **Economic Activity:**Business is primarily an economic activity as it undertakes production and distribution of goods and/or services for satisfying customer wants.

2. **Risk and uncertainty:**Businesses are subject to risks and uncertainties. This may be due to a number of possible reasons like

loss due to fire or theft, change in consumer demand, taste and preferences, socio-economic changes and stiff market competition.

3. **Regularity in Dealings:** Business transactions must be regular in nature. It involves frequent exchange of goods and services.

4. **Profit Motive:** The primary objective of business is profit maximization. Earning of profits is important for growth, expansion and survival of business.

5. **Legal Activity:** All businesses are governed under various applicable laws for example The Indian Partnership Act, 1932, Indian Contract Act, 1872, Indian Companies Act, 2013. Hence it should conduct legal and lawful activities.

1.2 BUSINESS OBJECTIVES

A Business objective is the result that the enterprise aims to achieve during the course of time. It includes the strategies that owners or managers adopt to achieve its goals. Business objectives are the future destinations of an organization.

Business objectives are the specific and measurable results organisations hope to maintain as theygrows.Business objectives act as a parameter for the company, showcasing the organizational strengths, weaknesses and opportunities that may be available. Objectives are generally constant, but may change as the situations may demand.

1.2.1 Definitions of Business Objective:

1. According to **D.E. McFarland**, "Objectives are the goals, aims or purposes that organizations wish to achieve over varying period of time."

2. According to **Koontz and O'Donell**, "Objectives are the ends towards which activities of any enterprise or department or project within it, are aimed."

1.2.2 SMARTObjectives:

Objectives are set in all key areas of business/operations – production, marketing, finance, H.R., etc. Business Objectives need to be SMART.

- **S – Specific – Provide a clear description of what needs to be achieved.**
  - Example: Increase the number of monthly users of Netflix mobile app by optimizing the app-store listing and creating targeted social media campaigns.

- **M – Measurable – Include a metric with a target that indicates success.**

- Example: Increase the number of monthly users of Netflix mobile app **by 1,00,00,000** by optimizing the app-store listing and creating targeted social media campaigns for **four social media platforms**: Facebook, Twitter, Instagram, and LinkedIn.

- **A – Achievable – Set a challenging target, but keep it realistic.**
  - Example: Increase the number of monthly users of Netflix mobile app **by 1,00,000** by optimizing the app-store listing and creating targeted social media campaigns for **three social media platforms**: Facebook, Twitter, and Instagram.

- **R – Relevant – Keep your goal consistent with higher-level goals.**
  - Example: Increase the number of monthly users of Netflix mobile app by 1,00,000 by optimizing the app-store listing and creating targeted social media campaigns for three social media platforms: Facebook, Twitter, and Instagram. **Because mobile users tend to use our product longer, growing our app usage will ultimately increase profitability**.

- **T – Time Bound – Set a date (time-frame) when your goal needs to be achieved.**
  - Example: Increase the number of monthly users of Netflix mobile app by 1,00,000 by optimizing the app-storelisting and creating targeted social media campaigns, which will begin running in **February 2022**, on three social media platforms: Facebook, Twitter, and Instagram. Since mobile is our primary point of conversion for paid-customer signups, growing our app usage will ultimately increase sales.

1.2.3 Types of Business Objectives

Business objectives can be classified into five broad categories. They include:

1. **Economic**: refers to earning profits, wealth creation and appreciation, customer acquisition, innovation, optimum utilization of resources.

2. **Social**: includes –sustainability in production activities, regular supply, adoption of fair trade practices, fair wages, and contribution to general societal welfare.

3. **Organic**: places attention on – survival, growth and corporate image of the business.

4. **Human**: deals with considering the needs of employees by providing competitive wages/salaries, good working conditions, labor participation in management

5. **National / Global**: specifically relate to the national/global economy and includes – increasing national income, promoting exports, national self-sufficiency, global presence and leadership.

The following table gives an overview of types of business objectives:

Economic	Social	Organic	Human	National/Global
Profit Maximization, Wealth creation, Creation of Customers, Innovation, etc.	Customer Satisfaction, Steady supply of goods/services, Fair trade practices, Fair wages, Fair Dividend, etc.	Survival, Growth , Recognition /Image	Fair Treatment of employees, Proper working conditions, Workers participation, Appraisal & Job Satisfaction, etc.	Industrial Growth & Expansion, Self-Sufficiency, Employment Generation, Global Presence & Competitiveness, Social Justice, etc.

1.3 BUSINESS ENVIRONMENT:

Business Environment is the most important aspect of any business organization. A Business Environment is the sum or collection of all internal and external factors such as employees, organizations products/ services, customers, management, suppliers, shareholders/ owners, investors, government, economic conditions, competitors, etc. These factors affect the functioning of the organization directly or indirectly.

Even after a business is created, its entrepreneurs and managers must continuously monitor the environment so that they can forecast customers demands and make product/service changes accordingly. Business Environment helps organizations to identify business opportunities, determine growth, profitability and plan strategies accordingly.

Definitions:

According to Keith Davis, *"Business Environment is the aggregate of all conditions, events and influences that surround and affect the business."*

According to Prof. Weimer,*"Business Environment encompasses the climate or set of conditions-economic, social, political orinstitutional in which business operations are conducted."*

1.3.1 Dynamics of Business and its Environment

Business and its prevailing environment are closely related. There is a significant interdependence or interrelation between business and environment

Growth and Profitability of businesses depend on the environment under which the business operates. Following points suggest the interdependence between business and its environment:

1. Business management is always within the framework of environmental variables. The environmental variables provide opportunities and threats to businesses. Neglecting the environmental forces may lead to the danger of survival of business.

2. Business has limited capacity to influence the external environment

3. Businesses need to maintain constant link with the environmental forces and need to adjust its activities in line with the developments taking place in the business environment

4. Business enterprises have to consider the total business environment and not any particular component in isolation inorder to survive and progress.

1.4 TYPES OF BUSINESS ENVIRONMENT

Business environment can be classified into two major types i.e. Internal Environment and External Environment.

Internal Environment refers to the factors within the organization eg. Mission and Vision, policies and programmes, organizational structure, employees, financial and physical resources. These factors can be altered hence known as controllable factors. Internal environment helps the business enterprise to identify its Strengths and Weakness.

External Environment refers to the factors outside the organization. These factors are mostly uncontrollable and are further classified into two segments – micro and macro environment.

1.4.1. Internal Environment:

The major factors affecting business decision are:

i) **Value system:** The success of any organization depends upon the sharing of value system by all members. The values of the business owner/founder seep down to the entire organization and have a significant effect on the organization.Organisations with a strong culture of ethical standards and value system are highly preferred by external associates like suppliers, distributors or financial institutions.

ii) **Vision & Mission:**Vision states the future orientation of a business organization, where the organization wants to be in the future. Mission reflects the vision statement, as it reflects the basic purpose and philosophy of the organization and gives a clear idea of its long run commitment. Eg. The mission statement of Himalaya is to *establish Himalaya as a science-based, problem-solving, head-to-heel brand, harnessed from nature's wealth and characterized by trust and healthy lives.*

iii) **Organisational Structure and functioning:**The type of organizational structure – tall or flat and the style of function of the management, the level of professionalism of management and composition of the board of directors are various factors that affects organizational decision making

iv) **Human Resources:**The success of an enterprise is solely dependent on its manpower. Therefore the quality, skill competency, right attitude and commitment of its human resources is essential for the success of an organisation.

v) **Policies & Procedures:**

Policies are statements that guide decision making. It defines the boundaries within which decisions can be made. Eg. Credit Policy for Creditors/Debtors, dealing with customers, sales policy etc.

Procedures are plans that establish a required method of handling future activities.

vi) **Other Factors:**

- Research and development
- Marketing and distribution network
- Physical resources - plant, building, machinery
- Technology advancement

1.4.2. External Environment:

All those factors outside the organization which provide opportunities or pose a threat to the organization make up the external environment.

It can be further divided into two major components - Micro and Macro.

a) Micro Environment: Micro environment or task environment refers to those individuals, groups and agencies with which the organisationscomes into direct and frequent contact in the course of its functioning.According to Philip Kotler, *"The micro environment consists of factors in the company's immediate environment which affect the performance of the business unit. These include suppliers, marketing intermediaries, competitors, customers and the public."*

Micro environment consists of the following elements:

1. **Customers**: The people that buy an organizations goods or services are its customers. In order to be successful the organization must understand and meet the needs and expectations of the customers.

There may be different types of customers like individuals, households, Government departments, commercial establishments, etc. For example, the customers of a paper company may include students, teachers, educational institutions, business firms and other users of stationery.

2. **Competitors**: All organizations face competition at local, national and global levels. They may have both direct and indirect competitors. Direct competitors are the other firms which offer the same or similar products and services. For example, Sony TV faces direct competition from other brands like LG, Samsung, MI, One Plus, etc.Indirect competition comes from firms vying for discretionary income. For example, a cinema house faces indirect competition from Casino, and other firms marketing entertainment.

3. **Suppliers:**Suppliers are those who supply the inputs like raw material, labour and components to the company. Organizations should ensure that their suppliers are reliable, offer uninterrupted supply and if possible, they should keep multiple suppliers. There should be a strong, positive, and healthy relationship between the organization and its suppliers.

4. **Marketing Intermediaries:** Marketing intermediaries help and support the organization to promote, sell and distribute its products/services. Middlemen like wholesalers, agents, and retailers serve as a link between the organization and its consumers. Dabur India, Maruti Suzuki, Xaomi, Patanjali are some companies that have exhibited a successful countrywide retail distribution network

5. **Financers:** The Shareholders, Investors, financial institutions, banks and debenture holders provide finance to business organizations. The firms financial capacity, policies and attitudes of investors/financers are very important factors.

6. **Publics:** Publics include all those groups who have an actual or potential, interest in the company or who influence the company's ability to achieve its objectives. Media groups, environmentalists, non-government organizations (NGOs), consumer associations and local community are examples of publics.

b) Macro Environment: The external macro environment determines the opportunities for a firm to exploit for promoting its business. It also presents threats in the sense that it can put restrictions on the expansion of business activities.The macro environment forces are less controllable than the micro forces.

According to Philip Kotler, *"Macro environment includes forces that create opportunities and pose threat to the business unit. It includes economic, demographic, natural, technological, political and cultural environments."*

Macro Environment consists of the following components:

i. Demographic Environment
ii. Political and Legal Environment
iii. Social and Cultural Environment
iv. Economic Environment
v. Technological Environment
vi. Natural/Ecological Environment
vii. Global Environment

i. **Demographic Environment:**It refers to various dimensions of the country's population like size of population, growth rate, gender ratio, age composition, income level, education level, family size, family structure etc. The demographic environmentdiffers from one country to another and from one region to another within a country. Business firms use the demographic factors as a basis for market segmentation.

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

ii. **Political and Legal Environment:** Political environment comprises the elements relating toGovernment affairs. It serves as the regulatory framework of business. A stable and dynamic political environment is essential for business growth. Whenever there is a change in the Government in a democratic country, it is a sign of change in economic policies. The Political environment of business depends on:

1. Ideology of the Government
2. Political Establishment
3. Political Stability in the country
4. Relations with other countries
5. Defense and Military Policy
6. Centre State Relationship
7. Approach of Opposition parties towards business

Legal environment constitutes the laws framed by the Government and various legislations passed in the parliament. These legislations cannot be overlooked by the businessman.

Some of the main legislations regulating the business are as follows:
1. Industries (Development and Regulation) Act, 1951
2. The Factories Act, 1948
3. Consumer Protection Act, 1986

4. Companies Act, 2013
5. The Indian Partnership Act, 1932
6. Foreign Exchange Management Act, 1999
7. Securities and Exchange Board of India Guidelines, 2000

iii. **Social and Cultural Environment:** Since business is an integral part of society , both influence each other. These socio-cultural factors include: attitude of people, family system, caste system, religion, education, marriage, habits and preferences, languages, urbanization, customs and traditions, ethics etc.Socio-cultural environment determines the code of conduct the business should follow.

In Delhi, the polluting industries (of F category) have been closed by the orders of the Supreme Court. Also certain food products (meat), alcoholic liquor for human consumption, etc are banned in certain states and regions in India.

The culture prescribes and teaches what an individual learns and accepts. All language, customs, habits, values, and attitudes are culturally derived. In some ways, the culture overwhelms the individual. Every society depends on its culture to instill normative behaviour into the populace so that it can be maintained and survive.

iv. **Economic Environment:** Economic environment includes the type of economic system that exists in the economy, the nature and structure of the economy, the phase of the business cycle (for example, boom or recession), the fiscal, monetary and financial policies of the Government, foreign trade and foreign investment policies of the government, gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market, etc.

Favorable economic environment brings rapid expansion of business activites.

v. **Technological Environment:** It comprises the knowledge of latest technological advancements and scientific innovations to improve the quality and relevance of goods and services. Business organisations need to keep track of the technological environment to avoid obsolescence, satisfy customers needs and face stiff competition.

For example, watch companies have started manufacturing smart watches along with traditional watches. Nokia, a renewed smartphone brand lost its market share due to the launch of Android systems.

vi. **Natural/Ecological Environment:** Natural environment is the ultimate source of many inputs such as raw materials, energy which business firms use in their productive activity. These factors include the availability of natural resources, weather and climatic condition, location aspect, topographical factors, etc.

Government policies to maintain ecological balance and conservation of natural resources put additional responsibility on the business organisations.

Some significant laws relating to ecological environment in India are:

- Environment Protection Act 1986,
- Forest (Conservation) Act 1980,
- Wildlife Protection Act 1972
- The Air (Prevention and Control of Pollution) Act 1981,
- The Water (Prevention and Control of Pollution) Act, 1974

vii. **Global Environment:**It is important for industries directly depending on import and export. The global environment consists of all those factors that operate at the transnational, cross-cultural and cross-border levels which have an impact on the business of the organization.

Some of the important factors that influence the global environment are:

- Globalisation and Liberalisation
- International agreements and declarations
- International terrorism
- Global market and competitiveness
- Global human resources, availability and quality of skills and expertise, mobility of labourers and other skilled personnel

1.5 SUMMARY

In this unit you studied the concept of business in detail. Business refers to buying and selling of goods and services for profit..

Businesses play a key role in generating employment opportunities, contribute to government revenue in the form of taxes and making a country self reliant.

Business objectives are the specific and measurable results organisations hope to maintain and they are classified under five broad categories namely – Economic, Social, Organic, Human, National/Global.

Business environment is the sum of internal and external factors of an organization. Its two major types are – Internal and External.

Internal Environment consists of - Value system, Vision & Mission, Organisational Structure and functioning, Human Resources, Policies & Procedures

External Environment Consists of –Micro and Macro Environment

Micro Environment	Macro Environment
Customers, Competitors, Suppliers, Marketing Intermediaries, Financers, Publics	Demographic, Political and Legal, Social and Cultural, Economic,Technological, Natural/Ecological, Global

1.6 EXERCISE

FILL IN THE BLANKS

1. The main objective of society and business is ______________ (**economic and social objective**, technological objective, cultural objective)

2. A company is affected by two broad set of factors that are _______ (Local and regional, **Internal and external,** Financial and non-financial**)**

3. ________ is a statement which derives the role that an organization plays in a society (**Mission**, Objective, Goals)

4. ________ environment is beyond the control of the business (Internal, **External**, Micro**)**

5. Study of human population is called as _______ environment (**Demographic**, Economic, Social)

6. Consumer protection Act was enacted in the year______ (1989, 1981, **1986**)

7. Liberalization means _______

   (a) Reducing number of reserved industries from 17 to 8 **(b) Liberating the industry, trade and economy from unwanted restrictions** (c) Opening up of economy to the world by attaining international competitiveness

8. _______ environment constitutes the laws framed by the Government and various legislations passed in the parliament (**Legal**, Technological, Global)

9. Micro environment is also called as _______ environment (Global, **operating**, economic)

TRUE OR FALSE

1. The element of risk and uncertainty is very high in business – TRUE
2. A single transaction of buying and selling also constitutes business – FALSE
3. Business objectives need not be multiple – FALSE
4. Survival, growth and recognition are organic objectives of business – FALSE
5. Business Environment is the aggregate of all conditions, events and influences that surround and affect it – TRUE
6. Unfavorable changes in the environment bring opportunities to the business - FALSE

MATCH THE PAIRS

Group A	Group B
a) Economic Objective of Business	i) Basic Philosophy
b) Fair trade practices	ii) Social Objective
c) Fair wages, good working conditions and motivation	iii) Organic Objectives
d) Mission	iv) Profit
e) Survival, growth and Prestige	v) Human Objectives

Answers: (a – iv), (b - ii), (c –v), (d - i), (e – iii)

ANSWER IN BRIEF

1. What is business? Explain its characteristics.
2. Explain the internal components of Business Environment
3. Explain the external components of Business Environment
4. Discuss the dynamics of business and its environment.

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2

ENVIRONMENTAL ANALYSIS

Unit Structure:

2.0 Objectives

2.1 Introduction

2.2 Importance

2.3 Factors

2.4 PESTLE Analysis

2.5 SWOT Analysis

2.6 Summary

2.7 Exercise

2.0 OBJECTIVES:

After studying this unit the student will be able to –

- Understand the concept of Environmental Analysis and its importance.
- Know the factors affecting Environmental Analysis
- Explain PESTLE Analysis Model.
- Elaborate SWOT Analysis and get an overview of its factors

2.1 INTRODUCTION:

Environmental analysis is a process to identify the internal and external elements which can impact organizational performance. Environmental analysis is a strategic tool.It helps in assessing the level of opportunities or threats which the organisations might encounter. It aids to align organizational strategies with the business environment.

Environmental analysis requires information inputs which can be gathered from:

- Forecasting
- Management information systems

- Reports, journals, newspapers
- Human resources / sales personnel's
- Competitors and government policies

Environmental Analysis is also called environmental scanning.Some typical external environment issues include:

- Economic environment
- Socio-cultural environment
- Legal-Political environment
- Technological environment
- Natural environment
- Global environment

2.2 IMPORTANCE OF ENVIRONMENTAL ANALYSIS:

1. **SWOT Analysis:** The systematic study of the internal and external environment of an organization will reveal some significant information i.e. strengths, weakness, opportunities and threats (SWOT). Based on the organizational SWOT analysis, they can make necessary changes in the organizational structure, mode of operation, customer segmentation and product planning and management.

2. **Optimum use of resources:**With effective environmental analysis, we can ensure optimum use of resources. The business organizations can forecast demand and prepare future projections and alternative plans. Arrangement of required resources can be made, employees can be trained accordingly and hence it can help in reducing wastages

3. **Accomplishment of Goals/Objectives :**The top level management, middle level management and lower level management need to devise organizational goals/objectives. Environmental analysis helps in identification and formulation of organizational goals. This will ensure effective management of resources, development of plans and policies to accomplish short term, medium term and long term goals/objectives.

4. **Monitor & Control:** Environmental analysis equips organizations to monitor and control its operations based on the prevailing market trends. Based on the formulated plans, the managers can set standards and monitor the resources. In case of any differences or deviations, they can implement various control measures to avoid losses.

5. **Face Competition:**Business organizations face cut-throat competition at all times. There are price wars, quality and technology up gradations, encroachment in new markets, new product developments that have an adverse impact on business operations. Environmental analysis leads the business organizations to conduct market research and formulate effective strategies.

6. **Market Knowledge:**The Macro and Micro External Environment are dynamic in nature.The needs and wants of customers, growing demand, competitors, are ever present and keep changing. Environmental analysis makes the organizations aware of ongoing changes in the market. It helps the organization to incorporate strategic changes in its plans and policies in order to achieve the set objectives.

7. **Social Acceptance:** Environmental analysis orients the business to be customer focused. Business organizations should appeal to diversified social groups. A wide social acceptance builds a win-win situation for businesses and brings them success.

2.3 FACTORS AFFECTING ENVIRONMENTAL ANALYSIS:

1. The availability and services of **skilled and qualified workforce** are required to conducted impartial environmental analysis. This can be achieved by scientific recruitment and selection, performance appraisal and timely training and development programmes

2. **Political stability** within the national boundaries facilitates a fair environmental analysis which in turns affects the growth and expansion of businesses.

3. **Economic reforms, globalization, liberalization** of norms help in creating favorable industrial climate in the nation. This facilitates advancement of business activities

4. **Foreign direct investment (FDI)** in various sectors has given support and a positive breakthrough to the economy - 100% FDI for insurance intermediaries and increased FDI limit in the insurance sector to 74% from 49%.

5. **Information Technology** and **technological upgradation** is enhancing business practices around the world. This has promoted exports and facilitated economic growth.

6. **Government initiatives** like Digital India, Cashless Economy, Make in India, etc. have encouraged business inclusion and rendered a positive change for the Indian Economy. This has brought a significant change in environmental analysis

7. **Population growth** and shift in the demographics from rural to urban areas create new opportunities before business community

2.4 PESTLE ANALYSIS

PESTLE Analysis gives a birds eye view of the external business environment to facilitate planning and achieve organizational success. A PESTEL analysis is used to identify threats and weaknesses which are used in a SWOT analysis.

PESTLE stands for:

- P – Political
- E – Economic
- S – Socio-cultural
- T – Technological
- L – Legal
- E – Environmental

PESTLE was coined by Hayward Professor Francis Aguilar in 1967 and can work alone or in combination with other tools like SWOT analysis or Porter's Five Force's, inorder to determine the organizations overall outlook.

It is a tool used by marketers to analyze and monitor external factors that impact the organization.

There are few questions that have to be kept in mind while conducting PESTLE analysis. They are:

- What is the political situation of the country and how can it affect the industry?
- What are the prevalent economic factors?
- How much importance does culture have in the market and what are its determinants?
- What technological innovations are likely to pop up and affect the market structure?
- Are there any current legislations that regulate the industry or can there be any change in the legislations for the industry?
- What are the environmental concerns for the industry?

Each of the above mentioned factors – Political, Economic, Social, Technological, Legal to Environmental have a significant impact on the organizations but these may differ from one industry to another.

PESTLE Analysis can be further elaborated as follows:

1. **Political**: Political factors extend to the degree of intervention f the government in the economy. The government introduces and at times revises the legislations to run the economy efficiently such as – tariff and trade restrictions, taxation policies, consumer protection laws. Etc. For Example, the introduction of GST on 1st July, 2017 had a significant impact on various sectors of the economy

2. **Economic**: Economic performance of the country influence economic environment. These factors include – economic growth rates, interest rates, exchange rates , inflation, unemployment rates, infrastructure development, etc. The economic environment may affect how a company prices their products or influence the supply and demand model.

3. **Socio-cultural:** Business organizations have responsibility towards the society. Social factors, such as demographics and culture can impact the industry environment by influencing peak buying periods, purchasing habits, and lifestyle choices. Social factors can include - Religion and ethics, Consumer buying patterns, Demographics, Health, Opinions and attitudes, Media, Brand preferences, Education, etc.

4. **Technological**: Technological advancements is one of the most important factors influencing business environment. Technological factors are linked to innovation in the industry, as well as innovation in the overall economy. Not being up to date with the latest trends of a particular industry can be extremely harmful to operations. Technological factors include the following - · Automation, Technological development, Patents, Licensing, Communication, Information technology, Research and Development, Technological awareness, etc.

5. **Legal**: Legal factors affect both the internal as well as external environment. Generally legal factors include – laws relating to company formation, factory administration, foreign exchange regulations, industrial licensing, payment of wages, etc. The legal and regulatory environment can affect the policies and procedures of an industry, and can control employment, safety and regulations. Some of the main legislations regulating the business are as follows:

   1. Industries (Development and Regulation) Act, 1951
   2. The Factories Act, 1948
   3. Consumer Protection Act, 1986
   4. Companies Act, 2013
   5. The Indian Partnership Act, 193

6. **Environmental**: Environmental factors include all those relating to the physical environment and to general environmental protection

requirements. Environmental factors concern the ecological impacts on business. Key environmental factors include the following: Weather Conditions, Temperature, Climate Change, Pollution, Natural disasters (tsunami, tornadoes, etc.)

2.5 SWOT ANALYSIS

SWOT is the Acronym for STRENGTHS, WEAKNESS, OPPORTUNITIES and THREATS.

SWOT analysis is an important tool which can help you to analyse what your organization does best at the present moment, and to frame successful strategies for the future. It is used at regular intervals and enables managers to achieve its performance with ease.

A SWOT analysis examines the organisations internal strengths and weaknesses, and external opportunities and threats.

SWOT method was originally developed for business organisations and industries; nowadays it is equally used in the work of community health and development, education, and even for individual growth.

Definition:

SWOT Analysis is *"a simple but powerful tool for sizing up a companys resource capability and deficiencies, its market opportunities and the external threats to its future well-being."*

- **Thompson and Strickland**

SWOT Analysis Matrix

This Matrix will help us to understand how SWOT looks like in a 2 x 2 Grid:

STRENGTHS • What is our competitive advantage? • What products/services are performing well? • What assets do you have in your teams? (ie. knowledge, education, network, skills, and reputation)	**WEAKNESS** • What products are underperforming? • Are there gaps on your team? • Where do you have fewer resources than others? • What could you improve?
OPPORTUNITIES • What technology can we use to improve operations? • What new market segments can we explore? • Are there upcoming changes to regulations that might impact your company positively?	**THREATS** • What new regulations threaten operations? • What consumer trends threaten business? • What is your competition doing?

An overview of the Four Factors of SWOT is explained below:

1. **Strengths**: Strengths describe what the organization is best at and improves is ability to compete. Strengths are internal to a business organization and are controllable. Strengths enable the organisations to achieve its Vision, Mission and Goals. It is the basis on which continued success can be made and continued/sustained.

   Examples: strong brand image, broad product line, loyal customer base, strong financial standing/record, unique technology/process, significant market share, focused human resources, research and development, etc.

2. **Weakness**: Weaknesses are the areas where the organizations need to improve to maintain competitive advantage and survive in the market. They are limitations which create strategic disadvantages as it relates to incompetency and inability of the organization to perform certain activities as compared to its competitors.

   Examples: high product/service pricing, ineffective marketing channels, untrained and unexperienced staff, poor public image, poor financial record – high levels of debt, obsolete technology, inadequate supply chain, lack of capital, high employee turnover, low productivity, etc.

3. **Opportunities**: Opportunities refer to external favorable factors that give competitive advantage to the organization. Opportunities arise when an organization can take benefit of conditions in its environment to plan and execute strategies that increase their profitability. If a business does not take advantage of it, the competitors will take away the same

   Examples: Tax Holidays / Rebate, limited competition, technological innovations and advancements, easy availability of bank credit, market boom, favourable government policies, etc.

4. **Threats**: Threats are an unfavourable and uncontrollable condition in the organisations environment. The manager can visualize that a threat exists but there is very little one can do for survival of he business.

   Examples: poor labor-management relations, fluctuations in foreign exchange rates, entry of global MNCs, aggressive trade unions, unethical competition, changes in consumer tastes and preferences, etc.

2.6 SUMMARY

In this unit you studied the concept of environmental analysis and scanning in detail. Environmental analysis is a process to identify internal and external elements which impact organizational performance.

Environmental analysis is important as it aids in SWOT analysis, achieves goals and objectives, helps in effective monitoring and control, face competition. The Quality of workforce, political stability, economic reforms and government initiatives are some driving factors affecting environmental analysis.

PESTLE analysis - coined by Hayward Professor Francis Aguilar is the acronym for P – Political, E – Economic, S – Socio-cultural, T – Technological, L – Legal, E – Environmental. It's a tool to monitor the external factors impacting the business enterprises

SWOT is the Acronym for STRENGTHS, WEAKNESS, OPPORTUNITIES and THREATS and helps business organisations to effectively devise strategies.

2.7 EXERCISE

FILL IN THE BLANKS

1. _____ of the following is NOT an example of a political risk? (Government regulations, **Cost of production**, War)
2. An analysis of the external environment enables a firm to identify _____ (Strengths and opportunities, Weaknesses and threats, **Opportunities and threats**)
3. PESTLE is an analytical tool which helps to undertake _______ (An internal analysis, A strategic analysis, **An external analysis.)**
4. The six elements of PESTLE are __________

   a. Power, Environment, Science, Teaching, Legal, and Education

   b. Political, Economic, Social, Technological, Legal, and Environmental

   c. Political, Ecological, Social, Technical, Limited, and Entreprenurial.
5. The S in PESTLE Analysis stands for _______ (**Sociological**, Scientific, Strategic)
6. PESTLE Analysis is created by _______ (Peter Drucker, Lawrence Harvey, **Francis Aguilar**)

TRUE OR FALSE

1. PESTLE Analysis identifies factors that occur within the organisation – FALSE
2. Strengths and weaknesses are often external to an organization – FALSE

3. Globalization is not necessary for developing country – FALSE
4. Environmental analysis foretells the future – TRUE
5. PESTLE Analysis and SWOT analysis can work together - TRUE

MATCH THE PAIRS

Group A	**Group B**
a) SWOT analysis	i) 1986
b) Consumer Protection Act	ii) Strengths, Weakness, Opportunities, Threats
c) Goals of the organisation	iii) 2013
d) Environmental Analysis	iv) Internal Environment
e) Indian Companies Act	v) External environmental factors

Answers: (a – ii), (b - i), (c – iv), (d - v), (e – iii)

ANSWER IN BRIEF

1. Discuss meaning and importance of Environmental Analysis
2. What is SWOT analysis? Discuss its internal and external environment.
3. Define SWOT. Present a typical SWOT analysis matrix.
4. What is PESTLE analysis? Explain the following Factors –
   a. Political
   b. Economic
   c. Social
   d. Technological
   e. Legal
   f. Environmental

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3

BUSINESS ETHICS

Unit Structure:

3.0 Objective

3.1 Meaning of Business Ethics

3.2 Nature of Ethics

3.3 Scope or Importance of Ethics

3.4 Need for Ethics in Business

3.5 Ethical Dilemmas

3.6 Corporate Culture and Ethical Climate

3.7 Cases of Business Ethics

3.8 Summary

3.9 Exercise

3.0 OBJECTIVES

After studying this unit, the student will be able to -

- Understand the concept of Business Ethics along with its Nature in current times
- Know the Scope and Need of ethics in business
- Understand the various types of Ethical Dilemmas faced by businesses
- Explain the Corporate Culture by considering the Ethical Climate of a business
- Describe the Importance of Ethics in a business

3.1 MEANING OF BUSINESS ETHICS

Ethics are the basic moral ground rules by which we live our lives. Ethics is about right and wrong behavior with the preference to choose right over wrong. The word ethics is derived from the Greek word “Ethos” which means custom or character. Ethics in humans comes either from Nature, Nurture, or both. It is a combination of our surrounding environment and upbringing which helps understand the true meaning of ethics. We all have a conscience and self-awareness that helps us know the difference right from wrong. One cannot be devoid of it.

According to Peter Drucker, “Ethics deals with right actions of individuals”

Business ethics is a branch of ethics which refers to the standards and practices in the workplace setting. Business ethics includes - Societal standards of right and wrong, Business ethical standards and circumstances and Legal standards. It consists of the standards of behavior our society accepts. Ethics is more complex in personal areas of business. For e.g., an employee may be extra friendly in his/her personal life but at work it may be considered as harassment if no line is drawn. At work, one can’t decide which rules are worthy of following. You can show up late for personal appointments but not for work. You cannot just borrow things from a colleague at work, any borrowing may be considered as stealing. Accepting a gift may be considered as accepting a bribe. Ethics in the workplace is not subjective but it is clearly defined by your employer/company.

According to Rogene. A. Buchholz, “Business ethics refers to right or wrong behavior in business decisions”

According to Andrew Crane, “Business ethics is the study of business situations, activities and decisions where issues of right and wrong are addressed”

According to Raymond Baumhart, “The ethics in business is the ethics of responsibility. The businessman must promise that he will not harm knowingly”

Ethics at the workplace includes the following:

1. Playing by the rules
2. Abiding by the law
3. Being knowledgeable of right and wrong
4. Giving your best effort to the company
5. Working cooperatively and honestly with customers and coworkers
6. Looking out for company’s interest over your own
7. Showing respect for people and property

At times, these many be difficult to follow but it is expected to be done automatically and organically without training. To help understand this topic easily, it is important to change our thinking of ethics as applied in personal life to ethics in our professional lives. Business ethics requires an employee to behave in a professional manner, being always fair and unbiased, listening to others and showing respect and maintaining professionalism no matter the situation and circumstance at workplace.

3.2 NATURE OF ETHICS

Ethics is a set of principles which helps differentiate between right and wrong actions. Few aspects which define the nature of ethics is as follows:

It is a normative science. Ethics is something which deals with human behavior, so it puts some norms, ideals, principles, rules, and regulations into practice for human beings. Since it is dealing with human behavior, it is a social science. Social science is a branch of science which deals with human beings and society at large.

It is self-imposed. Being ethical or conducting business in an ethical manner is completely dependent on the company and the people/individuals running the company. Since there is no legal structure in place to punish or penalize people who are unethical, some may choose to practice unethical business practices. Hence, ethics is said to be self-imposed. The price, however, one may have to pay for conducting unethical business ethically may be the losing the trust and confidence of its clients, investors, suppliers, etc. in the long run.

It is a Discipline. Since ethics is a normative science, i.e., dealing with norms, ideals, principles, rules, and regulations, it helps inculcate the value of discipline in an individual. Discipline is a by-product of applying normative science in business ethics. A disciplined person following ethics leads a life of integrity and respect. He/she enjoys goodwill in the market and has a network of trusted acquaintances.

It is not a religion. Ethics is an individual motive that has to be self-imposed. It is not a culture that is needed to be accepted compulsorily. It is a choice of an individual whether to conduct business ethically or not. So, it cannot be said to be a religion. A person is not born into it but must learn to apply it in all aspects of life.

It is not culturally accepted norms. Although ethics is based on culture of practices to be followed but it is not completely what culture says it should be. There may be certain things which may have a cultural existence but may be ethically wrong to follow. For e.g., it has been seen over decades that females with the same job profile / job role doing the same type of work are paid lesser as compared to males. Such a scenario has a cultural existence; however, it is ethically wrong to practice. Remuneration should be paid for the work done irrespective of other factors like gender, status, etc. Hence, it can be said that ethics should be absolute whether accepted culturally as norms or not.

It is not a science. Ethics is a normative science and a branch of social science. It is not an exact science which is universally accepted. Ethics may be complex and subjective. Something which may be right for one may be ethically wrong for another. So, it cannot be termed as an exact science like physics, chemistry, biology, etc.

Business ethics decisions is concerned mainly with the effect of decisions inside as well as outside the business, with groups who keep interest in the business activities, such as shareholders, suppliers, government, public, etc. Some areas of ethical business practices are charging fair prices from customers, using fair weights for measurement of commodities, giving fair treatment to workers, and earning reasonable profits. Business ethics is said to begin where the law ends since law is compulsory to practice, however following ethics in business is a choice.

3.3 SCOPE OR IMPORTANCE OF ETHICS

The principles through which a business functions i.e., honesty, integrity, trustworthiness, fairness, morale, and accountability help judge the decisions and actions of the company which has social consequences. Therefore, it is imperative that a business conducts its affairs with utmost prudence. The main factors which emphasize the importance of ethics in business is customer and stakeholder satisfaction, sustainability, and social development. Business ethics helps in developing socially responsible businesses which in turn leads to the development of the society. Business and society go together, so if the society is satisfied, the business will grow and if the business is flourishing, the standard of living of the people in the society increases too.

Business ethics helps in reconciling conflicting interests of various sections of the society such as workers, distributors, consumers, shareholders, etc. It helps gauge conflicts and thereby overcome obstacles quicker if ethical decisions are taken in the interest of everyone. Business ethics helps the firm to fulfil social obligations towards the various members of the society. It puts society's interest on par with firm's objectives. This ensures growth and sustenance of the business.

Business ethics leads to more effective and efficient practices e.g., undertaking activities which reduce wastage of resources, recycling and reusing materials, effective use of manpower and sustainable means of trade. This also helps to improve the standard of behavior. Conducting business with a pre-determined set of standards help navigate through ethical decisions in a simple manner.

Business ethics leads to a long-term gain of business. A business can prosper more on the basis of good ethical standards and sustain in the market for a long time. A company doing well by following ethical practices will motivate, encourage and require other competitors to follow suit. This regulates ethical behavior of the industry as a whole. It helps to protect confidentiality and safeguards the interest of the people.

3.4 NEED FOR ETHICS IN BUSINESS

Ethics is important to businesses for several reasons as stated below:

1. **Stops malpractices:**

Some unethical and unscrupulous businessmen resort to business activities and unfair trade practices like black-marketing, artificial price hiking, selling duplicate products, illegal stocking, adulteration, etc. These practices are not only harmful to the consumers purchasing them but also to the safety of the society at large. Following ethics in business help to put an end to these malpractices and safeguard society. It creates a healthy and conducive environment for everyone.

2. **Long-term survival of Business**

A company not following ethics may not be able to survive in the long run. A businessman may have short term success but will definitely fail in the long run if ethical practices are not followed. This is because, one can cheat a customer only once. After realizing that he has been cheated, the consumer will not want to purchase goods or services from that company again. This also results in bad publicity of the company since the customer may make others aware about it. It leads to the downfall of the company in the long run.

3. **Improves customer confidence**

If customers are aware of the ethical practices followed by businesses, they have more trust and confidence in them. It helps retain existing customers and builds new customer network. Business ethics are needed to improve the customers' confidence about the quality, reliability, quality, price, performance, etc. of the product. It leads to high customer satisfaction and long-term relationship with the customers.

4. **Protecting employees and shareholders**

Business ethics are required to protect the interest of employees, shareholders, suppliers, government, etc. It protects them from exploiting each other through unfair practices like cheating or frauds. Ethics compels each entity participating in the business activity to properly execute its function by adhering to the code of conduct.

5. **Develops good business relations**

Business ethics are necessary to cultivate a good and healthy relation between business and the society. This will help in increasing the supply of good quality products at a reasonable price. It will also lead to good profits in business thereby leading to growth of the economy. If the economy grows, it helps improve the standard of living of the people.

6. Smooth functioning of business

If the business follows all business practices ethically, then the employees, shareholders, suppliers, customers will be satisfied. This will turn will help receive their full cooperation and support which results in smooth functioning of business activities. It would help the business to make good profits and expand and diversify in the market. If even one entity is not fully satisfied due to unethical practices followed by business, then the activities will not function smoothly.

7. Consumer movement

Nowadays, business ethics are getting more light because of the growth of consumer movements in the world. There is more consumer awareness in the market today than there was ever before. Consumers do not hesitate to voice their dissatisfaction about a company or product

if they have been cheated. Over the years, many consumer redressal agencies have been structured and utilized to help provide solace to aggrieved consumers. Therefore, the only way to survive in business is to be honest, fair, and loyal to the consumers.

8. Healthy competition

Today, there is heavy competition in the market in every field and industry. Competition is necessary as it inculcates creativity, innovation, and customer responsibility in the market. A business must consider its competitors as fellows and not rival enemies. The business must use business ethics while dealing with its competitors in a healthy and just manner.

9. Creates good image in society

If the businessmen follow all ethical rules, then the society and public will accept them fully. The society will extend its support to the business who follow the necessary code of conduct and avoid engaging in unscrupulous practices. If the business succeeds in creating and maintaining its goodwill in the society, it will flourish even in the most competitive markets

10. Safeguarding Consumers' Rights

The rights and authority of the consumers cannot be avoided or dismissed. Consumers are the pillars of a business, without which a business cannot exist. It is the duty of each business to not just protect but also to promote the rights of consumers such as right to choose, right to safety, right to education, right to redressal, right to be heard, right to be informed. Safeguarding consumers rights is the primal stage of business ethics

11. Labour Welfare

Employees are the backbone of any business. They play a very important role in the functioning and success of the business. They should be paid fair remuneration i.e., wages and salaries, other monetary and non-monetary benefits, good working conditions shall be provided, recreational facilities and opportunities for growth and personal development should be present. This helps to cultivate team spirit and a healthy work atmosphere in the company. A business must use ethics with dealing with its employees.

12. Consumer Satisfaction

Consumers are the king of the market. Consumer satisfaction should be the main aim of every business. Only if the consumers are satisfied, a business can do more sales, make more profits, and expand its functions. Customer satisfaction is more if business follows ethical practices. A company not following ethical practices will eventually lose its consumers confidence and trust.

3.5 ETHICAL DILEMMAS

An ethical dilemma can be referred to as a situation of conflict among various principles of an individual, creating a difficulty in decision making. It arises when one has to choose between values and rules in order to determine the right thing to-do. Dilemmas lead to difficulty in decision making and requires conscience to resolve. An individual cannot escape dilemmas, it is bound to arise in some aspect of one's life. Hence, there needs to be a system in place to deal with such dilemmas effectively.

The three sources of ethical dilemmas are:

- **Face-to-face ethics:** These are the dilemmas which may arise due to the human element in the business. It is the most common and frequent type of dilemma occurring in the workplace.

It is likely that a superior may rate the performance of a subordinate better than the others due to his/her personal equation with them. It is also possible that a colleague may take credit over the work done by you.

Face-to-face ethics is a matter of conscience and will. It may include misusing company property for personal gain, peer pressure, lying to colleagues and supervisions, conflict of interest with the team or interpersonal conflicts. These dilemmas need to be resolved keeping in mind the influence or effect your decision has on the company.

- **Corporate Policy ethics:** These dilemmas are the ones that affect the operation and working of all divisions and departments of a company. The Corporate Policy is mainly formulated by the Top management. The decisions they make has an overall impact on the working of the company. It is therefore necessary that policy decisions are taken by maintaining an ethical code of conduct.

It is possible that the company you work with is manufacturing products which has harmful effects on the consumer. The company's policy requires its employees to sign a non-disclosure agreement regarding the harmful effects. Would you sign it for the sake of keeping your job?

Another instance is the practice that your company follows to acquire new clients, by applying for loans on their behalf and selling the product to them at overinflated prices. What would you do in such scenarios?

- **Functional area ethics:** Functional areas of a business are bound to have some ethical issues. The ethical dilemmas in finance department may arise in case of fake reimbursements by employees, window dressing or misleading financial analysis and reporting.

Ethical dilemmas in marketing department can arise in case of price discrimination strategy in different markers, manipulation of supply, misleading advertisements, etc.

Ethical dilemmas in production can arise in case of product testing, environment polluting ethics, clarity on carbon emission, etc.

3.6 CORPORATE CULTURE AND ETHICAL CLIMATE

Corporate culture is a set of values, norms, traditions, and practices followed in an organization that sets the behavior in the organization. It defines the code of conduct of operations and affairs in the company. A healthy corporate culture encourages ethical behavioral patterns. It keeps the employees motivated and productive. There is a sense of belongingness to the company which develops if the corporate culture is healthy and conducive.

In many firms a good corporate culture is measured in the following ways:

- The top management showcase their commitment to strong controls through their communication and actions
- Employees are encouraged and required to have hands-on involvement in the affairs of the company
- Employees are motivated to be in the communication loop through corrective action plans
- Employees have the capacity to report reservations and grievances anonymously to the top-level management

Corporate culture is often expressed informally through direct and indirect comments and messages from the management. Many companies also express their shared values through informal dress code, participating in extracurricular activities. Corporate culture is also expressed through gestures, looks, labels.

The ethical component of corporate culture is an important factor in making ethical decisions. If the firm's culture encourages or rewards unethical behavior, its employees may well act unethically. If the culture dictates employing people who have similar values which may be seen as unethical by society, the society may even judge the organization and its members unethical.

For instance, salespeople may be seen as unethical because they sometimes use aggressive selling strategies which may be questionable in nature, in order to get customers to buy things they do not need or want. If a company's main goal is to make profit, through whatever means, its culture may foster behavior that conflicts with the ethical values of the society. Therefore, it is necessary that the culture of the company goes in unison with the ethical practices followed.

3.7 CASES OF BUSINESS ETHICS

Ethical Practices

I. Intel

- Intel, through the Intel Foundation, hosts the Intel Science Talent Search and the International Science and Engineering Fair to encourage the youth to take up STEM (science, technology, engineering, and mathematics) education.
- The company has many donation funds and programs to help girls and underprivileged minorities study in these fields.
- In addition, Intel employees are promoted or reassigned to different domains within the company every 16 to 24 months, which reflects the company's dedication to education. This move also ensures that workers do not get frustrated with the same roles and encourages them to explore new areas

II. Wipro Limited

- Wipro Limited has been recognized as one of the world's most ethical companies by Ethisphere Institute in 2021.
- The recognition came as a testimony to the company's unwavering commitment to integrity, fairness and transparency backed by strong values which has made it a trusted global brand

- Wipro Ltd has been instrumental in earning the trust of its stakeholders through commitment and resilience to ethics and integrity. It demonstrated an unwavering commitment to the highest values and positively impacting the communities they serve.

Unethical Practices

I. Vijay Mallya – Kingfisher Airlines

- Vijay Mallya's Kingfisher Airlines shut down operations in 2012 due to a cash and credit crunch. The Airline company has an outstanding debt of around Rs. 7,500 crores to approx. 17 banks led by the State Bank of India. More than 1,000 employees were left jobless and with unpaid salary arrears of over Rs. 100 crores

II. B. Ramalinga Raju – Satyam Computer Services

- In 2009, Ramalinga Raju, the founder of Satyam Computer Services, admitted to overstating the company's assets by around USD 1 billion and under-reporting its liabilities. The company misrepresented its accounts to its board, stock exchanges, regulators, investors, and all other stakeholders. Figures such as revenue, profit, and cash balances were grossly inflated to falsely portray the company in good health.

III. KFC

- World's second largest fast food restaurant chain, KFC, is known to be most unethical with regards animal cruelty of the live chicken in sheds.

- Overcrowded sheds with no space for the chicken to move around freely. The injured chickens receive no treatment and are fed genetically modified feed in order to accelerate their growth rate.

- Apart from this, due to poor wages and working conditions, the employees of the company used the chickens as a means to vent their frustration and alleviate boredom

3.8 SUMMARY

In this unit you studied the concept of business ethics and its application and importance in today's corporate structure. Ethics is the preference to choose between right or wrong while conducting business operations.

To ensure business survival and growth, it is necessary that it follows ethical practices. Everyone is personally responsible to act ethically in the workplace. They are responsible for their behavior and must support others by creating a positive atmosphere at the workplace. Companies need to know, understand, and comply with the practices which are ethical and thereby beneficial for the companies.

We also studied the types of dilemmas faced by firms on a day-to-day basis i.e., face-to-face ethics, corporate policy ethics and Functional area ethics. Dilemmas makes it difficult to make effective and appropriate decisions so it's necessary to carefully navigate through it. Along with this, we understood the role of corporate culture for an ethical workplace environment. If the firm's culture encourages or rewards ethical behavior, its employees will be motivated to act ethically.

3.9 SUMMARY

FILL IN THE BLANKS

1) Moral principals of right conduct are _______ (**Ethics**, Morality, Etiquette, Social Responsibility)

2) Successful business ethics implementation begins with ______ management commitment. (Lower, **top**, middle, bottom)

3) Business ethics is a ______ (Law, Psychology, **normative science**, life science)

4) ___________ is a set of values, norms, traditions, and practices followed in an organization (Ethics, principals, corporate responsibility, **corporate culture**)

5) Business ethics are required to protect the interest of ______ (directors, **stakeholders**, management, owner)

6) _______ has been recognized as one of the world's most ethical companies by Ethisphere Institute in 2021. (**Wipro Ltd**, Intel, Reliance Ltd, Tata Group)

7) Business ethics creates a _____ image for the business. (Bad, negative, **good**, adverse)

8) Ethics is concerned with _______ (the wider community, business, global economy, **right and wrong**)

9) A(n) _____ is a concern, situation or opportunity which requires an individual or organization to choose between right or wrong (Crisis, Fraud, **Ethical issue**, Indictment)

10) Business ethics are needed to ______ the customers' confidence about the quality, reliability, quality, price, performance, etc. of the product. (**Improve**, maintain, sustain, deplete)

TRUE OR FALSE

1) Ethics and social responsibility mean the same thing. **FALSE**

2) Corporations do not have to worry about ethical scandals and social responsibility issues. **FALSE**

3) Functional area ethics is on of the ethical dilemmas. **TRUE**

4) Business ethics is a branch of social science. **TRUE**

5) Ethics in business does not assure long-term survival of the organization. **FALSE**

6) Ethics at workplace includes looking out for company's interest over your own. **TRUE**

7) Business ethics does not help to protect the rights of consumer. **FALSE**

8) Face-to-face ethics are the dilemmas which may arise due to the human element in the business. **TRUE**

9) Good corporate culture encourages employees to have hands-on involvement in the affairs of the company. **TRUE**

10) Ethics is a religion which must be followed by everyone. **FALSE**

ANSWER IN BRIEF

1) Write a note on the nature of Business Ethics

2) Explain the need of ethics in Business

3) Why is it important for a business to follow ethics?

4) Describe the face-to-face ethical dilemmas in business?

5) Explain the role of corporate culture in ethics

6) Describe the normative nature of business ethics

7) Write 3 unethical practices done by businesses

8) Write a note on the significance of dilemmas faced in workplace

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4

DEVELOPMENT OF BUSINESS ENTREPRENEURSHIP

Unit Structure:

4.0 Objective

4.1 Meaning of Entrepreneur

4.2 Characteristics of an Entrepreneur

4.3 Meaning of Entrepreneurship

4.4 Features of Entrepreneurship

4.5 Need for Entrepreneurship

4.6 Factors Influencing Entrepreneurship

4.7 Role of Entrepreneurship in Economic Development

4.8 Entrepreneurship as a Career Option

4.9 Micro, Small and Medium Enterprises Development Act, 2006 (MSMED)

4.10 Case Studies

4.11 Summary

4.12 Exercise

4.0 OBJECTIVES

After studying this unit, the student will be able to -

- Understand the meaning of an entrepreneur along with its characteristics
- Understand the concept of Entrepreneurship along with its features and need
- Know the factors influencing entrepreneurship
- Describe the importance of considering Entrepreneurship as a Career option
- Explain the role of entrepreneurship in the economic development of the country
- Describe the features of the MSMED Act i.e., Micro, Small, Medium Enterprises development Act, 2006

4.1 MEANING OF ENTREPRENEUR

An entrepreneur is a person who starts a new business. The word 'entrepreneur' is derived from a French word 'entreprendre' which means 'to undertake' He/She is a person who is willing to take risk in a new business and enjoy the returns from it as well. An entrepreneur can be summed up in 4 words i.e.,

ATTITUDE + CREATIVITY + RELATIONSHIPS + ORGANISATION

Attitude: Having a positive attitude will get an entrepreneur a long way especially when things may sometimes not be going as planned. Being confident in their ideas, believing in themselves and perseverance will help see things through and make things happen

Creativity: It is the problem-solving nature in an entrepreneur. Ability to see things with a clear perspective and using a new approach to overcome conflicts helps entrepreneurs build a business.

Relationships: Running a business is a people thing. Having a good relationship with your customers, employees, suppliers, partners, and other businesses is essential for success. Networking plays an important role in upscaling your business. The more people you know, the easier it will be for you to use your powers of persuasion and get things done. An entrepreneur must be willing to talk to everyone and listen to what they have to say

Organization: To get to grips with the day-to-day running of a business, good organizational skills are essential. An entrepreneur needs to understand how to raise finance, manage funds, deal with tax, etc. From IT systems, to planning and record keeping, all essentials of running a business must be covered.

Starting a business is an exciting adventure full of new experiences, with some highs, some lows, some tough decisions and a lot of hard work. But as an entrepreneur the power is in your hands to decide the course of action to pursue.

According to Peter Drucker, "an entrepreneur searches for change, responds to it, and exploits opportunities. Innovation is a specific tool of an entrepreneur and hence an effective entrepreneur converts a source into a resource"

According to Albert Shapero, "Entrepreneurs take initiative, accept risk of failure and have an internal locus of control"

According to Jean Baptise Say, "Entrepreneur combines the land of one, labour of another and the capital of yet another and thus produces a product"

4.2 CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur should have the following characteristics/ qualities in order to be successful:

1. **Innovation:** Innovation is the generation of a new idea or model of working due to which you can start an enterprise and earn profits. An entrepreneur having an innovative mindset is more likely to succeed than someone who is restrictive in their practices. Innovation can be in the product or process i.e., offering a product which nobody is selling or doing a similar type of work in a more efficient and productive manner than others.

   E.g., product innovation could be launching of touch screen cell phones and laptops when the world was still dependent on keypad

2. **Futuristic:** An entrepreneur should have foresight about future market conditions. He should not only have internal business knowledge but also external business environment. Without a vision for the future for his company, he/she would just be putting in the work without actually reaching a point of success.

3. **Hard work:** There is no substitute for hard work in an entrepreneur's lifecycle. An entrepreneur should be willing to work hard and give it his all. Especially at the time of setting up the venture, it may be more necessary to work longer hours since many times he/she may have to handle the main areas of business independently.

4. **Technical knowledge:** This is the basic characteristic for an entrepreneur. He/she should have sufficient technical knowledge about the product being offered and the plan to produce it. He should also be updated with the latest technology to be in line with the market conditions.

5. **Inter-personal skills:** An entrepreneur needs to communicate with different people like his customers, suppliers, creditors, employees, etc. He must be able to express his thoughts and plans and processes effectively. Both the parties should be able to comprehend each other and work simultaneously.

6. **Positive outlook:** An entrepreneur should think positively. He/she should always be confident and hopeful about market situations even in times of failure. They must use their positive attitude to support their thinking.

7. **Risk-taker:** Starting a business involves a considerable amount of risk of failure. A person who is unable to cope with such a situation may not be a suitable entrepreneur. Therefore, the capacity and courage to take the said risk are essential for an entrepreneur.

8. **Self-confident:** An entrepreneur should have self-confidence. He should have positive attitude to achieve his goals. Such self-confidence helps him stay strong and motivated to face obstacles. It also boosts others' confidence who work with him.

9. **Leadership:** A single person cannot perform all the tasks and therefore it is important to bring some people to do it. This makes leadership very important as a leader provides the required direction to the efforts of the employees. Without proper leadership, everyone would be working independently without a common vision and not making any significant impact in the process.

10. **Open Minded:** A good entrepreneur realizes that every situation can be an opportunity to grow and develop. This can be utilized for the benefit of the organization. While dealing with roadblocks, an entrepreneur must modify his plans according to the situation. This helps to achieve goals within the given environmental conditions.

4.3 MEANING OF ENTREPRENEURSHIP

Entrepreneurship has traditionally been defined as the process of designing, launching, and running a new business which typically begins as a small business i.e., a start-up offering a product, process or service for sale or hire. It is concerned with the performance and co-ordination of the entrepreneurial function. It is concerned with organizing and managing a business in order to make long-term profits. However, a significant number of businesses have to close down due to lack of funding, bad business decisions, economic crisis or due to lack of market demand.

Entrepreneurship is the process by which an entrepreneur identifies a business opportunity, employees the necessary resources required for its exploitation for his benefit. The exploitation of entrepreneurial opportunities includes making a plan of action for business, employing workforce, acquiring resources that are material and financial in nature, and being responsible for the enterprises success or failure while providing leadership

Entrepreneurship typically operates within the ecosystem which includes government programmes and services which promotes entrepreneurship and supports entrepreneurs and start-ups.

Entrepreneurship and entrepreneur go together. An entrepreneur cannot exist without an enterprise and vice-versa. Entrepreneurship is a process done by an entrepreneur to augment his business interests.

According to Robert Hisrich, "Entrepreneurship is the process of creating something new and assuming the risks and rewards"

According to Peter Drucker, "Entrepreneurship is a systematic process of innovation, which consists in the purposeful and organized search for changes, and it is the systematic analysis of the opportunities such changes might offer for economic and social innovation"

4.4 FEATURES OF ENTREPRENEURSHIP

The following are the characteristics of entrepreneurship:

1. **Building an organization:** Entrepreneurship is a process that refers to formation of a new enterprise by an entrepreneur. It is an activity under which an entrepreneur starts a new venture with a new idea.

2. **Economic activity:** Entrepreneurship is an economic activity as it involves creating and running a new business through optimum utilization of all types of resources. It ensures that all resources which are scarce in nature be used productively so as to provide returns by way of profit and also be available for future use.

3. **Innovative function:** It is the process of discovering new concepts and ideas and implementing them in business ventures. Entrepreneurship involves bringing innovation in the market by introducing new products that delivers better service.

4. **Risk bearing:** It is an activity which involves huge risk which every entrepreneur needs to undertake while starting a business. New ideas which are developed by an entrepreneur may not always be certain and there is always a possibility of loss. It is with this uncertainty and positive outlook that an entrepreneur decides to set up an enterprise.

5. **Gap filling:** Entrepreneurship is the process of recognizing and filling the gap between customer needs and available products or services. It focuses on removing the deficiencies from the available products to fulfil the needs of customers.

6. **Organizing Function:** It is this function that brings out different factors of production like land, labor, and capital. He ensures that all factors are effectively utilized, and resources are not being wasted. All the activities are coordinated and controlled by an entrepreneur.

7. **Growth Function:** Entrepreneurship is about growing a business and grabbing opportunities as and when they arise. It's not about standing still or staying in one market with one product.

8. **Goal-oriented:** Entrepreneurship is a goal-oriented activity. They start a new venture with the purpose of earning profits by satisfying the needs of customers. Goals can be varied such as to earn profit, to expand business, to create corporate image, etc.

9. **Flexible:** Entrepreneurs should be flexible and should adapt to change as per the market conditions. Businessmen should consider and bring out all required changes in their products or services as and when required.

4.5 NEED FOR ENTREPRENEURSHIP

Entrepreneurship plays an important role in instigating a social change in society and provides enormous opportunities for growth. The following are the factors that highlight the need for entrepreneurship in today's world:

1. **Lifeline of a nation:** Entrepreneurship contributes to the gross domestic product of a nation. A country's progress can be determined with how entrepreneurship is developing. The growth of entrepreneurship is directly linked to the growth of the economy. It is considered as the yardstick of a country

2. **Encourages Innovation:** An entrepreneur is an innovator who introduces new products, new technology and new processes in the market. They solve major challenges in society through their innovations.

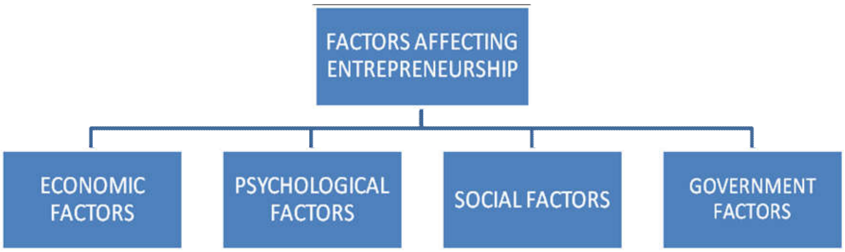
3. **Creates jobs:** Entrepreneurship helps in creating employment opportunities. Every new business that is set up, requires people who can look after the operations of the business. Hence, large number of people are employed in business on a yearly basis. The growth and expansion of business leads to a further increase in employment opportunities.

4. **Improves standard of living of people:** With increase in employment due to entrepreneurship, income levels of people also increase, this leads to an improvement in the standard of living of the people. This income gets circulated in the economy. All the expenditure and salaries generate incremental wealth in the economy, which there improves standard of living of the people

5. **Contributes to research and development:** In order to build their niche in the market, entrepreneurs are expected to invest their funds into effective research and development. Even after business is set up, entrepreneurs need to continue with R&D to keep up with the changing trends.

6. **Social benefits:** A business contributing to society's benefits is helpful for the business as well. It provides quality products and services at lowest cost possible. It makes optimum use of resources and promotes peace and prosperity in the society.

4.6 FACTORS INFLUENCING ENTREPRENEURSHIP



ECONOMIC FACTORS

1. **Capital:** Capital is the most important requisite to set up a business. It is funds owned by a person or organization at the time of starting the venture. Capital is required to purchase land, machines, raw materials, and other resources.

2. **Labor:** Labor is the services of human resources i.e., employees, workers, laborers, etc., in an enterprise. The quality as well as quantity of labor plays an important role in the running of the business. A mobile and flexible labor force is encouraged for entrepreneurship. Low-cost labor is more advantageous if there is mobility in the workforce.

3. **Raw materials:** Entrepreneurship is encouraged only if there is adequate supply of raw materials and know-how. Easy availability of raw materials attracts more individuals to set up business. The quality of production is severely affected by the quality of the raw materials.

4. **Market:** The potential of a market in which the entrepreneur is doing business is a deciding factor while setting up an enterprise. A highly volatile market may be risky for new entrepreneurs. The size and composition of market influences entrepreneurs to a great extent. A monopoly market is more favorable for an entrepreneur than a competitive market

5. **Infrastructure:** Entrepreneurship development requires basic infrastructure like transportation, power, communication, etc. Land and factory sheds at low-cost rate, water, coal, and other facilities should be available.

PSYCHOLOGICAL FACTORS

1. **Desire to achieve:** It is the need to obtain excellent results by setting high standards and striving to accomplish them. It is the consistent practice of doing things better. If the average level of desire to achieve is high, one would expect a relatively high amount of entrepreneurial development in the country.

2. **Withdrawal of status, respect:** When members of a social group perceive that they are not being respected by the dominant groups in society, it triggers a personality change that encourages entrepreneurial behaviors.

3. **Motive:** Some psychological theories stress the importance of motive or goals for an entrepreneur. Besides wealth and profit, entrepreneurs seek power, security, prestige, and service to society. Non-monetary aspects such as independence, self-esteem, etc., also triggers entrepreneurship.

4. **Skills and mindset:** The mindset of an entrepreneur is most essential while running a venture. It is half the battle won there. The success of an enterprise depends largely on the hard work, leadership, perseverance, and approach of the entrepreneur

SOCIAL FACTORS

1. **Religion and caste factor:** Religion and caste play a vital role in entrepreneurial development. The cultural practices followed by and in society have an impact on the actions of individuals. These practices and values have evolved over hundreds of years and still play a huge role in societal actions.

2. **Family Background:** This factor includes size of family, type of family and economic status of the family. Background of a family in a business provides a source of industrial entrepreneurship. Families with properties like land and house and having sound financial resources may support entrepreneurship among family members.

3. **Education:** Education helps a person to understand the realities of the world and also inculcates knowledge of the ways to deal with day-to-day problems of the world. Education plays a significant role in entrepreneurial values.

4. **Attitude of the society:** Attitude of the society plays a crucial role in entrepreneurship. Some sections of the society may have a narrow mindset and may not tolerate major changes in society. This makes it difficult for entrepreneurship to take place. Whereas certain sections boost innovation and creativity, and entrepreneur may be given a chance to set up business and earn rewards.

GOVERNMENT FACTORS

1. The Government by its actions does influence the development of entrepreneurship. Any interested government would promote entrepreneurship by enacting sound policies and strategies.

2. By creating basic facilities, utilities and services, the government can create a facilitative setup to establish business.

3. Development of industrial estates, export promotion zones, special economic zones, etc. aims at promotion of entrepreneurial activities.

4. Government of India has taken certain steps to promote growth of entrepreneurship:

a. Marketing Assistance

b. Promotional schemes

c. Concession on excise duty

d. Government incentives, subsidies, and grants

e. Credit facility

4.7 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Economic development is the situation wherein a low-income economy is transformed into a high-income economy. It is an upward change in the per-capital income of the country. When entrepreneurship leads to a development in the economy it increases the wealth, quality of life and standard of living of the people.

The following are the ways in which entrepreneurship can play a role in developing the economy:

1. Increase in National Income

National income consists of the goods and services produced in the country in a given year. An increasing number of entrepreneurs are required to meet the increasing demand for goods and services in the market. Thus, entrepreneurship increases national income.

2. Community development

When entrepreneurs contribute not only to developing industries but also the society by improving infrastructure, healthcare, education, etc., it leads to community development. For example, Azim Premji, Chairman of Wipro Limited, donated Rs. 27,000 crores for promoting education through his Foundation.

3. Regional development

Entrepreneurs who set up new business are encouraged to conduct their operations from less developed or backward areas. This is done as businesses can avail many concessions and subsidies from the government by setting business in these areas. Manpower, rent, and supplies are also comparatively cheaper in these areas. On the other hand, it leads to development of the backward areas.

4. Employment generation

Growing unemployment mainly educated population being unemployed is a major cause of concern for the nation. This problem can be tackled with the increase in entrepreneurship as entrepreneurs employ people in their business. Entrepreneurs are referred to as job creators. The Government of India has launched various initiatives such as Start-up India, Make in India, etc., to boost entrepreneurship in India.

5. Dispersal of economic power

Industrial development leads to economic power concentrated in the hands of a few. This leads to monopolies in the market which results in market domination and exploitation. Developing large number of entrepreneurs helps in diluting the economic power amongst the population and removes monopoly from the market.

6. Capital formation

In order to set up a business, entrepreneurs invest their own resources and if not sufficient, attract investments from others in the form of equity, debt, deposits, etc. This moves the idle wealth of the public into productive use and benefits entrepreneurs. This leads to capital formation and wealth creation in the nation.

7. Backward and forward linkages

Entrepreneurship will give opportunities to people to get involved at various stages starting from production to ultimate consumption. This backward and forward linkages stimulate the process of economic development in the country.

8. Export promotion

A business which has moved past the initial stages of growth will look at expansion by promoting exports to foreign markets. It leads to bigger returns and currency inflows. It also provides access to cutting edge technologies which are used in international markets. It also provides a stable source of revenue during economic downfalls in the domestic market.

4.8 ENTREPRENEURSHIP AS A CAREER OPTION

Every individual in their late teen and early twenties has a choice to make as to what to pursue in their career. Essentially, the 2 choices are wage employment or entrepreneurship.

An entrepreneur is a person who chooses to start his/her own business by providing a product or service for sale. However, there are no rules and regulations in place for one to be an entrepreneur. A brilliant idea and skills to execute it is what is required. A good educational background can boost the probability of success.

Entrepreneurs need to constantly research and recognize business opportunities in the market and develop innovate strategies to solve issues that may come up due to these changing situations. They are in constant liaison with investors, customers, employees, and other stakeholders. Entrepreneurs develop the value of the business by streamlining processes and procedures.

To provide a better understanding of choosing entrepreneurship as a career option let us compare it with wage employment alternative.

- The first and most important aspect is that an entrepreneur is their own boss, whereas a wage employer will work for others.
- This provides flexibility and freedom to an entrepreneur in choosing when and how they want to do the work which is not an option in wage employment
- However, an entrepreneur is completely responsible of the business and in case of any lapse, the onus falls on them fully.
- Wage employers enjoy fixed and certain earning, whereas entrepreneurs do not. They maynot make profits for months if the business is not doing well
- Entrepreneurship may be risky for those who find it difficult to cope with stress and crumble under pressure. It is a creative activity which has tremendous scope for growth.
- The working hours for an entrepreneur is not fixed. They may work more than twelve hours a day depending on the need. Whereas, wage employers, may have fixed working hours.
- An entrepreneur enjoys the liberty to decide their own rules at the workplace like dress code, growth opportunities, etc., which an employee cannot decide
- One of the downsides of being an entrepreneur is that it can be quite lonely. Since all important decisions are taken by them alone, they may sometimes be blamed for it, if it leads to failure. This is avoided in case of wage employment
- The motivation level of an entrepreneur must be higher as compared to his employees as he/she is the driving force in the organization.
- Entrepreneurship helps in developing the overall character of an individual. It inculcates skills which may be very helpful in leading a self-sufficient life.
- Entrepreneurs generate income for themselves as well as for others. It facilitates growth of business and the economy as a whole.

4.9 MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006 (MSMED)

The Micro, Small and Medium Enterprises Development Act (MSMED) was enacted in the Parliament in 2006 with an aim to promote and develop the small and medium scale enterprises. The Act became operational from 2 October 2006.

DEFINITION

The provisions of the MSMED Act, 2006 classifies the enterprises into two categories, namely:

a. Manufacturing Enterprises

An enterprise which is engaged in the production and manufacturing of goods of any industry as specified in the first schedule of the Industries Development and Regulation Act, 1951. Investment in Plant and Machinery determines the scale of a Manufacturing enterprise

Manufacturing Sector	
Enterprise	**Investment in Plant & Machinery**
Micro Enterprises	Does not exceed Rs. 25 Lakhs
Small Enterprises	More than Rs. 25 Lakhs but does not exceed Rs. 5 crore
Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crores

b. Service Enterprises

An enterprise which is engaged in providing or rendering of services is termed as a Service Enterprise. Investment in Equipment determines the scale of a Service enterprise.

Service Sector	
Enterprise	**Investment in Equipment**
Micro Enterprises	Does not exceed Rs. 10 Lakhs
Small Enterprises	More than Rs. 10 Lakhs but does not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 2 crore but does not exceed Rs. 5 crores

In July 2018, an amendment to the MSMED act was introduced which provides a uniform mechanism for classifying all MSMEs. Under this amendment, all MSMEs whether manufacturing or service sector are classified basis their annual turnover

2018 Amendment	
Enterprise	**Annual turnover**
Micro Enterprises	Does not exceed Rs. 5 crore
Small Enterprises	More than Rs. 5 crores but does not exceed Rs. 75 crores
Medium Enterprises	More than Rs. 75 crore but does not exceed Rs. 250 crores

FEATURES OF MSMED ACT

1. It's aims at providing welfare to the people. It helps in creation of job opportunities
2. It provides a legal framework for recognizing enterprises in 3 types i.e., micro, small and medium
3. It helps in formulating policies to enhance competitiveness in these industries
4. The Act establishes an advisory committee that looks after the development of these enterprises.
5. To ensure timely, smooth, and appropriate funds are provided to industries
6. To ensure dispute resolution systems are in place to settle grievances
7. To make provisions for registration and notify regarding exit routes to the enterprises
8. It provides adequate flow of credit from banks and financial institutions
9. It provides the required support for technology upgradation and modernization
10. It provides access to modern management practices and testing and infrastructural facilities

IMPORTANCE OF MSMED ACT

1. Large scale production and supply of goods and services is possible due to MSME industries
2. It supplies goods not only in domestic markets but internationally as well.
3. Various industries such as khadi, coir, etc., received some boost due to this Act. It helped promote and develop backward industries
4. MSMEs have collaborated and worked alongside the central and state governments to develop the rural areas

5. They help in industrialization of these areas and provide employment opportunities at low cost of capital

6. MSMEs contribute to the country's development and growth in areas like import, export, investment, mobility, etc.

PROCESS OF REGISTRATION

1. Registration under MSMED Act, 2006 is not yet mandatory by the Government. However, it is beneficial to register, as an enterprise can avail many facilities like credit, loan, tax benefits, etc.

2. The process of registration as an MSME is done online through the government portal udyamregistration.gov.in.

3. An Aadhar card and PAN card are the only documents required for MSME registration.

4. In case of new enterprises, Micro, small manufacturing enterprises registration and medium scale service enterprises is not compulsory. However, medium scale manufacturing enterprises registration is compulsory.

5. There are no fees charged for filling and submitting MSME registration form.

6. In order to register as an MSME, one has to fill the Entrepreneurs Memoranda (EM) on the registration portal.

7. For new companies, Part I of the Memorandum shall be filed for registration of the enterprise and Part II shall be filed after commencement of business.

8. For already existing companies, only Part II shall be filed.

9. The EM shall be submitted to District Industries Center/Joint Director so a certificate of registration can be issued by them.

10. The following are the details to be provided in the EM
    - Name and address of the Applicant
    - Address of the enterprise
    - Nature of activity
    - Proposed Investment in Plant & Machinery
    - Type of organization
    - NIC code of activity
    - Proposed Investment in Fixed assets
    - Installed capacity
    - Expected Employment
    - Entrepreneur's profile, etc.

BENEFITS OF REGISTRATION UNDER MSMED

1. Eligible for collateral free loans from banks
2. Eligible for Industrial promotion subsidy enterprises
3. Patent registration subsidy
4. 1% exemption on interest rate on overdraft
5. Protection against delayed payments
6. Concession in electricity bills
7. Market assistance from the government and export promotion

4.10 CASE STUDIES

CASE 1

Bhavish Aggarwal, co-founded the brand Ola cabs in India. He combined the idea of cab-hailing by making use of technology. It leveraged smartphones and the GPS technology in the Indian markets to provide a smooth cab experience to the public. He earlier used to work in Microsoft but left it to pursue his idea.

CASE 2

Binny and Sachin Bansal, co-founded Flipkart, the e-commerce giant providing timely delivery of products with the use of internet. They both were working in Amazon before starting Flipkart in 2007. Over the years, flipkart has acquired many other companies like Myntra, WeRead, Mime360, etc.

CASE 3

Deepinder Goyal, co-founder of Zomato was initially at Bain & Co, when the idea of Zomato came to him. In order to pursue this, he quit his job and in 2008, went public with his website called FoodieBay which later in 2010 became Zomato. Today Zomato has expanded to more than 23 countries and acquired various other companies too.

4.11SUMMARY

In this unit, we studied the concept of ‘entrepreneurship’. It is the process of designing, launching, and running a new business which typically begins as a small business i.e., a start-up offering a product, process or service for sale or hire.

The growth of entrepreneurship is beneficial to the country’s development. It helps in providing employment, increases national income of the country, and promotes exports. There are certain economic, social, psychological and government factors which impact the setting up of enterprises.

The Government of India introduced the MSMED Act to promote and develop small scale enterprises. Entrepreneurs are the job creators in the economy. Boosting entrepreneurs will in turn boost the economy.

4.12 EXERCISES

FILL IN THE BLANKS

1) An individual who initiates, creates, manages a new business can be called _____ (a leader, **an entrepreneur**, a manager, a professional)

2) _______ should be involved in preparing a firm's business plan (Accountant, Engineer, **Entrepreneur**, Shareholder)

3) The process of creating something new is called ______ (flexibility, management, business, **innovation**)

4) To provide financial assistance to entrepreneurs, the government has set up a number of ________ (**financial institutions**, financial advisors, financial intermediaries, Industrial estates)

5) Investment limit of a micro enterprise under manufacturing sector does not exceed ____ lakhs (10, 20, **25**, 50)

6) The service industries are defined in terms of investment in ______ (Furniture, **equipment**, stock, plant & machinery)

7) MSME Act was passed in the year _____ (2012, 2018, 2005, **2006**)

8) As per the MSME Amendment bill, ______ is the new basis to define MSMEs (Investment limit, balance sheet, **annual turnover**, number of employees)

9) ______ has allowed small companies to act like they are big ones (**technology**, customers, competition, economic development)

10) ______ does not affect a person for being an entrepreneur (education, values, family background, **gender**)

TRUE OR FALSE

1) An entrepreneur usually doesn't have to work hard to make large profits **FALSE**

2) The cost to start a new business is called start-up costs – **TRUE**

3) Business involves many risks, which an entrepreneur must hesitate to take. **FALSE**

4) Service sector industry tends to naturally promote small-scale business and has low barriers to entry. **TRUE**

5) Entrepreneurs are job seekers in the economy. **FALSE**

6) It is compulsory for all companies to register under MSMED act. **FALSE**

7) The annual turnover for medium size enterprises under MSMED act is between 75 crores to 250 crores. **TRUE**

8) Manufacturing enterprises are defined by their investment in plant & machinery. **TRUE**

9) The fees for registration under MSME act are nominal. **FALSE**

10) MSMED act was introduced to promote and develop large scale industries. **FALSE**

ANSWER IN BRIEF

1) Explain the characteristics of an entrepreneur
2) Write a note on the meaning of entrepreneurship
3) Describe the features of entrepreneurship
4) Highlight the need of entrepreneurship
5) Explain the factors influencing entrepreneurship
6) Describe the role of entrepreneurship in economic development
7) Write a note on the importance of MSMED Act, 2006
8) Highlight the features of MSMED Act, 2006
9) Elaborate on the steps for registration under MSMED Act, 2006

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5

CONSUMERISM AND CONSUMER PROTECTION

Unit Structure:

5.0 Objectives

5.1 Evolution and meaning of Consumerism

5.2 Importance of Consumerism

5.3 Need for Consumerism

5.4 Effects/Impact of Consumerism

5.5 Overcoming Barriers to consumerism

5.6 Consumer Rights

5.7 Consumer Protection Act, 1986

5.8 Consumer Redressal Agencies

5.9 Measures for Consumer Protection

5.10 Consumer Protection Cases

5.11 Summary

5.12 Exercise

5.0 OBJECTIVES

After studying this unit, the student will be able to -

- Understand the concept of Consumerism in India
- Know the Importance of consumerism along with its need.
- Understand the effects of consumerism by knowing about the obstacles faced by consumers
- Explain the rights of the consumers in India
- Understand the Consumer Protection Act, 1986 along with its objectives and features
- Elaborate on the agencies existing for the redressal of consumer grievances and the measures taken to protect consumers

5.1 EVOLUTION AND MEANING OF CONSUMERISM

In this modern age, all nations whether developed or developing have access to products that have changed society. From a smart phone, television, to necessities like refrigerator, it is now about what to purchase next. A mentality about buying more and more commodities that circulates everywhere and everyone. This idea is known as 'Consumerism". The person making the purchase of the said product or service is a "Consumer". The norm that buying commodities fulfils a purpose rather than understanding just what is needed. This concept of consumerism is not recently developed. Even in ancient times, some groups would have more possessions than others. As society developed, the wealthy began to flaunt their wealth with possessions like fancy clothes, hiring servants, purchasing new items and so on. This was initially reserved to the top tier of society, till just few centuries ago, when the concepts of mass production allowed even unskilled workers to produce high quality products in bulk. The price of these goods became cheap enough that even a lower middle-class individual could now purchase such items which were earlier well out of reach.

These new items developed a mindset amongst the middle-class and upper-class alike, to always acquire more. Before this expansion of consumerism, goods were purchased for some specific intent and purpose, whether it was to make work easier or a necessity to live, goods were purchased with needs and nothing more. As consumerism hit the mainstream market, people desired more goods constantly. The acquisition of expensive goods created the perception of wealth and success. As demand for more goods began to rise, business started to market more of their products. They could now open up their markets to not just the upper-class but also the middle-class and lower-class as the demand to consume began to increase rapidly. The line between need and want began to get blurry. As time went on, media and arts became more commercialized using advertisements. For instance, an average tv show consists of 9 mins of advertisement for every 30 mins of a programme. This increases recognition of brands among the society and the idea of owning that product became more appealing. Over time, marketing budgets began to surpass Research & Development budgets of companies, which eventually led to the current scenario of Consumerism.

As businesses began to exploit this desire of the consumers to consume, many malpractices began in the marketplace. More and more products seeped into the markets which made it difficult to recognize the true nature of product. Consumerism is the outcome of suffering and exploitation of consumers due to business's aim to make abnormal profits, at the cost of consumer's safety and health. It became necessary to protect consumers against such unfair practices which gave rise to the movement of consumerism.

Consumerism is a social force designed to protect consumers interest in the market against the malpractices of the business.

Definition of Consumerism

"A social movement seeking to augment the right and powers of the buyers in relation to the sellers"

"All environment forces intended to aid and protect consumers through the exertion of legal, moral and economic pressure on business"

Examples of Consumerism

- Buying a car for each of your kid which is bigger and more luxurious than an economical one
- Going to private schools/institutions which state institutions can do as well
- Buying a bigger house with extra rooms when you can live comfortably in a smaller house

5.2 IMPORTANCE OF CONSUMERISM

Importance of consumerism lies in:

1. Discouraging unfair trade practices

Consumerism aims to remove injustices done on consumers through illegal and unfair trade practices like hoarding, black marketing, misleading advertisements, deceptive packaging, etc. It works to create an environment where business can conduct its affairs ethically and sustain in the market

2. Awakening and uniting consumers

Consumerism helps make consumers aware of their rights and educates them about the right and wrong doings of businesses. This makes them realize if/when they are being misled or misused at the time of purchase. It leads to a collective consciousness on the part of all the consumers which makes it difficult for business to use unfair tactics to make profit.

3. Protecting against exploitation

Exploitation of consumers can happen through various means, such as, deliberate hiding of facts, selling damaged/spoilt goods, improper weightage assigned to a product, etc. To protect themselves against such exploitation consumerism movement gained momentum. Consumers must gain proper education before buying a product, purchase standardized goods with are ISI, AGMARK marked, verify the contents of the product, etc.

4. Effective Implementation of consumer protection laws

To prevent misuse of consumers, government enacted the Consumer Protection Act in 1986. This Act was introduced with the aim of protecting the interests of all consumers irrespective of the background, class, caste, etc. Although, the legal framework is a time- consuming process, effective remedies are provided to consumers who have faced the brunt of unfair practices of business.

5. Awakening the government

Some of the regulations introduced by the government through various laws and policies to safeguard the interest of consumers are:

- Sale of Goods Act, 1930
- Essential Commodities Act, 1955
- The Prevention of food adulteration act, 1954
- The Standard of weights and measures Act, 1976
- The Consumer Protection Act, 1986

These laws put restrictions by keeping a check and control on the functioning of business.

6. Providing complete and latest information

An informed consumer is an aware consumer. It is an important component of consumer protection. Most consumers are ignorant about their rights, market conditions, price levels and product details. Keeping the consumers informed through the various means and channels of communication leads to transparency on the part of the business. It helps consumers decide on the product they wish to purchase based on the reliability, affordability, and other ethical considerations of business

7. Discouraging anti-social activities

Consumerism helps discourage anti-social activities which have a negative impact on society and environment. Increasing need and desire to consume puts a strain on the limited natural resources and pollutes the environment. It makes it difficult to concentrate on sustainable development as the focus is on present consumption rather than future need.

5.3 NEED FOR CONSUMERISM

Consumers are the backbone of a business. A business cannot dare to ignore its consumers if it wishes to grow. However, there have yet been instances of the numerous problems faced by consumers all over the country which created a need for consumerism. Few of the problems faced by consumers are:

1) No fair returns or satisfaction from the product purchased even after paying the required price for it.

2) Irregular supply of goods due to artificial scarcity created in the market to hike the prices

3) Fraud on consumers which leads to deceit by firms through adulterated goods, black marketing, etc.

4) The packed goods supplied in the market, are not up to the mark. The packing is very attractive, and it grabs the attention of consumers. The packets may contain inferior goods thereby fooling consumers.

Most consumers tend to get influenced by attractive advertising which use skilled tactics of persuasion. It positions the product as a need in the minds of the consumers which leads to an increase in demand. Consumers may not be aware whether the product being sold to them meets the qualified standards of safety, efficacy, and quality. Due to this, he may fall prey to malpractices done by firms. This creates a need for consumerism in the Indian markets.

- Physical protection of consumers is required against products that are unsafe. It may endanger the welfare, health, or life of the consumers.
- Consumers need to have adequate knowledge about their rights and measures against frauds and other malpractices.
- Encouraging competitions in the market provides an advantage to consumers as it protects them against monopoly being created. Competition also helps to provide better services at good prices and improves quality and performance of companies.
- Environmental effects of products need to be considered as they can pollute water, air, and endanger human life.

The need of consumerism is to shift focus from buyer beware to seller beware. This would help create a balance in the demand and supply forces of the market.

5.4 IMPACT OF CONSUMERISM

There are certain positive and negative effects of consumerism, such as:

I. **Positive Effects**

- **Boosts innovation and creativity**

As the main aim of business is to make profits and grow in the market, they continue to offer goods and services with new and improved features to boost sales. E.g., every year a new model of a smart phone is launched with better features and facilities. The only way to do so, to is focus and invest on research and development of the product. It helps to provide better products to the consumers and leads to economic growth in the country

- **Drives out poor performance**

Consumers being the king of the market decide which products they wish to purchase. So, they have the final say in whether a business is accepted or rejected in the market. Companies not abiding by consumers rights or not providing products as per standards will be unable to survive. The only way to be competitive is to stay innovative through consumerism

- **Consumerism leads to economic growth of the country**

If goods are accepted and demanded by consumers, it creates a need on business to provide adequate supply of the same. It creates a cycle of buying and selling which leads to more revenue. If production is increased due to increase in demand, employment increases which improves the standard and quality of life of the people. This leads to overall economic growth in the country

- **Safe goods for consumers**

If consumerism is the driving force in society, the buyers hold companies to higher standards of performance. If those standards are not met, they may look for alternate options of products from companies following fair practices of consumerism. This gives an edge to those businesses who safeguard their consumers.

- **Consumers are given more choices**

Over time, each industry has been flooded with companies providing all kinds of goods and services. It may become almost impossible to identify a market which enjoys complete monopoly. This gives an advantage to consumers, as they are provided with multiples options for any product. Right from beverage, cosmetics, to equipment and real estate, there is no industry existing where consumers do not have a wide range of choices at their disposal.

II. <u>Negative Effects</u>

- **Focus on economy over environment**

When the focus of the society is the provide the best products, it puts pressure on the natural resources of the country. In order to provide best price, some harmful substances may be used to fit within the price range. It helps improve the economy but does more harm than good to the environment

- **Encourages debt**

People tend to rely more on short term loans, credit cards, EMIs, etc. to meet the needs of consumerism to satisfy their demand. They ultimately become a slave to their expenditure and may sometimes emergencies or situations may make it difficult for them to pay up their debt. For instance, purchasing luxurious items like a car, branded bags, property, etc. on the salary of the sole earning member of the house is a dangerous situation if he/she loses their job suddenly.

- **Leads to heath related problems**

When people are unable to pay up their debt, it may lead to high stress levels for them. Constant exposure to stress may lead to mental and physical health issues such as depression, high blood pressure, heart problem, etc. They tend to focus less on themselves, their hobbies, their relationships and more on buying the next new thing and paying their debt.

- **Change in the conscience of the society**

Consumerism focuses on the best possible product under any circumstances. There is no ethics involved in how you acquired it. It leads to an addiction which makes one feel the need to purchase the goods and services no matter what circumstances or situations.

- **Increases Gap between the rich and not so rich**

Society tends to judge or demoralize individuals who are unable to keep up with the trends of consumerism. If one does not have enough means to choose a product, they may be categorized as low category and cut-off from society. It puts an undesirable pressure to fit in the circle which creates a cycle that is difficult to break. It tends to further increase the gap between the rich and not so rich.

5.5 OVERCOMING BARRIERS TO CONSUMERISM

The journey of consumerism from consumer exploitation to sustainable consumption is fraught with many challenges and barriers. Major barriers to consumer behavioral change can be categorized into cognitive, structural, economic, and social barriers.

Cognitive barriers begin with an individual's mindset and knowledge about sustainable and environment friendly products.

Structural and economics barriers have more to do with availability of product in the market and accessibility to those products. It also considers the economic resources required to acquire these products on a recurring basis

Social barriers are mainly concerned with the society's norms and expectations that decide how one may behave. It consists of attitudes, perceptions, practices followed by majority.

The following are the barriers and steps to overcome them

- **Lack of Knowledge and Awareness**

Majority of today's youth may intend to make a difference/change in consumption patterns but may simply not know how to. A lack of knowledge of sustainable and long-term options regarding which products to purchase may bind us into making repeated traditional purchases.

To overcome this barrier, one can start gaining as much information as possible on a daily basis through informational podcasts, reading on your preferred brands manufacturing processes to see if they meet with your values, watching informative documentaries, etc.

- **Perception about Eco-friendly products**

There has been a perception which have surrounded around the use of eco-friendly products. For e.g., ecofriendly cleaning products being not too effective for dirt on durable products, electric cars lacking power, etc., sometimes these perceptions result in a negative association about the quality of these brands

Due to these perceptions, one may opt for less sustainable options in order to not compromise on quality and utility. However, over time, these brands have adapted and broken these perceptions to provide better services for their product as they had to compete with traditional markets. If this is yet a barrier to consuming eco-friendly products, one must be encouraged to read reviews about such brands to understand if they meet with your standards, as it helps protect the environment

- **Limited retail availability**

One of the most common structural barriers to conscious consumerism is limited access to sustainable products in traditional retail stores in the country. These products may be slightly more costly as compared to other products due to which many shopkeepers may not keep them. This makes it difficult to easily acquire earth conscious products and traditional consumers may then opt for other alternatives having detrimental effects on environment.

To overcome this barrier, many online shopping portals and websites can increase availability of eco-friendly products. With increase in demand and positive response to these products, retail stores may also stock them for good margins.

- **Scarce Economic Resources**

It should be considered an extreme privilege to have the knowledge, time, and financial resources to practice eco-friendly shopping patterns. While increasing number of consumers are willing to shell out more money for products which have a moral cause, many may still not have that bandwidth. Even if the products may not be of premium price, for people with limited financial resources, it may be difficult to refuse alternate products which are sold at discount and bargains,

Therefore, many fast food and fast fashion brands have had enormous growth as they sell goods at unbelievably low prices encouraging recurring purchases. However, an extra price associated with good quality and ethically made products can pay off in the long run

To overcome this barrier, a conscious consumer on a budget may have to think of each purchase as a long-term investment than a mere traditional buy. Buying a reusable bottle or eco-friendly pair of jeans may seem to be more expensive now but be more sustainable in the long-term because of better quality.

- **Social norms and comparisons**

The biggest barrier to consumerism is the social norms and community standards enforced on individuals. If your family, friends, or colleagues are not concerned with the effect of one's purchase of commodities on the environment, it may become difficult to stick to your individual goals.

On the other hand, having a surrounding that keeps you accountable is equally important. Seeking out like-minded people having the same vision may help remove this barrier.

5.6 CONSUMER RIGHTS

Ever since consumerism became a known phenomenon, certain rights have been recognized and accepted as basic consumer rights

1) **Right to safety** – This right is said to be protected against the marketing of products which are harmful to the life and property of consumers. This right is mainly applicable to consumers on the basis of low-standard healthcare and pharmaceuticals, commodities made of low-quality materials, impure and adulterated food items, and harmful and unsafe appliances which may have an adverse effect on a consumer's health and well-being.

2) **Right to be informed -** The is the right to be informed about the quantity, standard, purity, quality, potency and price of goods or services, to protect the consumer against unfair trade practices. Advertisement, social media, and word-of-mouth are the biggest sources through which a consumer may be informed about a product. However, a consumer hardly gets precise information about the product through these sources. It is therefore expected that all relevant information such as, date of manufacturing and expiry, ingredients, use of product, precautions, etc., be provided along with the product.

3) **Right to be heard –** It states the right to be heard and to be assured about consumer's interests receiving due consideration at appropriate forums. It is the right of a consumer to file an official complaint if/when his rights are violated. This right helps in giving the consumer community a chance to raise their voice against a seller or a product if they are exploited by it.

4) **Right to choose –** This is the right to be assured, wherever possible, and have access to a variety of goods and services at reasonable prices. A perfectly competitive market with many buyers and sellers is an ideal scenario for this right to be exercised as it gives multiple options for a particular type of commodity.

5) **Right to redress –** This right seeks redressal against unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers. Consumer courts like District forum, State commission and National commission have been set up to address this right. A consumer has a right to get his complaints and claims against the sellers.

5.7 CONSUMER PROTECTION ACT, 1986

The Consumer Protection Act was passed in 1986 and it came became enforced on 1 July 1987. It was introduced with the aim of protecting consumers against exploitation and unfair practices of business.

The main objectives of the Act are:

- To set-up a forum to encourage fair trade practices
- To forbit conduct of business which prevents consumers from enjoying their basic rights
- To create a framework for consumers to seek redressal
- To protect the rights of consumers
- To provide access and opportunities for consumer education, research, and training

Features of Consumer Protection Act, 1986

1. The term 'goods' covers all kinds of movable and tangible property except money and includes stocks, shares, crops, etc. The term 'services' includes services of all kinds including banking, insurance, entertainment, transport, etc. The services provided by doctors, engineers, lawyers, etc. are also included.

2. It covers all supplies of goods and services provided in and by private, public, and co-operative sectors of society.

3. It entails establishing consumer protection councils in the form of District forum at district level, State commission at State level and National commission at National level to deal with consumer complaints and disputes in a systematic manner.

4. A complaint under the Act can be filed by any consumer, consumer association, State or Central government, group of consumers having similar interest and legal heir or representative in case of death of a consumer

5. The consumer can file the complaint within 2 years from the date on which the issue arose. However, it may even be filed after the expiry of 2 years if sufficient reason for delay is shown

6. A complaint can be filed in person or by an agent/lawyer or by post. It must be a written complaint with proper documentary evidence to support the claim. The complaint must also state the relief that the consumer wishes to receive. It should contain other details such as, nature, description, and address of the complainant as well as details of the party complaining against.

7. Depending on the relief sought and the nature of the complaint, the court may order one or more of the following reliefs:

a) Removing the defect in goods or deficiencies in services as the case maybe.
b) Replacing defective goods with new goods
c) Providing refund of the price paid for the purchase of goods
d) Compensation for the loss or injury suffered
e) Discontinuance of unfair or restrictive trade practices done prior
f) Removing harmful goods from being offered for sale
g) Compensation for any cost which may have been incurred by complainant

5.8 CONSUMER REDRESSAL AGENCIES

The Consumer Protection Act, 1986 set up a judicial machinery consisting of Consumer courts at each level. They are known as District Forum, State Consumer Disputes Redressal Commission (State Commission) and National Consumer Disputes Redressal Commission (National Commission). Let us look at each of them in detail:

1. District forum

- The District forum is the first court at the bottom of the hierarchy of consumer courts. Each district must have at least 1 district forum.
- The composition of the district forum consists of:
  - A President with the qualification of a District judge
  - Two other members, one of whom shall be a woman
- The members must be at least 35 years of age having a degree from a recognized university and must have at least 10 years of experience in law, commerce, economics, etc.

- A person cannot be appointed as a member if he/she has been a convict sentenced to imprisonment, is insolvent, of unsound mind, removed from a government job, etc.
- In the absence of the President, the Chief Justice of the High Court can nominate a sitting judge of the High Court to be President
- The District forum has the authority to entertain complaints up to Rs. 20 Lakhs of the value of goods, services and compensation
- If a complainant is not satisfied with the decision of the District forum, they can file an appeal within 30 days to the State Commission.

2. State Consumer Disputes Redressal Commission (State Commission)

- The State Consumer Disputes Redressal Commission, also known as State Commission is the second level of courts from the bottom of the hierarchy.
- Each State must have 1 State Commission established by the Government of the State.
- The composition of the State Commission consists of:
  - A President who is or was a judge of the High Court, appointed by the State Government
  - Two other members, one of whom shall be a woman
  - There should at least be 2 members in the State Commission at all times, it cannot be less than 2.
- The members must be at least 35 years of age having a bachelor's degree from a recognized university and must have at least 10 years of experience in law, commerce, economics, etc.
- A person cannot be appointed as a member if he/she has been a convict sentenced to imprisonment, is insolvent, of unsound mind, removed from a government job, etc.
- In the absence of the President, the Chief Justice of the High Court can nominate a sitting judge of the High Court to be President
- The State Commission has the authority to entertain complaints of more than Rs. 20 Lakhs and up to Rs. 1 crore of the value of goods, services and compensation
- It also deals with all the appeals of the District forum. Also, if the District forum has acted beyond its power or failed in its duties, then the State Commission can call for its records.
- If a complainant is not satisfied with the decision of the State Commission, they can file an appeal within 30 days to the National Commission.

3. National Consumer Disputes Redressal Commission (National Commission)

- The National Consumer Disputes Redressal Commission, also known as National Commission is the third level of courts in the hierarchy, subordinate to the Supreme Court.
- The composition of the National Commission consists of:
  - A President who is or was a judge of the Supreme Court, appointed by the Central Government
  - Four other members, one of whom shall be a woman
- The members must be at least 35 years of age having a bachelor's degree from a recognized university and must have at least 10 years of experience in law, commerce, economics, etc.
- The remuneration of the members is decided by the Central Government
- A person cannot be appointed as a member if he/she has been a convict sentenced to imprisonment, is insolvent, of unsound mind as declared by Central court, removed from a government job, etc.
- The National Commission has the authority to entertain complaints of more than □ 1 crore of the value of goods, services, and compensation
- It also deals with all the appeals of the State Commission. Also, if the State Commission has acted beyond its power or failed in its duties, the National Commission can call for its records.
- If a complainant is not satisfied with the decision of the National Commission, they can file an appeal within 30 days to the Supreme Court.

5.9 MEASURES TAKEN FOR CONSUMER PROTECTION

1. By Government

Consumer Protection Councils: In 2002, the Consumer Protection Act, 1986 was amended to provide for setting up of Consumer Protection Councils at district, state, and national level. This was introduced for promotion and protection of the rights of the consumers i.e., right to be informed, right to be assured, right to be heard, etc. The councils are required to give publicity to these rights, procedures for filing complaints and providing inputs to consumer movements.

Public Interest Litigation (PIL): It is a system under which a person can move the court of law in the interest of the society. It is usually done to provide legal remedy to unrepresented groups such as consumers, minorities, LGBTQ community, etc. Any person, whether or not an aggrieved party can approach the court for legal action.

Consumer Welfare Fund: The Government has created a fund for Consumer welfare which provides financial assistance to the consumers in the country. This fund is used for activities like consumer education and awareness training, complaint handling, counselling, and guidance mechanism, etc.

2. By Business

Self-Regulation: Firms who are socially responsible must follow ethical practices while dealing with their consumers. Almost all firms now-a-days, have set up customer care services and grievance cells to reduce or remove the issues faced by their consumers

Business Associations: There are many trade, commerce, and business associations such as Chamber of commerce, Indian industries conference, etc. who lay down the code of conduct to be followed by its members. It provides guidelines in customer dealings.

3. By Consumers

Inspection before selection of goods: It is the responsibility of the consumers to inspect the goods/services before making the purchase. They must not rely on advertisements and must gather all information such as durability, contents, quality, etc. This would help them in making the best choice within their available resources

Collect proof of transaction: It is the duty of every consumer to obtain receipts/invoice/guarantee/warrantee cards at the time of purchase of goods/services. This can be shown as documentary evidence if filing a complaint in the court of law. The consumer must preserve them till the warrantee/guarantee expires.

Quality consciousness: It is the basic responsibility of every consumer to be aware of the quality of the product they are buying. This will help put a stop to unfair practices of businesses. ISI, AGMARK, Hallmark, FPO, etc., are quality certifications that are present on the products. The consumers must look for them before making any purchase.

5.10 CONSUMER PROTECTION CASES

Case 1

National Insurance Company Ltd. VS Hindustan Safety Glass Works Ltd. &Anr.

The aggrieved party had claimed compensation because of damage caused due to rain during a mentioned period while under insurance contract. However, the insurance company refused to admit claim and denied relied on the grounds that one of the conditions of the policy stated that the National Insurance would not be liable to pay for any loss or damage caused to the insured if it has taken place 12 months after the event of loss or damage. The complaint was filed with the National Commission under the Consumer Protection Act, 1986.

The National Commission stated that the claim made by the aggrieved party is actionable. It also held that the goods were insured at the time of incident, and that he asked for the claim next day. It rejected all the arguments made by the Insurance company and ordered them to provide relief to an amount of Rs. 21 Lakhs with interest at 9% per annum.

Case 2

Sehgal School of Competition Vs. Dalbir Singh:

A student deposited fees of Rs. 18,000 in two installments for coaching of medical entrance examination for 2 years. However, when the student realized the coaching was not up to the mark, asked for refund from the coaching institute for the remaining period. The case was filed in the National Commission. The Coaching Institute i.e., Sehgal School of Competition provided records that showed good results of the Institute to prove that the services provided by them are not substandard

The National Commission stated that fees once paid cannot be refunded is an example of unfair trade practice. It quoted guidelines provided by the UGC that if the student has not attended a single lecture, an amount of Rs. 1,000 can get deducted but the balance amount should be refunded. The State Commission further stated that the aggrieved party be provided with extra compensation beyond the balance amount of fee, for the legal costs and the pain that the student may have had to bear.

5.11 SUMMARY

In this unit, you studied the concept of ‘consumerism’ in detail. It is the action taken by the consumers to protect their own interest if not protected by business and government. The onus of responsibility lies on 3 groups namely: the business, the government, and the consumers themselves.

It describes the need for protecting consumer rights. The Consumer Protection Act, 1986 was enacted with this intention. Consumer redressal agencies at district, state and national level were set up to not only settle disputes but also award compensation. Various other measures were undertaken by government and business to safeguard consumers.

5.12 EXERCISE

FILL IN THE BLANKS

1) ______ is not a problem faced by consumer (Adulteration, Sale of spurious products, Black marketing, **only one quality of products**)

2) Some consumers prefer to pay high price for goods as they believe that it indicates ______ (the shopkeeper charges fair price, they are rich, **the goods are of superior quality**)

3) The right of consumers is protected under ______ (**Consumer protection act 1986**, Consumer protection act 1990, Consumer protection act 1984, Consumer protection act 1991)

4) The district forum has the jurisdiction to deal with all complaints where the value of goods or services or the compensation claimed does not exceed ______(Rs. 10 Lakh, Rs. **20 Lakh**, Rs. 1 Lakh, Rs. 1 Crore)

5) Consumer welfare fund is a measure taken by ______ for consumer protection (Business, consumers, **government**, NGOs)

6) _______ is not a right of the consumers (right to safety, **right to constitutional remedies**, right to choose, right to be informed)

7) An appeal against the order of State Commissions can be filed before the _______ (Supreme Court, High Court, **National Commission,** District forum)

8) The minimum age of forum member of a district forum should be (30, **35**, 40, 65)

9) ______ is the main duty of the producer (to avail low prices, to produce high-quality goods, **to follow the required safety rules and regulation**, to not charge taxes)

10) ________ is not a function of Consumer Protection Councils (To create awareness of consumer rights among consumers, to represent consumers in consumer courts at times, to guide consumers on how to file cases in consumer courts, **to provide compensation to consumers when they are cheated by shopkeepers**)

TRUE OR FALSE

1) A consumer's complaint can be filed only by the consumer himself/herself. **FALSE**

2) Consumer Protection Councils have been established at the centre and states under the Consumer Protection Act, 1986 **TRUE**

3) The Government is indifferent towards safeguarding consumer interest **FALSE**

4) Consumers should attend any training programme arranged by the local consumer association. **TRUE**

5) A false representation about the quality of a product in an advertisement is a misleading advertisement.**TRUE**

6) Consumer protection is a movement to safeguard interest of business. **FALSE**

7) A consumer has the right to get compensation depending on the degree of the damage. **TRUE**

8) There are no effective redressal agencies at National level to protect consumer interest. **FALSE**

9) People tend to rely more on short term loans, credit cards, EMIs, etc. to meet the needs of consumerism to satisfy their demand. **TRUE**

10) If a complainant is not satisfied with the decision of the State Commission, they can file an appeal within 30 days to the Supreme Court. **FALSE**

ANSWER IN BRIEF

1) Write a note on the meaning and evolution of Consumerism

2) Explain the need of Consumerism

3) Why is Consumerism an important phenomenon?

4) Describe the positive and negative impact of Consumerism

5) Explain the barriers to consumerism and the ways of overcoming it

6) Explain the features of Consumer Protection Act, 1986

7) Name the parties involved in consumer protection. Explain the measures taken by them to protect the consumers

8) Highlight the rights of Consumers

9) Describe in detail the consumer redressal agencies set up for protection of consumers

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6

CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE

Unit Structure

6.0 Objectives

6.1 CORPORATE SOCIAL RESPONSIBILITY

- 6.1.1 Introduction
- 6.1.2 Definition
- 6.1.3 Scope
- 6.1.4 Importance
- 6.1.5 Arguments for and against CSR
- 6.1.6 Challenges
- 6.1.7 Conclusion

6.2 Corporate Governance

- 6.2.1 Introduction
- 6.2.2 Definition
- 6.2.3 Features
- 6.2.4 Importance
- 6.2.5 Principles
- 6.2.6 Conclusion

6.3 Social Responsibility of business

- 6.3.1 Introduction
- 6.3.2 Definition
- 6.3.3 Responsibility towards stakeholders
- 6.3.4 Arguments for and against social responsibility
- 6.3.5 Conclusion

6.4 Ecology and Business

- 6.4.1 Meaning of ecology, ecological balance and environment
- 6.4.2 Relationship between industry and ecology
- 6.4.3 Suggestions for ecology consciousness at the business level
- 6.4.4 Government policy on environment protection
- 6.4.5 Carbon credit
- 6.4.6 Kyoto Protocol

6.4.7 Emissions Market

6.5 Lets Sum Up

6.6 Unit End Exercises

6.0 OBJECTIVES

After going through this unit, you will be able to -

- Understand the scope and importance of corporate social responsibility.
- Explain the relevance of corporate governance.
- Describe the social responsibilities of a business concern its stakeholders.
- Understand the relation between industry and ecology

6.1 CORPORATE SOCIAL RESPONSIBILITY (CSR)

6.1.1 Introduction

Business and society are interrelated and interdependent. Society depends on business for meeting its needs and welfare and on the other hand business depends on society for its existence and growth. Business organisations have to look after their economic interests and which facilitate their survival, stability and growth. Along with this, it has to satisfy the needs and expectations of its stakeholders. Adjusting business as per the expectations of all stakeholders constitutes corporate social responsibility. It suggests that business is not merely for profit-making but also for social welfare.

6.1.2 Definition of Corporate Social Responsibility (CSR)

The World Business Council for Sustainable Development states that "Corporate Social Responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

"Corporate Social Responsibility (CSR) encompasses the economic, legal, ethical and philanthropic expectations placed on organisations by society at a given point of time.", according to **Carroll and Buchholtz**.

CSR is a part of corporate governance and encompasses areas of concern about how a company serves the interests of the society, locality, environment and the well-being of people at large. CSR is seen as voluntary actions and responses of the company, over and above its legal requirements, to meet the ethical needs of its customers (consumers), society, locality and the environment. In the context of modern business, it indicates good corporate citizenship.

This approach to business means that business can no longer be treated only as an institution to make profits for its owners and stakeholders; but, it has to shoulder responsibility for the society and communities as well. Going beyond the conventional concept of charity and donations, CSR requires the company to take full responsibility for the impact of its policies and actions on society, community and the environment. For example, a one-time donation made to the victims of a natural disaster is not a measure of CSR. Ideally, a company or a business could adopt several natural calamity-affected villages and take the responsibility of rehabilitation of communities.

CSR, being a voluntary measure, has no rules, regulations or procedures to comply with. Any work or activity falling under CSR is recognised as a means to demonstrate to society at large that the company believes in ethical responsibility. These activities add to the goodwill and brand image of businesses and institutions. Many companies in India make provisions for their CSR commitments in the annual plan itself and get their compliance externally audited and reported in their Annual Reports. Some companies appoint an Ethics Officer - a senior member of the management team, who establishes ethical standards and oversees the company's compliance to its CSR policy. The objectives of a company's CSR governance must be clearly defined with respect to its different stakeholders and business environment, as changes that take place are also influenced by socio-economic and political changes in the locality or country. Hence, strategic and ethical means of CSR compliance often need to be charted and communicated within the organisation and to society at large to support and motivate people. Thus, the CSR activity program of a company and related resource allocations would most significantly require the commitment and intervention of the top management.

Traditionally CSR in India was seen as a philanthropic activity. It was believed that every company should play an active role in discharging the social obligations, subject to the financial health of the company. In the early 1990s, the concept of trusteeship was introduced by Mahatma Gandhi to aid socio-economic growth. Family values, traditions, culture and religion have influenced CSR.

The Corporate Social Responsibility concept is partially compulsory and partly voluntary. In India, laws are made for control of pollution, environmental safety, security of employees, protection of consumers and investors and protection of local communities. To honour such laws is as good as honouring corporate social responsibility. Here companies have to abide by the laws thus making corporate social responsibility compulsory. In addition to responsibilities imposed by laws, companies have to take initiative in avoiding pollution, and in the protection and fair treatment of employees, investors, consumers and the society at large.

As per the Companies Act, 2013, there is a mandatory provision on spending towards corporate social responsibility. Companies with a net worth of more than ₹500 crores or revenue of more than ₹1000 crores or net profit of more than ₹5 crores will have to mandatorily spend 2% of their average net profit over the three preceding years on corporate social responsibility activities.

This provision of the Companies Act is a very significant step taken by the government regarding corporate social responsibility. As a result of this provision, funds are diverted towards socially useful activities for the benefit of several social classes.

6.1.3 SCOPE OF CORPORATE SOCIAL RESPONSIBILITY

1. Energy

This area of CSR is concerned with the conservation of energy while conducting business operations and enhancing the energy efficiency of the products of the company.

2. Environment

This area of CSR is involved with the environmental aspect of manufactured products and covers pollution control while conducting any business operations, repair or prevention of damage to the environment that results from the processing of the natural resources and the conservation of the natural resources.

3. Human Resources

This area of CSR is associated with the impact of the organisational activities on the people who constitute the human resources of the organisation. These activities include training programs, recruitment practices, job enhancement, job rotation, fringe benefit plans, wage, salary levels, etc. for employees.

4. Fair Business Practices:

CSR for fair business practices is concerned with the relationship of the company to special interest groups and it focuses on advancement and employment of minorities, support for minority businesses, employment of women, employment of other special interest groups, and socially responsible practices abroad.

5. Community Development

With respect to CSR, the area of community development revolves around health and wellbeing, promotion of art and education within the communities and community activities.

6.1.4 IMPORTANCE OF CSR

Corporate Social Responsibility is gaining importance because of the following reasons -

1. Public Expectations from the Enterprise

It refers to the anticipations of the people that are either directly or indirectly associated with an enterprise or organization. The enterprise can exist peacefully, if it fulfils the needs, wants, and demands of society. However, if an enterprise fails to live up to society's expectations, its existence would become difficult. Therefore, an enterprise should respond to society's needs if it wishes to remain in the business in the long run.

2. Better Environment for Business

It refers to providing a feasible environment for the business operations of an enterprise. If the society is satisfied with the business activities of the enterprise, it creates a favourable environment for the enterprise.

3. Good Public Image

Building and maintaining a public image helps in improving the performance of the enterprise as it helps the enterprise to gain more customers and better employees.

4. Responsibility with Power

CSR is an important area that should be balanced properly because when an enterprise enjoys social power, its decisions make an impact on the environment, consumers, employees and several areas of society. Any imbalance in decisions of the enterprise may lead to a negative effect on societal welfare.

6.1.5 ARGUMENTS FOR AND AGAINST CSR

CSR has become a subject of debate with views for and against corporate social responsibility because of the practices followed by several companies and institutions. Many questions if charitable work should get precedence over the interests of direct stakeholders. It is argued that charities strain the company's limited resources and hamper the welfare measures undertaken for its employees, investors, suppliers, etc. Others argue that adherence to laws, caring for the society and environment make good business sense for long term benefits which lead to image building, enhanced business goodwill and inspire a greater customer base. But, doing what is necessary for sustainable profit and growth in a competitive business environment by considering the opinions of customers, people and society are important. Additionally, resolving arising conflicts through employee education about the company's social responsibility is equally significant. People argue that there could be a conflict of interest between direct stakeholders, society and the government. But, if ethical governance is conducted with transparency, and the moral reasoning behind all such activities is clearly communicated, then most conflicts would resolve easily. Industry can benefit the neighbouring society and its people through increased local employment opportunities, along with the better quality of community life and education and environment management. If ethical elements and social responsibility can be factored into a business philosophy, it could deliver better results and benefit the business in general. Therefore, CSR programs are not voluntary, but a necessity for modern-day industry, business and organisations.

The concept of CSR is not modern and was in vogue even in the past. For example, the various 'trusts' run by Tata and Birla, two leading Indian business houses, were designed and operated with the purpose of social service and to help the poor and needy in the community. These pioneers of Indian industry recognised their responsibility to society at the very early ages of their business. They realised that by neglecting the responsibility to society, a business cannot serve its true purpose of sustainable growth. Mr R. C. Bhargava, the former long-time CEO of Maruti Udyog Limited (MUL), New Delhi, observed that a mix of ethical ingredients along with a focus on Japanese style man-management wherein workers feel involved in the company's goals and systems, not exploited or deprived of a better quality of life and livelihood, and are treated respectfully and ethically explain MUL's resounding success, despite the fact that it had to operate from within the constraints of 'public sector' in India.

Then there are those who argue that corporate social responsibility is a scheme by which a company takes care of its external business forces such as politics, society, the government and other factors that are not necessarily beneficial to a company's business goals. They also believe that traditional business ethics are based on broad principles of integrity, justice and fairness, and should focus on the issues of internal stakeholders such as product quality, customer satisfaction, employee wages and benefits, etc. External focus may, at best, integrate local community and environmental responsibilities with the company's business philosophy. The influence of such actions on a company's business is limited and, beyond that scope, it will adversely affect the business itself. It is also argued that the CSR movement will elevate a social and political agenda and draw on the notions of liberal propriety and correctness. Arguably, the latter direction of social responsibility is more of an outwardly-focused social vision to satisfy the political and social critics; it is not directed towards any real business purpose, such as: offering a quality product at a reasonable price; treating employees, vendors, franchisees and investors fairly; acting responsibly toward the local environment and community; and, most of all, embracing transparency in operations and accountability to even the critics. Yet, none can deny that an organisation has a social responsibility not only to its employees, customers and other stakeholders but also towards the society, government, locality and the environment. It should be noted that social responsibility must be meaningful for the overall purpose and progress of the business and society.

A business cannot grow by isolating the people and society it serves. A large part of it may lie external to the conventional business system and judgement. Incorporating these outwardly-focused responsibilities into business management systems and processes is the task of CSR policy. Commitment to the identified areas of CSR and honestly working towards the discharge of related responsibilities make good sense for the long term success of the business and the benefit of stakeholders.

However, CSR must not end up as mere lip service, the company must be committed to behaving ethically towards the external social environment where it operates, to contribute to the economic development, quality of life of the community and the society at large. This is not in conflict with the interest of the workforce, other direct stakeholders, or from the standpoint of long-term benefit and sustained growth, nor in conflict with the purpose of business and tenants of business ethics. It is, indeed, an opportunity to create a win-win situation for all internal and external stakeholders.

6.1.6 CHALLENGES OF CSR

An enterprise faces numerous challenges while practising CSR activities. These challenges may pose a hindrance in the process of strategic management in an enterprise.

1. Lack of Transparency

It is a major hindrance in the implementation of CSR programs when enterprises do not disclose the information about their CSR programs and the funds allocated to implement these programs. The lack of transparency can negatively affect the trust among enterprises and communities.

2. Lack of Community Participation

It hinders the prospect of CSR activities. Many countries have less knowledge about CSR; thus, it leads to a lack of interest by communities to participate with enterprises in CSR activities. For example, in India, enterprises do not have an adequate understanding of CSR activities because they lack the tools, resources, and commitment to carry these activities. This in turn results in a lack of initiatives by Indian enterprises to undertake CSR activities at an extensive level.

3. Lack of Non-Governmental Organisations (NGOs)

The presence of NGOs is important to advance the pace of implementing CSR activities in a country because NGOs guide and work with the enterprises to attain the objectives of CSR activities. But, the non-availability of NGOs slows down the spread of CSR practices in hard to reach areas in various countries.

4. Lack of CSR Guidelines

Many countries do not have clear guidelines related to CSR initiatives. As a result, enterprises lack direction and guidelines to follow CSR practices. Enterprises do not measure and evaluate CSR activities if no proper guidelines are defined.

5. Narrow View towards CSR Initiatives

A Narrow View of CSR Initiatives is found due to the limited perception of an enterprise towards CSR activities. However, a wider view or perception of CSR, that includes the willingness of the enterprises to take responsibility and be accountable for impacts created by their activities aids in broadening an organisation's view towards CSR.

6. Importance to Visibility Factor

Several times NGOs involve themselves in CSR programs to gain media attention and coverage but fail to achieve the goals at the grassroots levels.

7. Lack of Budget

Budget is a major constraint for enterprises that wish to practice CSR activities and at times, several Small and Medium Enterprises (SMEs) that have a willingness to participate in CSR activities have to hold back due to lack of financial support.

6.1.7 Conclusion

Socially responsible means not only fulfilling legal obligations but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders. This suggests that the corporate social responsibility concept needs to be adjusted as per the challenges of the situation. Tighter accountability standards are important and essential. In addition, business enterprises have to accept their social obligations/responsibilities voluntarily. They have to honour the growing and changing expectations of different social groups.

6.2 CORPORATE GOVERNANCE

6.2.1 INTRODUCTION

Corporate governance broadly refers to the rules, processes or laws by which businesses are operated, regulated and controlled. Corporate Governance can also refer to the internal factors defined by the management along with external forces such as consumer groups, clients, society, environment and government regulations.

Corporate governance provides a structure that works for the benefit of everyone concerned by ensuring that the enterprise adheres to accepted ethical standards and best practices as well as formal laws. An important theme of corporate governance is to ensure accountability of certain key individuals in the organisation through a mechanism of 'code of practice' and by-laws. Simultaneously, corporate governance places a strong emphasis on both, economic efficiency and safeguarding the welfare of shareholders.

The 'agency theory', propounded by Eugene Fama and Michael Jensen in 1983, aids in understanding the purpose and process of corporate governance. According to the theory, a firm is seen as a series of contracts and the responsibility of the firm is governed by the 'principal-agent' relationship. This is the beginning of the modern corporate governance approach where shareholders are recognised as the 'owner' (principal) of the company and the board is the 'agent' responsible to serve the rightful purpose of the business including economic efficiency and protecting the interests of the shareholders.

Corporate governance largely remains an ambiguous and often misunderstood term. Many tend to equate it with administrative technique, but corporate governance is a much broader concept. It includes fair, ethical, efficient and transparent management that strives to achieve certain well-defined objectives. Thus, corporate governance suggests a system of corporate management that will satisfy shareholders, creditors, employees, customers and suppliers and comply with the legal and regulatory framework apart from meeting environmental and local community needs.

The concept of corporate governance did not receive much attention till the 1990s. However, its need and importance increased considerably thereafter. This was due to mismanagement and failure of many corporations and widespread dissatisfaction with the functioning of the corporate sector at the global level. A series of business scandals took place in the UK in the late 1980s. Public criticism of the corporate sector resulted in the appointment of a committee under the chairmanship of Sir Adrian Cadbury in 1991 in the UK. The Cadbury Committee was appointed to define a code of good corporate governance and suggest ways and means to implement it.

Corporate governance is concerned with the problem that arises with the separation of ownership and control. It is related to arrangements made by financiers i.e. shareholders and lenders to induce managers to care for their interests. Thus corporate governance refers to the overall control of activities in a corporation. It refers to how a corporation is administered or controlled.

6.2.2 Definitions.

1. **The Confederation of Indian Industry** has defined corporate governance as, "laws, procedures, practices and implicit rules that determine a company's ability to take managerial decisions vis-a-vis its

claimants, in particular, its shareholders, creditors, the State and the employees."

2. **The Cadbury Committee (UK)** defines corporate governance as, "the system by which companies are directed and controlled."

3. According to the **SEBI Committee**, "Corporate Governance is the system by which the companies are directed and controlled by the management in the best interest of the stakeholders and others ensuring greater transparency and better timely financial reporting."

6.2.3 FEATURES OF CORPORATE GOVERNANCE

1. It ensures that an adequate and appropriate system of control operates within a company.

2. It prevents any single individual from exercising undue power.

3. It is concerned with the relationship between a company's management, the board of directors, shareholders and other stakeholders.

4. It seeks to ensure that the company is managed in the best interest of the stakeholders.

5. It tries to encourage both transparency and accountability in organisational functioning.

6.2.4 IMPORTANCE OF CORPORATE GOVERNANCE

1. In recent times, many scams, frauds and corrupt practices have taken place. Misuse and misappropriation of public money happen every day in India and across the globe. It happens in the stock market, banks, financial institutions, companies and government offices. Many companies have started corporate governance to avoid these scams and financial irregularities.

2. Today most companies are selling their goods in the global market. So, they have to attract foreign investors and foreign customers. They also have to adhere to foreign rules and regulations. All this requires corporate governance. Entering, survival and success in the global market is impossible without corporate governance.

3. It also enhances an organisation's image. It reflects that the organisation is responsible towards shareholders and creditors.

4. The presence of strong governance standards provides better access to capital markets.

5. Foreign institutional investors are increasingly depending on corporate governance, one of the criteria for deciding which companies to invest in.

6. It also has a positive influence on the share price of the company.

6.2.5 PRINCIPLES OF CORPORATE GOVERNANCE

Corporate governance principles have the purpose of developing an understanding of what needs to be done, how and why for the ensuring success of a business. As for the principles, the corporate governance process has to have the three built-in elements, namely: (i) 'what to act' pertaining to the corporate mission, objectives and goals; (ii) 'how to act' pertaining to the systems and processes of corporate governance; and (iii) 'by whom to act' pertaining to people i.e. corporate participants. Following are the principles of corporate governance.

1. Rights and Equitable Treatment of Shareholders

Organisations should respect the rights of shareholders and help them to exercise these rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.

2. Interests of Other Stakeholders

Organisations should recognise that they have legal and moral obligations to all legitimate stakeholders including society and the environment. Organisations should, therefore, act to enhance. or at least protect the interests of all such stakeholders including employees, customers and clients, society, locality, government, and environment.

3. Role and Responsibilities of the Board

The board needs a range of skills and understanding to be able to deal with various business issues and the ability to review, control and challenge management performance. The Board needs to be of adequate and sufficient size and should have an appropriate level of commitment to fulfil its responsibilities and duties.

4. Integrity and Ethical Behaviour

Ethical and responsible decision-making should be an important aspect of corporate work culture. It is not an ornamental aspect of public relations; it should be the core requirement for all decision-making processes including risk management, avoiding lawsuits, environment management, and social services. Codes of conduct must be developed by organisations for their directors and executives to promote ethical and responsible decision-making. Compliance and ethics programmes should be established by organisations to minimise the risks of ethical failure and to promote ethical decisions.

5. Disclosure and Transparency

Organisations must clarify and make publicly known the roles and responsibilities of the board and management in order to provide shareholders with information on the accountability of corporate positions.

Procedures should be implemented for independent and truthful audits, for verification and for safeguarding the integrity of the company's financial reporting. Matters that concern the organisation should be disclosed timely and should be balanced to ensure that all investors have access to clear and factual information.

6.2.6 CONCLUSION

Corporate governance is often perceived as a means to control and regulate within the provisions of laws and regulations, but, at times, it may have to go beyond the legal boundaries in order to discharge moral responsibility. This is more so in developing economies where the business has definite social or environmental responsibility. Corporate governance has to evolve as per the necessity due to the interplay of various factors, especially the external ones. It cannot display the 'one key fits all' syndrome in a business world that is fast-changing and being increasingly influenced by many external factors on which companies will have, theoretically, little control. The task of corporate governance is not to avoid risks and uncertain situations of business that will always prevail in any business but to creatively and intelligently (strategically) work within the ethical and legal framework to bring about positive differences in the results and, results are the visible measure of success of governance. the means (to achieve these results) must be legal, ethical and morally acceptable to the government and society at large. However, the principles of corporate governance are continuously evolving along with the needs, experiences and changes in the world order.

6.3 SOCIAL RESPONSIBILITY OF BUSINESS

1.3.1 INTRODUCTION

Social responsibility of business is understood as the obligations of the management of a business organization towards protecting the interests of society.

According to the concept of social responsibility, the objective of managers for taking business decisions is not merely to maximize profits or shareholder’s value but also to serve and protect the interests of other members, such as workers, consumers and the community as a whole.

6.3.2 Definitions

According to **Howard R. Bowen**, social responsibility means, “obligation of business to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.”

According to the **International Seminar on Social Responsibility** (held in 1956 at New Delhi), social responsibility means, “Responsibility to itself, to its investors, workers, shareholders and the community and it is the task of management to reconcile these separate and sometimes conflicting responsibilities.”

Some Indian sociologists and economists connect the idea of social responsibility of business to the concept of trusteeship propounded by Mahatma Gandhi. According to the concept of trusteeship, Wealth or capital is owned by the capitalist class as trustees of the society. Hence, the resources and capital used for the production of goods and services should be used not to maximize profits for them but for the larger benefit of society.

But, to expect that business enterprises will be purely guided by the benefits they confer on society by their activities is truly unrealistic. According to management science, the concept of social responsibility is that businesses should maximise their profits subject to their working in a socially responsible manner to promote the interests of society. Working in harmony with the community and environment around us and not cheating our customers and workers we might not gain anything in the short run but in the long term it means greater profits and shareholders' value'

6.3.3 RESPONSIBILITIES OF BUSINESS TOWARDS STAKEHOLDERS

All the stakehold-ers including the society in general are affected by the business activities of a corporate enterprise and it is important that the organization acknowledges its responsibility to them. Social responsibility of business means that the interests of all the stakeholders must be promoted, and not merely any one class of stakeholders.

1. Responsibility to Shareholders:

An organization must recognise the rights of shareholders and protect their interests. Shareholders of an organization have certain inherent rights like, the right to information, the right to submit proposals, the right to vote and to ask questions at the annual general body meeting, etc; and the same must be upheld.

An organization must while dealing with the shareholders, observe the best code of conduct. However, while pursuing the said objectives, the organization must ensure that they protect the interests of employees, consumers and other stakeholders.

2. Responsibility to Employees:

The employees of an organization play a major role in its success by making valuable contributions to the activities of the organisation. An organization must incorporate fair employment practices and establish good industrial relations to enhance the productivity of its workforce. It should recognise the rights of workers and employees to freedom of association, free collective bargaining, fair compensation amongst others.

The most important responsibility of an organization towards employees is the payment of fair wages to them and providing healthy and safe working conditions. The organization should recognise the need for providing essential labour welfare activities to their employees, especially they should take care of women workers. Besides, the organization should make arrange-ments for adequate training and education of the workers in order to upgrade their skills.

3. Responsibility to Consumers:

It is often quoted that the consumer is a king and it is the obligation of the business enterprises to satisfy their needs and expectations by way of goods or services. Therefore, business organizations must acknowledge their responsibilities towards the consumers and protect their interests. The following are some of the responsibilities of organizations towards the consumers-

1. To make products easily and regularly available in the market.
2. To provide after-sale services
3. To design products/services by understanding consumer needs.
4. To avoid misleading the consumers by exaggerated claims through advertisements and sales promotion measures.
5. To provide necessary information to the consumers about the products/services. etc

4. Obligation towards the Environment:

An organization depends on the natural environment for its survival and hence it is the foremost responsibility of the organization to protect the environment. For environmental protection, a business organization must try and reduce as much as possible air and water pollution caused as a result of their productive activities. Pollution must be kept in check otherwise it may cause health hazards. Waste management must also be a priority of the business concerns.

Pollution is considered a social cost of commercial progress and efforts must be made by business organizations to minimize the same. Business organizations must adopt high standards of environmental protection and ensure that they are implemented sincerely.

5. Responsibility to Society in General:

In today’s time, there is a change in public expectations from the business. Business can exist and function smoothly only when it satisfies the needs of society. Society gives the business its charter to exist, to grow and earn profits. Naturally, a business must operate as per the expectations of society. Following are some of the responsibilities of the business towards the society in general -

1. To generate employment opportunities and to provide a better life and welfare to all the members of the society.

2. To ensure that the amenities of the local community are not damaged.

3. Protect the natural environment and try to maintain ecological balance.

4. Must contribute towards economic growth, economic stability and national security.

5. To provide financial support to social and cultural causes.

6. To improve the quality of products and to look after the welfare of the local community. Etc

6.3.4 ARGUMENTS FOR AND AGAINST SOCIAL RESPONSIBILITY

Social Responsibility as a concept has been a concern for many thinkers, from academicians to managers. Following are the arguments and counter-arguments in favour of and against the social responsibilities of business.

Arguments for Social Responsibility

The social responsibility of business has several core ideas. The classical economic view of business is that a business organization's main objective is profit maximization but over a period of time, this concept has evolved and a different perspective has come to light. It is said that along with looking after its economic interests, a business has to satisfy the needs and expectations of the different social groups of the society and look after their well-being. Based on this, the following are the points of argument in favour of the social responsibility of a business.

1. Business is a part of society

Business is a creation of society and hence business must be held legally for the benefit of the people whom the business wants to serve. Business depends on society for its needed inputs. Being dependent, the business has definite responsibility towards the different social groups of the society.

2. Creating a favourable environment for business

It is argued that by responding positively to social responsibilities, the business can create a favourable environment for its progress and prosperity. The society offers facilities and concessions to business units to operate as per the needs and expectations of various social groups.

3. Business is a means and not the end in itself

Business is not the end in itself. It is only a means for the satisfaction of human wants. The end is the man himself. Naturally, the business has to contribute to man's welfare, happiness and moral and spiritual growth.

4. Creating Better Public Image

Businesses that fulfil the aspirations of society create a better public image. For business operators, this image creation is a source of satisfaction. This helps the businesses to scale up in volumes (inputs and outputs.)

5. Avoidance of Government Regulations

The government always aims at maintaining equilibrium in the society for the long term and it tries to make sure that every section of the society meets social requirements. If any section fails to do so, the government has the power to take action against it. Since businesses are a section of society, the government may take actions against such business organisations that get involved in activities and do not meet social requirements. It is preferable to adopt social responsibility to avoid such actions having a long-term negative impact.

6. Maintenance of Society

As social factors change continuously, legal provisions for maintaining society cannot be comprehensive. Moreover, businesses have to be socially responsible to avoid anti-social activities and maintain society on a continuous basis.

Arguments against Social Responsibility

The arguments against social responsibility are based on economics. These arguments are as follows:

1. Contrary to Basic Function of Business

The basic function of a business is to provide a product to its customers at a price that is lower than the level of satisfaction provided by the use of the product or, at equal to that. The product becomes meaningless if this price and satisfaction relationship is reversed. Generally, the cost of production is a significant factor in determining the product price. Social responsibility adds to the cost of the products, this may reverse the above equation and business may not stay viable in the long term.

2. Conflict with Profit Motive

Social responsibility is opposite to the profit motive of business. Conducting business involves risk-taking. Profits are the reward for this risk taken by the business. Social responsibility, when added as a

business objective, reduces profit margins. This is against the concept of optimum profit even if not maximum profit. Thus, social responsibility and profit motive do not proceed in the same direction.

3. Distortion in Resource Allocation

Social responsibility leads to distortion of resource allocation. In economic systems, resources are allocated on the principle that every resource will have optimum utilisation. Resource utilisation is best possible without social responsibility and not along with it. Thus, social resources are sometimes wasted if the concept of social responsibility is added to business operations.

4. Imposition of Business Values

Conducting social responsibility involves a lot of influence of the business on society. Therefore, by undertaking social responsibility, a business is likely to impose its own values on society, thereby replacing the social values with business values. Imposing business values on society is highly undesirable from a social point of view.

5. Inefficiency in the System

Social responsibility brings inefficiency to the system and only the power of self-interest gets the people to act and replacement of self-interest will is fatal to the efficiency of the system. Social responsibility replaces the self-interest of business from profit motive to a great extent and makes the business an inefficient system.

6. Operational Problems

Businesses come across several operational problems while implementing social responsibility. Operationally, social responsibility is a confusing term and managers that are involved in managing business affairs do not have a clear idea about what is expected to be done under social responsibility. Thus, actions ranging from showing lip sympathy to multi-crore programmes are included in social responsibility.

6.3.5 CONCLUSION

Social responsibility is related to ethics and ethics is the discipline that deals with moral duties and obligations. Social responsibility implies corporate enterprises should follow business ethics and work not only to maximise their profits or shareholders' value but also to promote the interests of other stakeholders and the society as a whole.

6.4 ECOLOGY AND BUSINESS

6.4.1 Meaning of Ecology, ecological balance and Environment

1. Ecology

Ecology is the study of the relationships between living organisms, including humans and their physical environment. Ecology shares details about the benefits of ecosystems and how Earth's resources can be used in such a way that a healthy environment is maintained for future generations.

2. Ecological balance

The term Ecological balance is used to describe an ecosystem where species coexist with other natural species and develop a sustainable environment. Ecological balance can be achieved when there are no negative effects. Ecological balance also means that every organism has enough resources available for its survival and reproduction.

3. Environment

The environment is equal to the sum total of all the living and non-living elements and their effects on human life. The environment consists of all living or biotic elements like animals, plants, forests, fisheries, and birds. Additionally, non-living or abiotic elements like water, land, sunlight, rocks and air are also a part of the environment.

6.4.2 Relationship between business/industry and ecology

Industrialisation can help achieve a variety of social objectives like employment, alleviation of poverty, reducing gender gaps, uniform labour standards, and access to education and healthcare for all. Similarly, these industrial processes can also have negative impacts on the environment, contribute to climate change, destroy natural resources, contribute further to air and water pollution and lead to the extinction of species and threaten the global environment as well as economic and social welfare.

Industries and the use of industrial products causes environmental damages. But, can the environmental damage be minimised to gain optimum ecological balance? If the sole purpose of Industries and their existence is to serve mankind, then people behind the industry are responsible for stopping or slowing down environmental damage. Society expects the industries to be responsible and avoid doing activities that harm the interest and well-being of its people.

Industry is essential for material prosperity. The world and the global economy cannot sustain without industries. The solution to environmental degradation does not lie in discontinuing industrial growth but in pursuing disciplined and innovative methods and systems to ensure a drastic reduction of damage to the earth and living beings due to the environmental exploitation caused by industrial practices.

In today's world, balancing the actions of industrial development with those of controlling and minimising environmental degradation is essential.

6.4.3 Suggestions for Ecology Consciousness at the Business Level

1. Measures for effective pollution control: At the business level, special efforts should be made to reduce industrial pollution to the extent that is socially and technically reasonable. For this, various measures such as recycling of solid waste, purifying wastewater before sending it to rivers, installing pollution abatement devices, location of plants at suitable places, and proper training to employees can be taken at the business level. Voluntary measures at the business level are effective and useful for pollution control. The business has to share major responsibility for environmental protection. Business enterprises have to spend money for the protection of ecology. The business has to understand that business growth must be accompanied by ecological balance. Good business means business without disturbing the environment or ecology.

2. Use of 'Green Technology': It is desirable to use technology, which will not lead to pollution. Such technology may be called "green technology". It will not lead to air, water or sound pollution. As a result, the adverse effects of industrial growth on the environment will be considerably limited. Business enterprises have to introduce technology that will give the benefits of industrialisation but with limited adverse effects.

3. Respect legal provisions: Business enterprises should honour all legal provisions (in good spirit) made for pollution control, environment protection and ecological balance. Effective supervision and control of business enterprises are equally important and essential. Here, prompt and strict legal action is also necessary.

4. Prevent soil erosion: Business enterprises should prevent soil erosion and keep rivers and other water reservoirs clean and away from water pollution. For this, they have to introduce suitable measures as regards disposal of waste material including water used in the production process.

5. Prevent leakage: Efforts should be made to prevent leakage of toxic gases, explosions and fires from the plants and factories.

6. Develop wasteland: Industrial enterprises should increase the pace of afforestation and wasteland development.

7. Special efforts should be made to preserve wildlife.

8. Ecological harmony: At the business level, suitable measures for maintaining ecological harmony should be taken.

9. Protect natural resources: Business enterprises should protect natural resources and use them properly and economically and thereby avoiding their wastage.

10. New energy sources: Businesses should find new energy sources in place of coal and oil.

11. Eco-friendly products: Business enterprises should develop environment-friendly technologies and products.

12. Introduction of Eco Mark Labels: An "Eco-Mark" label has been introduced by the government to label consumer products that are environmentally friendly.

13. Financial assistance: Government should provide financial assistance for schemes relating to the conservation of natural resources and reforestation of denuded areas. In addition, business enterprises have to spend money on pollution control.

14. In-built pollution control system: Efforts should be made to have in-built pollution control mechanisms in the case of plants, factories and other production units.

15. Awareness among businessmen: Efforts should be made to provide suitable education and training to businessmen so as to make them conscious of their obligations in the field of pollution control. Associations of businessmen have to play an important role in this regard. Awareness needs to be created among businessmen that environment protection is not an imposed liability but one integral aspect of business management itself.

16. Prompt actions by government agencies: Strict as well as prompt action should be taken in the case of enterprises that do not honour their duties and responsibilities as regards pollution control. This step is useful for making business enterprises alert as regards legal provisions and their responsibilities in regard to pollution control. Intervention from the government is one powerful tool available in India for the protection of ecology and pollution control.

6.4.4 GOVERNMENT POLICY ON ENVIRONMENT PROTECTION

Since 1955, the Government of India has taken a number of policy decisions for pollution control and environmental protection. The participation and contribution of the government in environmental protection is increasing in recent years. The Ministry of Environment and Forests was set up in 1985 to serve as the focal point in the administrative structure of the Government for planning, promotion and coordination of environmental and forestry programmes.

Important measures are taken by the government for environmental protection areas are noted below:

1. Environment (Protection) Act, 1986. It is a comprehensive legislation and has given wide powers to the Central Government for the control of pollution.

2. Introduction of the concept of Environmental Audit.

3. Introduction of Eco Mark Labels.

4. Pollution Control Board: The Central Pollution Control Board (CPCB) is the national body for assessment, monitoring and control of water and air pollution in India.

5. Special attention to heavily Polluting Industries and Grossly Polluted Rivers

6. Promotion of Pollution Control Industry.

7. Tax Incentives for Pollution Control.

8. Supply of Unleaded Petrol.

9. Environmental Education, Awareness and Training Programmes

10. Co-operation with Global Agencies in regard to environmental protection.

11. Introduction of Environment Information System.

12. The Companies Act, 2013 identifies "ensuring environmental sustainability" as one of the corporate social responsibilities (CSR)

13. Celebration of World Environmental Day: 5th June is observed as the World Environment Day every year to make the anniversary of the 1972 Stockholm Conference on the human environment. This day is being observed throughout India. They stress the need to save the earth from environmental degradation. In addition, 22nd April is celebrated in India and also in over 193 countries across the world as "World Earth Day". The purpose is to create awareness about climate change for protecting the earth and preserving natural resources for a better tomorrow.

14. In India, we have a new environment policy called the "National Environment Policy, 2006". In short, India has prepared a comprehensive policy on environment protection and pollution control. We have a large number of legislation for environmental protection. The main problem with these legislations relates to poor

enforcement mechanisms. India is a "Soft State", a state characterized by weak institutions, a high degree of corruption and the absence of well-developed social norms. This situation makes our environmental protection policies ineffective. The present socio-political situation is favourably made for environmental protection. Pollution control laws are strict with heavy punishments. A large number of projects are being executed for a clean atmosphere. People are also alert, united and conscious as regards pollution and ecology balance. This puts pressure on the government for pollution control and a clean atmosphere. Even the present judicial system is active in regard to pollution control and ecological degradation.

6.4.5 CARBON CREDIT

Carbon credits and carbon markets are a component of national and international attempts to lessen the growth in concentrations of greenhouse gases (GHGs). A carbon credit is a generic term for any tradable certificate or permits representing the right to emit one tonne of carbon dioxide or the mass of another greenhouse gas with a carbon dioxide equivalent to one tonne of carbon dioxide. One carbon credit is equal to one metric tonne of carbon dioxide, or carbon dioxide equivalent gases. Carbon trading is an application of an emissions trading approach. Greenhouse gas emissions are capped and then markets are used to allocate the emissions among the group of regulated sources. The objective is to allow market mechanisms to drive industrial and commercial processes in the direction of low emissions or less carbon-intensive approaches than those used when there is no cost to emitting carbon dioxide and other GHGs into the atmosphere. Since GHG mitigation projects generate credits, this approach can be used to finance carbon reduction schemes between trading partners and around the world. There are also many companies that sell carbon credits to commercial and individual customers who are interested in lowering their carbon footprint on a voluntary basis. These carbons off setters purchase the credits from an investment fund or a carbon development company that has aggregated the credits from individual projects. Buyers and sellers can also use an exchange platform to trade, such as the Carbon Trade Exchange, which is like a stock exchange for carbon credits. The quality of the credits is based in part on the validation process and sophistication of the fund or development company that acted as the sponsor of the carbon project. This is reflected in their price; voluntary units typically have less value than the units sold through the rigorously validated Clean Development Mechanism.

Definitions

The Collins English Dictionary defines a carbon credit as "a certificate showing that a government or company has paid to have a certain amount of carbon dioxide removed from the environment".

The Environment Protection Authority of Victoria defines a carbon credit as a "generic term to assign a value to a reduction or offset on of greenhouse gas emissions usually equivalent to one tonne of carb dioxide equivalent (CO2-e)".

Impact of Carbon Credits on Global Emissions

Carbon credits are an immediate answer to reducing the amount of Green House Gas (GHGs) emissions in the atmosphere. The generation and sale of carbon credits fund carbon projects which would not have gone ahead i.e. additional to business as usual. Carbon credits also help lower the costs of renewable and low carbon technologies as well as assist in the technology transfer to developing countries. The burning of fossil fuels is a major source of greenhouse gas emissions, especially for power, cement, steel, textile, chemicals, fertilizer and many other industries which rely on fossil fuels (coal, electricity derived from coal, natural gas and oil). The major greenhouse gases emitted by these industries are carbon dioxide, methane, nitrous oxide, hydrofluorocarbons etc., all of which increase the atmosphere's ability to trap infrared energy and thus affect the climate.

The concept of carbon credits came into existence as a result of increasing awareness of the need for controlling emissions. The Intergovernmental Panel on Climate Change (IPCC) has observed that:

Policies that provide a real or implicit price of carbon could create incentives for producers and consumers to significantly invest in low-GHG products, technologies and processes. Such policies could include economic instruments, government funding and regulation, while noting that a tradable permit system is one of the policy instruments that has been shown to be environmentally effective in the industrial sector, as long as there are reasonable levels of predictability over the initial allocation mechanism and long-term price.

The mechanism was formalized in the Kyoto Protocol, an international agreement between more than 170 countries, and the market mechanisms were agreed through the subsequent Marrakesh Accords. The mechanism adopted was similar to the successful US Acid Rain Program to reduce some industrial pollutants.

6.4.6 KYOTO PROTOCOL

Under the Kyoto Protocol, the quotas for greenhouse gases for the developed Annex 1 countries are known as Assigned Amounts and are listed in Annex B. The quantity of the initial assigned amount is denominated in individual units, called Assigned amount units (AAUs), each of which represents an allowance to emit one metric tonne of carbon dioxide equivalent, and these are entered into the country's national registry. In turn, these countries set quotas on the emissions of installations run by local businesses and other organizations, generically termed 'operators'. Countries manage this through their national registries, which are required to be validated and monitored for compliance by the UNFCCC.

Each operator has an allowance of credits, where each unit gives the owner the right to emit one metric tonne of carbon dioxide or other equivalent greenhouse gas. Operators that have not used up their quotas can sell their unused allowances as carbon credits, while businesses that are about to exceed their quotas can buy the extra allowances as credits, privately or on the open market. As demand for energy grows over time, the total emissions must still stay within the cap, but it allows the industry some flexibility and predictability in its planning to accommodate this. By permitting allowances to be bought and sold, an operator can seek out the most cost-effective of reducing its emissions, either by investing in 'cleaner' machinery and practices or by purchasing emissions from another operator who already has excess 'capacity'.

Since 2005, the Kyoto mechanism has been adopted for CO2 trading by all the countries within. the European Union under its European Trading Scheme (EU ETS) with the European Commission as its validating authority. From 2008, EU participants must link with the other developed countries ems. who ratified Annex I of the protocol, and trade the six most significant anthropogenic greenhouse gases. In the United States, not ratified Kyoto, and Australia, whose ratification came into force in March 2008, similar schemes are being considered.

Kyoto's Flexible Mechanisms

A tradable credit can be an emissions allowance or an assigned amount unit that was originally allocated or auctioned by the: national administrators of a Kyoto-compliant cap-and-trade scheme or it can be an offset of emissions. Such offsetting and mitigating activities can occur in any developing country which has ratified the Kyoto Protocol and has a national agreement in place to validate its carbon project through one of the UNFCCC's approved mechanisms. Once approved, these units are termed Certified Emission Reductions (CERs). The Protocol allows these projects to be constructed and credited in advance of the Kyoto trading period.

The Kyoto Protocol provides for three mechanisms that enable countries or operators in developed countries to acquire greenhouse gas reduction credits.

1. Under Joint Implementation (JI) a developed country with relatively high costs of domestic greenhouse reduction would set up a project in another developed country.

2. Under the Clean Development Mechanism (CDM) a developed country can 'sponsor' a greenhouse gas reduction project in a developing country where the cost of greenhouse gas reduction project activities is usually much lower, but the atmospheric effect is

globally equivalent. The developed country would be given credits for meeting its emission reduction targets, while the developing country would receive the capital investment and clean technology or beneficial change in land use.

3. Under International Emissions Trading (IET) countries can cover their trade in the international carbon credit market to cover their shortfall in assigned amount units. Countries with surplus units can sell them to countries that are exceeding their emission targets under Annex B of the Kyoto

These carbon projects can be created by a national government or by an operator within the country.

6.4.7 EMISSION MARKETS

For trading purposes, one allowance or CER is considered equivalent to one metric ton of CO2 emissions. These allowances can be sold privately or in the international market at the prevailing market price. These trade and settle internationally and hence allow allowances to be transferred between countries. Each international transfer is validated by the UNFCCC. Each transfer of ownership within the European Union is additionally validated by the European Commission.

Climate exchanges have been established to provide a spot market in allowances, as well as futures and options market to help discover a market price and maintain liquidity. Carbon prices are normally quoted in Euros per tonne of carbon dioxide or its equivalent. Other greenhouse gasses can also be traded, but are quoted as standard multiples of carbon dioxide with respect to their global warming potential. These features reduce the quota's financial impact on the business while ensuring that the quotas are met at a national and international level.

Currently, there are five exchanges trading in carbon allowances: the European Climate Exchange, NASDAQ OMX Commodities Europe, Powernext, Commodity Exchange Bratislava and the European Energy Exchange. NASDAQ OMX Commodities Europe listed a contract to trade offsets generated by a CDM carbon project called Certified Emission Reductions (CERs). Many companies now engage in emissions abatement, offsetting, and sequestration programs to generate credits that can be sold on one of the exchanges.

6.5 LET'S SUM UP

Corporate social responsibility is voluntary actions and responses of the company, over and above its legal requirements, to meet the ethical needs of its customers (consumers), society, locality and the environment. Adjusting business as per the expectations of all stakeholders constitutes corporate social responsibility. It suggests that business is not merely for profit-making but also for social welfare.

Corporate governance broadly refers to the rules, processes or laws by which businesses are operated, regulated and controlled. Corporate Governance can also refer to the internal factors defined by the management along with external forces such as consumer groups, clients, society, environment and government regulations.

Social responsibility of business is understood as the obligations of the management of a business organization towards protecting the interests of society. According to the concept of social responsibility, the objective of managers for taking business decisions is not merely to maximize profits or shareholder's value but also to serve and protect the interests of other members, such as workers, consumers and the community as a whole.

Industrial processes can also have negative impacts on the environment, contribute to climate change, destroy natural resources, contribute further to air and water pollution and lead to the extinction of species and threaten the global environment as well as economic and social welfare. Industry is essential for material prosperity. The world and the global economy cannot sustain without industries. The solution to environmental degradation does not lie in discontinuing industrial growth but in pursuing disciplined and innovative methods and systems to ensure a drastic reduction of damage to the earth and living beings due to the environmental exploitation caused by industrial practices.

6.6 UNIT END EXERCISE

Q. 1 Choose the correct alternative

1. Carbon credit is a ____ term.
   a) Financial
   b) Monetary
   c) Generic

2. Social responsibility concept is ________
   a) Accepted in India only
   b) Anti-social
   c) Universally accepted

3. Socially responsible business practices and financial performance are ______
   a) Closely related
   b) Exactly opposite
   c) Different

4. Corporate governance is for creating ______ among the company's management.
   a) Self-interest
   b) Social consciousness
   c) Responsibility

5. To create massive employment opportunities is the responsibility of the business towards ______
   a) Consumers
   b) Shareholders
   c) Employees

6. Charging a fair price for goods and services is the responsibility of the business towards ______
   a) Consumers
   b) Shareholders
   c) Employees

7. ________ is a certificate showing that a government or company has paid to have a certain amount of carbon dioxide removed from the environment.
   a) Oxygen credit
   b) Carbon credit
   c) Hydrogen credit

8. The mechanism for carbon credit was formalized in the _______
   a) Kyoto Protocol
   b) Stockholm conference
   c) United Nations Charter

9. Protection of the environment is the responsibility of the ________
   a) Business
   b) Everyone
   c) Municipalities

10. To improve the prestige of the company through growth and expansion is the responsibility of the business towards ________
   a) Consumers
   b) Shareholders
   c) Society

Answers

(1-c); (2-c); (3-a); (4-b); (5-c); (6-a); (7-b); (8-a); (9-b); (10-b)

Q. 2 Fill in the blanks

1. Corporate social responsibility is often referred to as __________
2. ______ monitors and regulates corporate governance of listed companies in India
3. ______ is observed as World Environment Day.
4. Avoiding misleading advertisements and sales promotion measures is one of the responsibilities towards _______

5. ________ is a system by which businesses are directed and controlled.

Answers

(1-Corporate citizenship); (2-SEBI); (3-5th June); (4-consumers); (5-Corporate governance)

Q. 3 Match the following

GROUP A	GROUP B
1. Fair business practices	a) Responsibility of everyone
2. Trusteeship concept	b) Compulsory for listed companies
3. Suppliers	c) Within the scope of CSR
4. Corporate Governance Report	d) Stakeholders of an organization
5. Environment protection	e) Mahatma Gandhi

Answers

(1-c); (2-e); (3-d); (4-b); (5-a)

Q.4 True or False

1. Corporate Social Responsibility creates a favourable public image.
2. Adhering to laws, rules and regulations is not a part of corporate social responsibility.
3. Corporate governance makes the decision-making process transparent.
4. Globalization is one of the reasons for corporate governance.
5. The concept of social responsibility is against profit-making.
6. Social responsibility needs to be accepted on a compulsory basis.
7. Business needs the support of all social groups for its growth.
8. Carbon Credits have no capacity to reduce emissions.
9. Ecological environment refers to all living things.
10. Eco-friendly technology is also called green technology.

Answers

(1-True); (2-False); (3-True); (4-True); (5-False); (6-False); (7-True); (8-True); (9-False); (10-True)

Q.5 Answer in brief

1. Define Corporate Social Responsibility and explain its advantages.
2. State the arguments for and against corporate social responsibility.

3. What is corporate governance? Elaborate on the principles of corporate governance.
4. Justify the need for corporate governance.
5. "Discharging social responsibilities is beneficial to business enterprises." Explain the statement.
6. Explain the social responsibility of business towards different sections of society.
7. "Ecology and business are closely related." Explain the statement in the light of the relationship between business and ecology.
8. What is a carbon credit? Explain the working of the carbon credit system.

Q.6 Short notes

1. Challenges of corporate social responsibility
2. Features of corporate governance
3. Arguments for social responsibility of business
4. Social responsibility towards consumers.
5. Importance of ecology consciousness
6. Carbon credit

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7

SOCIAL AUDIT

Unit Structure

7.0 Objectives

7.1 Social Audit

7.1.1 Introduction

7.1.2 Definition

7.1.3 Areas of social audit

7.1.4 Features of social audit

7.1.5 Benefits/Importance of social audit

7.1.6 History of social audit

7.1.7 Types of Social Audit

7.1.8 Difference between social audit and commercial audit

7.1.9 Conclusion

7.2 Lets Sum Up

7.3 Unit End Exercise

7.0 OBJECTIVES

After going through this unit, you will be able to:

- Understand the concept of social audit and its benefits for business organizations.
- Classify different types of social audits.
- Explain the scope and areas of social audit.
- Describe the difference between social audit and commercial audit

7.1 SOCIAL AUDIT

7.1.1 INTRODUCTION

Social audit is a technique used for judging the social responsiveness of companies. Social audit determines what an organization is doing in social areas. It helps in finding out how far an organization has met its social responsibility. It evaluates the performance of an enterprise in relation to ecological balance, the welfare of employees, consumer protection, community services and so on.

The purpose of a social audit is to review or evaluate the social performance of a company and to make the top-level management conscious as regards their social responsibilities. Social audit improves the social performance of an organisation by offering suitable guidance to its top-level management. Social audit is also undertaken in order to create goodwill and a good image of a company by improving its social performance.

7.1.2 DEFINITIONS

1. According to **K.M.Mittal**, a social audit is, "a commitment to systematic assessment of and reporting on the same meaningful definable domain of the company's activities that have social impact."

2. **Dr C.B.Mamoria and Dr Satish Mamoria** define social audit as, "a systematic study and evaluation of an organisation's social performance, as distinguished from its economic performance."

Social audit is a mechanism used for the purpose of understanding, measuring, reporting and enhancing the overall ethical performance of an organization and for this purpose, the involvement of its stakeholders such as its clients, employees, customers, creditors, suppliers, vendors, shareholders, and society is very important. In other words, social audit is a performance appraisal technique in regard to social responsibilities of business enterprises

Often, amongst all the stakeholders of an organization, the shareholders are given priority. Organizations work towards enriching the economic wealth so as to satisfy the needs of the shareholders, but this is done at the cost of social and environmental disorders. And these social and environmental costs are not reflected in the prices of the business.

However if one has to preserve the larger interests of the society, there has to be some consideration for social good. It is expected from the business organizations that it behaves and functions as socially responsible member of society like any other individual. Moral values cannot be shunned and neither can actual compulsions be ignored. Some form of accountability on part of management must exist which is not limited/restricted to shareholders alone.

According to the modern approach, earning profits is not the only purpose of a business; proper utilization of resources in a way that'll benefit all the stakeholders must be the basic objective of its existence. It is expected from a business organization that it is socially responsible and works for the larger benefit of the community. The fruits of the businesses progress and growth must be shared with the society at large.

Social audit by a business enterprise indicates that it is conscious of its social obligations and desires to know its social performance for evaluation and remedial measures, if necessary. Such social awareness creates a favourable image of a business enterprise.

7.1.3 AREAS OF SOCIAL AUDIT

Social audit primarily tries to cover the following areas:

1. Ethical Issues

Ethics aids in determining what is right and what is wrong in terms of a given situation. Social audit keeps a tab on business enterprises and keeps unethical conduct like price discrimination, unfair trade practices, cheating customers, pirating employees' ideas, leaving the job without observing job contract in check.

2. Equal opportunity

The second issue that comes under social audit is equal treatment in employment and a fair justice system in the organization. It must be noted that decisions pertaining to employment should be on the basis of merit only.

3. Quality of WorkLife

Some of the primary needs of the employees include a safe, healthy and human work environment. But, along with the primary requirements, employees are seeking greater meaning in their lives. A fair reward system, freedom, flexibility, opportunities for growth are some of the things employees have a preference for. An organisation must ensure that they are able to satisfy the needs of the employees and social audit is that tool that helps them achieve the same.

4. Consumerism

Business exists to serve and satisfy the needs of the consumers and hence it has a special obligation towards the consumer as the business. It is therefore the principal duty of business to ensure that the consumers' requirements are taken care of. Social audit aids the organization to ensure that the organization does not fail in upholding the rights and privileges of the consumers.

5. Environmental Protection

Business organizations depend on the natural environment for the required inputs. But business processes have negative impacts on the environment and contribute to climate change, destroy natural resources, contribute further to air and water pollution and lead to the extinction of species and threaten the global environment as well as economic and social welfare. It is important to keep the business operations in check so that it does not harm the natural environment and social audit as a tool comes in handy in the said case.

7.1.4 FEATURES OF SOCIAL AUDIT

1. Systematic evaluation

Social audit is a systematic or critical evaluation and reporting on the performance of an enterprise as regards social responsibilities and obligations. It studies the impact of business activities and policies on society which includes different social groups.

2. Measures social performance

Social audit acts as .a tool for measuring the social performance of an enterprise. Such performance means a contribution of an enterprise in relation to environmental protection, ecological balance, safety welfare of employees, consumer protection, community service and so on.

3. Conducted frequently

A social audit can be conducted frequently (after a gap of two or three years) by an internal auditor or by an outside consultant with proper qualifications, skills and experience. It is a social balance sheet of a company.

4. Wide coverage

A social audit has a wide coverage. It covers various business activities having a direct social impact. It covers ecological and environmental protection, relations with employees, shareholders and consumers, support to the community needs, welfare activities and financial support to education, rural development, etc. Social audit has a universal application. It can be introduced in private as well as public sector organizations.

5. Supplements social responsibility

Social responsibility and social audit are closely related concepts. In fact, social audit is a tool for judging the social performance of an enterprise. It indicates the extent to which social obligations are honouree by a business enterprise. A business organisation can improve its social performance through the periodical social audit.

6. Guides top management

Social audit guides the top-level management so as to make the activities of the enterprise fair to all social groups and the national economy.

7. Voluntary in character

Social audit is not legally binding to companies (not compulsory). It is voluntary but is certainly useful to all companies in the long run for social recognition and also for measuring and improving social performance.

8. Difficult to conduct

Social performance is difficult to evaluate. A company finds it difficult to get reliable and sufficient data on the results of its social activities. In addition, there is no uniform and universally accepted method for the conduct of social audit.

9. Subjective element

Social audit is subjective by nature and relates to people within and outside the organisation. It cannot be conducted accurately like a commercial audit.

10. Different from commercial audit

Social audit is concerned with the social performance of an enterprise while a commercial audit evaluates the commercial performance of an enterprise. Social audit gives details about social performance and reference is not made to profits, sales, turnover and so on. It is basically different from commercial audit which relates to the accounting aspect of a business.

7.1.5 BENEFITS/IMPORTANCE OF SOCIAL AUDIT

(A) Benefits to Sponsoring Organisation

1. Supply data on social performance

Social audit facilitates the study of the social performance of an enterprise. It enables the company to take a close look at itself and understand how the company has lived up to its social objectives. Social performance can be measured through a social audit.

2. Guidance to top management on social performance

Social audit encourages top management to give more attention to the social performance of an enterprise and thereby improve the quality of social performance. It facilitates self-evaluation about social performance by the management for suitable remedial measures if required. Management can even compare social objectives and social performance and take appropriate remedial measures. Social audit encourages democratic management of companies.

3. Feedback on community programmes

Social audit provides feedback regarding social benefit programmes undertaken by the company. Their effectiveness and limitations are studied in social audit. This is useful for suitable modifications in the existing programmes and the introduction of new programmes for improving social performance.

4. Publicity to social performance

Social audit enables an enterprise to inform the public of the extent of social awareness on the part of an enterprise. It can give publicity to social performance in the company's annual report.

5. Creates favourable image and reputation

Social audit by a business enterprise indicates that it is conscious of its social obligations and desires to know its social performance for evaluation and remedial measures, if necessary. Such social awareness creates a favourable image for a business enterprise. It is treated as a socially responsible organisation.

6. Concentration on utility-oriented programmes

Comparison of different types of social service programmes is possible through social audits. It is also possible to concentrate on certain social service programmes which are utility-oriented.

7. Improves corporate image

By establishing sound relations with the people and press, a business firm can improve its social image. Social audit helps to improve corporate image.

(B) Benefits to Society/Social Groups

1. Supply information to shareholders and others

Social audit enables an enterprise to appraise its shareholders, customers, employees, etc. of its social activities and the results of such activities undertaken. Social audit promotes collective decision-making and sharing of responsibilities.

2. Prevents unfair practices

Social audit points out the drawbacks of policies and programmes of the company. It points out unfair and undesirable activities and avoids their repetition in future. It avoids the use of resources of the firm for profitability at the cost of social welfare. Indirectly unethical business practices are checked.

3. Protection to different social groups

Social audit makes top management's alert and conscious as regards social obligations towards consumers, employees, shareholders and the society at large. This gives protection and fair treatment to all social groups and avoids their exploitation.

4. Provides social benefits

Social audit makes companies/ management socially conscious. They are encouraged to undertake programmes that are socially useful. This gives benefits to the entire society, particularly those who are poor-economically and socially.

5. Makes the enterprise conscious of its social responsibilities

Social audit speaks about the alertness of an enterprise as regards its obligations to consumers, employees, local people etc. It acts as a watchdog and makes the management alert about social performance and how to improve the same.

The advantages of social audit suggest the importance /role of social audit to the concerned companies as well as to the corporate sector. Social audit has wider social importance. Social audit evaluates the social performance of an enterprise and guides the enterprise in improving its social performance. This gives social orientation to the activities of an enterprise and raises its market standing and public image. In short, social audit is important as it raises the image of the corporate sector and gives social orientation to its operations and activities. Social audit indicates the position of corporate governance of a company. It suggests the extent to which the company is conscious of its social responsibilities. Companies can improve their social performance /contribution through a periodical social audit.

7.1.6 EVOLUTION OF SOCIAL AUDIT

The social audit concept is closely related to the concept of social responsibilities of business. Business is expected to discharge certain obligations towards different social groups such as customers, shareholders, employees and so on. Social audit is related to social responsibilities as the purpose of social audit is to assess the social performance of an enterprise.

Kreps Theodore J. is regarded as the founding father of the social audit concept.

Social audit dates back to the 1970s, when private organizations throughout the British Commonwealth, European countries and the United States responded to the demands from consumers and environmental movements by implementing several approaches to actively involve stakeholders in the decision-making process. Organizations concluded that if they reached out to the key stakeholders, they could better understand the impact and needs, improve products and services, produce healthier and more productive corporate culture and in turn strengthen their productivity and profits.

Charles Medawar pioneered the concept of social audit in 1972 with the application of the idea in medicine policy, drug safety issues and on matters of corporate, governmental and professional accountability. According to Mr Charles Medawar, the concept of social audit starts with the principle that in a democracy, the decision-makers should account for the use of their powers, which should be used as far as possible with the consent and understanding of all concerned.

In India, the first social audit was conducted by the Tata Group in 1979. Tata group is the first Indian business group to spend substantial resources on education, public health, sports, rural development, family planning, industrial and social research, medical and many more. Tata group has set an example for many corporate houses as regards social responsibilities and social audits.

7.1.7 TYPES OF SOCIAL AUDIT

1. Social Process Audit

Social Process Audit measures the effectiveness of the activities of the organisation which are largely taken up to meet certain social objectives. In this case, corporate executives examine what they are doing and how they are doing.

The method involves four steps:

i) Identify instances that lead to the starting of the social audit programme

ii) List down the goals of the social programme

iii) State how the organisation is going to meet such goals

iv) Evaluation of what is delivered as against what has been planned

2. Financial Statements Format Social Audit

Financial statements must show conventional financial information and all the information related to social activities. About associates, a management consultancy firm proposed that the balance sheet should show a list of social assets on one side and social commitments, liabilities and equity on the other side. The income statement should disclose all the social benefits, social costs and the net social income that is given by the company operators to the staff, general public and its clients. This approach has been criticised as many feel that it may create confusion of complicating issues further and defying easy understanding.

3. Macro-Micro Social Indicator Audit

This audit evaluates an organizations performance in terms of social measures (micro indicators) against macro social measures. The macro social factors include the social goals in terms of health, safety, education, housing, accidents, pollution control measures, etc. The micro social indicators focus on the performance of the company in those areas measured by macro social indicators. One important shortcoming of this social audit approach is the non-availability of reliable macro social indicators. Additionally, it is not easy to specify whether the actions initiated by a company have actually enhanced the quality of life of a community, and such individual actions may ultimately be marked as irrelevant, insignificant and sometimes, even unnecessary. In conclusion, this approach helps all organisations to evaluate their contributions in improving social life on a rational basis.

4. Social Performance Audit

In developed countries, several interest groups including church groups, universities, mutual funds, consumer activists regularly measure, evaluate and rank socially responsive companies on the basis of their social performance. Opinion polls are carried out in a timely manner to discover companies that conduct social efforts in a proactive way and earn the goodwill of the general public and consumers.

5. Partial Social Audit

The organisation focuses on the measurement of a specific aspect of its social performance namely; environment, energy or human resources as it identifies these aspects to be very important or because their social efforts for the time being are confined to the area:

- Environmental Audit: In several countries across the globe, people stage protests if any company tries to pollute the environment. Such protests lead the companies to not only comply with regulations but also proactively explore opportunities to recycle their waste products into useful products. An internal committee set up by the business prepares a report about the present environmental issues and how they are being taken care of. This report is re-examined by an external auditor to check whether air/ water pollution measures, toxic waste disposal, and safety regulations have been complied with.

- Energy Audit: Energy audits are useful to investigate how energy is obtained, consumed and preserved by the organization. Further, they help in conserving energy sources to a great extent.

- Human Resource Accounting (HRA): The basic ideology of HRA is that human resources are assets of the organisation and the investment in acquiring, training, and developing these resources should be accounted for as an asset. Traditional accounting methods write off investments in human capabilities and values as operating expenses. The current value of a company's human resource assets is not considered while computing expenses/revenues and, thus, the balance sheet does not portray the true and fair picture of the company's state of affairs.

6. Comprehensive Audit

Comprehensive audit measures, verifies and evaluates the total performance of the organisation and the activities that are related to its social responsibility. Comprehensive audit focuses on management systems rather than on the actions or events which are not important. It evaluates the quality of processes and the information on which organisational decisions are taken. Difficulties in Comprehensive Audit present numerous problems and its scope cannot be determined precisely. If we attempt to list all activities undertaken by an organisation, in an accounting year it may be difficult to find out which activities come under the umbrella of comprehensive audit and which do not.

7.1.8 DISTINGUISH BETWEEN SOCIAL AUDIT AND COMMERCIAL AUDIT

SOCIAL AUDIT	COMMERCIAL AUDIT
Meaning	
A social audit is the evaluation of the social performance of a company by a knowledgeable person with suitable academic background and experience.	A commercial audit is the inspection of accounts and balance sheets of a company as per the provisions of the Indian Companies Act, 2013.
Information supplied	
A social audit provides an assessment of the impact of non-financial objectives through systematic monitoring on the basis of the views of its stakeholders.	A commercial audit is directed towards recording, processing, summarizing and reporting financial data.
Conducted by	
Internal auditors or consultants can conduct a social audit as per the directions of the management.	A commercial audit is conducted by the auditor appointed by the shareholders in the AGM.

Purpose	
The purpose is to evaluate the social performance/contribution of an enterprise.	The purpose is to evaluate the commercial performance of an enterprise.
Scope	
The scope of social audit is wide. Any socially important matter can be taken up under social audit.	The scope of a commercial audit is restricted to financial/accounting matters.
Legal position	
Social audit is not mandatory.	A commercial audit is mandatory
Procedure	
Standard rules and procedures are not laid down for social audit.	Well-defined rules, regulations and procedures are laid down for the conduct of the commercial audit.
Submission	
A social audit report is basically for the consideration of the top management.	A commercial audit report is sent to all the shareholders for consideration and approval.
When conducted?	
It may be conducted every year or once in two or three years.	It is conducted every year after the completion of the financial year
Reporting format	
A standard format is not available for social audit report	Commercial audit reports are prepared in the prescribed standard format.

7.1.9 CONCLUSION

The concept of social audit is universally recognized as a useful practice for all organizations - public, private, and government organizations. Such an audit has wider social importance and significance. It is useful to management, shareholders, consumers and other social groups. Governments in many countries have supported this concept of social audit and have made legal provisions for its introduction as a normal social as well as legal practice. In India, the concept of social audit is gaining social support. The concept is now supported by professionally managed and socially alert companies.

7.2 LET'S SUM IT UP

Social audit is a technique used for judging the social responsiveness of companies. Social audit determines what an organization is doing in social areas. It helps in finding out how far an organization has met its social responsibility. It evaluates the performance of an enterprise in relation to ecological balance, the welfare of employees, consumer protection, community services and so on.

Kreps Theodore J. is regarded as the founding father of the social audit concept

Social Process Audit, Financial Statements Format Social Audit, Macro-Micro Social Indicator Audit, Social Performance Audit, Partial Social Audit, Comprehensive Audit are some types of social audit.

The concept of social audit is universally recognized as a useful practice for all organizations - public, private, and government organizations.

7.3 UNIT END EXERCISE

Q.1 Fill in the blanks

1. _______ helps in evaluating business activities in terms of social benefits.
2. _______ is regarded as the founding father of the social audit concept.
3. Social audit is ______ in India.
4. _____ is the first to introduce social audit in India.
5. _____ audit is a report of economic performance

Answers

(1-Social audit) (2-Kreps Theodore) (3-voluntary) (4-TISCO) (5-commercial)

Q. 2 True or False

1. Social audit analyses the financial performance of a company in terms of corporate social responsibility.

2. Social audit is not compulsory in India.

3. Commercial audit is an evaluation of the social performance of the business.

4. Commercial audit and social audit are not the same.

5. The idea of social audit originated in England.

6. Social audit is conducted on a yearly basis.

7. Social audit may be conducted by an external consultant or by an internal auditor.

8. Social audit measures the social performance of a business unit.

9. Social audit is compulsory as per the Indian Companies Act, 2013.

10. Dr Swaminathan is regarded as the founding father of the social audit concept.

Answers

(1-False); (2-True); (3-False); (4-True); (5-False); (6-False); (7-True); (8-True); (9-False); (10-False)

Q. 3 Match the following

GROUP A	GROUP B
1. First social audit in India	a) Founding father of social audit
2. Kreps Theodore	b) Concerned with social performance
3. Social audit	c) Investigate how energy is obtained, consumed and preserved
4. Issue audit	d) TISCO
5. Energy audit	e) Deals with the fulfilment of social obligations

Answers

(1-d); (2-a); (3-b); (4-e); (5-c)

Q. 4 Answer in brief

1. Define social audit and explain its features.
2. Define social audit. What is the importance of social audit?
3. "Social audit is as important as commercial audit in the case of large companies managed professionally." Explain
4. Distinguish between social audit and commercial audit.
5. Explain briefly the different areas of social audit

Q. 5 Shot notes

1. Importance of social audit
2. Types of social audit
3. Social audit v. commercial audit
4. Features of social audit
5. Areas of social audit

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8

STRATEGIES FOR GOING GLOBAL

Unit Structure:

8.0 Objectives

8.1 Introduction

8.2 Strategies for Going Global

8.3 Multinationals (MNC)-Meaning,Features, Advantages, Disadvantages

8.4 Transnational (TNC)-Meaning, Features

8.5 World Trade Organisation (WTO) –

Formation of WTO, Functions, Achievements

WTO Negotiations,Future of WTO

8.6 Summary

8.7 Exercise Questions

8.0 OBJECTIVES

After studying this unit students will be able to –

- Understand the concepts of MNC, TNC, WTO & their importance
- Know the advantages, challenges, impact
- Describe the Future of WTO

8.1 INTRODUCTION

Expansion & Growth are universal tendencies among business enterprises, especially financially sound firms. Firms interact with one another for the purpose of 'Going Global', thereby achieving economies of large-scale production &selling. Growth& expansion are the natural tendencies of business enterprises. These are in the form of Survival, Loyalty on part of customers, Increased market share etc. Growth is essential for raising profitability. Sometimes, growth is also necessary for survival & customer satisfaction. Business growth is possible by using different alternatives also called growth strategies. These strategies may also be called 'Going Global' as they are useful for expanding business & thereby leading to a global Organisation like Multinational.

8.2 STRATEGIES FOR GOING GLOBAL

Strategy is anaction plan prepared for achieving well defined objectives. It acts as a tool for achieving the goals. Global Business means expansion of business (Production, marketing, other activities) so as to cover the entire world through business operations. Internationalization of Business –The Key to Growth is a unique slogan used in business world. Integrating the limits of business & covering the entire World within single Circle is Globalisation of Business. As compared to other strategies, going global is the last stage in growth process. Induced &attracted by multiple benefits of Globalisation, firms prefer going global,in order to become a Multinational or Global Corporation. International environment is very beneficial to business growth. Those firms that have good reputation, establishment in domestic markets, can extend their operations to global boundaries from time to time. Modern business philosophy is also favourable to business growth, as it offers new & better avenues to build contacts & enhance sales. Small Companies become bigger & even MNC's due to growth of business activities through suitable growth strategies.

Multiple popular Companies like TATA'S, Birla, other groups in India. Similarly, Larsen & Turbo (L & T) was founded in 1938, as partnership firm between 2 engineers Larsen & Toubro. It became private limited Company in 1946 & Public limited Company in 1950.At present it is one of the 5 largest private sector Companies in India. Companies like Nestle, Starbucks, Burger King are all examples of firms / brands going global with their constant innovation & Research & development.

WHY COMPANIES GO GLOBAL/INTERNATIONAL

The basic reasons for going global are:

a) To achieve large scale profits
b) To have inflow of foreign technology, information, techniques, knowledge
c) To achieve diversified customer preferences
d) To accelerate economic growth, thereby improve nation's wealth
e) To increase returns on investments
f) To contribute to export promotion policy of government & to secure benefits of export incentives.
g) To develop & enhance corporate image
h) To build effective trade relations with trading partners
i) To provide assistance in times of emergence like natural or government policy changes etc.

Strategies for Going Global can be classified in 2 major categories:

a) Internal Going Global/ Growth Strategies

b) External Going Global/ Growth Strategies

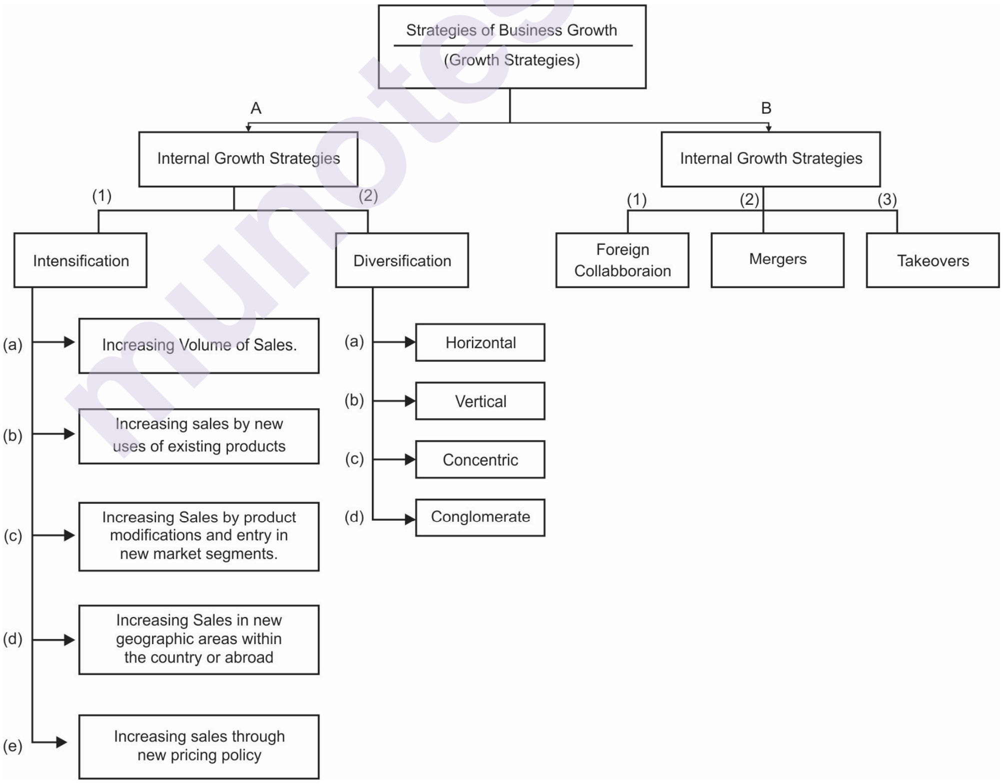
a) <u>Internal Growth Strategies</u>: Internal growth strategies bring growth from within the enterprise & also by using available internal resources. They are called Intensification or Intensive Growth strategy & involve diversification of business through various methods. Here part of earned profits are reinvested to achieve expansion in size of business, increase in scale of operation.

Internal growth strategies are generally defensive & involve orderly progress towards stability & expansion.

b) **External Growth Strategies:** Growth can also be achieved by taking over or merging with other firms manufacturing same or different products. Foreign Collaboration is one of the examples of external growth strategy. Also, takeovers may be horizontal or vertical. If there's integration of 2 or more similar units,it's called horizontal. Whereas if there are different products coming together, it's called vertical integration.

Extensive Growth Strategies are Offensive in nature, useful for achieving growth targets in terms of production, market share, reputation whereas Internal growth strategies are defensive in nature. They offer growth only when factors are favourable.

TYPES OF GOING GLOBAL STRATEGY:



(A) **INTERNAL GROWTH STRATEGY**:

Consists of increasing sales revenue, profits & market share of existing product line or services. This type of strategy is applicable when product is not in maturity stage of Product Life cycle. It is applicable to firms with small market share. There are several ways of introducing intensive growth strategy:

i) **Raising the volume of sales of existing products in unexploited market sectors**-This type of strategy boosts the trade of Companies who look forward in introducing their products to unfamiliar markets, targeting new customers, preferences

ii) **Increasing Sales volume by encouraging new uses of existing product**: Many Companies offer additional services, benefits in their existing products/ service, thereby attracting sales & customer loyalty. Companies with brands like Fair & Lovely, LUX, American Tourister etc involve such trends ways

iii) **Increasing Sales Volume by introducing minor modifications in popular brands**-These include Minor changes in products like Mobile Phones, TV sets, Washing Machines etc.

iv) **Increasing sales in new geographic areas within the country or in export markets**-Due to globalization, many companies with high competitiveness export their products abroad & raise the volume of sales.

v) **Increasing the volume of sales through new pricing policy**-Sales volume can be raised on basis of new pricing policy. Example offering Discounts, combo packs,etc sales can be boosted in urban & rural areas.

(B) **Diversification Strategy**-Is considered as an important growth strategy useful for expanding business & also for going global. It is a strategy of adding new products/services to the existing product/ service line. Itis a horizontal expansion of firm through expansion of its product line. Examples Now-aa –days banks are diversifying their role from not only banking functions, but also involving insurance, Customer relationship Management & so on.

Methods for Diversification

i) Diversification through internal research & development-The Company may conduct extensive research & development activities in order to develop new products, which may be more promising & long lasting.

ii) Diversification through Patents & license-Some Companies bring diversification by procuring patents & manufacturing license of new products developed by other country. E.g., In India, Pharmaceuticals Companies have obtained license from MNC’s to produce drugs in India.

iii) Diversification through exports/ joint ventures:
Companies can diversify its activities by exporting its products along with domestic marketing. It may either manufacture new products or may execute via joint ventures

(C) **EXTERNAL GROWTH STRATEGIES**
External Growth Strategies include the following:
(A) Foreign Collaborations
(B) Mergers/Amalgamation
(C) Takeover/Acquisition

(A) Foreign Collaboration: May be defined as "An agreement between 2 Companies from 2 different countries for mutual help, co-operation & also sharing the benefits in common.

Collaborations mean co-operation for specific purpose. Collaborations is useful ton firms operating in less developed nations, as they face many financial, marketing & managerial problems. They remove technological gaps in developing countries & help improve their economic & industrial growth

TYPES OF FOREIGN COLLABORATION:

i) **Technical Collaboration**- Takes place when there's an import of advanced technology from developed country to developing country. The firms agree to provide technical knowledge, sophisticated machinery etc

ii) **Financial Collaboration**- Relates to supply of capital/ foreign exchange. The foreign enterprises agree to participate in equity capital or provides long term loan to firms in host country.

iii) **Marketing Collaboration**-Relates to marketing activities. Under this, marketing collaborators agree to provide marketing facilities in his own country or agrees to help in marketing goods abroad.

iv) **Consultancy Collaboration**-Provides consultancy services for efficient management of an enterprise in the host country. Here, foreign collaborator offers essential managerial expertise.

(B) Mergers & Amalgamations-

i) In Mergers, 2 Companies come together, but only one company survives & other goes out of existence. In merger, survival of both Companies is not possible. It is a technique of business growth. In merger, acquiring Company takes over the shares of another company called acquiredcompany. They may be horizontal, vertical or conglomerate. In horizontal merger, both companies are engaged in same line of business. Example merger of Pepsi company with Dukes

Company. In vertical merger, the combining companies are engaged in successive stages of production/ marketing. In case of conglomerate merger, the combining Companies are engaged in different business activities, which are unrelated Reliance merging itself with FMCG & many other brands

ii) Amalgamation-

Under these 2 or more companies are mixed & a new company with new name is formed. In amalgamation, Companies lose their separate existence &identity. The new company is duly registered & gets a separate legal entity. The outcome of such amalgamation is the formation of new, stable & large company. Amalgamations are possible in the business World, but they need lengthy procedure.

iii) Takeover/Acquisition-

In takeover/acquisition, one company gets control over other company. Such acquisition may be for cost saving, revival, expansion or for going global.

Acquisition is possible by different methods like

a) Purchase of assets without purchasing the company as whole

b) Acquiring controlling interest etc.

There is minor difference between acquisition &takeover. In acquisition, both the partners are willing to merge. In takeover the willingness is absent in the selling firm's management.

8.3 MULTINATIONAL'S (MNC's)

MNC's are large business enterprise / industrial organisations with huge capital & conducting business operations in the country of its origin & also many other countries. They are registered in one country but have their operations spread over the entire global area. They are also called Global Corporations, International Companies, & earn huge profits & dominate global marketing activities. These are also regarded as holding Companies with head office in one country & business operations spread in many countries including country of their origin.

Some of the well-known MNC's are Coco-Cola, HUL, Johnson & Johnson, McDonald's, KFC, etc.

Definition of MNC:

According to David E. Lilien MNC 's mean "Corporations which have their home in one country but operate & live under laws & customs of other countries as well (host countries)

According to Prof Raymond Vernon, a MNC means "A Company that attempts to carry out its activities on an international scale as though there are no national boundaries on the basis of common strategy directed from corporate culture"

Features of MNC

1) **Large Size-**MNC's are large sized capital firms which employ huge capital but operate business operations in many poor & developing nations. The turnover of such companies is quite huge even more than the Gross National Product of several nations put together. The conduct variety of activities & are controlled by parent company

2) **Different Types**-MNC's are available in several types. Some of these are a) Public Utility Companies b) Manufacturing Companies c) Service Institutions d) MNC providing turnkey projects e) MNC's providing licensing facility to domestic Companies etc.

3) **Multinational Management-**MNC represent their owners from diversified countries &cultures, with wide spread knowledge, technical know-how which helps run business with ease & expertise

4) **Invest funds in poor & developing countries-**MNC'S operate their operations in poor & developing nations to stimulate growth in such areas & offer employment opportunities to improve standard of living

5) **Dominate Global economy**-MNC's dominate global economy & play an important role in expansion of World Trade. They have wide spread contacts & conduct business operations economically

6) **Expand activities through different channels-** MNC's expand their activities by different methods like investment of funds, foreigncollaboration, establishment of subsidiaries etc. Such functions offer huge profits

7) **Efficient Management** –MNC's conduct their business efficiently. They are cost as well as quality conscious. They are managed by highly qualified & experienced professionals.

8) **Support to developing countries**-MNC's have helped developing countries in different ways. Example MNC's provide employment opportunities, Infrastructure, Technology facilities to developing nations.

HOW MNC's /TNC's EXPAND BUSINESS ACTIVITIES (GROWTH STRATEGIES OF MNC & TNC)

Strategies used by MNC's for the expansion of their business activities are explained below:

1) **Direct Foreign Investment-** MNC's possess large financial resources at their disposal, which can be invested in different nations through equity participation or by starting new manufacturing

companies. The subsidiaries of MNC's or branches of MNC 's make profit which is reinvested in industrial sector of concerned country.

2) **Transfer of technical Know- how-** MNC's supply modern technology to enterprises in developing nations. Technical consultancy services are also offered. Such operations help them expand their activities & role

3) **Licensing**- MNC's allow domestic Company to use their trade mark, brand name, technical know-how for manufacturing & marketing purpose. License is provided against payment of fees called 'Royalty'

4) **Turnkey Projects**-MNC's undertake to complete developmental projects for developing countries. Such projects are done either on basis of tender or on cost plus fee for service basis. InIndia, Bhilai& Bokaro steel plants were installed as Turnkey projects.

5) **Opening Foreign Offices & Subsidiaries**- MNC's expand business by opening offices in foreign countries where market potential is high.

6) **Marketing Products globally-** MNC's manufacture goods in different countries by using local labour & raw materials. Such production of subsidiaries is sold in the host country & exported to other countries.

7) **Mergers & Acquisitions-**Mergers & Acquisitions are 2 more techniques used by MNC's for expansion of their business.

ADVANTAGES OF MNC's

(A) Advantage of Multinationals to Host Countries:

1) **Promote Foreign investments**-MNC's help raise level of investments in host countries, resulting in rapid industrial growth along with employment opportunity in allied sectors

2) **Facilitate transfer of technology**- MNC's act as agents in transfer of technology to developing nations. They remove technological gaps by providing techno-managerial skills

3) **Accelerate industrial growth**-MNC's accelerate industrial growth in host countries through collaborations, Joint Ventures, Subsidiaries. They control economic growth through financial, marketing, technological services

4) **Promote exports & reduce imports**-MNC's help host countries in promoting exports & reducing imports by raising production.

5) **Provides services of professionals**-MNC's provide services of skilled professionals for managing activities of enterprise in which

they are involved. They bring managerial revolution in host countries

6) **Provide benefits of R & D activities**: Huge capital availability enables MNC firms to conduct R & D activities thereby producing innovative & competitive products/ services

7) **Promotes global trade & Co**-operation-MNC's facilitate expansion of international trade & promote co-operation in between developed & developing countries.

(B) Advantages of MNC to Countries of their Origin:

1) **Facilitate inflow of foreign exchange** –MNC's collect funds from enterprises of other countries in form of fees, royalty service charges. This brings inflow of foreign exchange without much efforts.

2) **Ensures optimum use of resources-**

MNC's ensure optimum use of natural & other resources available in their home countries. This is possible due to worldwide business contacts.

3) **Promotes bilateral trade relations**-MNC's promote bilateral relations between their home & other countries with which they have business relations

4) **MNC's create massive employment opportunities** within the country of their origin

DANGERS /LIMITATIONS OF MNC's & TNC's

1) **Provides outdated technologies**- MNC's / TNC's design technologies which can be used in different countries. The technology is designed for profit maximisation along with meeting the needs of developing nations.

2) **Harmful to local industries**- MNC's create harmful effects on local industries &small-scaleunits. Their marketing in domestic countries is harmful to local industries, as they face competition from MNC's.

3) **Charge Heavy Fees**- MNC's/ TNC's charge heavy fees & service charges from enterprises in host countries. They retrieve profits of their subsidiaries to their home countries.

4) **Use natural resources recklessly**- MNC's / TNC's use the resources in host countries in reckless manner which results in reduction of non-renewable natural resources.

5) **Interfere in economic & political systems**-MNC's take undue advantage in economic & political systems of host countries. They put pressure for formation of policies which are favourable to them.

6) **Investment mainly in profitable sectors-**MNC's / TNC's are interested in investing their funds in areas where the risk involved is less but profitability is high. They are not interested in the national priorities of host countries.

MNC's & INTERNATIONAL TRADE /ROLE OF MNC IN INTERNATIONAL TRADE

MNC's not only participate international trade but also dominate global marketing activities. The business operations of MNC's are spread in many countries. They conduct trading operations on a large scale & this makes their operations highly competitive. They undertake different activities including manufacturing, marketing, research, transfer of technology & so on.

Major portion of World Trade is handled by MNC & TNC.They dominate Global Trade.MNC's play a positive role in promoting international trade. They participate in international trade through licensing, opening foreign offices, marketing products globally.

8.4 TRANSNATIONAL's (TNC)

Meaning: TNC is big global enterprise which conducts business operations (E.g.,Research in one country, production in another country, assembling in 3rd country & marketing in many countries) in large number of countries & is more suitable to present global economy. It represents superior type of MNC & is global corporation in real sense with high degree of integration of operations & activities.

Incase of TNC confederation, the relationship between the member companies is different. The integration among units is closer. The entire group acts as one viable integrated group.

FEATURES OF TNC

1) **Large Company with global operations-** TNC confederation is a large business company operating at global level. The owners & top management come from varied borders across countries.

2) **Operates beyond national boundaries-**Transnational means extending beyond national boundaries. Examples are Unilever, Mercedes-Benz, Glaxo. General Motors (USA) are the examples of TNC.

3) **Brings integration in World economy-**TNC's operate at global level & conducts production & marketing activities using local resources as factors of production.

4) **Decentralisation of production activities-**TNC's integrate factors of production available in different countries. They may have production plant in many countries & manufacturing the entire product line in a decentralized manner.

5) **Benefits in Production & Marketing-**TNC's take benefit of availability of plenty of raw material in one country, cheap labour available in other country, ease finance in 3rdcountry, conduct production & marketing activities in an orderly manner.

8.5 WORLD TRADE ORGANISATION (WTO)

FORMATION OF WTO

The conversion of GATT in WTO in 1995 is a significant event in the field of global trade. The World Trade Organisation started functioning from 1st January 1995.The formation of WTO is the result of Uruguay Round of negotiations. Since 1995, World Trade is governed by rules & regulations framed by WTO.

WTO has larger membership (In 2002, its membership was 144 countries) than GATT.India is one of the founder members of GATT & WTO.There are many other agreements under WTO which are rectified by India.WTO is based in Geneva, Switzerland.

WTO is an organisation to direct & regulate global trade whereas GATT was only a legal arrangement.WTO is a new international organisation set up as permanent body & 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.WTO is based on the noble idea that all trade needs to be freed.Government has to first reduce & then eliminate all tariffs, quotas, customs on trade.

At present, WTO acts as the governing body of World trade. It aims at promoting free & fair trade at global level which will be beneficial to all participating countries.

OBJECTIVES OF WTO

WTO desires to achieve the following objectives:

1) Free Trade i.e., trade without discrimination

2) Growth of less developed countries (LDC's)

3) Protection & Preservation of Environment

4) Ensure optimal utilisation of available world's resources, expanding production & trade

5) Raising Living Standard of citizens of member nations & ensure full employment

6) Settlement of trade disputes among member countries through consultation & dispute settlement procedures.

WTO operates on basis of following **5 principles:**

1) Non –Discrimination among member nations

2) Reciprocity

3) Binding & enforceable commitments

4) Transparency &

5) Safety Values

FUNCTIONS OF WTO

1) To promote international trade without discrimination of any type

2) **To administer & implement the trade agreements signed under Uruguay Round Negotiations-** It administers 29 agreements contained in 1st act of Uruguay Round. The main function of WTO is to implement multilateral trade agreement signed at various rounds of WTO negotiations.

3) **To act as a forum for multilateral trade negotiations**-WTO arranges meetings of member countries for negotiations from time to time. Such negotiations are mainly for reduction of tariff &non-tariff trade barriers.

4) **To resolve trade disputes that cannot be solved through bilateral talks**-It provides mechanism for resolution of trade dispute between member nations when bilateral talks fail to resolve trade dispute between nations.

5) To implement tariff cuts & reduction of non-tariff barriers by member countries-WTO is removing tariffs & non tariffs barriers, after negotiation with member countries

6) To co-operate with other international institutions (IMF & World Bank) involved in global economic policy making

7) To act as a watch dog of international trade & to regularly examine trade policies & regimes of individual member nations

8) To assist developing countries in implementing Uruguay agreements through Development Division

9) To provide consultancy services to member countries.

ACHIEVEMENTS OF WTO

WTO is operating as a global trade forum since 1995.Negotiations are going on among member countries for agreements & also for achieving the basic objectives of WTO.The following achievements are as under:

1) In December 1996, WTO arrived at an Information Technology Agreement (ITA). The agreement was for eliminating tariffs to zero level in rapidly growing world market in computer related products by 2000

2) In December 1997, WTO members signed an agreement on financial services. The aim was to remove barriers relating to expansion of banking, insurance& security sector at global level.

3) Many member countries of WTO (including India) have liberalised their foreign trade Policy. Various quantitative restrictions on imports &exports are removed

WTO & TRADE LIBERALISATION

It has already been noted that WTO is basically for free & fair trade at global level. It is not favourable to the policy of protection by member countries as protection policy has harmful effects on economic growth & consumer protection.WTO is free tradei.e., without restriction. It is also for protection & preservation of environment & growth of less developed countries (LDC)

WTO has arranged many multilateral conferences for negotiations on issues relating to trade barriers. As a result of this, tariff rates &non-tariffrates are brought down to some extent. Developed& developing nations have failed to introduce time bound programme for removal of trade restrictions. This is the position even when negotiation is made over years. As a result, free trade remains a dream for all nations.

Developed countries put pressure on developing countries (through WTO) for favours at the cost of poor & developing countries. Such efforts are now opposed collectively by developing countries. However, the attitude of developed nations is slowly changing & is becoming favourable towards developing nations. This may result in agreements on trade barriers to be finalised in near future.

Even globalization process will lead to trade liberalization at global level.

WTO NEGOTIATIONS

WTO negotiations are still not going smoothly. The Doha Round Negotiation which started in 2001 needs to be concluded quickly & in fair manner. They have to take liberal measures for success of ongoing negotiations.

The US approach to Doha negotiations is highly unfair.US wants countries like China, India, Brazil, South Africa to give more concessions. Moreover, US is not in mood to offer anything more to others.

Many developed countries like USA are introducing protectionism in their trade policies. However, such measures across globe will affect World economy & welfare of people. India has expressed concerns over the rising trend of developed countries like USA, Australia & New Zealand putting curbs on movement of goods, services, skilled professionals &consultants. The global recovery will slow down & free trade will be difficult if developed countries introduce new tariff &non-tariff trade restrictions. In the absence of friendly trade policies of developed countries, free & fair trade will be difficult.

FUTURE OF WTO

The Mini-Ministerial meeting was held in New Delhi on 19th& 20th March 2018.52 nations (including USA & China) participated in it.According to India's Commerce Secretary 'The meeting would be more of an ice breaker as it being held after collapse of talks at the Buenos Aires WTO Ministerial Meet in December, 2017.India took initiative & hosted the meet to break impasse.It will be useful for global trade body (WTO) to progress on issues like earlier Doha round of Negotiations & WTO's Dispute Settlement systems. The inputs of the meeting will be useful for next WTO meeting in Geneva, to take negotiations forward on different issues.

While inaugurating the meet Prime Minister Narendra Modi said that India is strong supporter of multilateral trading system. The purpose of the meeting was to facilitate an exchange of views on various challenges facing multilateral trading system with the hope that it will lead to political guidance on some major issues.

India wants permanent solutions to the food stockholding issue. However, negotiations took place as the US reneged on its commitment along with other nations, to find permanent solution to issue on public food stocking by WTO member countries.

The current global trade environment is very unstable &risky. There are clear signals that current trading system represented by WTO has lost its utility for US & EU.

WTO is facing most difficult & challenging global trade environment. Meaningful negotiations for survival &transformation of WTO are urgently required.

WTO & INDIA

India is one of the founder members of WTO & is fully committed to multilateralism. India takes keen interest in functioning & negotiations in WTO meets. In March 2018, India organised mini-ministerial meet at New

Delhi to discuss important problems before WT. Currently WTO, negotiations are ongoing on Doha Development Agenda, adopted in 2001which aims to address the concerns of developing countries. The agenda was so designed so as to ensure integration of these countries into global trading system. India is making efforts to protect interests of developing countries in WTO negotiations.

Present protectionism policies of developed nations & tariffs are harmful to the growth of multilateralism. Support of developed nations is a must for fair completion of current WTO negotiations. The future of global trade is closely linked with the success of current WTO negotiations.

8.6 SUMMARY

In this Unit you studied' Strategies for going Global, MNC, TNC, WTO in detail.

In order to achieve global strategies, there are 2 methods:

Internal & External Growth Strategies.

MNC's are big global enterprises that are set up to promote trade & help in development of developing nations.

TNC's are more Superior version of MNC, wherein production takes place in one nation, research in other, marketing in 3rdcountry.

WTO was introduced in 1995 replacing GATT,in order to remove tariff &non-tariff barriers that were imposed earlier on movement of goods from one nation to another.

8.7 EXERCISE

(1) State True or False

i) Growth Strategies are for achieving growth objectives

ii) Foreign Collaboration is a part of external growth strategy

iii) Diversification is horizontal expansion of a firm

iv) MNC's is like a holding Company with head office in one country & business operations in many others

v) MNC's & TNC's are different from global corporations

vi) MNC's create brain drain in host countries

vii) WTO is successful in making global trade free & fair to all countries

viii) MNC's are profit oriented rather than social oriented

ix) WTO degrades the standard of living of the people

x) WTO establishes a framework for trade policies

xi) GATT was an arrangement & not an institution

xii) MNC's are different from global corporations

xiii) Merger is a type of business combination

Answer:True: i, ii, iii, iv, vi, viii, x, xi

False: v, vii, ix, xii, xiii

(2) Fill in the Blanks:

a) In case of TNC's there is ---------of production activities

(Centralisation, Decentralization, Concentration)

b) TNC's are ------- to MNC's

(Inferior, Superior, Equal)

c) The term MNC is ------- in origin

(Indian, German, American)

d) MNC's facilitate -------- in developing nations

(FDI, Loans, Bank Finance)

e) India is ------- of WTO

(Not member, One member, Founder member)

Answer (a-ii), (b-ii), (c-iii), (d-i), (e-iii)

(3) Match the Following:

	A	**B**
a)	TNC	i) Operates at Global level
b)	Global corporation	ii) Mixed Blessing to poor nations
c)	MNC	iii) Progressive concept like MNC
d)	Going Global	iv) Business Growth & Diversification
e)	WTO	v) External Growth Strategy
f)	Mergers	vi) Wider in scope compared to GATT
g)	Intensification Growth Strategy	vii) Internal Growth Strategy
h)	GATT	viii) International Business
i)	Diversification	ix) WTO
j)	TRIP's	x) Intellectual property
		xi) Opportunity to Business

Answer: **(a-iii, b-i, c-ii, d-iv, e-vi, f-v, g-vii, i-ix, j-x**)

(4) ANSWER IN BRIEF:

1) What are the strategies for going global? Explain any one such strategy
2) Explain the meaning & types of foreign collaboration
3) Explain external Growth Strategies
4) What is diversification. Explain the methods of diversification.
5) Explain the benefits of MNC's & TNC's to developing nations.
6) Define MNC. Explain advantages.
7) Discuss the objectives & functions of WTO.
8) Discuss the contribution of WTO in international trade liberalization.
9) What are the functions of WTO.
10) Discuss the implications of WTO.
11) Discuss the growth strategies of MNC
12) 'WTO negotiations are not effective'. Discuss the statement.

9

FOREIGN TRADE IN INDIA

Unit Structure:

9.0 Objectives of Study

9.1 Introduction

9.2 India's foreign Trade

9.3 Directions of India's exports

9.4 Composition of India's exports

9.5 Export of services from India

9.6 India's import trade- Balance of Trade

9.7 Foreign Direct Investment (FDI)- Importance

9.8 Advantages of FDI Inflows

9.9 Implications of FDI Investment flows for Indian industries

9.10 Summary

9.11 Exercise Questions

9.0 OBJECTIVES

After studying this unit students will be able to –

- Understand the concepts of foreign trade, exports, foreign direct investment of India & their importance
- Know the advantages, challenges , impact
- Describe the balance of Trade scenario& Impact of FDI on industries

9.1 INTRODUCTION

Foreign Trade plays an important role in India's growth. India bags a long history of foreign trade. India's trade dates back to British period, wherein number of changes took place in composition & directions of foreign trade. However, it has undergone several changes after liberalisation period, which began in early 1990's. India exports goods as well as different services such as financial & software

India has trade relations with number of countries. India's exports cover over 7500 commodities to about 200 countries. India exports superior quality rice, fruits,flowers, textiles, jewellery & so on. India also exports different services abroad & the export of out IT & other services is fast expanding.

International trade plays catalyst role in economic development of a nation in variety of ways. Greater integration with the global economy results in higher competitiveness, transfer of technology, increase in national income facilitates rise in employment, rising stature at global forums like WTO, IMF, SAARC & so on.

However, for India, foreign trade growth in last 4 years has remained on negative side with slight improvement in 2014, showing growth of 0.7%.

As per latest number fromWTO, the prospects for global trade are healthy. For 2017, trade growth is expected within range from 3.2% to 3.9 %, accompanied by global GDP growth at 2.8 %.

9.2 INDIA'S FOREIGN TRADE

Trade includes domestic /internal & external/ foreign trade. External / Foreign trade, means trade with other countries of the World. It includes exports &imports. At present, India's foreign trade policy (FTP 2015-2020) is announced for longer period of 5 years & periodical notification are introduced inFTP.The basic purpose is to promote exports to develop industries, to create massive employment opportunities within the country& to make India strong partner in global trade. It seeks to provide stable policy & also supports other initiatives like 'Make in India, Digital India, Skill India, & so on.to promote the diversification of India's exports basket by helping various sectors of Indian economy.

9.3 DIRECTIONS OF INDIA'S EXPORTS

By directions of India's exports, we mean the countries to whom we export goods &services. India has trading relations with large number of countries. The process of trade liberalisation & world trade dynamics has bought out major shifts in directional pattern of India's foreign trade.USA has been trading partner. China is trading as well as competitor partner in global trade. India also exports & imports to member countries of trading blocs like NAFTA, SAARC, ASEAN & so on.

Conclusions relating to directions of India's export trade:

1) Region wise & sub region wise spread of India's export trade during 2013-14 & 14-15 are given in above chart. During 14-15, the share of Asia region accounted for 49.56 % of India's total exports. Both North & Latin America stood 2nd with share of 19.03 % of India's total exports.

2) The share of developing countries in our exports is increasing. Middle East countries constitute promising export market for India.

3) India's export trade has become much more diversified in recent years. Excessive dependence on OECD countries have declined.

9.4 COMPOSITION OF INDIA'S EXPORT TRADE

Under this, we mean the commodities that are exported from India to other nations. These include agricultural items, machinery,ores, minerals, chemicals, jewellery & so on.

Conclusions Relating to composition of India's export trade:

1) Commodities exported from India are classified into 4 categories:

a) Agricultural & allied

b) Ores & Minerals

c) Manufactured Goods

d) Mineral fuels & lubricants

2) India's exports during 2015-16, were driven by Petroleum products, Gems, Jewellery& related products, agriculture & allied products.

3) During 2015-16, top five commodities of India's exports include the following:

COMMODITY	% SHARE
Gems & Jewellery	14.6
Textiles & Allied Products	13.64
Chemicals & Related Products	12.17
Petroleum & Crude products	12.2
Optical, Medical, Surgical instruments	10.61

These 5 commodities constitute more than 60% of our exports & help earn huge foreign revenue.

4) Gems &Jewellery, leather, jute, carpets, handicrafts are identified as traditional items of India's exports.

5) Base metals, machinery, transport equipment, rubber articles, leather are some important commodities exported from India.

MAJOR COMMODITIES EXPORTED FROM INDIA

1) Engineering Goods- The export of these items include iron, steel, electronic goods, computer software, along with machinery of different types. The export of such goods is increasing in recent years. These are exported to countries like South Africa, Egypt, Bangladesh, Thailand,Malaysia. Machinery exported from India

during 2014-15constituted 6.36 %of total exports as compared to transport equipments contributing to 8.59 %

2) Handicrafts- Exports of handicrafts is increasing since 1970's. Single largest item of export is Gems & Jewellery.

3) Readymade Garments- Exports of such goods has shown significant improvement in recent years. During 2011-12, it reached to 65,600 crores.

4) Petroleum Products- Export of petroleum products haveincreased. In 2010-11, it was 16.80% of total export earnings. Petroleum products occupy 1^{st} position in India's export earnings.

5) Gems & Jewellery- India is one of the largest exporters of gems & jewellery. This sector is one of the fastest growing sectors & export oriented & labour intensive. In 2010-11 the exports rose upto 36,840 \$mn, which was 14.70% of our total export earnings. During 2013-14, Gems & Jewellery occupied 5^{th} position in India's export earnings.

6) In addition to main export items, India also exports items such as agriculture products (Grains, pulses, basmati, rice, fruits, vegetables),minerals, marine's products on large scale.

9.5 EXPORT OF SERVICES FROM INDIA

Services are growing frontier of global trade. In terms of contribution towards GDP &employment, services are a driving force towards economic growth. India's service sector covers a wide variety of activities like travel, hotel, transport, storage, communication, insurance, & so on. Service exports have been dynamic element of India's trade & globalisation in recent years. Services Exports from India scheme (SEIS) was introduced in the FTP (2015-20) & offered reward of 3 to 5% of net foreign exchange earned. India's service exports declined by 2.4 % in 2015-16 as result of slowdown in global output & trade.

WTO data shows that India's service exports grew from US \$16.8 billion in 2001to US \$ 155.6 Billion which constitutes 7.5 % of GDP in 2014, making the country 8^{th} largest service exporter in the World.

Service sector is fastest growing sector & regarded as engine of growth. Among different services, contribution of computer & information services is the highest. India is one of the leading Asian service exporters. The others include China, South Korea, Singapore, Malaysia, Hong Kong.

9.6 INDIA'S IMPORT TRADE (CURRENT TRENDS)

Import trade is one component of India's foreign trade. India exports on large scale since 1951There is a continuous increase in the volume of imports.Imports include materials, machinery, edible oils, petroleum product, fertilizers, precious stones & so on. Our imports are increasing at faster rate as compared to exports. As a result, balance of payments is negative since long.India also needs large imports for promoting exports.Balance of trade can be made favourable by promoting exports & reducing imports.

Top 5 commodities imported to India during April-December 2015-16 are:

a) Petroleum Crude

b) Gold

c) Pearls, Precious , Semi precious stones

d) Petroleum products

e) Telecom instruments

Import of these commoditiesregistered a share of 41.15 % of total imports during 2015-16.Import of top5 commodities during period Apr-Sept registered a share of 42.48 % mainly due to imports of petroleum crude, pearls,precious stones,gold, telecom,coke & briquettes etc.

Conclusions about India's imports are:

1) India's imports are increasing since 2001-02.As a result there is a wide gap between exports & imports leading to long term deficit in balance of trade

2) Our imports are more due to following reasons:

i) Imports of raw material are allowed in liberal way in order to promote exports of manufactured goods, which raises the volume of imports.

ii) Large scale imports are necessary due to various development projects like construction, infrastructure & so on

iii) Import of oils at higher prices are necessary as India is not self-sufficient in this sector. Nearly $\frac{1}{4}^{th}$of our total import expenditure is on POL (Petroleum, Oil& Lubricants)

iv) Huge import of gold & silver from abroad due to rising domestic demand.

3) India's imports are classified into 4 broad groups:

a) Food & Live animals especially for food (cereal & cereal preparations)

b) Raw materials & Intermediate manufacturers(Edible oils, Petroleum, lubricants, chemical elements)

c) Capital Goods (Electrical machinery, non-electrical machinery, transport equipment)

4) India imports goods from large number of countries-For identifying directions of imports ,India's trading partners have been divided into 5 major groups:

i) OECD

ii) OPEC

iii) Eastern Europe

iv) Developing Nations

v) Others

INDIA'S BALANCE OF TRADE

Balance of trade & Balance of Payments are 2 terms frequently used in relation to foreign trade. Balance of Trade is expressed as difference between imports & exports within a specified period such as 1 year. It may be favourable or unfavourable. They are favourable, when value of exports is more than that of imports & vice versa.

The following conclusions about India's balance of trade are as follows:

1) India's balance of trade shows negative position since 2000-01. It was Rs (-) 27,302crore in 2000-01& rose to Rs.8,40,738 crore in 2014-15.

2) India has long history in balance of trade from year to year

3) India's effort to promote exports & to reduce imports are not effective as exports are increasing slowly, but imports are increasing with speed.

4) Foreign Trade data reveals that trade balance was positive in only 2 years during periods of 1949-50 to 2014-15.These were the years of 1972-73 & 1976-77when country recorded small trade surplus of Rs 104 crore & Rs.68 crore

9.7 FOREIGN DIRECT INVESTMENT

Foreign Direct Investment (FDI) is one of the most extensively used forms of foreign capital. In FDI, Companies from foreign countries acquire assets in host countries in different sectors like retail, insurance, pension, infrastructure, banking & so on. It is considered more useful to home country as compared to investments in other forms, since it is more durable & reliable type of foreign investment.FDI inflows are useful for industrial growth & for making home industries globally competitive.

In India, Government policy on FDI inflows is fair, liberal, favourable for large scale direct foreign investment in industrial & other sectors including banking, insurance, retail, defence & so on.

MEANING OF FOREIGN DIRECT INVESTMENT

Generally, there are 2 forms in which private foreign capital may flow to India. These are Foreign Direct Investment (FDI)& Portfolio Investment. Under FDI, foreign investor establishes & does business in a home country i.e., India. In case of portfolio investments, the foreign funds flow in terms of subscription to securities or direct lending to Indian Companies. In India, portfolio investment is made through Euro issues, external commercial borrowings, Stock Market Transactions

In order to encourage FDI in India, The Foreign Investment Promotion Board (FIPB) was constituted in 1996.It operates as a single window agency for all matters relating to FDI.It also helps in negotiations with foreigninvestors. It reviews policies relating to FDI in India.FDI inflows are now made liberal&easy, as a result 90 %of foreign investment comes through automatic route.FIPB is no more required in India & is abolished in May 2017.

Reasons for requirement of FDI in India:

i) Rapid economic, industrial, infrastructure development

ii) Making Indian industries globally competitive through technology transfer

iii) Creating massive employment opportunities & export promotion

iv) Integration of Indian economy with global economy & so on.

IMPORTANCE OF FOREIGN DIRECT INVESTMENT (FDI)

Foreign capital enters India in the form of foreign investments. Such foreign capital is one type of international sourcing of funds from developed countries to developing countries. Indian companies issue securities in foreign countries. Such issues are called Euro Issues. Inflow of foreign capital takes place by this route also. Telecom, banking, Insurance are the new sectors which are recently opened up for FDI's. Retail sector is also attracting foreigners for direct investment.FDI inflows in the form of equity inflows are more stable & bring in new management practices & technology together with investment.

9.8 ADVANTAGES OF FOREIGN DIRECT INVESTMENT FLOWS:

1) FDI facilitates industrial & economic development- FDI is useful for modernization of Indian industries & for growth of industrial/ production activities in India. This will lead to growth in national income & exports.

2) FDI Facilitates employment generation-FDI brings massive employment opportunities .Direct & indirect employment generation takes place in supporting sectors.

3) Import of foreign technology & professional skills-Along with FDI, there will be inflow of technology & professional skills from developed countries to India, resulting in overall development of Indian Companies.

4) Promotion of exports-FDI is likely to make favourable contribution in promoting India's exports. This is through development of export-oriented industries & also technology upgradation of such industries.

5) Other Benefits:

i) Reduction in balance of trade & balance of payments deficit

ii) Optimum use of human & other resources available within the country

9.9 GOVERNMENT POLICY ON FOREIGN DIRECT INVESTMENT

The government policy on the inflow of foreign capital is favourable since the introduction of New Industrial Policy in 1991.The Government accepted the fact that foreign investment is essential for modernisation, technology upgradation & industrial growth. The Government has liberalized its policy towards FDI in 1991. To permit automatic approval for foreign investment upto 51 %equity in 34 industries. The Foreign Investment Promotion Board (FIPB) was set up to process applications in cases not covered by automatic approval route.

The FDI policy is made more liberal since 2012.This change in government policy has created favourable environment for large scale inflow of FDI.The Government regularly provides information on investment climate, policies, procedures, investment opportunities in India for benefits of foreign investors. In many sectors like tea plantation, retail trading, defence, chemicals etc, sectorial caps have been raised or changed from Government to automatic & both.

9.10 IMPLICATIONS OF FDI INFLOWS ON INDIAN INDUSTRIES

FDI is useful for industrial & economic growth & also for making Indian industries globally competitive through cost reduction & quality improvements. The implications of FDI flows on Indian industries are positive & negative

A) Positive Implications of FDI Inflows on Indian Industries

1) FDI Inflows in the Industrial sector: Manufacturing sectors were the 1st to open up for FDI inflows. Infrastructure& services sector have gradually opened up. Industrial sectors like mining, manufacturing, power accounted nearly 50 % of total equity inflows

2) FDI Investment is highest in some industrial sectors like :

i) Service Sector(Finance, Banking, Insurance etc)This sector collected highest % of equity inflows during 2016-17 amounting to 19.97% of total FDI equity inflows

ii) Telecommunications: Total FDI since 2009-10 to 2015-16 comes to US $11,070.60 million. During 2016-17, 12.80 % of inflow of FDI in telecommunication sector.

iii) Computer software &hardware: Total FDI since 2009-10 to 2015-16 was US $8533.57 million. During 2016-17, 8.40% of totalFDI inflow was in software & hardware sector.

iv) Automobile industry: Total FDI since 2009-10 to 2015-16 was US $10, 090.60 million

v) Drugs & Pharmaceuticals-Total FDI since 2009-10 to 2015-16 comes to US $8659.34 million.

3) Coverage of industrial sector: Services, hotels, tourism, automobile industry, construction, pharmaceuticals are the sectors that attract maximum FDI inflows. Textiles, paper, leather, chemicals etc are some more industries where FDI inflows are noticed.

4) Benefits to industrial sector-FDI is useful for industrial growth along with economic growth. It is useful for modernization& for growth of industrial production. Technology upgradation of industries will improve quality of production & cost reduction.

5) Benefits of inflow of foreign technology & professional skills: Along with FDI inflows, updated industrial technology & new professional skills from developed countries will come to India.FDI inflows will reduce technological gaps in industrial sector.Such benefits are possible through foreign collaborations & joint ventures.

6) Optimum use of resources: India has huge unutilised human & material resources which are not fully used by Indian industrial sector. FDI accelerates quality & quantity of industrial production.

7) Expansion of automobile sector: Major portion of FDI within industrial sector is bagged by automobile sector. Foreign investors are interested in manufacturing luxury automobiles in India. This will result in employment & increase in exports.

B) Negative Implications of FDI Inflows on Indian Industries:

1) Sectoral Composition of FDI in Industrial sector is limited- Considering sectoral composition of FDI over period of Jan 2000 to April 2008, the largest recipient of such investment was service sector & not industrial sector. Its share over the period was 20.2 % Service sector was followed by computer hardware &software (11.1%), telecommunication (6.0%), housing (4.6%), automobile industry (4.1%), construction (5.1%). These 6 sectors accounted for 51.0 % of total FDI received over period of 2000-08.

2) Not beneficial to industrial expansion-Nearly 40 %of inflows seem to have been used for acquiring existing industrial assets& their managerial control. Many MNC's are taking advantage of liberal rules to increase their share in existing affiliates in the country. Such activities do not promote industrial expansion.

3) No contribution to removal of regional disparities-States like Delhi, Maharashtra, Dadra& Nagar Haveli, Daman & Diu, Haryana & selected parts of UP & Karnataka have received more than half of FDI inflows. Large parts of the country have received only small portion of such inflows

4) FDI benefit to large projects-It is estimated that 2/3rd of the total value of FDI approvals has gone to projects of size greater than Rs. 100 crores. This means relatively smaller projects received very small portion of FDI approvals.

5) FDI not available to priority sectors- Deployment of FDI is largely in 'White goods' sector like automobiles& luxury items, fulfilling the needs of rich & upper middle class. Share of FDI investment in high tech sectors & in consumer goods catering to needs of poor are not considered.

6) Limited contribution in exports-FDI aims at promoting efficiency in production & increasing exports.However, the foreign investors stake holdings in Companies may not increase exports, as their interest would aim at only earning profits from Indian markets

India needs large scale inflow of FDI for various purposes' just liberalising FDI inflows is not adequate. FDI needs to be permitted as per our needs &priorities. Hence, FDI needs to be encouraged in industrial sector for updating technology, promotion of new industries, industrial research, quality improvements & so on

9.11 QUESTIONS

State whether True or False:

i) India's balance of trade is favourable

ii) India's share in world export trade is significant

iii) India's ranking in global exports is higher compared to China

iv) Primary products include tea & coffee

v) India's share in world of exports is significant

vi) FDI is popular method for outflow of foreign capital

vii) Export promotion is possible through FDI

viii) FDI helps in technology diffusion

ix) FDI needs to be permitted as per our needs & priorities

x) FDI is freely allowed in India's defence sector

Answer(i-False,ii-False,iii-False,iv-True,v-False,vi-False,vii-True,viii-True, ix-True,x-False

(2) **Match the Following**:

	A	B
a)	India's exports	i) 1.7% of worlds exports in 2011
b)	Balance of Trade	ii) Are increasing faster than exports
c)	FTP	iii) Foreign Trade Policy
d)	India's exports	iv) Unfavourable to India
e)	Trade Balance	v) Difference between total exports and imports

Ans (a-ii), (b-v), (c-iii), (d-i), (e-iv)

3) Answer in Brief:

i) Write an essay on India's foreign trade.

ii) What is balance of trade? Explain briefly position of India's balance of trade.

iii) Write a note on India's foreign Trade?

iv) India's share in world export trade is insignificant? Explain

v) Explain the commodities exported from India.

vi) What is FDI? Explain advantages of FDI Inflows.

vii) Explain the positive & negative implications of FDI in India?

viii) Explain the Government policy on FDI?

ix) Explain the meaning & importance of FDI Inflows?

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