1

INTRODUCTION TO BUSINESS ENVIRONMENT

Unit Structure

1.0 OBJECTIVES

After studying this unit, the learner will be able to –

- Understand the concept of Business, its types and scope
- Relate the dynamics and components of business environment
- Appraise and analyse the Micro Environment of business
- Measure and review the Macro Environment of Business
- Elaborate SWOT Analysis and get an overview of its factors

1.1 INTRODUCTION

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

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

1.2 BUSINESS

1.2.1 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. But now, 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.

1.2.2 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 in the 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."

1.2.3 Nature & Scope of Business:

Nature/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.

6. **Creative & Dynamic:** Business organisations must be creative in production & distribution of goods and services to satisfy customer demands and face competition. Constant changes in the business environment like technology, government decisions, competition, etc. make it highly dynamic.

Scope of Business:

The scope of business can be summarised in the above chart covering various activities. It can be further explained as follows:

1. Industry:

It is the manufacturing side of business concerned with production of goods and services. These are either consumer goods or industrial goods. Following are the different types of industry:

i) **Primary Industry**: related to production of primary goods like fisheries, cotton, rubber, agriculture goods, etc.

ii) **Genetic Industry**: related to genetics or breeding – which involves engaging in reproduction and multiplication of certain species of plants and animals with the objective of selling them. Eg. Cattle breeding, poultry, plant nurseries, etc.

iii) **Manufacturing Industry**: concerned with conversion of raw materials into finished goods. It can be production of capital goods (which helps to produce other goods/services) like machinery, equipment, components, etc. and/or consumer goods (goods for final consumption) like soap, food stuffs, automobiles, electric supplies, etc.

iv) **Extractive Industry**: concerned with extracting raw materials or minerals from natural resources. Oil and gas extraction, mining, drilling are some examples

v) **Construction Industry**: involves construction activities like building bridges, roads, dams, buildings, canals, etc.

vi) **Service Industry**: relates to creating value addition through providing services. It is India's most dynamic and rapidly growing industry and the range of services include – banking, insurance, transportation, logistics, professional services of Doctors, Lawyers, Teachers, Chartered Accountants, Researchers, etc.

vii) **IT Industry**: it deals with the use of computers and telecommunications for development, storing, retrieving and sending information.

2. Commerce:

It includes trade and aids to trade.

i) **Trade:** refers to buying and selling of goods and services for a consideration. In financial markets, trade refers to purchasing and selling securities, commodities, or derivatives.

Trade can be further divided into two groups: (a) Internal Trade and (b) External Trade

a) Internal Trade:

It is also known as domestic or home trade and conducted within the political boundaries of a country. Internal trade is further classified into two groups:

1. Wholesale Trade:

It involves buying and selling in bulk quantities. The wholesaler buys from the manufacturer or agent in large quantities to sell it in smaller quantities to the retailers or final consumers.

2. Retail Trade:

It involves buying from the wholesaler or manufacturer in small or limited quantities and selling it to the final consumers for their personal consumption.

b) External Trade:

It is also known as foreign or international trade and is conducted between two or more countries. It is broadly divided into three groups:

1. Export Trade:

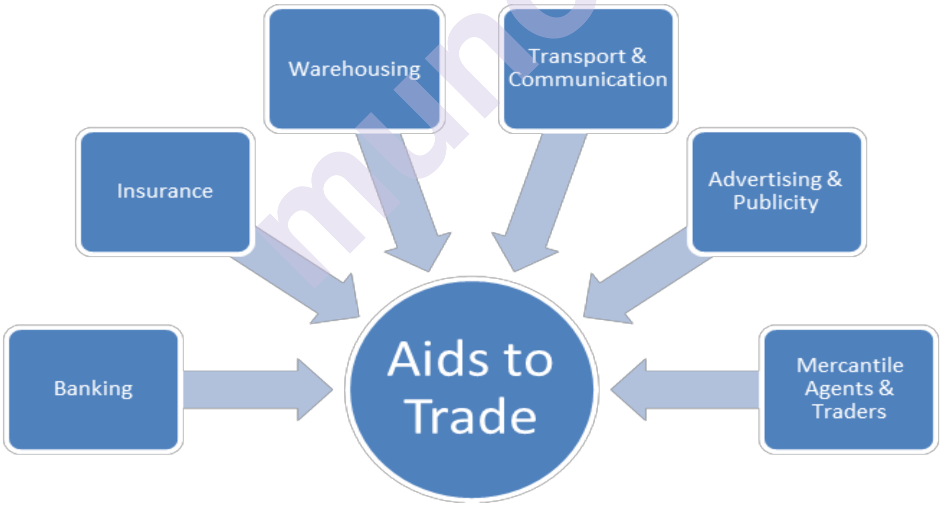
It involves selling of goods by sellers of one country to the buyer(s) of another country. Export Trade generates foreign exchange and helps in maintaining favorable balance of payments. As per RBI, India's overall exports (Merchandise and Services combined) in April-September 2022 are estimated to be USD 382.31 Billion, exhibiting a positive growth of 21.03 per cent over the same period last year. The top exports of India are Refined Petroleum, Packaged Medicaments, Diamonds , Rice, and Jewellery, exporting mostly to United States, China, United Arab Emirates, Hong Kong and Germany

2. Import Trade:

It involves buying of goods by buyers of one country from the seller(s) of another country. The top imports of India are Crude Petroleum, Gold, Coal Briquettes, Diamonds and Petroleum Gas, importing mostly from China, United States, United Arab Emirates, Saudi Arabia, and Iraq.

3. Entrepot Trade:

It involves buying of goods from one country for the purpose of re-exporting to another country.



ii) Aids-to-trade: refers to those activities which remove the difficulties or hindrances in the smooth flow of goods and services from the producers to the final consumers.

a) Banking & Finance:

It solves the problem of finance. Banks and other financial organizations offer capital and credit to company owners for their working capital and fixed capital requirements. Banks are governed under Banking Regulation

Act, 1949, as amended by The National Bank for Financing Infrastructure and Development Act, 2021 (17 of 2021) (w.e.f.19-4-2021)

b) Insurance:

Business is subject to risks and uncertainties like fire, theft, natural calamities. Insurance spreads the financial strain of loss across a significant number of people (insurance companies) thereby reducing the level of risk incurred by the business. Examples of insurance are life insurance, fire insurance, marine insurance, workers' compensation insurance, and many more.

c) Warehousing:

As there is a time gap between the production and consumption of goods, the goods must be kept in storage until you can sell them. Warehousing eliminates the problem of time, resulting in time utility. There are three sorts of warehouses: private, public, and bonded.

d) Transport & Communication:

Transport creates place utility. It helps movement of goods and men from place of production to place of consumption. The different modes of transport include: Air - airway, Water – river, sea, canal and Land – roadways and railways.

e) Advertising & Publicity:

Advertising and publicity helps manufacturers in creating distinct brand image for their product and service. Advertising fills the knowledge gap and it solves the difficulty of information. The media used to advertise products are Radio, Newspapers, Magazines, TV, the Internet, Billboard, etc.

f) Mercantile Agents & Traders:

They are the intermediaries who act as a link between buyers and sellers. They remove the difficulty of direct contact between manufacturers and final consumers and help the manufacturer to focus on their core competency i.e. manufacturing.

1.2.4 Types of business organisations:

A business organization may be owned and managed by a single individual or a group of individuals in the form of a partnership firm or a Joint stock company. Business organisationsin India can be classified into the following types:

I. Sole Trading Organisation:

This is the most common form of business organization. One person provides the finances and in return, has full control of the business and is able to keep all the profits. Some important features are highlighted below:

a. Easy to set up - no legal formalities, less government regulations.

b. Owner has complete control – not answerable to anybody else.

c. Owner keeps all profits.

d. Able to choose times and patterns of working.

e. Able to establish close personal relationships with staff (if any are employed) and customers.

f. The business can be based on the interest and skills of the owner – rather than working as an employee for a larger business.

g. No separate legal status of sole trading concern.

h. Business is restricted mostly to local area

i. Unlimited liability – all of the owner's assets are potentially at risk

II. Partnership Firm:

Partnerships are agreements between two or more people to carry on a business together, usually with a view of making a profit. A partnership deed establishes the rights and privileges of the partners. Following are the main features of partnership firm:

a. A partnership firm has minimum number of two persons and maximum number of ten persons in case of banking business, and 20 in case of non banking business activity.

b. Shared decision making and flexibility in business operations

c. Additional capital injected by each partner

d. Business profits and losses are shared between the partners

e. Greater privacy and fewer legal formalities than that of corporate organizations

f. Unlimited Liability for all partners

g. The norms are specified under the Indian Partnership Act of 1932

III. Joint Hindu Family:

The joint Hindu family firm is a distinct form of business organization existing only in India and comes into existence by the operation of Hindu Law - The Hindu Succession Act, 1956. Its main features are:

j. Karta controls the entire family business. He has the authority to manage the business. He takes all the decisions and his decisions are binding on all the co-parceners.

k. HUF is not affected by the death of the members. In the case of the death of the Karta, the next eldest male member in the family becomes the Karta. However, the business can be terminated with the mutual consent of the members

l. The liability of all the members except the Karta is limited to the extent of shares in the co-coparcenary property of the business

m. The Karta has complete authority over all decisions, which avoids conflicts among the members as there is no interference from anybody. It also leads to quick decision making.

n. The membership of the business is restricted to family members exclusively. Therefore, they face the demerit of limited membership.

IV. Joint Stock Company:

A Joint Stock Company is a business organization that is registered under the Indian Companies Act, 1956 now amended as The Companies Act, 2013. Professor Haney defines it as "a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company." Features of a joint stock company are as follows:

a. A company is a legal entity that has been created by the statues of law and acts as an artificial person. It can enter into a contract, borrow and lend money, sue or be sued, etc.

b. The life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

c. The liability of members is limited to the amount of unpaid share capital.

d. Getting registered under the Companies Act, 2013 is legally compulsory for a company.

e. There is a separation of ownership and management. The owner of a company are its shareholders who elect their representatives, also known as directors of the company. The directors of the company are responsible for the management and control of business activities and they do so by appointing professional experts in different fields.

f. Due to large financial resources and high profit rates, a company has more scope for growth and expansion.

V. Cooperative Societies:

It is a democratic form of organization formed to promote and protect interest of its members. The members of a cooperative society raise the capital through the issue of shares, and the members themselves purchase those shares. According to "The Cooperative Societies Act 1912" – Cooperative organization is "a society which has its objective for the promotion of economic interests of its members in accordance with cooperative principles." Following are its features:

a. The main objective is service motive and non profit.

b. The principle of one person, one vote is followed

c. It requires minimum 10 members and there is no upper limit.

d. An individual is free to join or leave the society according to their will. It works according to a democratic society

e. The risk factor of members is limited to the extent of capital brought by them in the cooperative society.

f. As there are different members in a cooperative society, it is difficult to maintain a level of secrecy. Besides, a cooperative society has an obligation to disclose the decisions of the meeting under the Societies Act

1.3 BUSINESS ENVIRONMENT

1.3.1 Meaning:

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.

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 or institutional in which business operations are conducted."

1.3.2 Characteristics:

Following are the important characteristics of business environment:

i) Internal and External Factors: The Internal factors of a firm includes its plans and policies, employees, technical, physical and other facilities. The external factors comprise of social, economic, legal, competition and other factors that are unpredictable. Internal factors can be controlled by organisations, whereas external cannot.

ii) Dynamic Nature: Business environment is highly volatile as there are constant and rapid changes it encounters. Unfavourable changes in business environment bring threats to the business. Eg. before covid-19 pandemic, multiplex theatres were highly popular and visited, but now, the cinema industry has switched to OTT Platforms such as Netflix, Amazon Prime, Disney+ Hotstar, SonyLIV, etc

iii) **Complex**: Different Elements of business environment are closely inter-related and interdependent. A change in one element affects the other elements. Eg. The introduction of smart mobile phones has made cd player, watches, camera, etc. almost obsolete.

iv) **Uncertainty**: Business environment is largely uncertain because it is difficult to forecast the future environment. Due to its volatility, there is increasing uncertainty. Eg. in some industries like Fashion, film, information technology its not possible to predict the future trend.

v) **Multi-faceted**: The assumption of outcome of an environment depends on the perception of its observers. One change in the environment may be welcomed by one company while it may be a threat for another. Eg. liberalization of policies for foreign companies can be a threat to local firms.

vi) **SWOT Analysis**: Strengths and weaknesses are often internal to an organization, while opportunities and threats generally relate to external factors. SWOT analysis facilitates internal and external factors which impact the business.

v) **Far reaching impact**: Business environment has long lasting impact on the future of business organisations. If one does not make required changes to match present and future requirements, the business may come to an end. Eg. Mukesh Ambani group tapped into the changes in its environment, moved from textile and refinery to retail outlets, mobile services, news and business channels, etc.

1.3.3 Scope and Significance:

i. **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

ii. **Organization & 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

iii. **Planning & 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.

iv. **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.

v. **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.

vi. **Survival & Growth:** Effective SWOT analysis enables the business organisations to identify its current market status and helps to cope with rapid changes. This will equip them with necessary strategies for its survival and growth. Eg. with changes in technology, offline retailers have also started with E-commerce business for better reach and sales.

1.3.4 Components 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. The Micro environment consists of marketing intermediaries, competitors, society, customers and suppliers, whereas the macro environment consists of technological, socio-cultural, demographic, natural, regulatory, political and international environment

1.4 MICRO & MACRO ENVIRONMENT

1.4.1 Definition

Micro Environment:

Micro environment or task environment refers to those individuals, groups and agencies with which the organisations comes 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."

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."

1.4.2 Differentiation:

Micro Environment	Macro Environment
1. Meaning:	
It refers to the business itself and to the internal challenges that come from the business.	It refers to all forces that are part of the larger society that affect the business environment.
2. Elements:	
Competitors, Organization itself, Suppliers, Market, Intermediaries and Customers	Political, Economic, Socio-cultural, Technological, Legal and Environmental.
3. Control:	
Micro environment is controllable on the part of business.	Macro Environment factors are uncontrollable and beyond the direct influence of business.
4. Influence on organization:	
There is a direct and regular impact on business decisions	There is an indirect impact on business decisions
5. Functioning:	
Factors may function in the form of strengths and weaknesses	Factors may function in the form of opportunities and threats

1.4.3 Analysis of Business Environment:

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

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

Importance of Environmental Analysis can be explained as follows:

a) It helps to find opportunities and threats so as to adjust business activities accordingly

b) It enables business organizations to develop suitable strategies for exploiting business opportunities.

c) Identification of weakness and strengths can help organisations to capitalize favourable and unfavourable situations

d) It helps in planning activities in most efficient manner

e) Optimum utilization of resources is possible due to environmental analysis

f) It equips organisations to become more socially adaptable and acceptable

1.4.4 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 capabilities 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.

1.5 INTRODUCTION TO MICRO-ENVIRONMENT:

1.5.1 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) Brand Equity:

It refers to the value of a brand. Every organisation resorts to advertising and other promotional measures like digital marketing, influencer based marketing, feedback monitoring, etc. to build up its brand.

vii) Other Factors:

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

- Technology advancement

1.5.2 External Environment: Firm,, suppliers, , , Society

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. Society:

Society 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

6. 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.

7. Firm:

The activities of business firms have a direct impact on it. It should focus on customers needs, develop greater customer satisfaction, increase loyal customer base and launch new & better goods and services to expand its business.

1.6 INTRODUCTION TO MACRO COMPONENTS

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

vi. 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 environment differs 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 to Government 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. International 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 international 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

1.7 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

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

1.8 QUESTIONS

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)

10. An analysis of the external environment enables a firm to identify _____ (Strengths and opportunities, Weaknesses and threats, **Opportunities and threats**)

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

7. Strengths and weaknesses are often external to an organization – FALSE

MATCH THE PAIRS

Group A	**Group B**
a) Economic Objective of Business	i) Basic Philosophy
b) Profit through service	ii) Economic Objective

c) Fair wages, good working conditions and motivation	iii) Organic Objectives
d) Mission	iv) Profit
e) Survival, growth and Prestige	v) Strengths, Weakness, Opportunities, Threats
f) SWOT Analysis	vi) Human Objectives

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

ANSWER IN BRIEF

1. What is business? Explain its characteristics/features.
2. Define business. Discuss the scope of business
3. Explain the different types of business organisations
4. Define Business environment. Explain its characteristics
5. Differentiate between micro and macro environment.
6. What do you mean by analysis of business environment? Discuss the SWOT analysis of business organisations.
7. Explain the internal environment factors of micro environment.
8. Explain the external environment factors of micro environment.
9. Explain the concept of macro environment and its various components
10. **Write short notes on:**

a. Sole Trading Organisation

b. Partnership Firm

c. Joint Hindu Family

d. Joint Stock Company

e. Cooperative Societies

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2

POLITICAL AND LEGAL ENVIRONMENT

Unit Structure

2.0 OBJECTIVES

After studying this unit, the learner will be able to –

- Understand the Political and Legal Framework and its role in India
- Evaluate the dynamics of Economic Environment – with reference to systems and policies
- Understand the concept of Capitalism, Socialism and Mixed Economy
- Examine the impact of business on Private, Public and Joint Sectors
- Review the Sunrise Sectors of Indian Economy and Discuss its challenges

2.1 INTRODUCTION

Political factors extend to the degree of intervention f the government in the economy.

Legislature, Executive and Judiciary are the three important elements of the Indian Political System. Responsibilities of the Legislature are to make the laws, Executive are to pass the laws made by the legislature and of the judiciary is to solve conflicts between legislature and executive or other matters related to the public.

Government plays a significant role in the promotion and shaping of business organisations which are: regulatory, entrepreneurial and Promotional

2.2 POLITICAL INSTITUTIONS

The political environment of business is the set of governmental institutions, political parties, political ideology and practices, the ruling party, government policies, legal enactments and organisations that are the expression of the people in the nations of the world. It means government actions which affect operations of business. Political environment varies from one state to another and from country to country. Therefore, assessment of political risk is very much crucial for business operations.

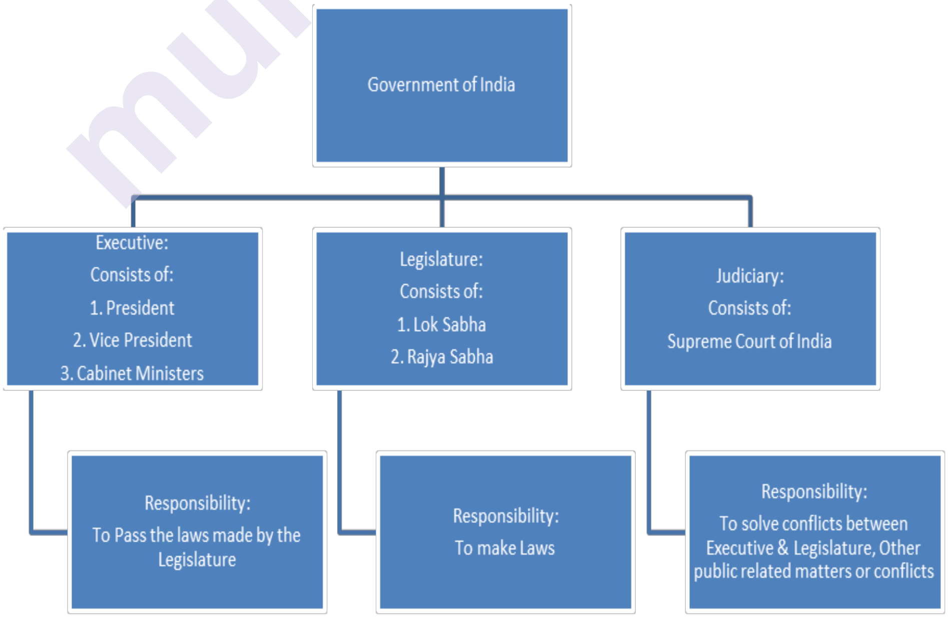
Political factors extend to the degree of intervention f the government in the economy. The government introduces and at times revises the legislations to run the economy efficiently such as – tariff and trade restrictions, taxation policies, consumer protection laws. Etc. For Example, the introduction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

Stability of the local government is a key factor for assessment of political environment.

It is important for every business to function according to the political ideology of the area in which they wish to operate.

There are three important elements of the Indian Political system, namely:

1. Legislature
2. Executive
3. Judiciary



2.2.1 Legislature:

Legislature of the Parliament (Union), consists of the President and two houses namely, Rajya Sabha (Council of States) and Lok Sabha (House of the people). The legislature being the most powerful political institution is vested with powers such as policy framing, making and amending laws, approving various budgets and executive control.

The legislature has significant influence on business of the nation. Every state has its own set of laws and regulations. For example, GST has been implemented at the Centre and State level, but some taxes like VAT on petroleum and alcohol is still under the ambit of State.

Business organisations have to function within the laws of the land. Every aspect of business, right from inception to winding up is under the legislature to ensure true and fair business and generate legal profits, thereby keeping the interests of various state holders in mind.

2.2.2 Executive:

The executive has a significant role in regulating business. It is also known as 'government' or 'state'. The executive power is responsible for implementing the law and works at all levels i.e. National, State, District and local levels.

The government lays down the policy and delegates its authority of oversight and superintendence to a regulatory agency created by them. The Prime Minister, President, Chief Ministers / Governors, are included and part of the executive.

- As per Article 53(1) of the constitution, the President of India is mainly vested with the executive power
- The president is to act following aid and advice tendered by the Prime Minister, who leads the Council of Ministers as described in Article 74 of the Constitution
- Although theoretically, all the executive powers are vested by the constitution, in the President of India, these are not exercised by him/her and are actually used by the Prime Minister and Council of Ministers.
- The Prime Minister can remove any minister from office if he decides, but when the Prime Minister resigns, the entire Council of Ministers has to resign as well.

Powers of Executive:

Prime Minister	Council of Ministers	President
Recommends names of ministers for his cabinet to the president	Cabinet Ministers - Hold all the major ministries of the country and Assist the Prime Minister	Does all the major appointments of the country
Decides which ministry to be given	Ministers of State are there to assist the	Supreme Commander

to the minster	Cabinet Ministers	of the armed forces
He is the Chairman of meetings of Council of Ministers		Power to summon or prorogue the parliament and also can dissolve the Lok Sabha
Acts as chairman or head of the various national bodies or institutions or committees		Power to pardon someone

2.2.3 Judiciary:

India's Judicial System is a crucial part of the government. The Indian Constitution has adopted an integrated judicial system. The Supreme Court is at the National Level and is at the top hierarchy. It is followed by High Courts at the State Level and Subordinate Courts at the District and Lower Levels.

The judiciary is important for interpreting the laws enacted by the legislative bodies and administration of Laws.

Some of the significant functions of the judiciary are:

- It ensures that the Constitution is Supreme, and the Judiciary should take all the decisions according to it
- Provides advice to the executive and legislative bodies
- Resolves disputes according to the law
- Performs the function of an arbitrator when there are disputes between the different state governments or between the central and state governments
- has the responsibility of selecting, transferring, or elevating judges
- Responsible for safeguarding citizens rights

Functions as per hierarchy:

1. Supreme Court of India:

- Its decisions are binding on all courts.
- Can transfer Judges of High Courts.
- Can move cases from any court to itself.
- Can transfer cases from one High Court to another

2. High Court:

- Can hear appeals from lower courts.
- Can issue writs for restoring Fundamental Rights.
- Can deal with cases within the jurisdiction of the State.
- Exercises superintendence and control over courts below it.

3. District Court:

- Deals with cases arising in the District.
- Considers appeals on decisions given by lower courts.
- Decides cases involving serious criminal offences.

4. Subordinate Courts:

- Consider cases of civil and criminal nature

2.2.4 Role of government in Business:

Every government plays a significant role in regulating, shaping and re-modelling of business environment. Post-independence, the Indian Government played a noteworthy role by promoting public and private sector companies, also encouraging foreign companies through foreign direct investments and other reforms.

One such major change came in 1991 with the introduction of New Industrial Policy, 1991. Its salient features were:

- **Liberalisation**: Government loosening restrictions on business
- **Privatization**: Allowing entry of private enterprises into certain business areas earlier owned by the government
- **Globalisation**: Expansion of business activities on a world-wide scale, integrating a nations economy with global economy thereby opening international business opportunities.

The governments role in business is as follows:

1. Regulatory Role:

With the basic objectives to – (a) prevent the market structure from becoming monopolistic, (b) developing the small and new entrepreneurs, and (c) promoting the welfare of weaker sections of any society.

It also means regulating the business and economic activities of the nation by government.

To elaborate further Indian regulatory control is exercised as follows:

i. Industries (Development and Regulation) Act, 1951:

Its main objective is to promote development and regulate industries. Through this Act a) available resources are properly utilised; b) concentration of economic power is controlled; C) resources are properly allocated; and d) new industries are given incentives.

ii. Industrial Licensing System:

It aims at at controlling the setting up of new industries and increasing the capacity of existing industries.

iii. Price Control:

The central government and various state governments regulate the

prices with a view to protect the interest of the consumers

iv. Distribution Mechanism:

Distribution of items of daily necessities are controlled and regulated through Essential Commodities Act and Public Distribution System (PDS)

v. Monopolies and Restrictive Trade Practices Act, 1969:

Its principal objectives were (a) Prevention of concentration of economic power to the common detriment, and (b) control of monopolistic. restrictive and unfair trade practices which are prejudicial to public interest

vi. Foreign Exchange Regulation Act (FERA), 1973:

To regulate the foreign exchange

vii. Regulation of Companies:

Under Companies Act, 2013 the management of capital issue, dividend distribution, loans and advances, share capital and other affairs are controlled and regulated to safeguard the interests of share-holders and creditors

viii. Labour Affairs:

to safeguard and prevent the exploitation of labour. Some of the important laws are: Factories Act, 1948, Workmens' Compensation Act, 1923, Employees' Provident Fund Act, 1952. Payment of Minimum Wages Act, 1948, Maternity Benefit Act, 1961, Payment of Bonus Act, 1975, and Industrial Disputes Act. 1947.

2. Entrepreneurial Role:

It refers to government investment, capitalization and ownership of business. It involves (a) Making investments in new units, (b) Acquiring existing (sick) units to set off the depreciation and accumulated losses against their tax liabilities, and (c) Nationalization, where certain industries have been reserved exclusively for the public sector, eg. defense, public transportation like – railways, etc.

3. Promotional Role:

Under this role the government builds up development oriented basic structure which includes construction of roads, bridges, supply of water and power, efficient transport facilities, building industrial regions and estates, existence of district industrial centers, counselling centers, development centers, communication system provision of industrial training and financial banking and marketing network.

Some similar functions are highlighted below:

i) To maintain public utilities

ii) To encourage the developmental attitude among various sectors

iii) To make economic resources productive and progressive

iv) To ensure equitable distribution of wealth and income

v) To promote investment climate in the country

2.2.5 Legal framework in India:

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, 2019
4. Companies Act, 2013
5. The Indian Partnership Act, 1932

India has one of the oldest legal systems in the world. The Government of India Act, 1935 had introduced a Federal Court of India which started functioning from 1st October, 1935 with limited jurisdiction. Later, on 26th January, 1950, the Supreme Court of India replaced the Federal Court under the new constitution.

Fundamental Rights:

They were enshrined in the constitution of India as the basic human rights. It is enforceable by the courts, and In case of a violation, a person can approach a court of law.

There are six fundamental rights of Indian Constitution along with the constitutional articles related to them are mentioned below:

1. **Right to Equality** (Article 14-18) - including equality before law, prohibition of discrimination on grounds of religion, race, caste, sex or place of birth, and equality of opportunity in matters of employment.

2. **Right to Freedom** (Article 19-22) - freedom of speech and expression, assembly, association or union, movement, residence, and right to practice any profession or occupation (some of these rights are subject to security of the State, friendly relations with foreign countries, public order, decency or morality)

3. **Right against Exploitation** (Article 23-24) - prohibiting all forms of forced labour, child labour and traffic in human beings.

4. **Right to Freedom of Religion** (Article 25-28) - freedom of conscience and free profession, practice, and propagation of religion.

5. **Cultural and Educational Rights** (Article 29-30) - any section of citizens to conserve their culture, language or script, and right of minorities to establish and administer educational institutions of their choice

6. **Right to Constitutional Remedies** (Article 32) - for enforcement of all the other Fundamental Rights, and the Supreme Court is designated as the protector of these rights by the Constitution.

You can get more detailed information from the following link - https://www.mea.gov.in/Images/pdf1/Part3.pdf

Laws relating to business:

The Indian Contract Act, 1872:

The Indian Contract Act is one of the oldest mercantile laws of our country. It came into effect on the 1st of September 1872 and is applicable to the whole of India with the exception of Jammu & Kashmir. Containing a total of 266 sections it is the principal law regulating contracts in India

https://legislative.gov.in/sites/default/files/A1872-09.pdf

The Sale of Goods Act, 1930:

Contracts or agreements related to the sale of goods are governed under the Sale of Goods Act 1930. This act came into effect on the 1st of July 1930 in the whole of India except the state of Jammu and Kashmir.

https://legislative.gov.in/sites/default/files/A1930-3_0.pdf

The Indian Partnership Act, 1932:

The Indian Partnership Act, 1932 defines a partnership as a relation between two or more persons who agree to share the profits of a business run by them all or by one or more persons acting for them all

https://www.mca.gov.in/Ministry/actsbills/pdf/Partnership_Act_1932.pdf

The Limited Liability Partnership Act, 2008:

India introduced The Limited Liability Partnership Act in 2008 to legally authorize the concept of Limited Liability Partnerships (LLP). A blend between a private company and a partnership LLP's have recently become a very popular form of business vehicle.

https://www.mca.gov.in/content/mca/global/en/acts-rules/llp-act-2008.html

Companies Act 2013:

The Companies Act 2013 is the law covering incorporation, dissolution and the running of companies in India. The Act came into force across India on 12th September 2013 and has a few amendments to the previous act of 1956. It has also introduced new concepts like a One Person Company.

https://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf

2.3 ECONOMIC ENVIRONMENT

Economic performance of the country influences 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.

2.3.1 Economic system and Economic policies:

The methods used by governments and societies to organize, allocate, produce and distribute goods and services across the nation or different locations is termed as economic system. It serves as a monitoring and regulating system for controlling various aspects of production and distribution like land, labour, capital and other physical resources like machinery, equipment, materials, etc.

It also highlights whether the businesses are owned by private or government entities or if there is a joint ownership of both public and private.

Definition of Economic Systems:

Loucks defined Economic System as, "that which consists of those institutions which give a people or nation or group of nations has chosen or accepted as the means through which resources are utilized for the satisfaction of human wants."

An economic system deals with the issues of what to produce, how to produce and for whom to produce?

2.3.2 Concept of Capitalism, Socialism and Mixed Economy

Economic Systems can be classified into the following categories:

1. Capitalist Economy
2. Socialist Economy
3. Mixed Economy

1. Capitalist Economy (Capitalism):

A capitalist economy is the oldest type of economy. It is based on the concept of free markets, here there is very little interference by the government, an economy where businesses and individuals own the factors of production.

Some prominent features of capitalism are:

a. There is **freedom of choice given to each and every customer** to buy the goods and services. Eg. consumer goods/services – An individual can select the cellular network he desires out of Airtel, Reliance Jio, Vi (Vodafone Idea), BSNL, etc. or he can buy from any brand of shoes from the range of different sellers.

b. There is a **price mechanism** followed as it is based on the principle of demand and supply. Higher the demand, higher the prices, hence increased production.

c. Manufacturers and service providers have stiff **competition** with one another for sales, market share, discounts and concessions, new products and even competent & suitable employees. This may also lead to unhealthy competition and a monopolistic situation in some economies.

d. A **consumer is the sovereign king** in such markets. They have freedom of choice due to the competitive market catering to their needs and wants at effective prices.

e. There is a clear division of rich class and poor class in a capitalist economy. Although both are important and have to be catered, they cannot work together as a team due to this **class system.** Also there is uneven distribution of income and wealth.

2. Socialist Economy (Socialism):

A socialist economy is an economy where each person in society has equal ownership of the factors of production. Here the government understands the requirements of its citizens and determines what products and/or services are to be manufactured and provided. Socialism is based on the philosophy of equality, and hence every one is treated equally, irrespective of the class system that the citizens belong to e.g. vaccinations and treatment provided at government hospitals.

Features of Socialist Economy are:

a. There is **social ownership,** which means that the production and distribution of goods and services are in the hands of the government. This also serves for national interest and is against the capitalist economy.

b. Socialist economy deals with a **classless system** where all the people serve under the government. Hence – no landlords, capitalists and every individual get an equal opportunity irrespective of the social background or income class.

c. Since there are **no private enterprises**, the government takes charge. Right from fixing of prices to payment of wages and salaries. Government does not perform for own benefit, but for public welfare.

d. As the government is sole provider of goods/services and controls the supply component, **consumers do not have any right to choose** and have to compromise at some time.

e. The economic planning is done by the government.

3. Mixed Economy:

A mixed economy is an economic system that has elements of both capitalism and socialism. It is also referred to as dual economic system. Here both public and private sector co-exist and work together towards national interest.

Features of Mixed Economy:

a. There is **coexistence** of both public and private enterprises. Sectors of national interest like defense, public transport, space etc. are in the hands of government, whereas the remaining are in both private and government.

b. There is a **burden on tax payers** as loss incurred by the public sector is compensated by the taxes collected by the government from the public. Direct Tax includes – Income Tax, Wealth Tax, Property Tax. Indirect Taxes include – Goods and Services Tax, Value Added Tax, Excise Duty, etc.

c. In a mixed economy private sectors generally flourish due to professional and strategic management tactics, market survival policies, effective financial planning and competitive pricing. But the public sector **undertakings sometimes become inefficient** and incur loss in the view of providing service at subsidized cost. This creates a burden on the common man

d. **Prices** on major commodities which are widely consumed are **fixed and regulated by the government**.

e. The government **protects laborer's and other weaker sections** from exploitative nature of private sector in capitalist economy.

Summary of Capitalist, Socialist and Mixed Economy:

Points	Capitalist Economy	Socialist Economy	Mixed Economy
1. Ownership of property	Private	Public	Both public and private
2. Motive	Profit	Social welfare	Private – Profit Public – Social welfare
3. Competition	Exists among private	No competition	Only in the private sector
4. Income & Wealth	Unequal distribution	Equal to major extent	There is inequality
5. Price	Determined by demand & supply	Determined by central authorities	Both central authorities and forces of demand and supply.

Economic Policies:

Economic Policies are the key for favorable economic climate for any nation. Some of the prominent economic policies are:

1. **Industrial Policy:** first Industrial Policy based on the mixed economy principle was announced in 1948 which demarcated clearly the areas of operation of the public and private sectors.

2. **Monetary Policy**: Monetary policy or credit policy concerns itself with the cost (i.e., the rate of interest) and the availability of credit to affect the overall supply of money

3. **Fiscal Policy :** It is concerned with the policy of taxation, expenditure and borrowing

4. **International Trade Policy:** A country's trade policy, centers around free trade versus protection.

5. **EXIM Policy:** to monitor and regulate imports and exports in the economy, so that there is no adverse impact on balance of payments.

2.4 IMPACT OF BUSINESS ON PRIVATE SECTOR, PUBLIC SECTOR AND JOINT SECTOR

1. Increasing Market Competition:

Indian companies had to face stiff competition from the domestic market and the foreign markets as well post the new economic reforms in 1991. MNCs entered Indian Economy and those industries which adopted rampant changes like changing technology, customer satisfaction, data management, etc. could survive and face competition.

2. More Demanding Customer:

A shift from producer oriented economy to customer oriented economy gave the customers an edge for choice and demand. With options from private and even foreign companies, there was a wide range of goods and services, making the costumers more demanding.

3. Revolutionary and Rapid Technological advances:

Companies need to adopt new and revolutionary changes in technology. Many organisations have set up their own research and development department to solve these pertinent issues.

4. Improved working conditions for employees:

With changes in laws concerning health and safety for workers, there was a mandate to provide good working conditions to them. Now there are many welfare facilities like – transportation, canteen, medical allowances, creche, bonus, etc.

5. Developing Human Resource Skills:

New market conditions require employees with competent skills and training. Hence Indian companies felt the urgent need to train its staff with the required skill sets to be observed by employees like –

Conceptual Skills: to visualize, diagnose and understand business problems

Human Skills: to understand employees, act as a link between different levels of management, lead, communicate and motivate others

Technical Skills: for daily work activities which is domain oriented

2.5 SUN-RISE SECTORS OF INDIA ECONOMY

Sunrise industry is a term frequently used for a sector that is developing and poised for a rapid growth. Typically, such industries register high growth rates and have numerous start-ups and plenty of funding.

The Sunrise Sectors of Indian Economy are as follows:

1. **Infrastructure:** From the past two decades major thrust has been given to infrastructure development like highways, research and development centres, state of art technologies etc.

2. **Tourism:** 29 States in India with varied culture and popular sites attract tourists from around the globe and not only from India. This at times good revenue in terms of foreign currency and FDI in India by foreign companies.

3. **Energy:** India has mixed economy in this regard, as energy is a constituent which is consumed throughout the nation. More number of power generation projects like hydro, nuclear, solar energy are required in India.

4. **Animation:** it is one of the booming sectors in the world. With the increasing use of VFX and 3d technology in movies, videos, games, etc. the demand for this sector is increasing rapidly.

5. **Automobile:** one of the largest sectors in India and the world. It is in continuous demand owing to the growing population and changes in government polices for transport vehicles. Eg. Bharat-VI compatible units.

6. **Textile:** this sector contributes a minimum of 12% of industrial production and atleast 4% to Indias GDP.

7. **Retail:** there is 100% FDI in retail sector in India. This leads to increased competition and more scope for niche markets

8. **Education:** with new changes brought about in the NEP, 2020, there is a major shift in the education system in India. Online teaching and distance education has picked up pace owing to the Covid-19 Pandemic.

9. **Biotechnology:**one of the emerging sectors in india, there are more than 300 labs and universities working in biotechnology with scope for more players in this regard.

10. **Banking:** with the NIP, 1991, the banking framework in india witnessed an major structural change. there is a shift from general banking to need based. Also now due to the pandemic, digital / online banking has picked up speed in India

For more details you can visit the following link: https://www.ibef.org/blogs/category/

Challenges of Indian economy:

India is on the verge of being a developed economy. With multiple hurdles to cross, India has to work tirelessly hard to achieve optimum growth. Some of the economic and development challenges in India are highlighted below:

1. Low level of National Income and Per Capita Income:

It is always said that if the national income is higher, higher will be the rate of economic growth and economic growth of any nation is reflected in its level of national and per capita income. India gdp per capita for 2021 was $2,277, a 17.81% increase from 2020.

There is also the problem of unequal distribution of income, thereby alleviating poverty and creating a hurdle for economic growth of the nation. Some of the schemes introduced by our government to generate employment and alleviate poverty are :

a. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)

b. Swarnjayanti Gram Swarozgar Yojana (SGSY)

c. Swarna Jayanti Sahari Rozgar Yojna (SJSRY)

2. Providing Education:

According to census 2011, the literacy rates of India were 82.14 per cent for males, 65.46 percent for females and 74.04 percent for all adults. Thus educating all the citizens is another challenge.

Following measures were adopted by the government:

Right of children to free and compulsory education Act 2009:

The government of India has made "free education for all children between 6 to 14 years of age" a fundamental right in 2009. This law has been made effective from April 2010.

Schemes for elementary and secondary education

(i) Sarva Siksha Abhiyan (SSA)

(ii) National programme of Mid-day meals in Schools

(iii) Rashtriya Madhyamik Shiksha Abhiyan (RMSA)

(iv) Inclusive education for the disabled at secondary stage (IEDSS)

(v) Saakshar Bharat

Programme for Higher and Technical Education:

By establishing new universities, setting up new model colleges at educationally backwards districts of the country, setting up new IITs and IIMs and To promote research in science the government has set up five Indian Institutes of Science Education and Research (IISER) in various parts of the country.

3. Inflation:

High inflation is a major challenge for the Indian Government. According to worlddata.info - During the observation period from 1960 to 2021, the average inflation rate was 7.5% per year. Overall, the price increase was 7,704.85%. An item that cost 100 rupees in 1960 costs 7,804.85 rupees at the beginning of 2022.
For October 2022, the year-over-year inflation rate was 6.1%.

Inflation can be controlled by the Reserve Bank of India by making required changes in its monetary and fiscal policies using credit control instruments, increasing interest rates, decreasing bond prices, increasing taxes, etc.

4. Sustainable Healthcare:

Good quality healthcare at subsidized price is still a major concern in India.

In 2010-11, the government spent only about 5 percent of total expenditure on health care which is only 1.27 percent of our national income.

Some of the significant facilities introduced by the Government of India are:

(i) National Rural Health Mission (NRHM)

(ii) Janani Suraksha Yojana (JSY)

(iii) Pradhan Mantri Swasthya Suraksha Yojana (PMSSY)

(iv) National AIDS Control

5. Sustainable Growth:

It means – fulfilling the needs of the present generation without compromising the ability of future generations to meet their needs. Working on sustainable business models for enhancing economic growth with low carbon development initiatives for improving food and water security is need of the hour. Some highlights include:

- India expects investments to the tune of US$ 55 billion by 2015 in the renewable energy sector which is expected to produce 35 giga watt (GW) of power, according to Mr Debashish Majumdar, Chairman and Managing Director, Indian Renewable Energy Development Agency Ltd (IREDA)

- According to a recent study on India attractiveness survey by Ernst & Young, Foreign Direct Investment (FDI) in Renewable Energy in India witnessed a 105 per cent rise. Wind energy is the fastest growing renewable energy sector and the FDI inflow in the sector has been increasing over the years.

- Private equity investment in renewable energy sector picked up pace in the country from 2004. According to a report by 3i Network – IDFC, from a private equity investment of US$ 851 million in 2005, inflows into the renewable sector in India soared to US$ 2,136 million in 2008

6. Agricultural Pre-Dominance:

In India, 52 p.c. of the total population was engaged in agriculture in 2004-05. Though agriculture occupies a predominant position in India, it is still backward.

In India, in 1950- 51, more than 55 p.c. of our GDP came from the agricultural sector or the so- called primary sector. In 2007-08, however, the contribution of this sector toward GDP came down to 19.4 p.c.

7. Infrastructure Underdeveloped:

It consists of (a) transport and communications, (b) energy, (c) finance, housing and insurance, (d) science and technology, and (e) health, education, etc.

India's social infrastructural facilities are not only inadequate compared to the needs, but also low compared to different countries of the world.

2.6 SUMMARY

Political factors extend to the degree of intervention f the government in the economy.

Legislature, Executive and Judiciary are the three important elements of the Indian Political System. Responsibilities of the Legislature are to make the laws, Executive are to pass the laws made by the legislature and of the judiciary is to solve conflicts between legislature and executive or other matters related to the public.

Government plays a significant role in the promotion and shaping of business organisations which are: regulatory, entrepreneurial and Promotional

Legal factors affect both the spheres of business environment and include – laws relating to company formation, factory administration, foreign exchange regulations, industrial licensing, payment of wages, etc

Economic Systems can be classified into the following categories:

1. **Capitalist Economy:** based on the concept of free markets, low government interference, factors of production owned by private players

2. **Socialist Economy:** based on social ownership, government performs activities for public welfare

3. **Mixed Economy:** has elements of both capitalism and socialism, where private and pubic sector co-exist.

Some prominent points on impact of business on Private sector, Public sector and Joint sector are:

i. Increasing Market Competition

ii. More Demanding Customer

iii. Revolutionary and Rapid Technological advances

iv. Improved working conditions for employees

v. Developing Human Resource Skills

Sunrise industries are typically characterized by high growth rates, numerous start-ups, an abundance of venture capital funding, showing promise of a rapid boom

The Sunrise Sectors of Indian Economy are: Infrastructure, Tourism, Energy, Animation, Automobile, Textile, Retail, Education, Biotechnology and Banking.

Few challenges of Indian Economy are:

1. Low level of National Income and Per Capita Income

2. Providing Education

3. Inflation

4. Sustainable Healthcare

5. Sustainable Growth

2.7 QUESTIONS

FILL IN THE BLANKS

1. ________ means liberating the industry, trade and economy from unwanted restrictions (**liberalisation**, globalisation, privatisation)

2. The economic system in which both public and private sectors co exist is known as

________ economy (capitalism, **socialism,** democratic**)**

3. _______ refers to all forces which have an economic impact. (**Economic Environment**, Technological Environment, Legal environment)

4. The ________ policies of the government covers all those principles, policies, rules and procedures and control the industrial enterprise of the economy.

(Fiscal, **Industrial,** Macro**)**

5. In india liberalization and privatization began from__ (1971, 1947, **1991**)

6. The _____________ is an introduction to the constitution and contains its basic philosophy. (**Preamble**, Society, Service)

7. Which of the following is not a fundamental right in the Constitution of India? _____ (Right to Equality, Right to Education, **Right to work**)

8. Use of 3D technology belongs to ______ sector, which is one of the sunrise sector. (**Animation**, Energy, Tourism)

TRUE OR FALSE

1. The economic system in which business units or factors of production are privately owned and governed is called as capitalism – TRUE

2. Denationalization is a method of privatisation – TRUE

3. India is good example for capitalist economy – FALSE

4. The banking sector has emerged as a sunrise sector in the Indian economy – TRUE

5. Under socialistic economic system, all the economic activities of the country are controlled and regulated by the government in the interest of the Public – TRUE

6. Capitalist state can have an elected or hereditary head – FALSE

7. Strengths and weaknesses are often external to an organization – FALSE

MATCH THE PAIRS

Group A	**Group B**
a) Judiciary	i) Constitute and systemise nations legal framework
b) Privatisation	ii) A partnership between private sector and the government
c) Automotive industry	iii) Growing and developing faster in near future
d) Legislature	iv) Consists of automobile and auto component sectors
e) Joint Sector	v) Allowing entry of private enterprises in all business areas previously owned by government
f) Sunrise sectors	vi) Interpretation of the law

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

ANSWER IN BRIEF:

1. Describe the political institutions in India.
2. Discuss the role of government in business?
3. Explain the legal framework in India
4. Distinguish between Capitalist, Social and Mixed Economy
5. State the impact of business on Private sector, Public sector and Joint sector
6. What do you mean by sun-rise sector? Explain the sun-rise sectors of Indian Economy
7. Outline the challenges faced by the Indian Economy
8. Write Short Notes on :

a. Political Environment

b. Legislature

c. Judiciary

d. Capitalism

e. Socialism

Mixed Economy

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3

SOCIAL & CULTURAL ENVIRONMENT, TECHNOLOGICAL & COMPETITIVE ENVIRONMENT

Unit Structure

3.0 OBJECTIVES

After studying this unit students will be able to –

- Understand the concepts of Social & Cultural environment, their impact on Business
- Technology & its impact.
- Competitive Environment, different strategies
- Michael Porter's Five Force Analysis.

3.1 INTRODUCTION

What is a social environment?

A person's social environment is **their society and all surroundings influenced in some way by humans**. It includes all relationships, institutions, culture, and physical structures.

The social environment comprises the beliefs, desires, values, and attitudes of consumers and public members. Other social environment examples are the consumption patterns, desires, and behaviours of the market. This social environment definition includes demographic factors of the market, such as:

- Occupation
- Age
- Income
- Consumption patterns
- Gender
- Ethnicity

The social environment depends on the **social construct** of the target society. In this case, social construct refers to the ideas that are generally accepted by the people. The social construct of the environment a business operates in contributes to its success or failure. Specifically, social environment factors influence key stakeholders, such as the employees and customers, ultimately shaping business decisions, strategies, opportunities, and challenges. Moreover, this environment impacts business performance and productivity. To maximize business opportunities and address emerging challenges, businesses must promote a positive social environment that encourages harmony, stability, confidence, and productivity.

Notably, the social environment is a construct that depends on the immediate population. It is a stark contrast to the natural environment. Some prevailing social aspects are similar across cultures, but others differ entirely. For example, an American visiting the United Kingdom may encounter a similar social environment, but he will find a stark distinction to Western culture in Russia or China.

Organizations must leverage social factors to maximize opportunities and limit challenges. Nonetheless, not all aspects of the social environment can be controlled or manipulated. These aspects are categorized as external or internal social enviroment.

- **External social environment**: Comprises aspects that are beyond the business's control. Society at large creates its prevailing external factors. Operating in a multicultural social environment is more complicated because of diverse communities with unique customs, traditions, and values.
- **Internal social environment**: This social environment is specific to the organization. It comprises the beliefs, customs, behaviours, attitudes, values, and practices of employees and the management. Businesses have direct control over their internal social environment.

The cultural environment consists of the influence of religious, family, educational, and social systems in the marketing system. Marketers who intend to market their products overseas may be very sensitive to foreign cultures.

What is Cultural environment?:

Cultural environment is a concept in business which helps to understand the customs and collective beliefs of a set of people or society based on their culture, religion, region, nationality, language etc.

Components of Cultural Environment:

There are many elements which need to be evaluated to understand the socio-cultural environment. The key factors which define the culture, customs and beliefs of a group of people or society are as follows:

1. Nationality:

The values, history and beliefs of every country defines the cultural environment amongst the citizens of a country.

2. Religion:

Religious practices and beliefs defines various factors on how a business should operate and communicate as it must be accurate about religion as well as be careful of handling sensitive issues.

3. Language:

The preferred language or mother tongue of a region, town, city, state or country can define the cultural environment.

4. Region:

Regional factors like geography, terrain, climate etc. also creates a collective group or segment of people which marketing firms can address to.

5. Demographics:

Age, gender, marital status etc. also define cultures, beliefs and attitude of people.

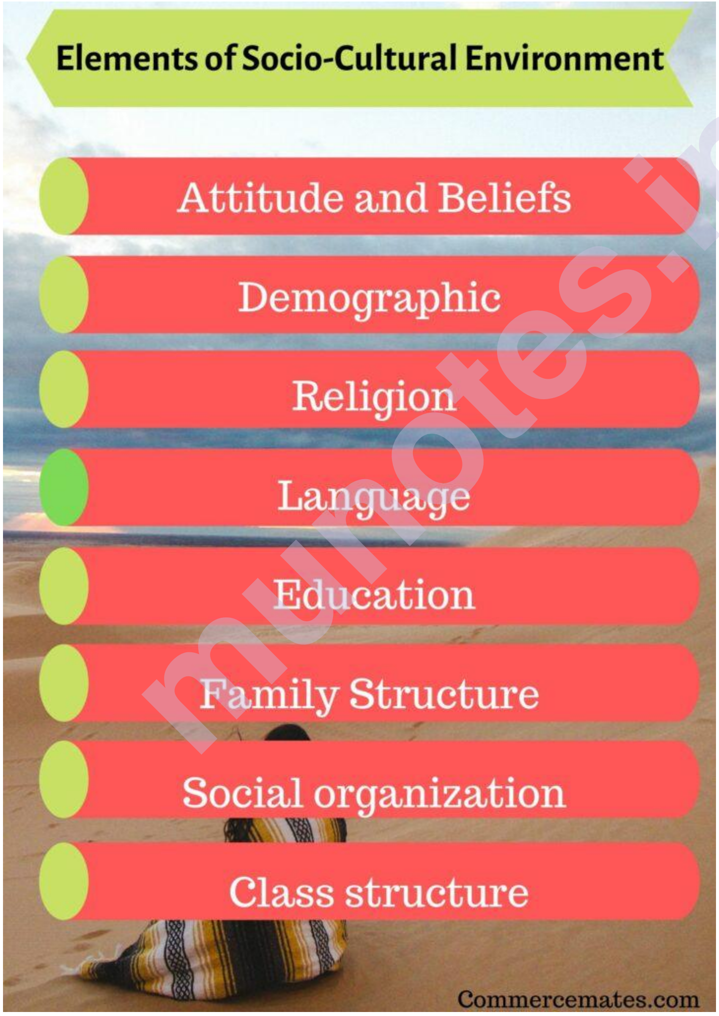
6. Education:

Cultural environment is also classified and segmented based on education, social status, income levels etc.

3.2 SOCIO CULTURAL ENVIRONMENT

The sociocultural environment refers to trends and developments in changes in attitudes, behaviour, and values in society. It is closely related to population, lifestyle, culture, tastes, customs, and traditions. These factors are created by the community and often are passed down from one generation to another.

Elements of Socio-Cultural Environment:



Attitude and Beliefs:

Beliefs of a person relate from which society he came from. Attitude means how a person behaves. Beliefs of people matters a lot in order to set up the business. i.e, western clothing is totally different from middle East outfits.

Demographic:

Demographics is about the characteristics of the population. It includes the income of a family, area, age, society and etc.

Religion:

Which religion person belong effects the buying behavior. Religion influences food habits, dress, and traveling.

Language:

Language is a medium of communication. What you speak relates to your background. Language effect your relations.

Education:

Education leads to the person to communicate an idea and thought. An educated person knows the value of discipline to do what is right.

Family Structure:

The family structure includes the people who are considered part of the family and the quality of the relationships among them.

Social Organization:

In a Social organization, it made for fun and some small work. it may be in the form of the group in the office. Circle of friends. The social groups are the most influencing power. Cause we get a habit from our group. That also influences the Socio-Cultural Environment.

Class Structure:

It can be classified into upper, middle, lower. It reflects income, occupation, education an area of residence. Upper class means high earning people. Lower class means low earning people.

3.2.2 Impact of Foreign Culture on Business:

Culture is formed based on beliefs, attitudes, assumptions, values and a host of other social factors. Every culture is different, and has different styles of etiquette. Every day deals are lost through misunderstandings, even between relatively similar cultures. Culture varies from nation to nation. It is necessary to study the cultural variables:

1) Level of Education:

Effectiveness of any organisation depends upon the level of skills an individual possesses, understanding of the job, application of processes and interpersonal/inter-group behaviour. A country when has a high level of educational standards of its population, is obviously going to be a leader-organisation understanding of educational standards are necessary for the following purposes:

i) It will dictate a minimum level at which the training and development can be planned and conducted.

ii) To ascertain human skill-technology match.

iii) Leadership style that can sustain.

iv) Staffing and organising of workplace.

v) Expectations and growth that can be expected from the employees. Russians and Indians are good at formal education under an instructor.

The Japanese learn by practice. Americans are carefree about educational levels. Indian education system and its product could be considered best among the various countries.

2. Family Bond and Relationships:

There are joint family and nuclear family systems. China, Japan, India and practically most of the Asian countries have a joint family system. Families are broken due to job requirements.

Family bonds are very strong and have a positive impact on human behaviour and higher productivity. Family is a base where people form their value system and formulate behaviour pattern that last for the whole life. In many societies, family roles and relationships are very traditional, personal, and predictable. The husband is the provider, the wife supervises the household, and males in the household are more valued than females.

Each member of the family has a designated role and the responsibility for maintaining status quo for such a role. Peer pressure preserves the roles, and work situations and business interactions are less influential than familial responsibilities.

3. Health:

This is an important factor to determine the culture of a nation. Mortality rate of children, percentage of youth and old age people infrastructure for health, medical support facilities available for production of drugs. Expertise available is an important indicator of the health of a nation. India is considered a young nation because it has over 65 per cent people below 35 years of age. It has a vast skilled population and has a rich cultural base.

4. Religion:

Spiritual beliefs and values have a far-reaching impact on the culture of a nation. It canalises individual behaviour and enhances productivity. Indian are considered to be better human resource the world over because of their thought process, efforts, honesty, loyalty and hard work.

3.2.3 Traditional Values & Its Impact:

Traditional values are **your responsibilities to your family, your spouse, your parents, your children, and your society**; IT is your knowledge and your work.

Tradition **contributes a sense of comfort and belonging**. It brings families together and enables people to reconnect with friends. Tradition reinforces values such as freedom, faith, integrity, a good education, personal responsibility, a strong work ethic, and the value of being selfless.

Listed below are the 7 Reasons why Traditions are important:

- Tradition contributes a sense of comfort and belonging. It brings families together and enables people to reconnect with friends.
- Tradition reinforces values such as freedom, faith, integrity, a good education, personal responsibility, a strong work ethic, and the value of being selfless.
- Tradition provides a forum to showcase role models and celebrate the things that really matter in life.
- Tradition offers a chance to say "thank you" for the contribution that someone has made.
- Tradition enables us to showcase the principles of our Founding Fathers, celebrate diversity, and unite as a country.
- Tradition serves as an avenue for creating lasting memories for our families and friends.
- Tradition offers an excellent context for meaningful pause and reflection.

Traditional values **emphasize the importance of religion, parent-child ties, deference to authority and traditional family values**. People who embrace these values also reject divorce, abortion, euthanasia, and suicide. These societies have high levels of national pride and a nationalistic outlook.

What are traditional examples?

The definition of traditional is something that is in keeping with long-standing tradition, style or custom. An example of traditional is **the practice of eating turkey as the traditional or accepted Thanksgiving meal**. An example of traditional is a formal style of furniture that doesn't change with fads or the seasons.

TABLE 10.1
COMPARATIVE VALUES PROFILES

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

3.2.4 Social Audit:

What Is a Social Audit?

A social audit is a formal review of a company's endeavours, procedures, and code of conduct regarding social responsibility and the company's impact on society. A social audit is an assessment of how well the company is achieving its goals or benchmarks for social responsibility.

Items Examined in a Social Audit:

The scope of a social audit can vary and be wide-ranging. The assessment can include social and public responsibility but also employee treatment. Some of the guidelines and topics that comprise a social audit include the following:

- Environmental impact resulting from the company's operations
- Transparency in reporting any issues regarding the effect on the public or environment.
- Accounting and financial transparency
- Community development and financial contributions
- Charitable giving
- Volunteer activity of employees
- Energy use or impact on footprint
- Work environment including safety, free of harassment, and equal opportunity
- Worker pay and benefits
- Non-discriminatory practices
- Diversity

Example of a Social Audit:

Salesforce.com (CRM) is a Fortune 500 company and one of the largest enterprise software companies in the U.S. As part of its social audit and assessment, the company has strived to use 100% renewable energy globally. The company lists its findings including an annual Stakeholder Impact Report on its website.

According to the company's website, Salesforce was one of the first cloud companies to commit to powering all data center operations with renewable energy. Below is a graph from the company's stakeholder report showing where the company stands in its goal of 100% renewable energy.

3.2.5 Corporate Governance & Social Responsibility of Business:

Corporate governance is one of the cornerstones of any good business. Corporate governance **encourages robust and effective decision-making through processes, practices and policies**. Moreover, it provides the first line of defence against any allegation of malpractice or dereliction of corporate duty.

The general directives of corporate governance can be outlined as such:

- To act as a **system of principles, policies, procedures, defined responsibilities, and accountabilities used by stakeholders** to work through the inherent conflicts of interest that exist in the corporate form.

- To control **the interaction between various participants in shaping a corporation's performance and the direction in which it is proceeding**. These participants are usually a Shareholder, a Board of Directors, and Company Management. Corporate governance aims to determine the ways to reach the most effective strategic decisions.

- To **ensure transparency**, which in turn ensures a strong and balanced economic development for the organization. Transparency also helps to keep the interest of *all* shareholders safeguarded.

3.2.6 Importance of Corporate Governance:

1) Changing Ownership Structure:

In recent years, the ownership structure of companies has changed a lot. Public financial institutions, mutual funds, etc. are the single largest shareholder in most of the large companies. So, they have effective control on the management of the companies. They force the management to use corporate governance. That is, they put pressure on the management to become more efficient, transparent, accountable, etc. They also ask the management to make consumer-friendly policies, to protect all social groups and to protect the environment. So, the changing ownership structure has resulted in corporate governance.

2) Importance of Social Responsibility:

Today, social responsibility is given a lot of importance. The Board of Directors has to protect the rights of the customers, employees, shareholders, suppliers, local communities, etc. This is possible only if they use corporate governance

3) Growing Number of Scams:

In recent years, many scams, frauds and corrupt practices have taken place. Misuse and misappropriation of public money are happening everyday in India and worldwide. It is happening in the stock market, banks, financial institutions, companies and government offices. In order to avoid these scams and financial irregularities, many companies have started corporate governance.

4) Indifference on the part of Shareholders:

In general, shareholders are inactive in the management of their companies. They only attend the Annual general meeting. Postal ballot is still absent in India. Proxies are not allowed to speak in the meetings. Shareholders associations are not strong. Therefore, directors misuse their power for their own benefits. So, there is a need for corporate governance to protect all the stakeholders of the company.

5) Globalization:

Today most big companies are selling their goods in the global market. So, they have to attract foreign investor and foreign customers. They also have to follow foreign rules and regulations. All this requires corporate governance. Without Corporate governance, it is impossible to enter, survive and succeed the global market.

6) Takeovers and Mergers:

Today, there are many takeovers and mergers in the business world. Corporate governance is required to protect the interest of all the parties during takeovers and mergers.

7) SEBI:

SEBI has made corporate governance compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders.

Need of Corporate Governance:

Corporate Governance is needed to create a corporate culture of transparency, accountability and disclosure.

1) Corporate Performance:

Improved governance structures and processes ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. This can be linked with improved corporate performance- either in terms of share price or profitability.

2) Enhanced Investor Trust:

Investors consider corporate governance as important as financial performance when evaluating companies for investment. Investors who are provided with high levels of disclosure and transparency are likely to invest openly in those companies.

3) Combating Corruption:

Companies that are transparent, and have sound system that provide full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide environment where corruption would certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organization.

4) Easy Finance from Institutions:

Several structural changes like increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need of Good Corporate Governance.

5) Enhancing Enterprise Valuation:

Improved management accountability and operational transparency fulfill investors expectations and confidence on management and corporations, and in return, increase the value of corporations.

6) Reduced Risk of Corporate Crisis and Scandals:

Effective Corporate Governance ensures efficient risk mitigation system in place. A transparent and accountable system makes the Board of a company aware of the majority of the mask risks involved in a particular strategy, thereby, placing various control systems in place to facilitate the monitoring of the related issues.

7) Accountability:

Investor relations are essential part of good corporate governance. Investors directly/ indirectly entrust management of the company to create enhanced value for their investment. The company is hence obliged to make timely disclosures on regular basis to all its shareholders in Corporate Governance is integral to the existence of the company.

3.2.7 Social Responsibility of Business:

Social responsibility in business, also known as corporate social responsibility (CSR), pertains to people and organizations behaving and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues.

Corporate Social Responsibility (CSR) is when a company operates in an ethical and sustainable way and deals with its environmental and social impacts. This means a careful consideration of human rights, the community, environment, and society in which it operates.

Social responsibility and ethical practices are vital to your success

CSR demonstrates that you're a business that takes an interest in wider social issues, rather than just those that impact your profit margins, which will attract customers who share the same values. Therefore, it makes good business sense to operate sustainably.

Benefits of Corporate Social Responsibility:

The benefits of CSR speak volumes about how important it is and why you should make an effort to adopt it in your business.

Some clear benefits of corporate social responsibility are:

- **Improved public image:** This is crucial, as consumers assess your public image when deciding whether to buy from you. Something simple, like staff members volunteering an hour a week at a charity, shows that you're a brand committed to helping others. As a result, you'll appear much more favourable to consumers.

- **Increased brand awareness and recognition:** If you're committed to ethical practices, this news will spread. More people will therefore hear about your brand, which creates an increased brand awareness.

- **Cost savings:** Many simple changes in favour of sustainability, such as using less packaging, will help to decrease your production costs.

- **An advantage over competitors:** By embracing CSR, you stand out from competitors in your industry. You establish yourself as a company committed to going one step further by considering social and environmental factors.

- **Increased customer engagement:** If you're using sustainable systems, you should shout it from the rooftops. Post it on your social media channels and create a story out of your efforts. Furthermore, you should show your efforts to local media outlets in the hope they'll give it some coverage. Customers will follow this and engage with your brand and operations.

- **Greater employee engagement:** Similar to customer engagement, you also need to ensure that your employees know your CSR strategies. It's proven that employees enjoy working more for a company that has a good public image than one that doesn't. Furthermore, by showing that you're committed to things like human rights, you're much more likely to attract and retain the top candidates.

- **More benefits for employees:** There are also a range of benefits for your employees when you embrace CSR. Your workplace will be a more positive and productive place to work, and by promoting things like volunteering, you encourage personal and professional growth.

3.3 TECHNOLOGICAL ENVIRONMENT

3.3.1 Meaning:

Technological environment refers to the state of science and technology in the country and related aspects such as rate of technological progress, institutional arrangements for development and application of new technology, etc.

The technological environment is part of the company's external environment related to developments and changes in technology. Further, the word 'technology' is usually associated with technique and equipment. Their change raises threats and opportunities for the company.

Technology comprises of both machines (hard technology) and scientific thinking (soft technology) used to solve problems and promote progress. It consists of not only knowledge and methods required to carry on and improve production and distribution of goods and services but also entrepreneurial expertise and professional know how.

Technology includes inventions and innovations.

The main features of technological environment are as follows:

1) Technological environment is a component of macro or indirect action environment.

2) Technological environment changes very fast.

3) Technological environment affects the manner in which the resources of the economy are converted into output.

4) Technological environment is self- reinforcing. An invention in one place leads to a sequence of inventions in other places.

3.3.2 Impact of Technology on Business:

1) Globalization:

Information technology has enabled businesses to attain a greater reach. Now more than ever, it's easier for companies to do business across the world. Emails, text, instant messaging, websites and applications have made global communication quicker and more effective than ever.

2) Collaboration and Access:

Businesses have advanced internal communications quite a bit as well, making it possible for employees at many companies to work from home throughout the coronavirus pandemic. Communication networks enable managers to access and share data within their department as well as throughout their organization. Businesses have relied on advanced collaboration tools to complete work that usually only occurred in person.

3) Storage:

The thought of organizing and storing paperwork makes most employees cringe. Fortunately, much data is stored electronically now, making it easier for retrieval when the information is needed.

More organizations use cloud storage to supplement their facilities, which is made possible by cloud storage. Users can remotely upload and view content, store and retrieve data as needed. This is a much more convenient way for organizations to access information. Now instead of purchasing internal servers, hard drives and thumb drives, you can access information almost anywhere.

4) Cyber security:

Every organization has information that they want to be protected from competitors, hackers and others trying to damage the company, which is why cyber security is a major priority for businesses.

Virtual storage systems or cloud computing systems make information accessible for all within an organization, and cyber security protects this information. Cyber security professionals are continually working to update systems to keep the information safe from unwanted intrusion.

5) Support:

Technology makes it possible for businesses to support external customer service efforts as well as help individuals within the organization. There are hundreds of platforms that streamline the workflow but also facilitate the work process.

Getting feedback is also easier since communication is also more straightforward.

For example, IT help desk departments have streamlined their work thanks to ticketing systems that provide timely and accurate information. The remote work boom during COVID-19 has demonstrated that not only can employees work remotely, but that technology support is capable of dealing with just about any technical issues that may arise.

6) Mobile Technology:

Thanks to mobile technology, it has truly become easier to take your work anywhere. If you don't have a laptop or pad at your disposal, it is now possible to use your phone to complete your work. Mobile technology has picked up momentum owing to its convenience, efficiency, and speed. You can have your work with you in your back pocket!

The trend of BYOD (Bring Your Device) is on the rise at many organizations, where employees can bring technology that they use at home. Some of the benefits include:

- Improvement in productivity
- Boost in employee satisfaction
- Lower enterprise costs
- A perk that could attract prospective employers

Technology has driven a lot of advanced processes in many businesses. As technology becomes even more advanced, its role with businesses will continue to grow.

3.4 COMPETITIVE ENVIRONMENT

3.4.1 Meaning:

A competitive environment is one in which companies compete with each other. The more businesses that provide a similar product or service, the more competitive the environment.

A **competitive environment** is the dynamic external system in which a business competes and functions. The more sellers of a similar product or service, the more competitive the environment in which you compete. Look at fast food restaurants - there are so many to choose from; the competition is high.

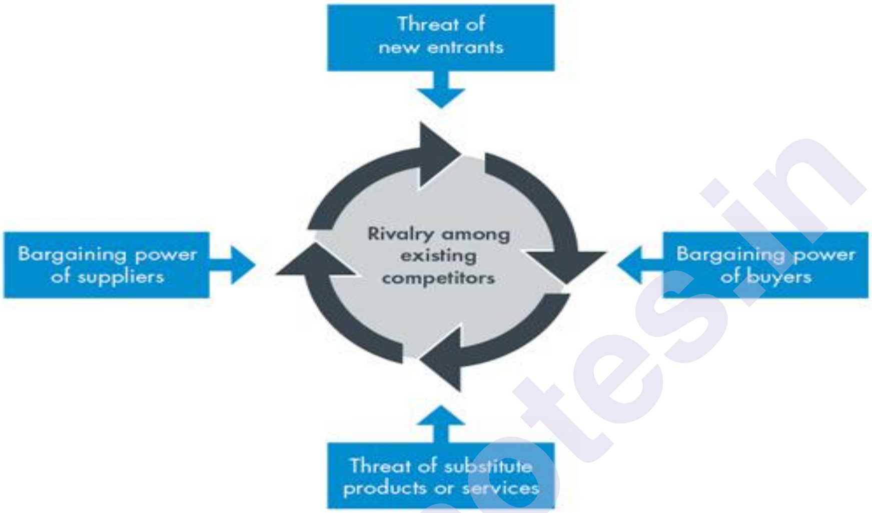
3.4.2 Michael Porter's Five Force Analysis:

Was developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organisation.

This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organisation's current competitive position, and the strength of a position that an organisation may look to move into.

Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

3.4.3 Porter's five forces of competitive position analysis:



The five forces are:

1. Supplier power:

An assessment of how easy it is for suppliers to drive up prices. This is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.

2. Buyer power:

An assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the organisation; and cost to the buyer of switching from one supplier to another. If a business has just a few powerful buyers, they are often able to dictate terms.

3. Competitive rivalry:

The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.

4. Threat of substitution:

Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of the market.

5. Threat of new entry:

Profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate.

These forces include **the number and power of a company's competitive rivals, potential new market entrants, suppliers, customers, and substitute products that influence a company's profitability**.

Five Forces analysis can be used to guide business strategy to increase competitive advantage.

3.4.4 Competitive Strategies:

Meaning:

A competitive strategy is a set of policies and procedures that a business uses to gain a competitive advantage in the market. It's the process of identifying and executing actions that allow a business to improve its competitive position. Businesses may use various competitive strategies to raise the value of their products and services for consumers, investors and employees. They also implement these strategies to gain sustainable revenue streams.

Importance of Competitive Strategies:

Competitive strategy is important because it affects the overall strategies of a business. If a business doesn't have a competitive strategy, it may not find a unique advantage against its competitors. A competitive strategy is crucial in finding and developing new ideas for products and services that the company can offer. Other advantages of implementing a competitive strategy include:

- The exploration of new opportunities
- Retainment of customer loyalty with better products and services
- Innovation to stay current on technological changes in the market

Types of Competitive Strategies:

Here are four types of competitive strategy are:

1. Cost leadership strategy

A cost leadership strategy keeps prices for products and services lower than competitors to encourage customers to purchase the lower-priced products to save money. Businesses use a cost leadership strategy in industries with high price elasticity, such as energy and transportation. This strategy is most effective for companies that can produce a large volume of products for low costs. These businesses often have large-scale production methods, high-capacity utilization and various distribution channels with which to work.

2. Differentiation leadership strategy

Businesses may use the differentiation leadership strategy to differentiate their products from competitors by emphasizing specific features of their products. This strategy might involve the design or function of a product. A company that's been in operation for a while may use this strategy to show that an original offering is better than newer products. Alternatively, a newer company may use this strategy to show that a new invention is more beneficial than existing offerings. The goal is to appeal to more customers through unique features and quality while keeping competitors from obtaining a larger market share for products.

3. Cost focus strategy

The cost focus strategy is similar to the cost leadership strategy, but the cost focus strategy involves catering to a specific market. This strategy still involves trying to offer the lowest price, but it attempts to target a unique market segment with specific preferences and needs. When a company implements a cost focus strategy, it can establish brand awareness more easily within a specific geographic market.

4. Differentiation focus strategy

The differentiation focus strategy is similar to the differentiation leadership strategy in that both attempt to highlight unique product attributes and features. The difference between them is that while the differentiation leadership strategy may involve appealing to a broader market, the differentiation focus strategy involves appealing to a specific market segment. This strategy typically doesn't prioritize the price of a company's offerings, as it attempts to highlight how a company's offerings are unique compared to those of its competitors.

3.5 SUMMARY

The social environment comprises the beliefs, desires, values, and attitudes of consumers and public members. Other social environment examples are the consumption patterns, desires, and behaviours of the market.

- Cultural environment is a concept in business which helps to understand the customs and collective beliefs of a set of people or society based on their culture, religion, region, nationality, language etc.

- The sociocultural environment refers to trends and developments in changes in attitudes, behaviour, and values in society. It is closely related to population, lifestyle, culture, tastes, customs, and traditions. These factors are created by the community and often are passed down from one generation to another.

- A social audit is a formal review of a company's endeavours, procedures, and code of conduct regarding social responsibility and the company's impact on society. A social audit is an assessment of how well the company is achieving its goals or benchmarks for social responsibility.

- A competitive strategy is a set of policies and procedures that a business uses to gain a competitive advantage in the market. It's the process of identifying and executing actions that allow a business to improve its competitive position. Businesses may use various competitive strategies to raise the value of their products and services for consumers, investors and employees.

3.6 QUESTIONS

1) Define the term Social & Cultural environment. What is the impact of foreign culture on Business?

2) What are Traditional Values .Explain their impact?

3) Write a note on Social Audit?

4) Describe the term Corporate Governance & Social Responsibility .What are their importance with regards Business?

5) Write a note on Technological Environment .Explain its features?

6) Impact of Technology on Business?

7) Describe Competitive Environment? Explain its Importance?

8) Write a note on Michael Porter's Five Force Analysis?

9) List out the various Competitive Strategies?

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4

INTERNATIONAL ENVIRONMENT

Unit Structure

4.0 OBJECTIVES

After studying this unit students will be able to –

- Understand the concepts WTO, their effects.
- Learn more about Globalisation, Modes of entry in foreign markets

- LPG Model
- MNC-Advantages
- Factors influencing FDI
- Challenges faced by International Business & Investment Opportunities for Indian industry.

4.1 INTRODUCTION

Meaning:

The **General Agreement on Tariffs and Trade** (**GATT**) is a legal agreement between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as tariffs or quotas.

The GATT was first discussed during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). It was signed by 23 nations in Geneva on 30 October 1947, and was applied on a provisional basis 1 January 1948. It remained in effect until 1 January 1995, when the **World Trade Organization (WTO)** was established after agreement by 123 nations in Marrakesh on 15 April 1994, as part of the Uruguay Round Agreements.

The WTO is the successor to the GATT, and the original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the modifications of GATT 1994. Nations that were not party in 1995 to the GATT need to meet the minimum conditions spelled out in specific documents before they can accede; in September 2019, the list contained 36 nations.

The GATT, and its successor the WTO, have succeeded in reducing tariffs.

WTO has many roles: it operates a global system of trade rules, it acts as a forum for negotiating trade agreements, it settles trade disputes between its members and it supports the needs of developing countries.

All major decisions are made by the WTO's member governments: either by ministers (who usually meet at least every two years) or by their ambassadors or delegates (who meet regularly in Geneva).

4.2 GATT/WTO

4.2.1 Gatt Objectives:

The objectives of GATT are as follows:

1. To encourage full employment and large and steadily growing volume of real income and effective demand.

2. To improve the world production and exchange of goods.
3. To ensure the full use of world resources.
4. To ensure a steady improvement in the living standards of people in member countries.
5. To settle the disputes through consultation within the framework of GATT.

For the achievement of these objectives, the preamble of the GATT agreement requires the members to enter into reciprocal and mutually advantageous arrangement directed to the, substantial reduction of tariffs and other barriers to trade and elimination of discrimination treatment in international commerce.

4.2.2 Evolution of Gatt:

The GATT was established in 1948 to regulate world trade. It was created to boost economic recovery after the Second World War by reducing or eliminating trade tariffs, quotas and subsidies.

During the Great Depression, a breakdown of international relations and an increase in trade regulation made poor economic conditions worse. These factors contributed to the outbreak of the Second World War. After the war, the Allies believed that a multilateral framework for world trade would loosen the protectionist policies that defined the 1930s. It would also create an economic interdependency that would encourage partnership and reduce the risk of conflict.

The idea was to establish a code of conduct that would progressively liberalize (remove or loosen restrictions on) international trade. Within this code of conduct, consultation on trade issues among member nations could take place and be resolved. Data on world trade characteristics and trends could be collected and shared.

The GATT was established more than a year before the North Atlantic Treaty Organization (NATO), a Western military alliance. The GATT played an important role in the Cold War, which began shortly after the Second World War. It helped the US-led capitalist West spread its influence by liberalizing trade through multilateral agreements. The West, with which Canada was aligned, gained more economic allies through these agreements. This strengthened its global influence in the face of the communist Eastern bloc led by the Soviet Union.

After the Cold War, with the collapse of the Soviet Union in 1991, the GATT transitioned into a truly global organization — the WTO. It admitted former communist bloc countries, such as Czech Republic, Poland and Romania.

4.2.3 Uruguay Round:

The **Uruguay Round** was the 8th round of multilateral trade negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986 to 1993 and embracing 123 countries as "contracting parties". The Round led to the creation of the World Trade Organization, with GATT remaining as an integral part of the WTO agreements.

The broad mandate of the Round had been to extend GATT trade rules to areas previously exempted as too difficult to liberalize (agriculture, textiles) and increasingly important new areas previously not included (trade in services, intellectual property, investment policy trade distortions).

The Round came into effect in 1995 with deadlines ending in 2000 (2004 in the case of developing country contracting parties) under the administrative direction of the newly created World Trade Organization (WTO)

The main objectives of the Uruguay Round were:

- To reduce agricultural subsidies
- To lift restrictions on foreign investment
- To begin the process of opening trade in services like banking and insurance.
- To include the protection of intellectual property
- They also wanted to draft a code to deal with copyright violation and other forms of intellectual property rights.

4.2.4 Distinguish between GATT V/S WTO:

BASIS FOR COMPARISON	GATT	WTO
Meaning	GATT can be described as a set of rules, multilateral trade Agreement, that came into force, to encourage international trade and remove cross-country trade barriers.	WTO is an international Organisation, that came into existence to oversee and liberalize trade between countries
Institution	It does not have any institutional existence, but have a small secretariat.	It has permanent institution along with a secretariat.
Participant nations	Contracting parties	Members
Commitments	Provisional	Full and Permanent
Application	The rules of GATT are only	The rules of WTO

	for trade in goods.	includes services and aspects of intellectual property along with the goods.
Agreement	Its agreement are originally multilateral, but plurilateral agreement are added to it later.	Its agreements are purely multilateral.
Domestic Legislation	Allowed to continue	Not allowed to continue
Dispute Settlement System	Slow and ineffective	Fast and effective

4.2.5 Functions of WTO:

Following are the functions of the World Trade Organization:

- Operating under the principle of non-discrimination, WTO lowers the trade barriers across countries to regulate trade through negotiations. It results in lower cost of production which leads to lower cost of finished goods thereby reducing the cost of living.
- WTO functions as a negotiator between countries by making rules that are acceptable to all. Further, it also provides a dispute resolution channel between countries.
- It cuts the cost of doing business internationally; and also stimulates economic growth and development.
- WTO encourages good governance by encouraging transparency in trade transactions.
- It helps developing countries foster their economies by providing a level playing field for developing trade relations across countries.

4.2.6 Pros & Cons of WTO:

Pros of World Trade Organization:

1. Simplifies Businesses:

The World Trade Organization is committed to laying down guidelines aimed at making business simpler. The WTO establishes these laws and regulations and guarantees that all nations comply with the trade regulations set down by them, thus simplifying businesses.

2. Endorses Harmony:

One of the prime objectives of the WTO is to endorse trade between the member nations and guarantee that each nation continues to abide by the provisions of the trade treaty set by it so as to maintain harmony and peace in trade within the member nations.

3. Rouses Monetary Progress:

The World Trade Organization is such an international firm that looks after all the trade-related concerns of the member nations. Thus, for confirming that people have enough to choose from, it inspires countries to vary their product to simulate monetary progress.

4. Productively Knobs Quarrels:

Responsibility of the World Trade Organization is also to knob the quarrels that might arise among the nations when conducting trade amid themselves. Hence, the WTO makes sure that each dispute is heard clearly and correct jurisdiction is passed for resolving it productively.

5. Heightens Nations' Net Income:

The basic aim of WTO is to embolden trade between the nations and ensure smooth trade flow. This allows nations to do business with other nations and ensures the flow of the economy which eventually then leads to the diversification of the capital and increasing of the nations' net income.

6. Lessens the Lifestyle Cost:

As long as the matter is related to trade, WTO confirms that the nations remain fruitful which eventually raises their profiles. The countries try to maintain that profile by continuing the trade following the WTO guidelines which then improves their lifestyle by lowering the living cost.

Cons of the World Trade Organisation

1. Insecurity:

The only concern of the World Trade Organization is to govern and maintain the conditions related to trade and thus validate the security of the governments only in the case of trade. Other than that, the WTO is not accountable for ensuring the nations' security in any other aspect.

2. Unfair:

For a long time, WTO is blamed for being unfair towards the governments of the developing countries since it conducts its dealings where powerful governments and large firms dictate policy. Under WTO, developing nations are bound to suffer more due to the cut-off of their trade deals with other countries just because of their weak impact on the global economy.

3. Disregards Labour Rights:

The WTO's primary concern lies among the interests of big corporations and governments and thus does not care about the unjust behaviour towards the labourers and workers concerned with the trade. The rights of neither the workers nor the consumers are protected by the WTO.

4. Bends towards Multinationals:

Despite the WTO's assertion that it has set rules and regulations on trade to treat all firms equally, the rules have been designed to mostly favour multinationals and powerful firms. This compromises the trade balance between the companies and compels other small companies to be unproductive.

5. Hampers Nature:

The World Trade Organization encourages countries to maintain free trade throughout the globe and inspires them to increase their trade for more profit. In doing so, the countries build more industries and technical enterprises causing the destruction of the environment.

Conclusion:

In conclusion, the World Trade Organization is a globally recognized organization to govern the trade among several nations and to set rules and restrictions on the mode of conducting trade. This effectively aids in limiting disputes and equalizing progress among each nation which eventually increases the per capita income of the nations and aids in maintaining harmony and peace.

4.3 GLOBALISATION

4.3.1 Meaning:

Globalization is the word used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information.

In simple terms, globalisation is the catch-all term for the process by which items and people move across borders. From goods and services to money and technology, globalisation promotes and speeds up how we move and exchange things across the world.

Definition of Globalisation:

The process by which the whole world becomes a single market. This means that goods and services, capital, and labour are traded on a worldwide basis, and information and the results of research flow readily between countries.

- Oxford Dictionary of Economics.

4.3.3 Features of Globalization:

1. Globalization is Not a New, Western Concept:

When ancient Indian scriptures mentioned "Vasudhaiva Kutumbakam", they had already viewed the world as a small global village of linked families. When our grandmother started her stories with "Saat samundar paar…", she also meant that we are not alone in this Universe, and the world is cohabited by others too at far off places.

2. Globalization is Basically a 'Mind set':

Usually, Globalization is seen as another economic theory to enhance business & trade. It must be understood that Globalization is basically a mind set that is ready to encapsulate the whole universe into its scheme of things; a mind set that is broader & open to receive all ideas; that takes the whole globe as an area of operation.

3. Globalization is an Opportunity:

It is often feared that the implementation of Globalization will open up our domestic economy for foreign competition, thereby endangering economic progress & survival of local firms. While it does open our markets for entry of multinationals, it also opens all other markets in the whole world for our products & services too.

4. Globalization means "Interdependence":

We have all grown reading history wherein either a country is independent or a slave of another country. With the advent of Globalization, it has been understood that no country can be said to be totally independent, not needing anything from any other country. Hence, a culture of interdependence has been established between nations.

5. Globalization means "Caring & Sharing":

The world today is more united and concerned about common problems being faced by the people- be it global warming, terrorism, or malnutrition etc. natural disasters faced or atrocities encountered at any part of the world attract immediate attention all over.

6. Globalization puts Technology in Service of Mankind:

The world would not have shrunk into a small global village without the support of technological innovations like Computers, Internet, Telecommunication, E-Commerce etc. Thus, technology has proved to be the major source of the concept of Globalization, and for bringing people nearer.

7. Globalization is Inevitable & Irreversible:

There have been attempts by fundamentalist forces all over the world to oppose and stop the process of Globalization over past quarter century. Yet, despite differences in political ideologies, the ruling parties have gone ahead with implementation of Globalization policies. It is rightly said, "You cannot stop the advent of an idea whose time has come". Globalization is one such idea.

8. Globalization has Linked Politics with Economics:

Earlier, political ideologies and relations between nations have determined the fate of people over centuries; with economics being subservient to politics. However, in the new era, it is the economics, employment generation and public welfare that determine the need & strength of relations between nations.

9. Globalization means Raised Standards of Living:

With consumers having more choice to pick quality items at right price, and with no boundary restrictions on flow of goods & services, the markets have turned from 'Seller's Market' to 'Buyer's Market'. This has helped in raising the standard of living for vast populations across the world. It has also raised aspirations among billions of people to upgrade their lifestyles.

10. Globalization Demands and Respects Excellence:

With global level opportunities available to all the countries, the field is wide open for the excellent companies, products and people from any remote part of the world to showcase their excellence and win over markets and contracts. There is pressure on everyone to continuously improve to meet the raised bar of expectations.

Stages of Globalisation:

1) In the **first stage** of globalization, companies normally tend to **focus on their domestic markets.** They develop and strengthen their capabilities in some core areas.

2) In the **second stage** of globalization, companies begin to **look at overseas markets** more seriously but the orientation remains predominantly domestic. The various options a company has in this stage are exports, setting up warehouses abroad and establishing assembly lines in major markets. The company gets a better understanding of overseas markets at low risk, but without committing large amounts of resources.

3) In the **third stage** of globalization, the commitment to overseas markets increases. The company begins to take into account the **differences across various markets** to customize its products suitably.

Different strategies are formed for different markets to maximize customer responsiveness. The company may set up overseas R&D centres and full-fledged country or region specific manufacturing facilities. This phase can be referred to as the multinational or multi-domestic phase. The different subsidiaries largely remain independent of each other and there is little coordination among the different units in the system.

4) In the **final stage** of globalization**, the transnational corporation emerges**. Here, the company takes into account both similarities and

differences across different markets. Some activities are standardized across the globe while others are customized to suit the needs of individual markets. The firm attempts to combine global efficiencies, local responsiveness and sharing of knowledge across different subsidiaries. A seamless network of subsidiaries across the world emerges. It is very difficult to make out where the home country or headquarters is.

4.3.4 Foreign Market Entry Strategies:

There are 10 market entry strategies for international markets you can use to sell your product internationally are:

1. Exporting:

Exporting involves marketing the products you produce in the countries in which you intend to sell them. Some companies use direct exporting, in which they sell the product they manufacture in international markets without third-party involvement. Companies that sell luxury products or have sold their goods in global markets in the past often choose this method.

Alternatively, a company may export indirectly by using the services of agents, such as international distributors. Businesses often choose indirect exporting if they're just beginning to distribute internationally. While companies pay agents for their services, indirect exporting often results in a return on investment (ROI) because the agents know what it takes to succeed in the markets in which they work.

2. Piggybacking:

If your company has contacts who work for organizations that currently sell products overseas, you may want to consider piggybacking. This market entry strategy involves asking other businesses whether you can add your product to their overseas inventory. If your company and an international company agree to this arrangement, both parties share the profit for each sale. Your company can also manage the risk of selling overseas by allowing its partner to handle international marketing while your company focuses on domestic retail.

3. Countertrade:

Countertrade is a common form of indirect international marketing. Countertrading functions as a barter system in which companies trade each other's goods instead of offering their products for purchase. While legal, the system does not have specific legal regulations like other forms of market entry do.

This means companies may solve problems like ensuring other companies understand the value of their products and attempting to acquire goods at a similar level of quality. Countertrading is a cost-effective choice for many businesses because the practice may exempt them from import quotas.

4. Licensing:

Licensing occurs when one company transfers the right to use or sell a product to another company. A company may choose this method if it has a product that's in demand and the company to which it plans to license the product has a large market. For example, a movie production company may sell a school supply company the right to use images of movie characters on backpacks, lunchboxes and notebooks.

5. Joint ventures:

Some companies attempt to minimize the risk of entering an international market by creating joint ventures with other companies that plan to sell in the global marketplace. Since joint ventures often function like large, independent companies rather than a combination of two smaller companies, they have the potential to earn more revenue than individual companies. This market entry strategy carries the risk of an imbalance in company involvement, but both parties can work together to establish fair processes and help prevent this issue.

6. Company ownership:

If your company plans to sell a product internationally without managing the shipment and distribution of the goods you produce, you might consider purchasing an existing company in the country in which you want to do business. Owning a company established in your international market gives your organization credibility as a local business, which can help boost sales. Company ownership costs more than most market entry strategies, but it has the potential to lead to a high ROI.

7. Franchising:

A franchise is a chain retail company in which an individual or group buyer pays for the right to manage company branches on the company's behalf. Franchises occur most commonly in North America, but they exist globally and offer businesses the opportunity to expand overseas. Franchising typically requires strong brand recognition, as consumers in your target market should know what you offer and have a desire to purchase it. For well-known brands, franchising offers companies a way to earn a profit while taking an indirect management approach.

8. Outsourcing:

Outsourcing involves hiring another company to manage certain aspects of business operations for your company. As a market entry strategy, it refers to making an agreement with another company to handle international product sales on your company's behalf. Companies that choose to outsource may relinquish a certain amount of control over the sale of their products, but they may justify this risk with the revenue they save on employment costs.

9. Greenfield investments:

Greenfield investments are complex market entry strategies that some companies choose to use. These investments involve buying the land and resources to build a facility internationally and hiring a staff to run it. Greenfield investments may subject a company to high risks and significant costs, but they can also help companies comply with government regulations in a new market. These investments typically benefit large, established organizations as opposed to new enterprises.

10. Turnkey projects:

Turnkey projects apply specifically to companies that plan, develop and construct new buildings for their clients. The term "turnkey" refers to the idea that the client can simply turn a key in a lock and enter a fully operational facility. You might consider this market entry strategy if your clients comprise foreign government agencies. International financial agencies usually manage arrangements between companies and their overseas clients to ensure the companies provide high-quality service and the client pays the full amount due.

Liberalization Privatization & Globalization:

LPG stands for Liberalization, Privatization, and Globalization. India under its New Economic Policy approached International Banks for development of the country. These agencies asked Indian Government to open its restrictions on trade done by the private sector and between India and other countries.

1) Liberalization:

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

Objectives of Liberalization Policy:

- To increase competition amongst domestic industries.

- To encourage foreign trade with other countries with regulated imports and exports.
- Enhancement of foreign capital and technology.
- To expand global market frontiers of the country.
- To diminish the debt burden of the country.

2) Privatization:

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

By disinvestment

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

Forms of Privatization:

- **Denationalization or Strategic Sale**: When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.
- **Partial Privatization or Partial Sale**: When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization. Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.
- **Deficit Privatization or Token Privatization:** When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.

Objectives of Privatization:

- Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Raise funds from disinvestment.
- Increase the efficiency of government organizations.
- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI) in India.

3) Globalization:

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

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

Outsourcing as an Outcome of Globalization:

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

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

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

What are the Benefits of Globalization?

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

4.4 MULTINATIONAL CORPORATIONS (MNC)

4.4.1 Meaning:

A multinational company (MNC) also referred to as a multinational enterprise (MNE), a transnational enterprise (TNE), a transnational corporation (TNC), an international corporation or a stateless corporation with subtle but contrasting senses, is a corporate organization that owns and controls the production of goods or services in at least one country other than its home country.

Characteristics of a Multinational Corporation:

The following are the common characteristics of multinational corporations:

1. Very high assets and turnover:

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

2. Network of branches:

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

3. Control:

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth:

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

5. Sophisticated technology:

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

6. Right skills:

Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising:

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

8. Good quality products:

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

4.4.2 Advantages of MNC:

MNCs have many benefits which are not only good for people but also help in the growth of the country, some of the advantages are:

- **Production cost can be reduced**: MNCs set up their manufacturing plants in various countries that help them to make production cost-efficient. They get the benefits of increased production and can grow their brand.

- **Good quality products**: Due to global manufacturing access companies get a chance to get good raw material which helps them to come up with good quality products. Great products grow their brand's name in the local as well as global market.

- **Growth is high:** As compared to other local companies MNCs pay more to their employees which attracts more labour force. MNCs give local taxes that also help in the country's economic development.

- **More employment:** MNCs give chances to local labourers as they know the culture of their places that help to manufacture products according to the needs of the locals. Thus there is more hiring of local labourers who help companies to grow.

- **New inventions:** More products that are useful are invented as the local labourers help them to give more understanding of local equipment with the help of other company employees.

4.4.3 Disadvantages of MNC:

Here are a few disadvantages of MNCs:

- **The exploitation of labourers**: The multinational cooperation gives all the facilities to locals to learn skills and after that, the company starts earning more profits from the local's and in return the labourers don't get any profit and have struggled with low income.

- **Dominate the host country's supremacy**: MNCs slowly build their assets in the host country and indirectly dominate the country's freedom. As they pay local taxes and give employment to people so sometimes the government also gets dominated.

- **Increase pollution**: The multinational corporation uses local raw materials to get more benefit and that leads to more manufacturing. To get the raw materials natural resources are exploited. And also air and land pollution is increasing.

- **Import skilled labourers**: To get better products sometimes multinational corporations train local labourers but to get quick results they hire skilled labourers from other countries too which affects the host country's economic growth. There is also job risk for the local employees as the MNCs can fire the labourers for their benefits.

- **Build legal monopolies**: The Government treats each location as their own entity, even though the assets controlled by multinational corporations are managed by a centralized structure. MNCs have the freedom to handle their business but some companies come close to making a monopoly.

4.4.4 MNC's in INDIA:

Due to India's growing economy, globalization, and its potential in the market, many multinational companies are coming to India to extend their business. Below is the list of the top 10 MNCs in India.

1. Microsoft:

Microsoft Corporation India is a subsidiary of Microsoft Corporation which as we all know is an American multinational, started in the year 1975. Microsoft Corporation began its operations in 1990 with its headquarters in Hyderabad, India, and ever since has worked closely with the Government of India as well as the IT firms. It is indeed one of the most popular on the list of MNCs in India.

2. IBM:

IBM (International Business Machines Corporation) is the second MNC in our list of multinational companies in India with its headquarters in Bangalore (IBM India Private Ltd). It started in the year 1992 in India and has its credits with a range of products and services including business consulting, storage solutions, etc.

3. Nestle:

3rd on the list of MNCs in India is Nestle. Nestle India which is a food and beverage company from Switzerland is a part of Nestle S.A. Nestle had made its entry into the market in the year 1912 with improved products and is currently one of the leading MNCs in India. It is considered one of the largest food companies in India with its best food products. And also comes with the rank 72 on the Fortune Global 500 in the year 2014 according to the revenue.

4. Proctor & Gamble:

Procter & Gamble (P&G) is a worldwide developer MNC and was started by William Procter and James Gamble in 1837. P& G Indian is a part of Procter and Gamble. The MNC made its way into India in 1964 and currently has products such as Olay, Gillette, Vicks, Tide, etc. It has a wide range of products including beauty, grooming health, and household care, etc.

5. Coca-Cola:

Coca-Cola is yet another widely acclaimed MNC in India that comes in the list of the top best MNC in India. Coco-cola, the marketer of non-alcoholic beverages founded in 1886 by Asa Griggs Candler and started operation in India in 1993. The corporate office of Coco-cola is in Atlanta, Georgia, and having a revenue of US $45.998 billion. The company operated in India as a subsidiary of Coca-Cola India Private Ltd.

6. Pepsico:

PepsiCo too makes its way into the list of MNC India as a well-known manufacturer of snacks and beverages. An American Company found in 1965, PepsiCo operates in India through its subsidiary, Pepsico India Holding Private Limited, and is a leading manufacturer of popular brands such as Lays, Pepsi, Slice, etc.

7. CITI Group:

The next one on the list of MNCs in India is the CITI Group, founded in 1998, an American Banking services Corp. It operates in India through the subsidiary, Citibank, which presently has more than 40 branches in over 30 cities in India. Corporate office in Manhattan, New York City and revenue US$ 76.88 billion and in India it's headquartered is in Mumbai. Citibank has 42 branches across 30 cities and more than 700 ATMs in India. Interestingly, Citibank was formed by one of the largest mergers in history and now owns the world's largest financial services.

8. SONY Corporation:

Sony is yet another well-known Japanese multinational company that came into existence in the year 1946. Sony Corporation began its operations in the year 1994 and is well acclaimed for its products in various categories: electronics, media, and entertainment. Televisions, mobile phones, cameras, PlayStations, headphones, memory cards, etc. are the major products of the Sony Corporation. It's headquarter is situated in Delhi, India with total revenue of US$ 153.683 billion.

9. Hewlett Packard:

HP has also made its way into the list of MNCs in India with its products ranging from laptops, monitors, desktops, and other electronic items. HP was started off in the year 1939 and has its headquarters in Palo Alto, California, and having the biggest revenue of US$ 111.454 billion. HP, an American Electronics and Information Technology Company has its headquarters in Banglore, India. HP produces a line of printers, digital cameras, scanners, PDAs, calculators, servers, workstation computers, and computers for home and small-business use. Many of the computers came from the 2002 merger with Compaq.

10. Apple Inc:

Apple Inc was a foot bed in 1976 and currently sells laptops, phones, software, and various online services. Apple Inc., an American Multinational Company was founded in the year 1976. The company is well-renowned for electronic consumers and some of their best-selling products such as iPhone, iPod, iPad, and Mac. This is one of the largest MNC's companies in India which develops and sells computer, laptops, software, and online services.

4.5 FOREIGN DIRECT INVESTMENT

4.5.1 What Is a Foreign Direct Investment (FDI)?

Foreign direct investment (FDI) is an ownership stake in a foreign company or project made by an investor, company, or government from another country.

Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright to expand operations to a new region. The term is usually not used to describe a stock investment in a foreign company alone. FDI is a key element in international economic integration because it creates stable and long-lasting links between economies.

Examples of Foreign Direct Investment:

Foreign direct investments may involve mergers, acquisitions, or partnerships in retail, services, logistics, or manufacturing. They indicate a multinational strategy for company growth.

4.5.2 Functions of FDI:

Foreign Direct Investment plays an important role in following ways:

i. FDI provides Capital:

Foreign Direct Investment is expected to bring needed capital to developing countries. The developing countries need higher investment to achieve increased targets of growth in national income.

Since they cannot normally have adequate savings, there is a need to supplement savings of these countries from foreign savings. This can be done either through external borrowings or through permitting and encouraging Foreign Direct Investment. Foreign Direct Investment is an effective source of this additional capital and comes with its own risks.

ii. FDI removes Balance of Payments Constraint:

FDI provides 'inflow of foreign exchange resource and removes the constraints on balance of payment. It can be seen that a large number of developing countries suffer from balance of payments deficits for their demand for foreign exchange which is normally far in excess of their ability to earn. FDI inflows by providing foreign exchange resources remove the constraint of developing countries seeking higher growth rates.

FDI has a distinct advantage over the external borrowings considered from the balance of payments point of view. Loan creates fixed liability. The governments or corporations have to repay. The resulting international debt of the government and the corporation parts a fixed liability on balance of payments.

This means that they have to repay loans along with interest over a specific period. In the context of FDI this fixed liability is not there. The foreign investor is expected to generate adequate resources to finance outflows on account of the activity generated by the FDI. The foreign investor will also bear the risk.

iii. FDI brings Technology, Management and Marketing Skills:

FDI brings along with it assets which are crucially either missing or scarce in developing countries. These assets are technology and management and marketing skills without which development cannot take place. This is the most important advantage of FDI. This advantage is more important than bringing capital, which perhaps can be had from the international capital markets and the governments.

iv. FDI promotes Exports of Host Developing Country:

Foreign direct investment promotes exports. Foreign enterprises with their global network of marketing, possessing marketing information are in a unique position to exploit these strengths to promote the exports of developing countries.

v. FDI provides Increased Employment:

Foreign enterprises by employing the nationals of developing countries provide employment. In the absence of this investment, these employment opportunities would not have been available to many developing countries.

Further, these employment opportunities are expected to be in relatively higher skill areas. FDI not only creates direct employment opportunities but also through backward and forward linkages, it is able generate indirect employment opportunities as well.

vi. FDI results in Higher Wages:

FDI also promotes higher wages. Relatively higher skilled jobs would receive higher wages.

vii. FDI generates Competitive Environment in Host Country:

Entry of foreign enterprises in domestic market creates a competitive environment compelling national enterprises to compete with the foreign enterprises operating in the domestic market. This leads to higher efficiency and better products and services. The Consumer may have a wider choice.

4.5.3 Need For FDI in Developing Countries:

Developing countries, emerging economies and countries in transition have come increasingly to see FDI **as a source of economic development and modernisation, income growth and employment**. Countries have liberalised their FDI regimes and pursued other policies to attract investment.

Following points indicate need for FDI:

Economic development stimulation:

FDI can stimulate a target country's economic development and create a more conducive environment for companies, the investor, and stimulate the local community and economy.

Easy international trade:

Countries usually have their own import tariffs, which makes trading rather difficult. A lot of economic sectors usually require presence in the international markets to ensure sales and goals are met. FDI makes all of these international trade aspects a lot easier.

Employment and economic boost:

FDI creates new jobs and more opportunities as investors build new companies in foreign countries. This can lead to an increase in income and more purchasing power to locals, which in turn leads to an overall boost in targeted economies.

Tax incentives:

Of course — taxes. Foreign investors receive tax incentives that are very beneficial regardless of your selected field of business. Everybody loves a tax write-off.

Development of resources:

The development of human capital resources is a big advantage of FDI. The skills gained by the workforce through training increases the overall education and human capital within a country. Countries with FDI are benefiting by developing their human resources all while maintaining ownership.

Resource transfer:

Foreign direct investment allows for resource transfers and the exchanges of knowledge, technologies, and skills.

Reduced costs:

Foreign direct investment can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs will be the same and can be sold easier.

Increased productivity:

The facilities and equipment provided by foreign investors can increase a workforce's productivity in the target country.

Increase in a country's income:

Another big advantage of foreign direct investment is the increase of the target country's income. With more jobs and higher wages, the national income normally increases which promotes economic growth. Large corporations usually offer higher salary levels than what you would normally find in the target country, which can lead to an increment in income.

4.5.4 Factors Influencing FDI:

1. Stability of the Government:

A stable Government is an essential prerequisite for any investment. The investor will always look for a government which is supporting investment and which will not take any steps that are anti-investment. The investor should not have any fear of takeover by the government. This will enable him to go for expansion.

2. Flexibility in the Government Policy:

Certain investments were not allowed in the hands of FDI but such a rigid policy will not help in the growth of industries. With WTO regulation, government has to adopt flexible policies, permitting FDIs in all areas including those in which they were prevented previously. For example, in India, power generation was not permitted to private sector. Now, in Maharashtra, Dabhol Power Company is allowed to do so.

3. Pro-active measures of the Government to promote investment (infrastructure):

The Government should also undertake pro-active measures such as expansion of ports, captive power, development of highways, atomic power etc. These measures will attract more foreign direct investment.

4. Exchange rate stability:

Commercial viability of any FDI is based on exchange rate stability. This means that the value of domestic currency should not drop abnormally by which while repatriating the funds, the foreign investor will lose heavily. Exchange rate should be more or less the same as prevailing at the time of investment.

5. Tar policies and concessions:

Government should adopt uniform tax policies as per international norms. A heavy excise duty or sales tax or customs duty will prevent foreign direct investment. A moderate tax policy should continue so that the FDIs will feel comfortable.

6. Scope of the market:

FDIs must be in a position to exploit the market and expand both in the domestic as well as the foreign markets. This will reduce their cost of production and will give them ample scope for diversification.

7. Other favourable location factors (including logistics and labour):

The productivity of labour in the country should be high. Adequate skilled labour should be available, especially in technical areas. Different transport facilities with a proper coordination between land, rail and air should be available.

8. Return on investment:

One of the major attractions for FDIs is the profit or the return they get for the investment made. Unless the return is substantially higher than what they could have obtained in other countries, they will not venture for investment. The rectum should also be consistent and it should be increasing over a period. These factors are closely looked into while undertaking investment. The financier of the FDIs will also ensure that they get their money back as it is a safe investment.

Thus, return on investment is a major deciding factor for FDI's while undertaking investment in foreign countries.

4.5.5 FDI Operations In India:

There are three routes through which FDI flows into India. They are described in the following table:

Category 1	**Category 2**	**Category 3**
100% FDI permitted through **Automatic Route**	Up to 100% FDI permitted through **Government Route**	Up to 100% FDI permitted through **Automatic + Government Route**

1) Automatic Route FDI:

In the **automatic route**, the foreign entity does not require the prior approval of the government or the RBI.

Examples:

- Medical devices: up to 100%

- Thermal power: up to 100%
- Services under Civil Aviation Services such as Maintenance & Repair Organizations
- Insurance: up to 49%
- Infrastructure company in the securities market: up to 49%
- Ports and shipping
- Railway infrastructure
- Pension: up to 49%
- Power exchanges: up to 49%
- Petroleum Refining (By PSUs): up to 49%

2) Government Route FDI:

Under the **government route**, the foreign entity should compulsorily take the approval of the government. It should file an application through the Foreign Investment Facilitation Portal, which facilitates single-window clearance. This application is then forwarded to the respective ministry or department, which then approves or rejects the application after consultation with the DPIIT.

Examples:

- Broadcasting Content Services: 49%
- Banking & Public sector: 20%
- Food Products Retail Trading: 100%
- Core Investment Company: 100%
- Multi-Brand Retail Trading: 51%
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Print Media (publications/printing of scientific and technical magazines/speciality journals/periodicals and a facsimile edition of foreign newspapers): 100%
- Satellite (Establishment and operations): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%

3) Sectors where FDI is prohibited:

There are some sectors where any FDI is completely prohibited. They are:

- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc.)
- Atomic Energy Generation
- Nidhi Company
- Lotteries (online, private, government, etc.)
- Investment in Chit Funds
- Trading in TDR's
- Any Gambling or Betting businesses
- Cigars, Cigarettes, or any related tobacco industry
- Housing and Real Estate (except townships, commercial projects, etc.)

4.5.6 Challenges Faced by International Business:

There are 12 challenges that highlight the problems of international business:

1. Managing globally distributed teams:

Developing and successfully managing teams at the international level is a tough job. The complexities of international businesses like varying labour laws, payroll laws, compliance, tax laws, employee rights, and varying technology access increase global team management challenges.

To maintain a strong work association with your team spread across the globe, you must ensure regular check-ins, preferably through a video conferencing platform that enables real-time interactions. Many researchers have shown that employees who regularly interact with their managers are three times more likely to be engaged in their work than employees who do not interact.

In the aftermath of the COVID-19 pandemic, when many companies have shifted to remote working, distance divides teams. Therefore, effective communication and collaboration are essential to ensure employees feel valued and productive work engagement.

2. Language obstacles:

In international business, it's prevalent to meet people speaking different languages. The language barrier is one of the most significant international business challenges. Therefore, most multinational companies hire employees fluent in at least one foreign language.

It's noteworthy that organizations often face difficulty explaining their goals to the customers due to the information lost in translation. It's also vital to consider the languages your team members speak, and the customer support executives should be in line with your target customers.

Significant investment in interpreters and maintaining a pool of employees comfortable in major global languages ensures that your business operates smoothly.

In some countries, labour laws dictate that employment contracts are written in the local language. While employing talent in another country becomes a challenge for international business. Employing a local to verify the correctness and compliance of these contracts is one way to solve this problem.

3. Currency exchange and inflation rate issues

An international business receives payments from multiple nations. The value of a dollar for your native country will not always be equal to the same amount in other currencies. Therefore, it's one of the major problems of international business as the currency's value consistently fluctuates for the same amount of goods & services.

It's recommended that you familiarize yourself with the currency exchange rates and the inflation rates of the nations where your international business operates. The inflation rates influence the price of commodities and labour costs, which eventually steers the final product pricing. Monitoring these two rates provides essential insights into the market value of your product & services in different locations over time.

4. Cultural variations:

The different counties worldwide, sometimes other regions within these countries, have a unique cultures. Understanding the different cultures your employees and clients follow enhances the management and increases cross-cultural business relationships. Eventually, this reduces the complexities of international business and makes your processes highly effective.

Whether managing your overseas office, selling your products/services to international clients/retailers, or operating an overseas manufacturing set-up, it will significantly benefit your international operations once you understand their cultures and employ emotional intelligence.

5. Nuances of foreign policies, geopolitics, and cross-country relations:

The international business environment is greatly affected by political scenarios and the foreign relations between the countries. When you expand your business in the international market, it's essential to know the financial systems, trade policies, and country-specific tax regulations. Friction in cross-country relations is one of the significant complexities of international business. This knowledge affects your business strategy and ensures that you abide by the rules and regulations of the operating country.

The political decisions taken by the leaders influence the taxes, labour wages, commodity prices, transportation & infrastructure costs, etc. Therefore, you should update yourself with the strategic decisions, and the workplace policy should comply with all the regulations.

6. Supply chain risks:

Managing the supply chain that encompasses national borders lies among the significant problems of international business. The particulars of imports, exports, offshore shipping, and related logistics are steered by international laws and other foreign legislations.

International expansion is a strategic decision that should be taken after developing a solid supply chain strategy as it affects the future of your business. Supply chain strategies need to be unique based on your business requirements, and you need to develop them specifically for the locations you wish to expand. This includes studying the local trade regulations, external influences, existing supply chain, and local material availability.

7. Talent acquisition and On boarding:

Hiring and retaining talented employees is an essential aspect of international expansion. Talented and motivated staff with the required knowledge base and industry experience of the specific region are assets to the organization. If your business lacks experienced employees who can act as an anchor for that location, your international expansion can face challenges. This challenge is amplified in the case of venture mergers or acquisitions.

For an international business, hiring employees across the globe involves multiple challenges like an on boarding plan unique to remote work, increased overhead expenses, extensive HR support, etc. When you hire employees from overseas, access to these employees is not the same for all as in offline work, making it challenging to make the right decision.

8. Compliance issues:

Tax compliance issues are one of the challenges of expanding globally. All international businesses have to deal with multiple countries having different business regulations, tax rates, and other commercial fees; these are hindrances that must be complied with to operate globally.

If the business fails to comply with regulations, it can hinder business expansion and pay hefty compliance charges. This means that employers must do thorough research and legitimate paperwork to comply with the dynamic international regulations.

9. New market competition:

When multiple companies offer similar products and services, their business models create aggressive competition. If you wish to explore a new market, you need to do a market search regarding the companies already providing the products and services in that segment. The challenges of expanding globally also call for differentiating factors in your products and services so that they gain a competitive edge in the market.

It's a profitable business idea to venture into unique products & services to create your own market while developing reputable business relationships with local vendors, shipping agencies, suppliers, and logistics to strengthen your supply chain.

10. Brand consistency:

International businesses solve different problems for different customers worldwide; it's challenging to create brand consistency and leverage it in the global market. Brand consistency refers to the functional language, logo, work culture, and many factors affecting your brand’s growth. Evolving a global corporate strategy is imperative to brand consistency.

A company's brand differentiates it from the other companies as it is the company's trademark. Another challenge with brand consistency is that your business must maintain consistency in its deliverables. If the business is successful, the brand recall value increases, leading to exponential growth in profit.

11. Environmental issues on a global level:

The environmental risks and effects of global warming and climate change are evident daily. Therefore, sustainability is high on the priority list of the foremost multinational corporations. The UN's Sustainable Development Goals have elevated environmental issues as the challenges of expanding globally. Businesses should develop and implement more environmentally sustainable business processes.

It's essential to be aware of the country-specific environmental regulations to expand your business overseas and avoid legal issues in global business. This highlights the importance of sustainable production methods and non-conventional energy resources for your production process.

12. Payroll Challenges:

The global expansion comes at a cost; the payroll challenges can accumulate if not appropriately managed. It's noteworthy that each global payroll challenge gets multiplied by the number of nations your company serves. Since every country has laws and regulations related to taxes, retirement benefits, and healthcare requirements, managing all these factors poses a significant challenge when you venture into a new country.

4.5.7 Investment Opportunity for Indian Industries:

1. Healthcare and Insurance Sector:

In respect of revenue and employment, Healthcare is emerging as one of the most important sectors in India. An ageing population, a rising middle class, a soaring percentage of lifestyle diseases, enhanced concern for public and private partnerships, ramped up adoption and implementation of digital developments in technology, along with telemedicine, as well as growing investor interest and FDI inflows considerably over the past two decades, are all cruising the growth and flourishment of the Indian Healthcare Sector.

Hospitals, Pharmaceuticals, Diagnostics, Medical Equipment and Supplies, and Medical Insurance are the five components of the healthcare and insurance sector, according to the government. In FY 2020, the average percentage of insurance premium was 3.76%, life insurance premium was 2.82%, and non-life insurance premium was 0.94%; in F.Y 2021, the percentages rose to 4.2% for insurance premium, 3.2% for life insurance premium, and 1% for non-life insurance premium.

Following are some of the companies worth considering in this sector:

- Apollo Hospitals
- Abbott India
- Fizer
- Divi's Laboratories
- HDFC Life Insurance

2. Renewable Energy Sector:

We are all aware that environmental conditions are deteriorating, and as a result, under the Paris Agreement, every country is under enormous international pressure to reduce carbon emissions. Renewable energy has emerged as a very promising sector for investors. Sales of renewable energy equipment such as solar panels are at an all-time high, and renewable electricity is becoming increasingly affordable. By the end of 2022, India wants to have 175 GigaWatts of renewable energy installed.

The Ministry of Power has created the Renewable Energy Investment Promotion and Felicitation Board (REIPFB) to provide one-stop assistance to industry and investors for project development and new investment in India's renewable energy sector.

In addition, over $79 billion has been invested in renewable energy in India over the last seven years, and India's installed renewable energy capacity has increased by over two-and-a-half times in that time, to over 141 Giga Watts.

Following are some of the companies worth considering in this sector in India:

- Reliance Power Industries
- Indian Energy Exchange
- Indraprastha Gas Ltd.

- Borosil Renewables
- Siemens

3. IT Sector:

The IT Tech industry has exploded in the last two years, whether it's in the fields of Artificial Intelligence, Data Analytics, Data Science, or Big Data. The IT industry has grown at such a breakneck pace and scale that it almost seems unreal. Around 33 Indian IT start-ups have achieved the "Unicorn" status, meaning their valuation has surpassed $1 billion.

With approximately 560 million internet users, India is now the second-largest online market after China which makes it clear that India is absolutely booming in this sector.

Following are some of the companies worth considering in this sector:

- Affle India
- L&T Infotech (Larsen & Toubro)
- TCS (Tata Consultancy Services)
- Info Edge
- Honeywell Automation

4. Real Estate Sector:

The Indian property market is trending in the right direction, and it is expected to pick up steam in the upcoming months. With strong end-user consumption and calm market conditions, the average quarterly sales volume is expected to exceed the pre-COVID year's average quarterly sales.

The unravelling of events as a consequence of Omicron is a key factor in determining the dynamism of the sales following any lockdowns.

In important Real Estates markets like Pune, Hyderabad, Bangalore, Ahmedabad, and Mumbai, expansion levels have already been surpassed.

Following are some of the companies worth considering in this sector:

- Indiabulls Real Estate
- Oberoi Realty

5. Fast Moving Consumer-Goods Sector (FMCG):

In India, FMCG is the most secure sector for long-term investment. The majority of the products in this industry have been in use for over a century and will continue to be used in the future as well.

HUL, Dabur, Emami, ITC, Nestle, and other FMCG companies are household names in India. For a long time, the majority of people in Indian cities and towns have been using their products.

Contrary to many other industries that go through a contraction and expansion cycle, the FMCG industry's products are always in demand. People may not buy a new car, make new loans, or avoid investing in real estate/infrastructure during a recession or economic crisis, but because FMCG products are basic necessities, their demand will not decrease as much as in other industries. Companies based on FMCG have a lot of room to grow in every area.

The FMCG industry is one of the best sectors in India for long-term investment in India if you are looking for a safe industry to invest in.

Following are some of the companies worth considering in this sector:

- Adani Wilmar
- Hindustan Unilever Ltd. (HUL)
- ITC Limited
- Nestle India
- Britannia Industries
- Marico

6. Automobile Sector:

Leading global automobile players are entering India and setting up production facilities to tap one of the fastest growing economies of the world.

Also, Indian players such as Eicher Motors (Eicher Motors' own Royal Enfield bike that has been growing in terms of sales), Maruti Suzuki India Ltd, Tata Motors Ltd, etc. are unveiling new models, facelift versions, etc. to tap the demand from the consumers.

Rising disposable income in the hands of individuals has resulted in shifting preference towards the four-wheeler segment.

The growth of the automobile sector shall also translate to the growth of the automobile component sector.

Following are some of the companies worth considering in this sector:

- Maruti Suzuki India Ltd
- Eicher Motors Ltd
- Automotive Axles Ltd
- Munjal Showa Ltd

- Motherson Sumi Systems Ltd
- Endurance Technologies Ltd
- Jamna Auto Industries Ltd

4.6 SUMMARY

It makes sense for an intelligent investor to invest in India's growing sectors for long-term investments. However, there is an important lesson to be learned here: not every growing sector will provide incredible returns. The best approach to selecting the best sectors in India for investment is to diversify.

Allocate funds to various sectors that you believe will grow, reducing risk and ensuring that you do not miss out on any booming sectors.

4.7 QUESTIONS

1) Define the term GATT. Explain Objectives of GATT.
2) Distinguish between WTO v/s GATT
3) Write a note on Functions of WTO.
4) Explain the Pros & Cons of WTO.
5) Define the term Globalization .What are the various foreign Market entry Strategies.
6) Write a note on LPG Model.
7) What is a MNC .Explain its merits & demerits.
8) Write a note on MNC's in India.
9) Define FDI .Explain Need for FDI in developing countries.
10) What are the factors influencing FDI.
11) List out FDI Operations in India.
12) What are the challenges faced by International Business.
13) Explain Investment Opportunity for Indian industry.

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