Business environment

A business cannot exist in isolation. It is promoted by certain people and requires some resources for execution. So Business environment consist of all those factors that have a bearing on the business.

The survival and success of a business or firm depends upon its resources, command and its adaptability to the environment and the extent to which the environment is favorable or unfavorable to the development of the organization. The business environment is divided into two parts:

- Internal
- External

Internal Environment:

It consists of all those factors that directly affect the performance of the business. The internal factors are generally regarded as controllable ones because the company has its say over these factors, & it can always alter these factors such as : personnel, physical assets, facilities, objects, goals, policies etc.

1) Mission and objectives of the organization: These provide the direction to the Organisation. On the framework of broad mission and objectives short and mediums term plans are made. The performance, structure, resources of the organization is largely dependent upon the mission finalized by the top management.

2) Management/Human Resources: The organizational structure, composition of board of directors, extent of professionalisation of management etc all are the important factors influencing the business decisions. It is regarded that the human resources of the organization should be sound in both the kinds of skills-human as well as technical.

3) Physical Assets and facilities: The facilities like production capacity, technology and the efficiency of the productive apparatus, distribution network, research and development facilities etc. influence the business and its decisions to a larger extent.

4) Miscellaneous and other factors: The cash position of an enterprise, reserve, profitability, availability of finance from outside, level of technological innovation, goodwill etc. serve as an important variable in success and failure of an organization and these affect the environment and working significantly.

External Environment:

It consists of all those factors, which have an indirect effect on the activities of the business. The external factors are generally out of control & the organization has to adapt itself according to these external environmental changes. External environment has two components namely:

- Micro environment
- Macro environment

Microenvironment: The microenvironment is also called as the task environment because the micro factors have a direct bearing on the business operations. The micro factors need not necessarily effect all the firms in a particular industry. In the same way, some of the micro factors may be particular to single firm.

1) Suppliers: Suppliers are the people who supply inputs to the organization. Uncertainly regarding supply or other supply constraints often compel the companies to maintain high inventories causing increase in cost. Also it is very risky to depend on a single supplier because a strike or lock out will significantly hamper the production. Similarly a change is the behavior of the supplier may also affect the affairs of the business. So it is suggested that a company should keep multiple suppliers.

2) Customers: The major task of a business is to create and sustain the customers (CRM). A business exist only because of its customers, Depending on the single customer is often to risky, & puts the organization in a poor bargaining power apart from the risk of loosing the customers. The choice of the customer segment should be made by considering the number of factor like: profitability, stability of demand, growth prospects and the extent of competition.

3) Competition: A firm's competitors include not only the other firms which market the same or related product but also all those who complete for the discretionary income of the consumer. The strategy regarding pricing, promotion, sales are highly affected by the competition.

4) Marketing Intermediaries: It includes middlemen, advertising agencies, physical distribution firms, marketing research agencies, consultation agencies etc. These act as a vital link between the company and the final customers. A dislocation of these links or a wrong choice of link may cost the company heavily.

5) Publics: A public in any group that has an appeal or potential interest on the organization's ability to achieve its interest. It includes media, local public, social workers, non-government organizations (NGO's) etc. The public seriously affects some companies. So a fruitful co-operation between the company and local public must be established.

Macro Environment: A company and the forces in its micro environment operate in a larger macro environment of forces that shape opportunities and pose threats to the company. The Macro environment in also known as general environment or remote environment. The macro forces are generally uncontrollable which the macro environment is uncontrollable. The success of an organization depends upon its adaptability to such an environment.

1) Global Environment: It refers to those global factors or international factors which are relevant to the business rule as: WTO Principles, trade agreements international Conventions/ treaties/ agreements/ declarations/ protocols etc. economic and business conditions in other countries and so on. Similarly there are certain developments which have a global impact. When a firm is expanding its business in the foreign country, it is exposed to a higher degree of political and socio-cultural risk.

2) Political and Govt. Environment: It refers to all those conditions like political stability, policies of govt., condition of law and order in the country, legal and constitutional framework and so on. All these affect the business substantially a favorable environment promotes the business and vice-versa.

3) National and Geographical Environment: It is the source and support of everything used by the business and almost every human activity is affected by it factor endowment such ass raw material energy sources, waste disposal sites, ecological (factors), weather and climatic conditions, to graphical factory locations aspects, transport facilities all constitute the natural and geographic environment. Differences in geographic conditions between markets calls for changes in marketing mix. Geographical and ecological factors also influence location of certain industries. E.g. cotton industries in Maharashtra, jute industries in Bengal.

4) Demographic environment: Demographic factors like size of population, population growth rate, age composition, ethnic traditional composition, distribution of population, family size, family life cycle, Income level, religion etc. Have a very significant impact on business the demographic factors differ from place to place and country to country and because of the diversity of these factors companies are compelled to adopt different strategies.

5) Socio-Cultural Environment: Business is an integral part of society and the society influences a business heavily. A business must take into consideration the societal variables like religion, language, customs, belief, social system, taste, preference etc. The type of product to be manufactured and marketed depends largely upon these factors, and the business should be organized and governed according. to the values and norms of the society.

Conclusion: Thus it can be concluded that all the business decisions are affected by its, internal and external environment for organization has to adopt itself with the environment control limit of the organization.

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Environmental Analysis

The environmental analysis refers to the task of gathering the relevant information about the environment which can serve as an input for making strategic decisions.

There are many pieces of vital information available in the environment. Such information should be gathered and analysed to understand the impact and implications of such an information on the organisation. For this purpose a thorough analysis, scanning and monitoring of the environment should be done.

Need of Environmental Analysis:

(1) It is being conducted to create the understanding of current and potential change taking place in the environment.

(2) To gather the information for strategic decision making.

(3) Development of action plan to deal with technological advancement

(4) To keep oneself dynamic.

(5) It helps to understand the transformation of industrial environment.

(6) It help in identification of risk (cultural, social competitor, management, natural exchange rate.

(7) It is a pre requisite for the formulation of right strategies.

(8) It makes the managers aware of the organisation-environment linkage.

Steps in environmental analysis:

The environmental analysis involves the following steps:

(i) Scanning: It involves general surveillance of all environmental factors and their interactions in order to identify early signal of possible environments changes and detecting all these environmental changes that has already taken place. Scanning is ill structured and the relevant data for scanning unlimited, vague and imprecise.

(ii) Monitoring: It involves tracking the environmental trends, sequence, of events and streams of activity. It frequently involves the indicators unveiled during environmental scanning. The purpose of monitoring is to assemble sufficient data to discern whether certain trends and patterns are emerging. Thus monitoring progresses the imprecise data into precise form.

(iii) Forecasting: It is concerned with developing predictions of the direction, scope and intensity of environmental change etc. Forecasting is well focused and more complex activity. It is future oriented and acts as an essential element in environmental analysis.

(iii) Assessment: Scanning, monitoring, forecasting are not ends in themselves unless their outputs are assessed to determine implications for the organization on current and potential strategies. Assessment involves identifying and evaluating how and why current and projected environmental changes will effect strategic management of organization. Assessment therefore tries to answer the question such as: what are the key issue presented by the environment and what are the implications of such issue for the organization.

Limitations of environmental analysis:

- It does not eliminate uncertainty of the organization completely because environment itself is very dynamic. So the environmental analysis cannot be done with too much of accuracy.
- Environment sometimes confront unexpected events which have not been anticipated earlier
- . If information is very fast than there can be over loading of information, this may create certain discrepancies.
- It is not a sufficient guarantor of organization effectiveness. It is only an input for strategic development.

Economic Systems

It refers to the extent of govt. regulation and intervention in the areas of employment, income distribution, consumption, competition, saving, investment etc. in the economy. The arrangement of market distribution of goods and services earning of people and standard of living highly affected by the role of the govt. in the economy. Based on this the economies can be categorized into the following :

Capitalism

In the one categorised by the private ownership of the means of production, individual decision making and use of market mechanism. It facilitates the free flow of goods and services in the market. It is also called as free enterprise economy.

- The two types of capitalism may be

(i) The old Laissez fair economy where the govt. intervention is negligible.

(2) Modern or mixed capitalism where there is a substantial amount of govt. intervention.

Features of Capitalism:

1) Private ownership: The factors of production such as land, labor, capital are privately owned and the production progresses at private initiative.

2) Free enterprise: Private firms are allowed to obtain resources to organize production and to sell the output in any way they want.

3) Consumer Sovereignty**:** It implies "Consumer is the king". The production decision are based on consumer desires and is reflected is the demand pattern.

4) Freedom of choice of occupation: In the capitalist economy the individual is free to choose any job as per his qualification, but this systems does not ensure a job security.
5) Freedom to save and invest: In a capitalist system the individuals are free to save, invest and accumulate wealth through investment. Thus in such a system people save their money for future consumption.

6) Market System: In a capitalist economy the buyers and sellers express their opinions about how much they are willing to pay and how much they demand for goods.

7) Competition: In a capitalist economy high degree of competition reduces market imperfections. Competition is necessary to keep initiative constantly on assets, to protect the consumer and to maintain a flexible price system.

8) Absence of a central plan: The activities of the numerous economic units are not controlled and regulated by the govt. There is an absence of central regulatory plan. Everybody is free to do whatever it likes.

9) Limited Role of govt.: The absence of a central plan does not imply that the govt. is not playing any role. Govt. intervention is necessary to ensure the protection of the property rights, enforce contractual agreements, taxation and other community wants. However the role is very much limited.

Evaluation of capitalist economy:

A pure capitalist economy is merely impossible because govt. interventions are required for the smooth sailing of the economic activities. If there is no central plans then it would be very difficult to run the economy in a positive direction. So a mixed or regulated economy is preferred. However the extent of govt. control may differ from sector to sector or country to country.

Socialism or Communism

Socialism or communism is an economic system where means of production are either owned or controlled by govt. in such an economic system citizens are not free to do any economic or commercial activity & Govt. regulates almost each & every sector of economy. Its essential features are-:

- Govt. ownership or control.
- Central authority.
- Restriction or consumption.
- Restrictions on occupation.
- Fixation of wages and prices
- Equitable distribution of income.

Evaluation:

This system exhibits great parities in the economy in each & every sector. However it is in highly criticized due to high degree of govt. intervention. In this kind of system people remain highly dissatisfied. It is the cause of disputes into very large nations.

Mixed Economy

Mixed economy is categorized by the co-existence of public and private sector. In a mixed economy, there is a wide scope for govt. intervention. the Government may function as a mediator between the conflicting groups as well as the consumer of certain end products, producer of certain commodities. Government may also attempt to guide the direction of the economy through imposition of certain restrictions and grant of privileges to a private sector & as well as by same form of planning.

Features of Mixed Economy:

1) Co-existence of public and private sector: In a mixed economy, both public and private sector plays the role is the economy. Also public and private sector combines to form joint sector. Usually same sensitive industries are under the role of govt. in such economies.

2) Existence of competition : The mixed economy is characterized by the extent of competition in certain areas where there is no Government monopoly, However Government acts as a watchdog of the market competition.

3) Freedom on Consumption in selected areas : In a mixed economy, consumer is the king in certain desired products and services while rest others are in the hands of state where the consumer don't have its choice neither in production nor in fixation of prices.

4) Freedom to save and Invest : People are free to save the money as part of their earnings and they can invest this money in the desired areas. However the Government regulates almost each and every sector of the economy.

5) Freedom of occupation : In a mixed economy people are free to do the jobs as per their qualifications, skills, experience and interest. Government also provides employment to the people in the companies owned by it.

6) Existence of central plan : In a mixed economy though there is freedom to private sector in areas of production, selling and consumption but still the

Government. has the authority of framing rules, regulations policies, laws and acts for each and every sector of the economy. If the individuals, bypass or infringe the govt. regulations then it calls for a punishment or penalty.

7) Market Mechanism : In a mixed economy, goods and services are produced according to the needs and preference of the customers. Both the buyers and the sellers has the bargaining power and the prices of commodities are fixed on the basis of the forces of demand and supply.

8) Inequitable distribution of Income : Mixed economies exhibit almost all the classes of people according to their income and consequently standard of living. Since there is a larger scope of employment and the wages and salaries are not fixed by the Government. So people have good earning at their disposal.

Evaluation of Mixed Economy:

Capitalism and socialism are the two extreme types of economic arrangements. In both the cases either the people are dissatisfied or the country lacks a proper level of control and economic development. So the mixed economy is preferred. Almost all the countries of the world are mixed economies. However the role of public and private sector ranges from country to country.

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Relationship Between Business and Government

A business cannot exist in vacuum it has to abide by the society & the Government. Every business runs on the rules and regulations framed by the Government. It is the duty of state to make policies and laws for all commercial activities

Business Responsibility towards Government. :

The business firms must obey the laws made by the Government. Besides this, it has certain other responsibilities towards the govt. It should look to the Government for support, sustenance, encouragement and guidance. The business also plays a vital role in helping the Government. to develop its functioning capabilities. A few important responsibilities are enumerated below:

(i) Obeying the rules, regulations, policies, laws etc. made by the Govt. for the sustenance and establishment of business.

(ii) Payment of taxes to the Govt. on time and avoiding any sort of malpractice and tax evasion.

(iii) Providing the information regarding the business to assist the Government in decision making.

(iv) Implementing the contracts and bids circulated by Govt. like roads, bridges, flyovers etc.

(v) Providing the advisory services to the Govt. in policy making since the professionalisation of business, the business leaders are highly qualified and experienced. So they can provide inputs to the Govt. Also business leaders serve on various advisory boards constituted by the Govt. Business leaders (executives) accompany delegates to foreign countries for exploring trade and industry prospects.

(vi) Providing assistance to weaker and less vital business units either through technology, money management, marketing facilities etc. for their potential growth.

(vii) Assisting the Govt. in disinvestment activities by purchasing the divested equity so that govt. may utilise that money for the economic welfare.

(viii) Supporting the Govt. in political activities by providing monetary assistance (funds to political parties) election campaigning by business leaders or lobbying.

Responsibilities of Government towards business:

Nexus between the business & Government is an established fact. Business depends on Government for its inputs. So, Govt. must provide a support & regulatory mechanism to the business. Govt. responsibilities towards the business include:

(i) Framing the rules, regulations, policies, and laws for the functioning of business.

(ii) Providing the well developed infrastructural support through construction of roads, developing transport mediums (railways, aviation, cargo, electricity, fuel, water, land on cheap rates)

(iii) Providing assistance in gathering credit through a well developed framework of banks and financial institutions.

(iv) Protecting the business innovations and new researches by providing patents, trademarks and copyrights.

(v) Providing the licenses for the manufacturing of sensitive products, so that their production can be controlled like arms, weapons, cigarettes, tobacco, nuclear power, liquor, hazardous chemicals etc.

(vi) Promoting the new technology all over the country so that it can be under the reach of common people.

(vii) Providing subsidies for the essential product so that their prices can be affordable.

(viii) Controlling the foreign trade, entry, and exit of different kinds of products and services through imposition of tariffs and duties.

(ix) Providing assistance to small and weaker industries through reservation of goods for small-scale industry (SSI), cheap credit, technological support, and exclusive buying and advisory service.

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Constitutional Provisions affecting business and economic roles played by the Government in the economy

The constitution of India is the most significant document, which is fundamental for the governance of the state. It contains the various rules, regulations, rights and duties etc for the governance of country and for the welfare of people. The constitution of country is divided into 3 parts.

(1) Preamble

(2) Fundamental rights

(3) Directive principles

The historic objectives institution which was made by Pt. Nehru on Dec. 1946 was subsequently adapted by the constituent assembly on Jan. 22nd 1947 inspired the shaping of constitution through all its stages. The constitution has been further amended many times.

The Preamble :

It is an introduction to constitution and contains its basic philosophy. The preamble states that. "We the people of India solemnly resolve the constitute ourselves into a Sovereign, Socialist, Secular, Democratic, Republic and to secure to all citizens. (Justice, Social, Economy and political) liberty of thoughts, expression believe, faith and worship, equality of status and opportunity to promote among them all fraternity ensuring the dignity of individual and unity & integrity of nation.

The fundamental rights:

Constitution has eight fundamental rights.

(1) Right to quality.

(2) Right to life and personal property

(3) Right to freedom of Religion.

(4) Right to culture and educational freedom.

(5) Right against exploitation.

(6) Right to constitutional remedies

(8) Right to freedom.

Six freedoms are:

(i) Freedom of speech and expression.

(ii) Freedom to assemble peacefully without arms

(iii) Freedom to form associations & unions

(iv) Freedom to move freely

(v) Freedom to reside and settle in any part of country.

(vi) Freedom to practice any profession or business.

Directive Principles:

The directive principles are unique features of the constitution. These are the directives to the various Government and Govt. agencies and are fundamental in the governance of the country. They guide the path on which people of India can move to achieve the nobel ideals, which the preamble of the constitution proclaims-justice(social, economic and political) liberty, equality and fraternity. The directive principles may be classified under the following four heads.

(i) Provisions dealing with welfare.

(ii) Provisions dealing with welfare.

(iii) Provisions promoting democracy.

(iv) Miscellaneous provisions

The fundamental rights & directive principles enshrined in the constitution guarantee several economic rights to the citizens. At the same time the state has the power to impose reasonable restrictions on such economic rights in public interest.

Economic Roles of Government:

The state control of economy is the universal phenomenon, the extent & measures of control vary widely between nations depending up on the nature & stages of economic development, behavior of private sectors, political philosophy, social attitude administrative system etc. Govt. normally plays four important roles in the economy.

1) Regulatory Role: Govt. Regulation of the business may cover a broad spectrum including from entry into the business to the final results of business and also the exit. Govt. regulations of the economy may be broadly divided into: Direct & Indirect Controls Indirect control are usually exercised through various fiscal and monetary incentives and disincentives & penalties while direct controls can be applied selectively from firm to firm and industry to industry at the direction of the state.

2) Promotional Role :The promotional role played by the govt. plays a very significant role in the development of economy and takes the direct responsibility to build up and strengthen the necessary infrastructure such as power, transport, finance, market, institutions for training and guidance, various fiscal and minatory incentives (tax, holidays, subsidies, credit at concessional terms) establishment of EPZs (export processing zones), SEZ (special economic zones) measure to cover certain risk for the development of private sectors.

3) Entrepreneurial Role: The state play its dominance in certain capital intensive projects like steel, petrochemicals, fertilizers, capital goods for which investment outlay is very large and the expected returns are too low in the short run. Also Govt. intervention is there in certain sectors to avoid private monopoly and participation, so that essential goods are available to the common people at reasonable prices.

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Foreign Exchange Management Act

Foreign exchange management act or FEMA (1999) replaced the FERA Act 1973 which regulated the foreign exchange transactions in India. FERA sought to control certain aspects of the conduct of business outside the country by Indian Companies and in India by foreign Companies.

The FEMA which came into effect on Jan 1 2000 extends to whole of India and also applied to all branches, offices and agencies inside and out-side India owned or controlled by a person resident in India.

Objectives of FEMA :

(1) To facilitate external trade and payment.

(2) To promote orderly development and maintenance of foreign exchange.

The Reserve Bank of India is assigned an important role in the administration of this act. The rules, regulations and norms pertaining to several sections of the act are to be laid down by RBI in consultation with central Govt.

Definitions pertaining to FEMA:

FEMA is an extension to the controversial FERA. It is more liberal & based on the following main definitions.

1) Authorised Persons:

Any person or any bank or any body which are authorised by RBI to deal in foreign exchange.

2) Capital Account Transactions :

All those transaction which require forex for purchasing some fixed assets or securities by a person resident in India or outside India. All the capital account transaction are prohibited in FEMA and the permission of RBI is required for all such transactions.

3) Current Account transactions :

- Some of the current account transaction are permitted and do not require permission by RBI. A current account transaction is in connection with foreign trade, current business activities, short term banking and credit facilities in the ordinary course of business, payment of interest on loan, remittances (transfer of money for parents, spouse, children etc.) expenses in connection with foreign travel, education and medical facilities.
- While some require permission when they cross certain ceiling.
- Some of the current account transactions are fully prohibited and foreign currency can not be made available in any case.

4) Export of goods and services :

The Act requires furnish to RBI the details regarding the exports. Every exporter shall furnish to RBI a declaration containing a true and correct material particulars in relation to payment for such services.

5) Realization and repatriation of foreign Exchange :

Where any amount of foreign exchange is due or approved to any person, he shall takes all reasonable steps to realize or repatriate to India, in time and manner prescribed by Reserve Bank of India.

Penalties for contravention :

Under this act a person is liable to a penalty up to thrice the amount involved, where it is measurable or upto Rs. 2 lakh where it is not measurable. Further, penalty may extend to Rs. 5000 everyday after the first day during which the contravention continues.

Administration of Act:

The Act requires the central govt. to appoint as many officers as adjudicating authorities (task is to hear the complaints of people against any malpractices) for holding inquiries, pertaining to contraventions of the Act.

- There is also a provision for appointing special directors (appeal) to hear appeals against the order of adjudicating authorities.
- The central Govt. shall also establish the appellate tribunal for hearing complaint against adjudicating authorities and special directors (appeal).
- The FEMA provides the establishment by the central Govt. of the director of enforcement and some other officers which it may find suitable for taking out investigation and contraventions under this act.

Appellate Authority
|
Special Director (Appeals)
|
Appellate Tribunal
|
High Court
|
Supreme Court

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Securities & Exchange Board of India

The capital market plays an important role in the development of economy, since the health of any economy depends upon its productive capability, unless entrepreneurs with innovative ideas, have ample money to invest, the productive capability cannot be enhanced. In order to assist entrepreneurs, the concept of capital market have emerged where individuals savings are mobilized.

Seeing the considerable importance of capital market, its a govt.'s duty to maintain and enhance investors confidence in the capital market. With this objective the central govt. brought SEBI act is 1988, which laid the foundation for the establishment of SEBI.

SEBI was made statutory body in 1992 by SEBI Act.

Objectives of SEBI

(i) To protect the interest of investor's in securities market.

(ii) To promote and regulate the stock market.

Powers and Functions of SEBI :

(i) To regulate the business in securities market.

(ii) Registering and regulating the activities of stockbrokers, share transfer agents, bankers, registrar to an issue, merchant bankers, underwrites etc.

(iii) Registering and regulating the working of collective investment schemes like mutual funds.

(iv) Prohibiting, fraudulent and unfair trade practice in security market.

(v) Promoting investors, education and training of intermediaries of stock market.

(vi) Prohibiting insider trading in stock markets.

(vii) Regulating substantial acquisition of shares and take over of companies.

(viii) Levying fees or changes.

(ix) Conducting research.

(x) Calling for information from companies, undertaking inspection, conducting inquiries and audit of stock exchanges, intermediaries & other institutions of stock markets.

Management of SEBI :

SEBI consist of the chairman and other members (2 members appointed by the govt. representative, 2 the ministry of finance and law, 1 member from RBI and 2 other from Professionals highly qualified in their field of security market).

SEBI act also empowers central govt. to supersede SEBI on account of any policy making, govt. duties etc.

Conclusion : T

he establishment of SEBI have proved to be quite benefitial for orderly growth of India n securities market. SEBI has been instrumental in building of investor both indian & foreign in the Indian stock market. In recent year there has been significant improvement in the image and working of security market in india.

Through certain descrepencies & scams have been highlited at times but the strickes action has discourage these activities.

Planning Machinery

The planning commission in constitution draws up the plans with the guidelines given by NDC (National Development Council). It is presided over by the Prime of the country and one deputy chairman is also elected.

NDC consist of Union Cabinet Ministers, chief ministers of state and union territories and members of planning commission. The NDC has decisive role in the formulation, follow up and execution of the national plan.

Presently, chairman of planning commission is our Prime Minister Dr.Manmohan Singh and deputy chairman is Montek Singh Ahluwalia.

The states also have their own plans. State jurisdiction include such vital sectors of development as agriculture, small industries, irrigation, power, roads, transport, education and social services etc.

The first plan of India was launched on April 1st 1951 and the 9th plan executed from the year 1997-2002. The process of implementation of 5 year plans was interrupted several times during the planning era, due to economic and political reasons.

Strategy of Planning:

Since the inception, a shift in the planning strategy has taken place. In the beginning focus of plans was more on proper utilisation of the national resources in accordance with national priorities. In the past, plans envisaged a dominant role for the public sector with massive investment in heavy and basic industries.

Since the 8th plan the private sector begin to gain greater significance and from a highly centralized planning system we are gradually moving toward indicative planning. In the beginning, plans focussed on removal of poverty, improvement in standards of living, increasing income, generation of employment, social justice, self reliance etc.

There have been changes in the priorities of development and emphasis on objectives throughout the plans.

So far, plans were dealing with basic problems and structure of economy but the 10th plan is more focussed towards its other goals such as:

1. Reduction of poverty.
2. Gainful employment .
3. Universal access to primary education .
4. Population control.

5. Increase in literacy.
6. Increase in forest and tree cover.
7. Access to potable drinking water.
8. Focussing more on privatization and disinvestment.
9. Development of small-scale industries (SSI).
10. Accelerating tax reforms
11. Strengthening the legal framework and procedural framework.
12. Lessening fiscal deficits
13. Globalization of economy.

Evaluation of planning strategy:

Even after 55 years of planning, India suffers from the problems like:

- Population explosion
- Corruption
- Illiteracy
- Poverty
- Slow infrastructure growth
- Agriculture downfall
- Inflation
- Lack of medical facilities in backward areas
- Accidents and casualties.

Progress in 55 years of planning :

1. Growth rate of country is above 7% which is 2nd highest in world after China
2. Forex reserves of the country have crossed $ 150 billion **mark.**
3. Sensex has crossed 11,000 points which happened first time in the Indian history.
4. Level of FDI and FII is continuously surging
5. Indian companies are expanding beyond the boundaries of India.

6. Advancement in technical education.. Indian IIMs and I.ITs are famous all over the world.
7. Cut throat competition in the market.
8. Reforms in capital market .
9. Product innovation. Large number of companies are engaged in R & D.
10. Surge in exports. India is the world's 11th largest exporting country.
11. Growth of services and Industry.
12. Worldwide presence.

India is the leader of developing countries at WTO and also it is a member of various other associations and trading blocks like ASEAN, SAARC.

Conclusion :

Though Indian economy is growing at the fast pace but most of the growth and development is taking place in urban areas. Still rural and semi rural Indians are leading the same kind of life and the level of growth and advancement is quiet slow in these areas. The focus of planning should be on bringing these areas into main stream. If These areas could be developed then the dream of **India Shining** can be turned into reality.

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Multinational Corporations

MNC is an enterprise where managerial headquarters are located in one nation (home country) while the enterprise carries out its operations in a number of countries as well"

"MNC is corporation that controls production facilities in more than one country and such facilities are acquired to foreign direct investment. These are also known by the names such as transnational corporation, global corporation or international corporation.

Benefits of MNC's to the host Country:

1. MNC's promote foreign trade within the country.
2. It increases the level of employment in the host country.
3. MNC's lead to innovation in products and services available to the customers.
4. They kindle technological innovation.
5. MNC's increase the level of foreign investment.
6. Advent of MNC's increase the level of competition in the host country's market.
7. MNC's have revolutionized professional management in the companies.
8. Since they increase the level of employment and technical education that may lead to greater standard of living.

Benefits to the Company itself:

1. It increases the market share of the company that may lead to high demand of products.
2. Increase in profitability of the company
3. Diversification of risk and rise in level of operations.
4. Company enjoys economics of scale.

Threats of MNC’s :

1) MNC’s exploit the resources of host country.

2) MNC’s are involved in fight of capital MNC’s are involved in manufacturing goods through the resources of host country and also profit is generated through these resources but they bring that profit to their nation.

3) MNC’s pose risk to small-scale industries because they have superior technology and more money at their disposal while SSIs are lacking in both.

4) MNC’s are involved in avoiding tax through transfer pricing.

5) They pose a threat to Indian companies by increasing competition in the market.

6) They cause fast depletion of some non-renewable resources.

7) MNC’s are also criticized for their false business strategies, as they undermine the local culture and traditions & try to bring their own practices.

Evaluation of MNC’s :

Comparatively very less foreign investment has taken place in India till 90’s due to which the economy was growing at the slower pace. When liberalisation ushered in 1991, the position of country’s forex was worst. Also there was restriction on foreign exchange transactions through the imposition of (FERA).

Almost all the factors of production were under the control of public sector. The private sector has a very title role to play.

Since liberalisation, globalization and privatization the Indian economy is booming. This growth has reached a high mark in past several years. Credit goes to the liberalisation policy of govt.

Now the level of foreign investment in country is very high and almost all the sector of economy are opened for foreign investment by MNC’s. Large number of multinational corporations are coming to India and there is a large product market of almost all the commodities. Wide variety of product like imported cars, medicines, automobiles, technology, FMCGs, clothes etc. are available for the customers. It is due to the advent of MNC’s in India.

MNC’s are highly criticized for their gaining dominance in the best markets. It is said that they utilise and exploit the natural resources and capital of the host country and carry the amount of profit generated from the business to their home countries.

Another criticism is that they tend to invest in low priority and high profit sectors in the developing countries, ignoring the national priorities.

However in India the govt. policy confirmed the foreign investment to the priority areas like high technology and heavy investment sectors of national importance. Firms, which have been established in non-priority sectors, are allowed to continue.

Also Indian companies are expanding beyond the boundaries of India. Many Indian companies like WIPRO, Infosys, Reliance, ONGC, SBI, PNB have establish their off shore units.

This has given the country a worldwide presence. Also the consumers are benefited with large variety of products.

Recently, MNC’s are allowed to invest in retail markets in a single brand. The share of equity is restricted to 51% this will increase the competition in the market but customers will have greater choice.

<u>International Prespective related to MNC’s</u>:

The economic activities of MNC’s are indicated by the fact that the GDP of most of the countries is smaller than the value of the annual sales, turnover of the multinational giants.

It has been observed that the 2 largest manufacturing MNC’s General Motors and Ford had a combined turnover of $ 302 billion while the GDP of India was $ 360 billion.

The ability of multinational to manipulate financial flows by the use of transfer prices involves a matter of concern to the govt.. This is necessary to take reasonable steps to avoid such practices. So, it is suggested that the international business in any country is good but it should be regulated by the govt. in accordance with national priorities.

Industrial policy

The industrial policy indicates the respective roles of public, private, joint and small sectors, small, medium and large scale industries underlined the national priorities in the economic development strategy.

It also expressed the govt. policy towards foreign capital, foreign technology, labor, licenses, tariff etc. in respect of industrial sector. In short the industrial development has been guided and regulated by industrial policy.

The industrial policy and regulations had grown more and more restrictive until about the mid 70’s. Having realized the harmful effects of the restrictive regimes, the 1980’s saw a very slow process of liberalisation in tuned with the economic reforms. Ushered in 1991 the industrial policy too under gone a drastic change.

Old Industrial policy

The industrial policy pre liberalisation envisaged the following features.

1. **Reservation of Industries:** Future development of most of the industries was exclusively reserved for the public sector. Manufacture of a large no of items (7850) was reserve for small scale sector.

2. **Dominance of public sector:** The industrial policy resolution of 1948 established public sector monopoly in 9 industries. The industrial policy resolution of 1956 brought out in light the adoption of socialist patterns of society. The national goals and the 2nd 5 year plans which gave emphasis on the basic and heavy industry. Further expanded the role of public sector future development of 17 more industries were exclusively reserved for public sector (schedule A) Further public sector was assigned priority for establishment of new units in 12 more industry (Schedule B). The public sector also established its monopoly in several other industries which did

not belong to above two categories of industries this was all through industrial license.

3. **Entry & Growth restrictions:** There were a large number of entry and growth restrictions on Pvt. sector, particularly on large and foreign firms. A license was mandatory for establishing new units investment above a specified limit manufacturing new products and for substantial expansion of existing undertaking.

4. **MRTP Restrictions:** In old industrial policy MRTP Act was playing a dominant role. Large firms (heavy investment in assets of more than 100 crores) and dominant undertakings (those have market share of 25% or more) have to obtain clearance the MRTP act in addition to industrial license for establishing new undertaking, substantial expansion and manufacturing of new items. There was also restriction on import of capital goods.

5. **Restrictions on Foreign Capital & Technology:** The use of foreign capital and technology was limited even in the industries where foreign capital was allowed it was subjected to d ceiling of not more than 40% Operations of foreign companies in India and issue of securities abroad by Indian companies were regulated under FERA.

NEW INDUSTRIAL POLICY / POLICY CHANGES FOR LIBERALISATION

The industrial policy announced on July 24, 1991 has enormously expanded the role of private sector by opening up most of the industries for the Pvt. concerns and substantially removing entry and growth restriction.

Objectives of NIP:

- To build on the gains already made.
- To correct the distortions that have crept in.
- To maintained a sustained growth in productivity and gainful employment.
- To attain international competitiveness.
- All sectors of industry whether small, medium or large belonging to public, Pvt. or joint sectors will b encouraged to grow and improve all there past performance.

1) Redefinition of role of public sector:

The role of the public sector was redefined and its scope has been drastically lessened. The number of industries reserved for public sector was reduced to eight and later the number became 2. Govt. monopoly remained in atomic energy and railway transport. The policy also seeks selective privatization and withdrawal of the public sector from industries, which do not confirm with the redefined role.

2) Dismantling of entry n growth restriction :

The restrictions of MRTP and IDRA were substantially dismantled in new policy.

- Delicensing: All about 18 industries were freed from licensing. The number was later reduced to 6. The 6 industries for which license made compulsory.
  - (i) Distillation & brewing of alcoholic drinks.
  - (ii) Cigars and cigarettes made of tobacco.
  - (iii) Electronic aero-space and defence equipment.

(iv) Industrial explosives.

(v) Hazardous chemicals.

(vi) Drugs and pharmaceuticals (According to modified drug policy).

- Removal of MRTP restrictions : Most of the provisions of MRTP act pertaining to concentration of economic power were scrapped.

3) Liberalisation of Foreign Investment :

The policy towards foreign capital and technology has been modified and progressively liberalized. The Limits of foreign investment has been significantly raised to 100%, starting from 26%, 49%, 51%, 74%, in different industrial sectors however in certain sensitive industries like railways, defense, mining of precious metals, atomic energy etc. there is no foreign investment.

Since 1992-93 the Indian stock market has been opened for foreign institutional investors. An Indian company satisfying certain condition may access foreign capital by bringing issues in foreign market.

4) Related Measures: The Industrial policy reforms have been supplemented by various other reforms in recent years:

- EXIM Policy : It is announced on 1st April It is revised every year. It is framed for 5 years. Revisions are made every year. The Govt is continuously liberalizing the EXIM policy. The import policy has been made more liberal by reducing the tariff barriers and quantitative restrictions.
- The rupee was made partially convertible and later on it was made fully convertible foreign currency.

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Small Scale Industrial Policy

After independence the countries economy was suffering from low level of industrial and economic growth. Maximum demands of Indian consumers were fulfilled through imports. The major concern was to devote Indian industry to make country self-reliant. In order to provide a congenial environment for Indian Industries the Indian govt. provided facilities and support to small scale industries.

Around 90% of the total industrial units are SSIs these industries account for 40% of a total output of the manufacturing sector around 35% of the total export earning from SSIs

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Definition of SSIs :

The first official definition of SSI sector was formed in 1950 in terms of the size of gross investment in fixed Assets. As well as and basis of the strength of work force. In 1999, this criteria underwent a number of modification over the years. So in year 1999 govt. fixed investment ceiling in SSI at Rs. 1 crore.

Importance of SSIs :

- These industries have huge employment potential.
- The capital output ratio is considerably high.
- These industries ensure maximum utilization of locally available resources.
- These industries can the developed in almost all the areas including backward, tribal, and hilly areas. Thereby reducing regional imbalances.
- They create less ecological problems.
- They increase the pace of rural development.

Seeing the considerable importance of SSI sector and its contribution to the economy, the govt. took following promotional measures for their development.

Promotional measures for the development of SSIs:

A number of measures has been taken by the govt. central and State to protect this sector from the attack of large industrial sector and to promote there growth. These measures include reservation of products for SSIs, credit at concessional rates, technical assistance, marketing assistance, infrastructural facilities etc.

1) Reservation of Items: Govt. has reserved a large number of products(150), whose production will exclusively take place in SSIs.

2) Preference in govt. procurement: Govt has reserved a large number of products which it purchases from a small scale industries. This is how SSIs have been given protection from competition in the matter of procurement of different kind of products e.g. khaki products, pickles, jams, sauce, handloom products etc.

3) Infrastructural Institutional Support**:** This kind of existence is provided through industrial estates, district industries centre (DICs), small industries service institute khadi & village industries commission (KVIC) and other specialised institutions provides infrastructural and technical support.

4) Machinery on hire purchase: The national small industries corporations (NSIC) arranges supply of machines on hire purchase to small scale units.

5) Marketing assistance : It includes export promotion assistance this is provided by institution like NSIC, small industries development organisation (SIDO), handicrafts and handlooms export promotion corporation, KVIC, etc.

6) Financial Assistance: Financial assistance is provided at concessional terms by commercial banks, corporative banks, regional rural banks (RRBs), State Finance Corporations (SFCs), state level institutions etc. Also small industries development bank of India (SIDBI) was established in 1990 to co-ordinates for the availability of financial and non-financial inputs realized for the orderly growth of this sector.

7) Training: For existing and potential entrepreneurs and others associated with the working of small scale units are offered **banking** technical assistance by entrepreneurship development institute of India (EDII), technical consultancy organisations (TCOs), Financial institutions, National small industries corporation (NSIC) etc.

8) Industrial estate program: With a view to encourage entrepreneurs to set up small industries & to expand existing, a program for a establishment of industrial estate was started in year 1955. This program provided such facilities like acquisition of suitable land, construction of factory sheds, provision for support mechanism like water, electricity, transport, banks, canteens, roads, telecom facilities, etc.

9) Export Processing Zone (EPZ), Special Economic zone (SEZ), export & industrial parks: Special incentives for the firms small, large, medium, to undertake manufacturing of export and industrial items have been provided by the govt. through the establishment of EPZ, SPZ or through 100% export oriented units, There are also several technology parks spread all over the India. Any enterprise making its establishment in these parks an areas get many incentives provided by the govt. like tax holidays, electricity on concessional rates, infrastructural facilities.

10) Integrated Infrastructural development (IID) Scheme: This scheme was announced by the Govt on 7th Mar. 1994. The schemes aims at augmenting infrastructural facilities in the rural and backward areas with the special emphasis on the linkage between agriculture and industry. The scheme covered centrally developed backward districts other than those covered under growth center scheme.

11) Cluster Development: SSIs operating in clusters derive their strength through a unique state of togetherness. They also benefit from backward and forward linkages since such units have similar cultural n social backgrounds clusters provide them an active base for social and business interaction. The economies of clusteration ensure a network of suppliers that provide raw material, equipment, machinery, spare parts, repairing which would otherwise have not been possible. Clusters encourage specialization, good inter firm relationship, and division of labor, sharing of information and experience etc. because of these advantages govt. and other agencies have been promoting clusters through development of infrastructure & technical consultancy.

12) Industrial growth centre scheme: For the promotion of industries in the backward areas the scheme of establishing growth centers was started in 1998 and around 100 growth centers (GCS) were established all over the India. The object of the scheme has been to provide best of infrastructural facilities in these growth centres all over the nation. Growth centres should located in ecologically sensitive areas.

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Monetary Policy

Monetary policy is framed by RBI. It includes all those strategies adopted by the central bank. to regulate the money supply in the economy. In order to keep the economy in a balanced state an appropriate amount of money supply should be there.

RBI has defined "Money Supply as the sum total of all the money in circulation, demand, deposits in bank, and post office savings.

M1 = Money in circulation

M2 = M1 + Post Office savings

M3 = M2 + Demand deposits.

The amount of money supply in any economy is a factor, which decides the health of a economy. If money supply is more it leads to inflation.

If money supply decreases it leads to deflation. In order to bring the prices at an optimum level at money supply has to be reduced. It is done through various instruments.

Quantitative Method :

The Quantitative methods or restriction affect the total quantity of credit in the whole economy. Three tools are as follows:

1) Bank Rate Policy: Bank rate refers to the minimum rate at which central bank provides financial accommodation to the commercial banks. Presently the bank rate is 6% . An increase in the bank rate means an increase in the rate of interest charged by the central bank on its advances to the commercial banks.

Hence an increase in the bank rate means that the commercial banks will borrow less from RBI. As they will borrow less they will lend less and the money supply in the economy is squeezed. This happens particularly during inflation and reverse happens in deflation.

2) Open Market Operation: It refer to the act of selling and purchasing securities by the reserve bank (securities such as "gold bonds, treasury bills, shares of companies and foreign exchange etc.) In India it is confined to the sale and purchase of govt. securities only.

To increase the money supply central bank buys the securities from commercial bank and publics. A sale of securities by the central bank has the opposite effect.

Open market operations have also been used to provide seasonal finance to the banks. In the slack season banks generally invest there surplus funds in govt. securities, which they sell during the busy season in order to expand the money in the economy.

3) Cash Reserve Ratio: Commercial banks maintain a certain percentage of these deposits in the form of balances of the central bank. The central bank has the power to vary this reserve requirement and the variation in the reserve affect the credit creating capacity of the commercial banks.

RBI is empowered to vary CRR between 3% to 15% of the total demand deposits. When the govt. increases the percentage of CRR then the commercial banks have to keep more reserve with themselves and vice-versa. Presently CRR is 5% .

Qualitative Measures:

It refers to regulation of credit for specific purposes or branches of economic activity. The aim of selective credit control is to discourage such forms of activities, which are considered to be relatively inessential or less desirable.

1) Lending at low rates to priority sector: Priority sectors are those sectors which require special attention for the economic development e.g. agriculture, health, education, infrastructure etc are given funds at low interest rates then the commercial lending rates. Govt keeps differential into rate for priority & developed sectors. Priority sectors such as agriculture, health, education, infrastructure, etc. given funds at low into rates then a commercial lending rates. Govt adopts such a policy so that these sector borrow more for their development purposes.

2) Lending at higher rates to already developed sector: Govt changes a high rate of interest from the corporates because they have ample amount of money to pay as interest and as well as they invest money in profitable avenues which are well planned.

3) Issue of directives to banks: RBI issues direction and orders to commercial banks from time to time. If a bank is found indulged in any sort of malpractices then the RBI has the power to issue instruction and prohibit that bank from that activity.

4) Moral suasion: RBI may prohibit banking companies in entering into certain transactions and generally give advice to any banking company. Moral suasion provides all those methods like letters, periodicals etc to be issued to banks asking them to exercise control over credit for any particular commodities. Discussions are also held with bankers for the same purpose.

Effectiveness of Monetory Policy : The experience of under developed and developing countries reveals that a credit policy framed by RBI suffers from following lacunas:

- Large non-magnetized sectors serve as a tool of failure for monetary policy in several sectors.
- Underdeveloped money and capital markets, which lacks in bills, stocks and shares that are organized properly.
- Foreign banks: Monetary policy has no control over these foreign banks and large number of public is borrowing from these banks.
- Large number of non-banking financial institution like indigenous bankers are operating in the Indian market and RBI has no control over these people.

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FISCAL POLICY

The fiscal policy is wielded by Govt. to maintain health of economy, by ensuring the balance between the supply of money and productive capability of the economy.

The term fiscal represents budget, which is the plan of Govt. for expenditure & revenues for a coming year.

There can be three types of budget. By varying the expenditure & revenue, govt. can affect the money supply in the economy.

(1) Deficit budget

(2) Surplus budget

(3) Balanced budget

Surplus Budgeting:

This can be resorted in the case of inflation when the money supply is higher & the currency value in down. Then the Govt can adopt this method of budgeting then the revenue collection would be higher than the expenditure & eventually the money supply in the economy will go down. Surplus budgeting would be adopted in 2 ways.

1) Increasing the revenue collection & keep the expenditure constant.

2) Decreasing the expenditure & keep the revenue collection constant.

Deficit Budgeting:

During recession the money supply in lower that the productive capability thereby the income of people will decrease & people will decrease and people prefer to save money rather than university it because money has became costly. In such situation govt. can resort to deficit budgeting the objective of deficit budget can be achieved in 2 ways.

1) Increasing the revenue collection & keep the expenditure constant.

2) Decreasing the expenditure & keep the revenue collection constant.

The second option is preferred as it has more expansionary effect on the economy because of multiplier effect. Multiplier refers to a situation in which the outcome is irrationally higher than the input

Balanced Budgeting:

A balanced budget is adopted in the condition when the economy is flourishing & there are no inflationary or deflationary pressures in the economy. In a balanced budget the revenue is equal to the expenditure of the govt. However this situation is difficult to achieve because economy keeps on charging its state from time to time.

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Social Responsibility of Business

A business should be socially responsible in the sense that the business enterprise which makes use of the resources of society and depends on society for its functioning, should discharge its duties & responsibilities in enhancing the welfare of the society of which it is an integral part. The **co** must believe & function as a responsible member of society like any other individual. In addition to its commercial activities business also plays a role in promoting social welfare activity. A business must discharge its social obligations towards the following parties.

1) Share holders: A company has its responsibility towards its shareholders who are the owners & who have taken trade risk in making investment in business.

- To safeguard the capital of shareholders & to provide there a reasonable dividend.
- To provide dividend the company should earn sufficient profits or billed reserves in case it is facing a financial crunch.
- The company should focus on growth innovations & diversification to improve its position & help strengthen the share price.
- The company should maintain a good public image so that the shareholders can free proved of their company.

Shareholders also have certain responsibilities towards the company They shall offer whole hearted support & cooperation in the efforts of the company & shall also guide & control properly its policy & activities.

2) Employees: The success of an organization depends to a very large extent on the morale of the employees and their cooperation. Employee moral depends to a larger extent on the employer employee relationship. The responsibilities of organization towards workers include :

- Payment of fair wages

- Maintaining best possible working conditions.
- Provision of labor welfare activities.
- Arrangement of proper training, education & development of the employees.
- Reasonable chances & proper system for promotion.
- Proper recognition, appreciation, and encouragement of special skills and capabilities of the workers.
- The installation of an efficient grievance handling system.
- An opportunity for participating in managerial decision to the extent possible.

3) Consumers: The customer is the foundation of the business & keeps it in existence. He alone gives employment to supply the wants and needs of a consumer, a business should keep following points into consideration.

- To improve the efficiency of the functioning of the business so as to increase.
- Providing the goods of superior quality.
- Smoothening the distribution system to make goods easily available.
- Undertaking research & development to enhance quality & carrying out innovations.
- Removing the imperfection from the distribution system, avoiding black marketing or profiteering by middlemen or anti social elements.
- To supply goods at reasonable prices.
- Improving after sales services.
- To ensure that the product supplied has no adverse effect on the consumers.
- To provide sufficient information about the product, including its adverse effect, risk, and care to be taken white using their product.
- To avoid misleading the customers by promoting improper advertisements.
- To understand the customer needs & to take necessary measures to satisfy them.

4) Community: A business has a lot of responsibility towards the community around its location & to the society at large. These responsibilities can be.

- Taking appropriate steps to prevent environmental pollution and to preserve ecological balance.
- Rehabilitating the population displaced by the operation of the business
- Assisting in the overall development of the locality.
- Contributing to research & development taking place in the area.
- Development of backward areas.
- Promotion of small scale industries.
- Promotion of education & population control in that area.

Generating the opportunities of employment for the local residents.

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