# SYLLABUS

## B.B.A. III SEM

## Subject – Business Environment

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|---|---|
| UNIT – I | Meaning of Business Environment, Factors affecting environment to the business, Internal and external environment, micro environment, macro environment. Types of environment. |
| UNIT – II | Economic Environment: Nature of economy, structure of the economy, economic policies, economic conditions. |
| UNIT – III | Political Environment: Economic roles of the government, government and legal environment, economic roles of government of India. |
| UNIT – IV | Technological Environment: Concept and significance of technological environment, regulation of foreign investment and collaboration. |
| UNIT – V | Social Environment: Business and society, business and culture, language, culture and organizational behaviour, other social/cultural factors, social responsibility of business. |
| UNIT – VI | The contribution of Public sector enterprises in India, Privatization and disinvestment in India, Foreign Direct Investment in India, its impact on Indian economy. |

## UNIT-I
## Business Environment

**Introduction to Business Environment –**
The formula for business success requires two elements – the individual and the environment. Remove either value and success becomes impossible. Business environment consist of all those factors that have a bearing on the business. The term' business environment implies those external forces, factors and institutions that are beyond the control of individual business organizations and their management and affect the business enterprises. It implies all external forces within which a business enterprise operates. Business environment influence the functioning of the business system. Thus, business environment may be defined as all those conditions and forces which are external to the business and are beyond the individual business unit, but it operates within it. These force are customer, creditors, competitions, government socio-cultural organizations, political parties national and international organizations etc. some of those forces affect the business directly which some others have indirect effect on the business.

**Definition**:"The total of all things external to firms and industries that affect the function of the organisation is called business environment."—Wheeler

**Meaning of Business environment –**
Environment of a business means the external forces influencing the business decisions. They can be forces of economic, social, political and technological factors. These factors are outside the control of the business. The business can do little to change them.

**Following features –**

1) **Totality of external forces**: Business environment is the sum total of al things external to business firms and, as such, is aggregative in nature.
2) **Specific and general forces**: Business environment includes both specific and general forces Specific forces (such as investors, customers, competitors and suppliers) affect individual enterprises directly and immediately in their day-to-day working. General forces (such as social, political, legal and technological conditions) have impact on all business enterprises and thus may affect an individual firm only indirectly.
3) **Dynamic nature:** Business environment is dynamic in that it keeps on changing whether in terms of technological improvement, shifts in consumer preferences or entry of new competition in the market.
4) **Uncertainty**: Business environment is largely uncertain as it is very difficult to predict future happenings, especially when environment changes are taking place too frequently as in the case of information technology fashion industries.
5) **Relativity**: Business environment is a relative concept since it differs from country to country and even region to region. Political conditions in the USA, for instance, differ from those in China or Pakistan. Similarly, demand for sarees may be firmly high in India whereas it may be almost non-existent in France.

**Importance of Business Environment –**

1) **Firm to identify opportunities and getting the first mover advantage**: Early identification of opportunities helps an enterprise to be the first to exploit them instead of losing them to competitors. For example, Maruti Udyog became the leader in the small car market because it was the first to recognize the need for small cars in India.
2) **Firm to identify threats and early warning signals**: If an Indian firm finds that a foreign multinational is entering the Indian market it should give a warning signal and Indian firms can meet the threat by adopting by improving the quality of the product, reducing cost of the

production, engaging in aggressive advertising and so on. For this Indian firms should always be alert.

3) **Coping with rapid changes:** All sizes and all types of enterprises are facing increasingly dynamic environment. In order to effectively cope with these significant changes, managers must understand and examine the environment and develop suitable courses of action. There are constant changes in technology; machinery fashion etc. managers should be on toes.
4) **Improving performance**: The enterprises that continuously monitor their environment and adopt suitable business practices are the ones which not only improve their present performance but also continue to succeed in the market for a longer period.

**Dimensions of Business Environment –**

*What constitutes the general environment of a business?*

The following are the key components to general environment of a business.

1) **Economic environment** – Economic environment consists of economic factors that influence the business in country. These factors include gross national product, corporate profits, inflation rate, employment balance of payments, interest rates consumer income etc.
2) **Social environment** – It describes the characteristics of the society in which the organization exists. Literacy rate, customs, values, beliefs, lifestyle, demographic features and mobility of population are part of the social environment. It is important for mangers to notice the direction in which the society is moving and formulate progressive policies according to the changing social scenario.
3) **Political environment** – It comprises political stability and the policies of the government. Ideological inclination of political parties, personal interest on politicians, influence of party forums etc. create political environment. For example, Bangalore established itself as the most important IT centre of India mainly because of political support.
4) **Legal environment** – This consists of legislation that is passed by the parliament and state legislatures. Examples of legislation specifically aimed at business operations include the Trade mark Act 1969, Essential commodities act 1955, Standards of Weights and Measures Act 1969 and Consumer Protection act 1969.
5) **Technology environment** – It includes the level of technology available in a country. It also indicates the pace of research and development and progress made in introducing modern technology in production. Technology provides capital intensive but cost effective alternative to traditional labor intensive methods. In a competitive business environment technology is the key to development.

**INTERNAL AND EXTERNAL BUSINESS ENVIRONMENT**

**Types of Environment –**

In the basis of extent of intimacy with the firm, the environment factors may classified into different types-internal and external.

✶ **Internal Environment –**

The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors. It can alter or modify such factor as its personnel, physical facilities, and organization and functional means, like marketing, to suit the environment. The important internal factors which have a bearing on the strategy other decisions of internal organization are discussed below.

**Value system –**

Value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and the objectives of the organization, business policies and practice. The extent to which the value system is shared by all in the organization is important in contributing to the success.

**Mission and vision and objectives –**
Vision means the ability to think about the future with imagination and wisdom. Vision is an important factor in achieving the objectives of the organization. The mission is the medium through which the objectives are achieved. The business domains of the company, priorities, direction of development, business philosophy are guided by the company.

**Management structure and nature –**
Structure of the organization also influences the business decisions. The organizational structure like the composition of board of directors influences the decisions of business as they are internal factors. The structure and style of the organization may delay a decision making or some of the helps in making quick decisions. The quality of the board of directors is a critical factor for the development and performance of the company. The share holding pattern could also have important managerial implications.

**Internal power relationships –**
The relationship among the three levels of the organization also influences on the business. The mutual co-ordination among those three is an important need for a business. The relationship among the people working in the three levels of the organization should be cordial.

**Human resources –**
The human resources is the important factor for any organization as it contributes to the strength and weakness of any organization the human resource in any organization must have characteristics like skills, quality, high morale, commitment towards the work, attitude, etc. The involvement and initiative of the people in an organization at different levels may vary from organization to organization. The organizational culture and overall environment have bearing on them.

**Company image and brand equity –**
The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering sale and purchase contracts, launching new products, etc. Brand equity also helps the company in same way.

**Miscellaneous factors –**
The other factors that contribute to the business success or failure are as follows –

**Physical assets and facilities –**
Facilities like production capacity, technology are among the factors which influences the competitiveness of the firm. The proper working of the assets is indeed for free flow or working of the company.

**Research and development –**
Though R&D department is basically done external environment but it has a direct impact on the organization. This aspect mainly determine the company's ability to innovate and compete.

**Marketing resource** – Resources like the organization for marketing, quality of the marketing men, brand equity and distribution network have direct bearing on marketing efficiency of the company.

**Financial factors –**
Factors like financial policies, financial positions and capital structure are also important internal environment affecting business performances, strategies and decisions.

✶ **EXTERNAL ENVIRONMENT –**
It refers to the environment that has an indirect influence on the business. The factors are uncontrollable by the business. There are two types of external environment.

✓ **Micro Environment –**

**Figure 1.2.** *External Micro Environment*

The micro environment is also known as the task environment and operating environment because the micro environment forces have a direct bearing on the operations of the firm.

The micro environment consists of the actors in the company's immediate environment that affect the performance of the company. These include the supplies, marketing intermediaries, competitors, customers and the public the micro environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firs I a particular industry in the same way. Some of the micro factors may be particular to a firm. When the competing firms in an industry have the same micro elements, the relative success of the firms depends on their relative effectiveness in dealing with these elements.

**Suppliers –**
An important force in the micro environment of a company is the suppliers, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious. Uncertainty in supply often compels companies to maintain high inventories causing cost increase. Because of the sensitivity of the supply, many companies have high importance to vendor development. It is risky to depend on a single supplier, because a strike or lockout or any other production problem may affect that company.

**Customer**
The major task of a business sis to create and sustain customers. A business exists only because of its customers. The choice of customer segments should be made by considering a number of factors including the relative profitability, dependability, and stability of demand, growth prospects and the extent of competition. Competition not only include the other firms that produce same product but also those firms which compete for the income of the consumes the

competition here among these products may be said as desire competition as the primary takes here is to fulfill the desire of the customers. The competition that satisfies a particular category desire then it is called generic competition. Depending on a single customer is risky because it may place the company in a poor bargaining position. The choice of the customer must be made considering a number of actors like profit, demand, growth prospects.

**Marketing Intermediaries –**
The marketing intermediaries include middlemen such as agents and merchants that help the company find customers or close sales with them. The marketing intermediaries are vital links between the company and the final consumers.

**Financiers –**
The financiers are also important factors of internal environment. Along with financing capabilities of the companies their policies and strategies, attitudes towards risk, ability to provide non-financial assistance etc. are very important.

**Public –**
Public can be said as any group that has an actual or potential interest in or on an organizations ability to achieve its interest. Public include media and citizens. Growth of consumer public is an important development affecting business.

- ✓ **Macro Environment –**

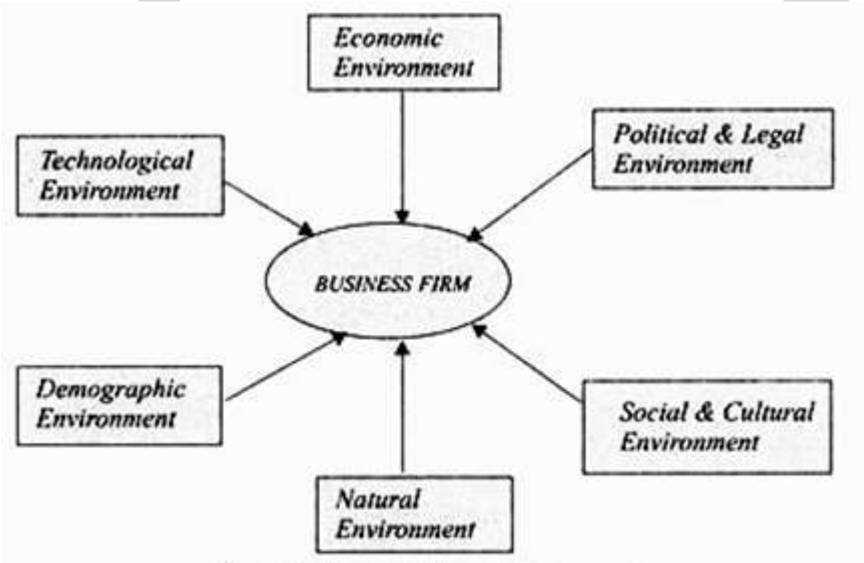


Fig. 1.3. External Macro Environment

Macro environment is also known as general environment and remote environment. Macro factors are generally more uncontrollable than micro environment factors. When the macro factors become uncontrollable, the success of company depends upon its adaptability to the environment. Some of the macro environment factors are discussed below:

**Economic Environment –**
Economic environment refers to the aggregate of the nature of economic system of the country, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business, anticipating prospective market situations and makes suitable to get the maximum with minimize cost.

**Social Environment –**

The social dimension or environment of a nation determines the values system of the society which, in turn affects the functioning of the business. Sociological factors such as costs structure, customs and conventions, mobility of labour etc. have far-reaching impact on the business. These factors the work culture and mobility of labour, work groups etc.

**Political Environment –**
The political environment of a county is influenced by the political organizations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary groups etc. The political environment of the country influences the business to a great extent.

**Legal environment –**
Legal environment includes flexibility and adaptability of law and other legal rule governing the business. It may include the exact ruling and decision of the courts. These affect the business and its managers to a great extent.

**Technical Environment –**
The business in a country is greatly influenced by the technological development. The technology adopted by the industries determines the type and quality of goods and technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used. Technological environment influences the business in terms of investment in technology, consistent application of technology and effects of technology on markets.

**UNIT-II**
**ECONOMIC ENVIRONMENT**

**Introduction –**

Various environmental factors such as economic environment, socio-cultural environment, political, technological demographic and international, affect the business and its working. Out of these factors economic environment is the most important factor.

**Meaning of Economic Environment –**

Those economic factors which have their affect on the working of the business is known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth etc. Economic environment is very dynamic and complex in nature. It does not remain the same. It keeps on changing from time to time with the changes in an economy like changes in an economy like change in Govt. polices, political situations.

**Elements of Economic Environment –**

*General economic conditions affect business. It has mainly five main components –*

1) Economic conditions
2) Economic system
3) Economic policies
4) International economic environment
5) Economic legislations

**Economic conditions –**

General economic conditions affect business. Economic conditions pass through periods of boom and recession. A boom is characterized by high level of output, employment and rising demand and prices. If a region depends to a significant extent on any particular industry or sector, business in that region would be significantly affected by fortune of that industry. The economic and business prospects in major oil exporting countries depend to a very great extent on the curde oil prices. A particular economic condition may be widespread – international or national – or may be confired to a region. As the US economy is highly integraed globally the economic conditions in the US can have repercussions in other economies. Exports and imports of a country are generally affected by a numbert of domestic and international economic conditions. If economic policies of a business unit are largely affected by the economic conditions of an economy, Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply distribution of income etc. largely affects the size of the market.

The external factors are –

- The rate of growth of the economies of the importing countries
- The rate of growth of the world trade
- The rate of change in the price level I the importing country

**Global/International Economic Environment –**

The role of international economic environment is increasing day by day. If any business enterprise is involved in foreign trade, then it is influenced by not only its own country economic environment but also the economic environment of the country from/to which it is importing or exporting goods. There are various rules and guideless for these trades which are issued by many organizations like work bank, WTO, United Nations etc.

**Economic Legislations-** Besides the above policies, governments of different countries frame various legislations which regulates and control the business.

**Nature of the economy** – The general level of development of the economy has a lot of implications for business. It has a significant bearing on the nature and size demand, government policies affecting business etc.
A widely used method of classification of the economies is on the basis of the per capita income. Countries are broadly divided as low income, middle income middle and high income economies.
The term economic environment refers to all the external economic factors that influence buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control, and may be either large-scale (macro) or small-scale (micro).

**Macro factors include:**

- Employment/unemployment
- Income
- Inflation
- Interest rates
- Tax rates
- Currency exchange rate
- Saving rates
- Consumer confidence levels
- Recessions

**Micro factors include:**

- The size of the available market
- Demand for the company's products or services
- Competition
- Availability and quality of suppliers
- The reliability of the company's distribution chain (i.e., how it gets products to customers)

While companies often can't control their economic environment, they can evaluate economic conditions before choosing to enter a particular market or industry or pursue other strategies.

**Economic Environment in India –**

In order to solve economic problems of our country, the government took several steps including control by the state of certain industries, central planning and reduced importance of the private sector. The main objectives of India's development plans were:

1) Initiate rapid economic growth to raise the standard of living, reduce unemployment and poverty.
2) Become self-reliant and set up a strong industrial base with emphasis on heavy and basic industries.
3) Reduce inequalities of income and wealth.
4) Adopt a socialist pattern of development – based on equality and prevent exploitation of man by man.

As a part of economic reforms, the government of India announced a New Industrial Policy in July 1991.
**The broad features of this policy were as follows –**

1) The government reduced the number of industries under compulsory licensing to six.
2) Disinvestment was carried out in case of many public sector industrial enterprises
3) Policy towards foreign capital was liberalized. The share of foreign equity participation was increased and in many activities 100 per cent Foreign Direct Investment (FDI) was permitted.

4) Automatic permission was now granted for technology agreements with foreign companies.
5) Foreign Investment Promotion Board (FIPB) was set up to promote and channelize foreign investment in India.

**Liberalization:**

- The economic reforms that were introduced were aimed at liberalizing the Indian business and industry from all unnecessary controls and restrictions.
- They indicate the end of the license-quota raj.
- Liberalization of the Indian industry has taken place with respect to:
  - Abolishing licensing requirement in most of the industries except a short list,
  - Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
  - Removal of restrictions on the movement of goods and services,
  - Freedom in fixing the prices of goods services,
  - Reduction in tax rates and lifting of unnecessary controls over the economy.
  - Simplifying procedures for imports and experts, and
  - Making it easier to attract foreign capital and technology to India.

**Privatization –**

- The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.
- To achieve this, the government redefined the role of the public sector in the new industrial policy of 1991.
- The purpose of the sale according to the government was mainly to improve financial discipline and facilitate modernization.
- It was also observe that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.
- The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

**Globalization –**

- Globalization is the outcome of the policies of liberalization and privatization.
- Globalization is generally understood to mean integration of the economy of the country with the world economy, it is complex phenomenon.
- It is an outcome of the set of various policies that are aimed at transforming the world towards greater interdependence and integration.
- It involves creation of networks and activities transcending economic, social and geographical boundaries.
- Globalization involves an increased level of interaction and interdependence among the various nations of the global economy.
- Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

**Impact of Government Policy Changes on Business and Industry –**

1) **Increasing competition** – As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunication, airlines, banking, insurance, etc. which were earlier in the public sector.
2) **More demanding customers** – Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.
3) **Rapidly changing technological environment** – Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to

improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms

4) **Necessity for change**: In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market, forces have become turbulent as a result of which the enterprise have to continuously modify their operations.
5) **Threat from MNC –** Massive entry of multi nationals in Indian marker constitutes new challenges. The Indian subsidiaries of multi-nationals gained strategic advantage. Many of these companies could get limited support in technology from their foreign partners due to restrictions in ownerships. Once these restrictions have been limited to reasonable levels, there is increased technology transfer from the foreign partners.

**Monetary Policy-**

***Definition:*** Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

***Description:*** In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.

The RBI implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy, and moral persuasion and through many other instruments. Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy. Monetary policy can be expansionary and contractionary in nature. Increasing money supply and reducing interest rates indicate an expansionary policy. The reverse of this is a contractionary monetary policy.

For instance, liquidity is important for an economy to spur growth. To maintain liquidity, the RBI is dependent on the monetary policy. By purchasing bonds through open market operations, the RBI introduces money in the system and reduces the interest rate.

*Fiscal Policy-* **Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth of the economy.** According to Culbarston, “By fiscal policy we refer to government actions affecting its receipts and expenditures which ordinarily as measured by the government’s receipts, its surplus or deficit.” The government may change undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

**General objectives of Fiscal Policy are given below:**

**1.** To maintain and achieve full employment.
**2.** To stabilize the price level.
**3.** To stabilize the growth rate of the economy.
**4.** To maintain equilibrium in the Balance of Payments.
**5.** To promote the economic development of underdeveloped countries.

## World Bank

### Purpose and Function

The World Bank provides low-interest loans, interest-free credit, and grants. It focuses on improving education, health, and infrastructure. It also uses funds to modernize a country's financial sector, agriculture, and natural resources management.

The Bank's stated purpose is to "bridge the economic divide between poor and rich countries." It does this by turning "rich country resources into poor country growth." It has a long-term vision to "achieve sustainable poverty reduction."

To achieve this goal, the Bank focuses on six areas:

1. Overcome poverty by spurring growth, especially in Africa.
2. Help reconstruct countries emerging from war, the biggest cause of extreme poverty.
3. Provide a customized solution to help middle-income countries remain out of poverty.
4. Spur governments to prevent climate change. It helps them control communicable diseases, especially HIV/AIDS, and malaria. It also manages international financial crises and promotes free trade.
5. Work with the Arab League on three goals. They are to improve education, build infrastructure, and provide micro-loans to small businesses.
6. Share its expertise with developing countries. Publicize its knowledge via reports and its interactive online database.

## UNIT – III

### Political Environment

It is a fact political determines and business policies and highlights the critical importance of the political environment to business. The two most powerful institutions in society today are business and government, where they meet on common ground amicably or otherwise together they determine public policy, both foreign and domestic for a nation. The political environment includes factors such as policies of political parties, nature of the constitution and government system and the government environment encompassing the economic business policies and regulations.

**Economic Roles of the Government**

The government plays an important role in almost every national economy of the world. Even in the countries described as capitalist economies or market economies, a substantial share of the nations product goes to satisfy the public wants, a substantial part of the private income originates in the public budget and public tax influence the state of private income distribution. In the private enterprise economies, government is necessitated, besides the social-political ideological reasons, that the market mechanism alone cannot perform all economic functions. Public policy is needed to guide, correct and supplement it in certain respects.

Government normally play four important roles in the economy, regulation, promotion, entrepreneurship and planning.

**Regulatory Role**

Government regulation of the business may cover a broad spectrum from entry into business to the final results of a business. Results of business operations may be regulated by such measures as cellings on profit margins, dividend etc. Government regulation of the economy may be broadly divided into direct controls and indirect controls. Indirect controls are usually exercised through various fiscal and monetary incentives and disincentives or penalties. Certain activities may be encouraged or discouraged through monetary and fiscal incentives and disincentives. The direct administrative or physical controls are more drastic in their effect.

**Promotional Role**

The promotional role played by a government is very important in developed as well as developing countries. In developing countries, here the infrastructural facilities for development are inadequate and entrepreneurial activities are scarce, the promotional role of the government assumes special significance. The state will have direct responsibility towards power, transport, finance, marketing etc.

**Entrepreneurial Role**

In many economies, the state also plays the role of an entrepreneur. Factors like socio-political ideologies, dearth of private enterprise, neglect of unprofitable sector, absence to inadequate competition in certain segments and the resultant exploitation etc have contributed to the growth of state owned enterprises in many countries.

**Planning Role**

In the underdeveloped country, like India which has to develop rapidly the time element is important, so is the use of resources to the best use. When the resources are in abundance, it will not matter how it is put to use. But where the resources are limited, it should be seen that it is directed to the right purposes so as to build up the economy.

**Government and legal Environment**

In most of the countries, a number of laws regulate the conduct of the business. The laws include standard of products, packaging, promotion, ethics etc. Regulations to protest the purity of the environment and preserve the ecological balance have assumed great importance in many countries. Some governments specify certain standards for the products to be marketed in the country, some even prohibit the marketing of certain products. In most nations, promotional activities are subject to various types of controls. There are areas of statutory controls on many businesses in India. Although the controls have been substantially brought don as a result of the liberalization, a number of controls still prevail. Certain changes in the government policies such as industrial policy, fiscal policy, tariff policy, may have profound impact on business. Sometimes a development which brightens the prospects of some enterprise may pose a threat to some others. The industrial policy liberalization in India has opened up new opportunities and threats. They have provided a lot of opportunities to a large number of enterprises to diversify and make the product mix better and have also given threat to many existing products by way of increased competitions.

**Economic Roles of Government in India**

The India Constitution incorporates many matters that they are economically significant and have far reaching implication. The objectives and the principles of the Indian Republic, the Fundamental Rights and in the Directive Principles of the State Policy have been clearly laid down in the Preamble. The economic responsibility bestowed on the state by the Indian Constitution is enormous. In the past the government had proclaimed that certain policy measures had been taken and laws given up or reserved. Whenever a Constitution contains a Preamble, it expresses the political, religious and socio-economic and political justice, and equality of status and opportunity should be among the most important basic guiding principles of the functioning of the state.

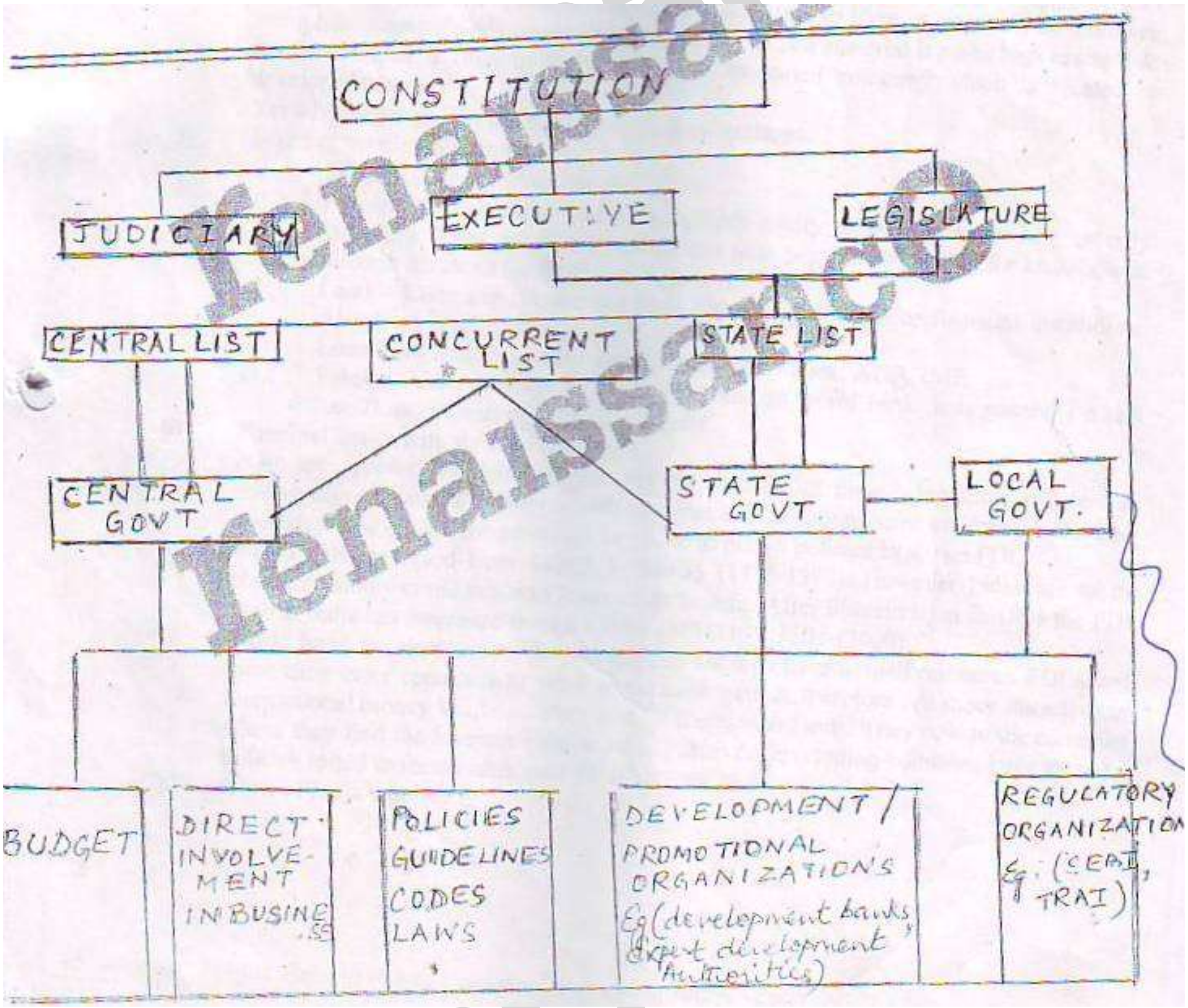
It has been claimed that the Indian Constitution offers all citizens the best of the democracy and those basic freedoms and conditions of life which alone make life significant and productive. The theory of fundamental rights aims at preventing the government and the legislature from becoming total totalitarian, and it doing so it affords the individual an opportunity for self development. These rights are subject to limitations imposed by the state. The Fundamental Rights also have economic significance. The right to equality prohibits discrimination against any citizen on the grounds of citizens. The Constitution guarantees the citizens the fundamental rights to freedom to practice any profession, carry on trade or business. State is empowered to make laws necessary for practicing any profession or carrying on any trade, business or service. The fundamental Right against Exploitation prohibits traffic in human beings, beggary and other forms of forced labour. Any contravention of this provision shall be offence.

The Directive principles are in the nature of directions to the legislature. The Directive principles include promoting the welfare of the people by securing and protecting as effectively the social, political and economic life. The state shall try to minimize inequalities in income, eliminate inequalities in status, facilities and opportunities among the individuals. The State Policy ensures that the citizens have the right to an adequate means of livelihood. The ownership and control of material resources of the community are distributed. There is equal pay and equal work among the citizens. The health and strength of the worked, and the tender age of the children are not misused or abused. The children are given opportunities and facilities to develop in a healthy manner and conditions of freedom and dignity and that children are protected from exploitation. The state shall take steps to organize village panchayats and endow then with power and authority. The state shall make effective provisions for securing the right to work, to education, and to public assistance in case of unemployment, old age and disablement. The state shall endeavour to all workers a good wage and living conditions and a percent standard of life and opportunities.

The state shall promote special care of economic and educational interests of the weaker sections of the people. The state shall regard the raising of the standards of living of its people and improvement of public health.

**Division of Power**

The union has the executive power to make laws on all matters in the Union List and the State has executive powers to make powers in the State List. Both the Union and the State can legislate on matters in the Concurrent List. In case of any conflict between the union and the State has the union laws shall prevail. The state has from time to time acquired increasing powers to control private activity and enlarge its own ownership and management of the economy. The state has to shoulder a heavy responsibility to attain the egalitarian goals set forth in the Constitution. There are many industrial and labour laws which regulate employer-employee relations, working conditions, wages, bonus, labour welfare, security etc.



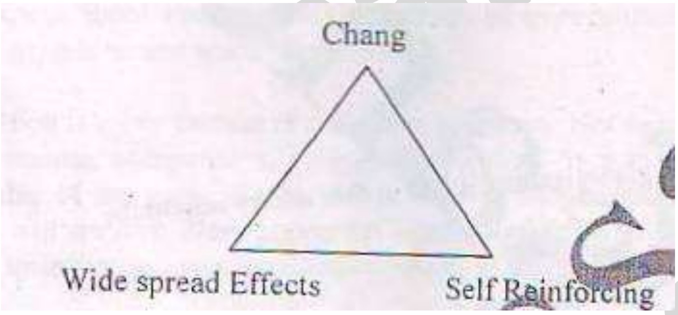
## Unit — IV
## Technological Environment

Introduction: Technology is knowledge of methods to perform certain tasks or solve problems pertaining to products or services. The information on product design, production, techniques quality assurance measures, human resource development, and management system from the basic element of technology continuum.

J.K. Galbraith "Technology is a systematic application of scientific or other organized knowledge to particular task.

**Features of Technology:**
Technology transfer covers developing and marketing of technology. Selection of technology. Mechanism and process. Economic, political and legal aspects, govt. policies monitoring effectiveness of transfer, design capability, manufacturing processes etc.

Following are the features of Technology




**Levels of Technology Transfer**
Operational Level
Business Level
Adaptive level
Innovative level

**Phases:**
1. Choice of technology
2. Selection of Mechanism
3. Financing
4. Negotiation of contracts
5. Design and Adaptation
6. Construction
7. Training
8. operation of plant and machinery
9. Domestic diffusion

**Technology Selection:**
Generation of New Technology ideas → screening of the New Technology ideas
Business Analysis ← Concept development and testing of the ideas
Selection of the Technology → Commercialization of the technology.

**Impact of Technology**

| A. Social Implication | B. Economic Implication | C. Plant Level CLange |
|---|---|---|
| Technology reaches. | Increased Productivity | Organizational Structure |

| | | |
|---|---|---|
| People through business | Need to spend on R&D | Resistance to change |
| High expectation of consumers | Jobs become intellectual | Fear of Risk |
| System complexity | Need for multi-professional manger | Flexible Manufacturing System |
| Social Change | Demand for techno structure | |
| Social Systems | | |

**Impact of Technological Environment on Society**

1. High Expectation of consumers
2. System Complexity
3. Social change.

**Impact of technology on Globalization**

Technological advances have tremendously fostered globalization. It has in fact a very important facilitating factor of globalization.

**Building human capabilities**

- To live a long healthy life.
- To acquire knowledge and be creative
- To enjoy a decent standard of living
- To participate in the economic and political life of a community.

**Sources of Technological Development**

- Through high customer needs and expectations.
- Through availability of new substitutes
- Through Competitive dynamies.
- Through social forces
- Through new market demand conditions etc.

**Significance of Technological Environment -**

It is through the process of innovation/technology that knowledge is converted into wealth. Further, technology is an important factor for the competitiveness of both the service and manufacturing sectors and hence urgent need to put in place a system of innovation. Such a system would involve networking of firms, knowledge-producing institutions, bridging institutions and customers/users in a value addition -creating production chain.

With such a consortium, the technology system would tap into the growing stock of global knowledge, assimilate and adapt it to local needs, and finally create new knowledge and technology. India and its organizations must evolve such systems to improve their competitiveness in a global marketplace. Competitiveness emerges from the strength of knowledge power, which is powered by technology that in turn is powered by capital.

**Foreign Investments & Collaboration—**

Need for foreign investment —

1. If a country needs to grow it needs investment if domestic capital (savings) is short the gap can be fulfilled by foreign investment.
2. Foreign investments can be through —
   a. External assistance — Grants / Loan by UN, developed country
   b. Commercial borrowing — by domestic companies through GDR (Global depository receipts) Flt (Foreign institutional investor) offs hose funds, ADR (American depository receipts) etc.

c. Direct Investment — By FDI or NR
3. Best form is FDI because —It brings capital, technologies, brand, specialized skills, better organization, integration with domestic & foreign industry, marketing skills & operational efficiency & international best practices.
4. However FDI has some negative aspect also — FD1 cares about its profitability & international markets. It is less concern with the priorities of host country. FDI also wants to dominate the domestic market. It also wants to have more equity & therefore using host country's advantage like cheap labor & raw material it reaps high rewards & revels most of it (due to high equity) to its parent company which is located in developed country. Yet advantages of FDI are more than its disadvantages.
5. Types of Foreign investments —
   a. FDI — Hindustan lever, Nestle
   b. Foreign collaboration — May bring both equity as well as know how or only knowhow. They got found through onetime payment or royalty for knowhow & through dividend for their equal.
   c. Loan — Company (Domestic) from International banks or financial institutions. Also from country to country.
   d. Loan from international institute — Like world bank, ADB, IMF. e) Foreign Aid — Country to country or through World Bank. It is generally a soft loan (low interest) or sometime a grant.
6. Principal issues with the host country — FDIs are opposed by domestic industry for the tear of their being more efficient & having deeper pockets. However both can coexist if proper policies are framed. Develop countries need capital for growth & hey have to put up policies to attract FDI. World FDI increased from 142BS to 644B$ (1985-1998). However India due to its closed economy could not reap muer of its benefit. After liberalization in 1991 the FDI flow to India has increased from 0.15513# (1991) to 2.319# (2000).
   World Bank etc. do provide low interest loan but they have limited resources. FDI & get three times more returns than what World Bank gets & therefore are more attractive to International money le…….. They remain flunts with funds. They now to the countries where they find the investor climate more positive. Developing countries have to make policies suited to them rather than the often way round.
7. Govt. of India's policy —
   a. Before 1991 — After independence there was an atmosphere of suspicious again foreign inurement (East India Company Experiment) policy revolution 1948 was (like restrictive. In 1949 PM Nehru had to give the assurance foreign capital is welcome, existing multinational would not be nationalized, repatriation of profits with some restrictions was permissible etc.
      There after gradual lifting of restrictions was made so that FDI should flows in. It did, however in 1977 Janta Party regime brought restriction of 40% equity by foreign partner Coca-Cola & IBF left.
      This period (1947-1991) showed very little FDI. There were there lister of industry —
      - FDI permitted
      - Only know how permitted
      - No FDI permitted to protect domestic industry.
      
      RBI controlled all inflows & outflow of foreign exchange on account of imports, knowhow fee, royalty, dividend, actual # investments. All these were not very favorable to FDI players.
   b. **After 1991 —**

   New policy 1991-2002
   i) 100% FDI permitted in most industry salient features of foreign investments policy –
   1. Foreign investment promotion council formed to promote foreign investment
   2. Foreign invest promotion Board (FIBP) fonned to approve foreign Investment.
   3. Foreign Investment Implementation authority (FHA) formed to implement govt. policies.

4. Automatic approval of RBI for equity participation in all industries except four categories included in negative list.
5. The negative list consists of —
   a. Industries covered by companies consist & FDI exceeds 24% I equity items reverted for SSI. Compulsory licensing is now only for linger, cigarettes, electronic aerospace or defense equipment, industrial explosion hazardon chemicals, drugs)
   b. Where foreign collaborator has already a venture or tie up in India.
   c. Where shares of existing company are to be acquires.
   d. Some other whited areas' in List-A & B.
6. List — A
   a. Atomic Energy — Upto 74% along with min. 26 by state/central PSV.
   b. Infrastructure / Service Sector — Upto 49%.
   c. Petroleum — Exploration 51 to 100% products / Pipeline upto 51% marketing impartment upto 74% market study & formulator upto 100% trading & marketing upto 74% refining upto 26%.
   d. Venture capital — upto 100%.
   e. Housing & real estate — 100% for integrated township 3 years lock in after completion min. inv. —410M # for subsidiary 5M # for JV.
   f. Defence — Upto 6%
   g. Agriculture — 100% in Tea plantation but to disinvest 26% to Indian partner after 5 year.
   h. Print media—No FDI
   i. Broad Costing — Upto 49%
   j. Postal Service —No FDI
7. List — B —
   a. Telecom 49 to 74%.
   b. Civil Aviation — Upto 40%
   c. Mars Rapid Transport Service — 100%
   d. Hotel / Tourism — 100%.
   e. Ministry — Upto 74%.
   f. Coal / Lignite upto 49%
   g. Drugs/Pharmaceuticals upto 100%
   h. Advertising & films — Upto 74%.
   i. SEZ — 100%
   j. Banks — Upto 49%
   k. Insurance — Upto 26%
   l. NBFC — Upto 51%.

**Foreign Collaborations —**
1. Are being encouraged.
2. Royalty rates liberalized — Lump sum upto 2M # or 5% of domestic sales & 8% of exports.
3. Foreign Brand/ Trade mark use freely all owned.
4. Upto a ceiling entrepreneur can chose his foreign collaboration freely.
5. 1983 Technology policy Statement tech. Collaborations in electronics, telecom freely allowed.
6. Advantage of tech collaboration that Indian partner is practically fee, after paying the lcnowhow fee/royalty.
7. Disadvantage is that he may get obsolete technology or junk machines only painted new.
8. However most foreign companies resist only tech transfer.

**Acquisition —**
1. Can be of a healthy or sick company.

2. Sick co. — Seller gets more value many times as acquirer pays for opportunity value also seller's liability is liquidated. He may get cash or share or both.
3. Acquirer pumps money & receiver, upgrades. He may do so to have strategic advantage. For example acquiring a component manufacturing co.
4. Prolonged negations take place to satisfy labor/legal issues before acquisition. This is called friendly takeover. Brand may or not be sold by seller to buyer.
5. Popular brand may be retained like Thums Up (Coco-cola acquired) or may be dropped like Tata oil (acquirer tried lever).
6. Hostile takeovers are resisted by owners. Swaraj Parel V/s DCM/Escortes. In this acquires purchase shares from the market & acquires controlling interest. SEBI guidelines are to be followed with more Fit participation it has become a distinct possibility.

**Evaluation of new foreign Investment Policy —**

1) After liberalization in 1991-92 FD1 started increasing fast — 133M# (91-92) to 6133H # (95-96)

Thereafter there was a slowdown as state Govts. were not ready with proper policies (infrastructure, power, sales tax) when proper policies were made it start rising again in 2001-02.

**Foreign Investment comes theory —**

1. SIA / FIPB 65% of total - New under over
2. NRI 12% of total
3. RBI automatics route — as explained also.
4. Acquisition of shares by foreigner upto a fixed ceiling — be lowing popular besides this there is portfolio investment in the form of GDR & F11. This money is free to flow from country to country shares are bought & sold profits made. It is volatile. Does not make the country better. Now strong Indian companies have been allowed to do the same in foreign countries. They raise loans abroad at low interest rates but due to frequent currency fluctuation this route can become dangerous also.

   Our of the basic problems of FDI inflow is the conversion rate from approval to actual. It was only 1/4 during 92-97. Now with better policies & greater confidence of foreign investors in Indian Economy it is more than 50%. We need further improvement as the goal of 10B # fore direct Investment has not been reached. State approvals, Land acquisition, provides supporting infrastructure is still taking a lot of time. This needs to be improved to get more out of our present liberal policy. India remains at I 1th position amongs developing countries as far as FDI is concerned while it is largest in size.

   USA is our major investor (20%) followed by Mauritius (11%) actually many countries route their investment through Mauritius because of its double taxation avoidance treaty with India.

   Foreign companies find the following factors unfavorable in India (compared to Mexico, Argentina, Brazil etc) —

   a. Political uncertainty — Policies keep changing with change of Govt.
   b. SEB1 guideline/company law/ Income tax act & rules make acquisition & mergers of Indian Companies difficult.
   c. In many countries agriculture is also allowed for FDI. In India it is not so farm to factory kind of operation not possible.
   d. Opposition by Indian companies for 100% ownership by foreign Co. Ego problem also

**REGULATION OF FOREIGN INVESTMENT**

As we discuss foreign investment, the first question that comes in our mind is as to why is there a need for foreign investment? It may be explained, as follows —

- If a country needs to grow it needs investment if domestic capital (savings) is short the gap can be fulfilled by foreign investment.
- Foreign investment can be fulfilled by —
  - External assistance. i.e. grants / loans by UN, developed countries etc.
  - Commercial borrowings by domestic companies through GDR (Global Depositing Receipts), FII (Foreign Institutional Investor), ADR (American Depository Receipts) etc.

  **Note:**

  GDR is a certificate issued by a depository bank which purchases shares of foreign companies and deposits it on the account.

  FII are organizations that pool large sums of money and invest those sums in securities, real property and other investment assets for eg. Insurance companies , mutual funds, investment advisors etc.

  ADR is a negotiable security that represents securities of a Non-US company that trades in the US financial markets. The securities of a foreign company that are represented by an ADR are called American depositing shares (ADSs)
  - Direct investment by FDI or NRI
- Best form is FDI because it brings capital, technologies, brand, specialized skills, better organization, integration with domestic and foreign industry, marketing skills and operational efficiency and international best practices.
- However FDI has some negative aspects also. FDI cares about its profitability and international markets. It is less concerned with the priorities of the host country. FDI also wants to dominate the domestic market. It also wants to have more equity and therefore using the host country's advantage like cheap labour and raw materials. It reaps high rewards and sends it mostly to its parent company which is located in a developed country. Yet advantages of FDI are more than the disadvantages.

**Types of Foreign Investment —**

- FDI — Hindustan Lever, Nestle
- Foreign collaboration may bring both equity as well as know how or only know how. Developing countries like India have been using import of technology through foreign collaboration as a strategy to bridge the technological gaps in the country, to expedite economic development. India is banking on expert technological support for goods and services at an accelerated pace than in the pre liberalization era. In the post liberalization era, the number of countries, with whom India has entered into foreign collaboration, swelled to 112 which is almost around a 4 fold rise NRIs have engaged in a big way into collaboration. Foreign collaborations have been entered into ever with very small countries that are generally not considered to posses sound technology to help bridge the technology gaps of India. The country is entering upto foreign collaborations for a variety of reasons rather than for importing technology to build industrial base or to bridge the technological gaps.

## Unit V
## SOCIAL ENVIRONMENT

**Business and Society**

Business is an integral part of the social system and is influenced by other elements of society, which in turn, is affected by the business.

Traditionally, the term business commonly referred to commercial activities aimed at making a profit or to organizations formed to make a profit, profit maximization being the object of every firm. The old concept of business, confining it to commerce and private profit, has undergone a radical change. Today, business is regarded as a social institution forming an integral part of the social system. The term business typically refers to the development and processing of economic value in society. The modern concept of business is a very broad one. Business is viewed as a subsystem of the total social system.

Business like other institutions, develop certain belief systems and values for which they stand, and values are a source of institutional drive. 'The mission of business as a social institution, the nation in which the business is located, the type of industry in which it is active become guides for employees decisions in the interface of business. They also become strong motivators for people in a business.

Viability as a drive to live and grow, to accomplish the potential, and to achieve all that a living system is capable of becoming. If a business is to viable, it must initiate its share of forces in its oen environment. Every business needs a drive and spirit to make it a postivie actor on the social stage rather than a reflector.

Public visibility extent that an organizations activities are known to outside the organization. Public image refers to what people think about an organization act. The importance of public visibility is that it subjects business activities to public e examination discussion and judgment.

**BUSINESS AND CULTURE**

Culture is an intriguing and complex factor, often a critical component of business environment. Proper understanding of the cultural dimensions is very important for product development, business negotiations, management of social and political environment etc. If a company sets out to do unfamiliar cultural environment, may enc9ounter several problems. Cultural difference are the most significant and troublesome variables encouraged by the company. The failure of managers to comprehend these disparities can lead to international business blunders.

Culture refers to that part of the repertoire of human action which is socially transmitted.
E.B.Taylor, "Culture of civilization I that complex whole which includes knowledge, belief, art, morals, customs, habits acquired by an as a Member of society.
Kluckhohn," Culture is the total life way of people".

**ELEMENTS OF CULTURE**

1. Knowledge and belief:-These refer to the people's prevailing myths and metaphysical beliefs as well as scientific realities.
2. Ideals: - Ideals refer to the societal norms which define what is expected, customary, right or wrong in a given situation, by rewarding the right behaviour and punishing the wrong.
3. Preferences; These refer to society's definitions of those things in life which arc attractive or unattractive as object of desire. Preferences may differ between cultures. Interestingly, the judgments of the ideal or proper do not always correspond to our judgments of the pleasant

**SOCIAL CULTURAL ENVIRONMENT**

**Societal Environment —**

1. Society & business influence each other.
2. Old concept of business was profit making only. Now it has changed. Business how an institution within society also.
3. Direction of business is now significantly forwards public welfare & businessman want to be seen as performing a social function.
4. Business is both in Govt./ Public sector like DDA/Vidyut Nigam or in private sector.
5. Business today cannot spate without the society. The whole society is the environment of business.
6. All business render some public service so the relationship between society & business involve values, viability, public visibility.
7. Values — Each business has a belief system or value which drives it. Some of the values like honesty, purity of product, quality etc. are universal. Some others are determined by the industry norms, national priorities / policies etc.
8. Viability — Every business must be self activated (not created by outside forces only) & should be able to stand on its feet.
9. Public visibility — It is different than public image. Public image is refers to what people think about an organization's acts. Public visibilities are knowledge amongst people about the acts of an organization or business. Therefore the organizational acts which are visible can be examined/debated & judged by public.
10. Therefore a business is an integral part of social system. If it needs long-term survival it must work in tune with society.
11. Objectives & Importance of business — unlike past profit maximization is not the main objective of a business now. Company in its memoranda of association says this. Then what are the objectives? These are —
    a. Economic objective
    b. Social objective
12. Economic objectives —
    a. Survival — Avoid sickness, face competition plan strategically — must stay on.
    b. Return on Investment — Is a must investors want it. But limited by Govt. policy, environmental issues etc.
    c. Growth — keep growing both vertically / horizontally or by diversification. This profit may bring down cost.
    d. Innovation — Peter drucker says: "Business must create customers." This is possible though marketing & innovation only.
    e. Improvement — Quality
    f. Market share — Must be maintained or brings prestige to the company helps in survival also.
13. Social objectives — Business must improve quality of life in society as a whole so —
    a. Consumer interests must be protected
    b. Worker interests must be protected
    c. Society interests must be protected like environment
14. Comparison of Eco. & Social objective —

| S.No | Eco. Obj. | Social Obj |
|---|---|---|
| 1 | Eco. Health of company | Welfare of social |
| 2 | Share holder interest | Interest of society |
| 3 | Mostly concerned with company | Social concerns |
| 4 | Imp. In short & long-term both | Imp. In long-term |
| 5 | Necessary for survival | They justify survival & growth |
| 6 | Generally acceptable to all | May not be so |
| 7 | Tangible | Not always tangible |
| 8 | Clear & definite | Sometimes ambignon |

15. Eco. & social objectives appear to be in conflict outwardly but actually in the long-term it is not so. Reasonable profit is absorbed by society unreasonable profit leads to rebellion in the long-term in which the business itself may die. (vaxalites for examination) similarly taking care of worker interest can lead to productivity. Thus the profit automatically without hurting consumer a margin of profit. In the same way societal sensitivities cannot be hurt by any business, for example production of beet may be very profitable business but in India it will not be tolerated. Similarly Muslim's sensitivity to Jhatka Meet does not permit businesses to undertake this activity in Muslim Countries.
16. Primary & Secondary objectives — Primary objectives are normally the economic objectives & secondary objectives are generally the social objectives.
    a. Primary obj. —
        i. Stable, developing & independent business
        ii. Dividends to shareholder
        iii. Fair wages to workers
        iv. Reasonable price to consumer
    b. Secondary obj. –
        i. Bonus to worker
        ii. To improve conditions of neighbourhood
        iii. To develop industry segment of which the business is a part through common research, data sharing, common facility cantre etc.
17. Short term & Long-term objectives — Short-term objectives are tools to achieve the long-term objective, for example Japanese companies enter foreign markets for market penetration & in the short-term do not bother about profit. However their long-term objectives is market dominance & profit. Many a times the long-term objectives are also the secondary objectives or social objectives. However it is not always so as there days profit for the company must not be at the cost of consumer or society. Business has to think of the welfare of worker, interest of consumer & progress of society.
18. Factors affecting objectives —
    a. External or Environmental factors — Govt. Policy
    b. Internal forces — Employer-employee relationship share holder confidence on management.
    c. Values of top executives — It socially sensitive they may concentrate CSR (Corporate Social Responsibility like TATA Group)
19. Professionalization —
    a. More MBAs, more technocrats, More CAS rather than only family men at the top.
    b. Planning, organizing, leading, controlling improves, systems are laid out. Productivity.
    c. Professional manager is socially more sensitive.
    d. Uses knowledge should be autonomous.
    e. Manager is disciplined & performs his task using knowledge, skill experience.
    f. The manager must have specialized knowledge & skill, should have authority & preed our to take right decisions, no ideological bias & should be ethical.
20. Family run businesses going professional — Tata, Ranbaxy, Thermax are turning more & more towards professionals. They perform some family run business also perform well but the family member must acquire professional knowledge.
21. Business Ethics — Not different from personal ethics. Truthfulness, fairness, honesty, not harming knowingly. The behavior of business on such ethical values towards, workers, officers, shareholders, customers, Govt., neighborhood etc. is all part of business ethics. Not resorting to black market to smuggling, hoarding, adulteration, undue profiteering, breaking laws, creating pollution etc. is also part of their.
22. Role of Trade Associations — They tend to promote business ethics as they look after common interests of member businesses. For doing this they may —

a. Educate / Personal
b. Formulate code of Ethics
c. Moral sanctions — Rewards & punishment

**Business & Culture**

1. Culture — It is the software of mind. It is not innate. It is a learned behavior & hence can be changed. It is transmitted from generation to generation. It is socially acceptable behavior.
2. Elements of culture —
   a. Knowledge & beliefs
   b. ideals
   c. Preference Societal customs, traditions. Taboo, tastes & preferences are the cultural characteristics. No business can succeed if ignores there.
3. Organization of culture — Social structure + traits + complexes + patterns It consists of major social institution like economic system, political & administration system, education system, religion, family recreational institutions, philosophic institution culture traits, complexes, patterns help us understand the organization. Trait — An Observation — shaking hands or names to OR An artifact Interrelated traits — Complex No. of complexes — Cultural pattern Culture may have specification based on age, sex, caste, occupation, income. Understanding this specification is knowing about cultural organizing.
4. Cultural adaptation — Necessary for survival of business. Japanese had to do it in US. Each culture develops some traits like Japanese are more "precision oriented". Their letters (Jap. Long) are intricate that they learn to precise. Similarly Japanese have greater survival instinct as they have faced natural calamities much more than the others. Therefore Japanese are more inclined towards applicable rather than basic science. They developed & adopted basic science theories to have their own unique & efficient technologies. So every business must understand cultural variations while introducing new techniques ideas etc. to diff. category of workers. Same with market perceptions.
5. **Cultural shock —** New environment brings shock. For example a Villager in City & a citizen in village. Everybody must adopt to the new environment to survive.
6. Cultural Transmission — Culture is transmission —
   a. From generation to generation.
   b. Mostly from parents. elders, teachers to yours.
   c. Sometimes new traits young to old.
   d. Symbols, liter pose, films, language TV play important pan in it.
   e. Cultural diffusion is from one plote to another.
   f. Transmission & diffusion become important for business decision making as we can identify the most effective elements / chance is for promotion of a product.
7. Cultural conformity - Culture defines role obligation. If a student follows school discipline he confirms. if a worker works properly & makes only reasonable demands he conforms. Otherwise it is deviance. If a society is too rigid than new ideas cannot prosper. So business will not be able to innovate. Business must understand the extent of conformity in society & slops for deviance. It will help it grow.
8. Cultural lag — All parts of a culture do not more together. Some are slow & some are fast. Technology change is fast, Religious belief change is slow. There will be lag in some areas. Population control adaptability & religious beliefs move at different pace. Business must understand this.
9. Cultural traits — Understanding these is helpful in International business —
   a. Low context & high context (culture)
      Low — Only facts, figures, performance
      High — Above + Other things too like personal relationships, atmosphere, attitudes towards religion, respect, trust.
      Low context — Routine business, no facts face context

High context — Business with a long-term perspective like FDI in relation.

b. Masculine & feminine cultures — Masculine culture has offensiveness & achievement oriented feminine — Long-term relationship.
   Normally every culture has both traits. Where feminine trait is more business growth rate is slow.
c. Monochromatic & polychromic Societies—
   Mono — One thing at a time, focused: develop work
   Poly — Many things all at the same time — Developing
d. Universalism V/s particularism —
   Universalism — Rule is rule, deal is deal.
   Particularism — Relationship & & trust more important. Rules can be modified when one culture man goes to other he should try to understand it do business.
e. Individualism v/s. Communitarianism —
   Individual important : one makes decision
   Community importance : Many (Group) make decision
   When they one meets the other they must appreciate each other attitude to do business.
f. Neutral v/s. emotional —
   Neutral — Emotion in check : UK
   Emotional — Openly expresses : Mexico
   Must appreciate each other do business.
g. Specific v/s. diffuse—
   Specific — Public space high, private space less but guarded carefully shared only with …………… friends/relatives UK/USA
   Diffuse — Put/Public space equalinsize public space is also guarded carefully china/Spain
h. Achievement V/s Ascription —
   Achievement: high achieves : more important
   Ascription: Age/Gender/Social connection give status.
   Achievement culture okyk tc Ascription culture esa tk, rks vius lkFk senior/older/formal position holder dks ys tk, blls oks impress gksrs gSA Ascription okys achievement culture esa tk,a rks vius lkFk delegation esa high performers, knowledge people, technical express ys tk,aA

10. Religion—Affects promotional issues, worker ethics, timing of launches, avoidance of taboo things etc. Marriage reason, festive reason, holiday reason based on religious practices affect business decision & timings.
11. Ethno domination — Helping friends, relatives by giving them orders distribution channel, transport, civil contracts etc. some communities in a society star dominating some sectors of business. These peculiarities must be understood & our should try not to tight these if he has to grow in business.

| | |
|---|---|
| Sikh — Autopark, | Sindhi — Brick Kiln |
| Marwari — Industry | Gujrati — Traders |
| Karnataka — Banking/Engg. | Education / IT |

    This ethno domination can cross country boundaries too. For example Punjabi/South Indian/Chinese food business (Restaurant) has gone to UK/USA/Developed world too.
12. Language—
   a. Diversity of language in a country must be given due recognition.
   b. Sometimes same word/purase in two countries has duff meaning —Project was a bomb: UK : successful Project was a bomb : USA : failed So business must use sensible language in the place where it works.
   c. Brand names can not be changed but they may have diff meanings in diff country i) Ford truck "Fiera" mean "old ugly women" in spaniaz ii) Cheverolet "Nova", "It doesn't go" in Spain.

d. Even symbolic gestures like thumbs up how totally cliff. meanings in UK/USA — Iran (Offense) So these peculiarities must be recognized.

13. Cultural & Organized behavior—
    Difference are —
    a. Centralized v/s decentralized decision make
    b. Safety v/s Risk
    c. Individual v/s group rewards
    d. Informal v/s formal procedure
    e. High v/s low organizational loyalty
    f. Cooperation v/s competition
    g. Short term v/s long-term horizon
    h. Stability v/s Innovation

All these variation must be kept in mind while doing business in cliff. countries.

14. Other social / cultural factor
    a. Consumer preference / habits / belief
    b. Etiquettes — Handshake / gift / reply to invitation etc.
    c. Some social trends —
       i. % of working women
       ii. Eating out — More in advanced country
       iii. Double income householder
       iv. Family size.
       v. Divorce rates / single parenting.

These factors influence the way business can be successfully run in a particular country.

15. Technological dev. & social change —

A. Social change means —
   a. Change in size of society
   b. Change in social institution
   c. Change in occupational pattern
   d. Change in position / status / roles
   e. Change in values / beliefs / attitudes
   f. Change in social interaction
   g. Change in Social mobility

B. They can come due to Technology, culture, demography (Pop. Pattern), economy, polities, psychology, biological reasons.

C. Technology is the most important determination of social change
   For example — Industrial revolution brought women to factories. Domestic culture was affective or food processing / preservation of food altered the needs of kitchen / house hold.
   OR Mobility in employment pattern destroyed the caste system.
   OR controlling natural resources with dams etc. have irrigated more land & more production more employment — leading to more agri research — improved seeds / fertilizer / patricide etc.

D. Technology however has had some evil effects also —
   a. Ecological disaster
   b. Family tier breaking & more materialism approach towards life.
   c. Concentration of eco. Power in few Lava.
   d. Rise in Crime etc. (Films/TV/Easy money desire)

**ORGANIZATION OF CULTURE**

Organization of culture refers to the social structure and the integration Of traits, complexes and patterns that make up the cultural system. Differentiation based on criteria like, age, sex, caste, occupation, education, income and so on, is an important aspect of the social structure and cultural organization. The organization of a culture is determined to a large extent by major social institutions.

The important common institutions of modern cultures are the economic system, the political administrative system, the education system, religion, family etc. Such institutions have been established to meet society's common needs. Culture traits, complexes and patterns also help us to understand the organization of a culture. A trait is a unit of observation. Most traits are related to others and fit into larger meaningful wholes called trait complexes.

**CULTURAL ADAPTATION**

Cultural adaptation refers to a manner in which a social system or individual fits into the environment. Adaptation is essential for survival, clothing, and food and welling suitable for climatic and weather conditions, are forms of adaptations.

Eg:- As we have adapted to the energy crisis caused by the oil hikes by modifying our energy policy.

The message for business is that the firm and its people will have to adapt to the environment of the different markets. Every difference of environment means a difference in our habits, our way of living. It is necessary to know the process and nature of the cultural environment for a success formulation of business strategies.

Eg:- While introducing new ideas, products, techniques, while formulating the product and promotion one should consider the extent to which different categories of consumers adapt to the new things and factors favouring and disfavouring adaptations.

CULTURAL STOCK

Environmental changes 'sometimes produce cultural shock, where feeling of confusion, insecurity and anxiety caused by strangeness of the new environment.

Eg;- A villager may experience cultural shock if he takes up a job in a large modern company in a metropolitan city. An alien environment may be create cultural experience

**CULTURAL TRANSMISSION**

A very important character of culture is its transmissive quality. The elements of culture are transmitted from one generation to another. Every generation inherits a shock of cultural elements, many of which have been accumulated over a long period of time. As time goes on, culture accumulates more techniques, ideas, products and skills. Sometimes certain old elements are dropped and new ideas are acquired. Cultural transmission takes place by means of symbolic communication. Transmission also facilitates spread of cultural elements from one place to another. An effective communication system and high educational levels facilitate socio economic change through better cultural transmission, The nature and process of cultural transmission in a society is important to business decision making.

Eg;- To formulate a promotional policy for a product, it is important to identify the relevant elements of transmission, to identify the reference groups, the influence and so on.

LANGUAGE

Differences in the language are a very important problem area in business. Most countries are multi linguistic and many of them have a large number of ethnic groups and languages. The same words of a language have different meanings or connotations in different places. Problems caused by languages include, those rebut d to brands names and other names and marketing communications.

**CULTURE AND ORGANISATIONAL BEHAVIOUR**

The cultural impact on international management is reflected by several basic beliefs and behaviour. Some examples where the culture of a society can directly affect management approaches and organizational behaviour:-

a) Centralized vs. Decentralized Decision Making: - In societies, all important organizational decisions are made by top managers. In others, these decisions are diffused throughout the enterprise and middle and lower level managers actively make all decisions.

b) Safety vs. Risk: - In some societies, organizational decision makers are risk aversive and have difficulty with conditions of uncertainty. In others, risk is taking is encouraged.
c) Individual vs. Group: - Sometimes personnel who do any kind of outstanding work are given rewards in the form of bonus and commissions. In others, cultural norms require group rewards, and individual rewards are frowned upon.
d) Co operation vs. Competition: Some societies encourage cooperation between their people, some encourage competition.
e) Stability vs. innovation: - The cultures of some countries encourage stability and resistance to change. The culture of others put high value on innovation and change.
f) Informal vs. Formal Procedure:- Sometimes much is accomplished through informal means. In others, formal procedures are set forth and followed rigidly.
g) Short term vs. Long term:- Some nations focus on short term horizons, such as short range goals of profit and-efficiency. Others are more interested in long range goals; such as market share and technological development.

**OTHER SOCIAL/CULTURAL FACTORS**

Social or cultural environment encompassing the religious aspects, language, customs, beliefs, tastes and performance, social stratification, social institutions, buying and consumption habits etc. are all important factors for business. One the most important factors for the failure of a number of companies in foreign markets is their failure or to understand the cultural environment of these markets and to suitably formulate their business strategies.

What is liked by people of one culture may not be liked by those of some other culture. Significant differences in the tastes and preferences may exist even within the same country, particularly when the country is vast, populous and multi-cultural, like India. For a business to be successful, its strategy should be the one that is appropriate in the socio cultural environment. Even when people of different cultures use the same basic product, the mode of consumption, conditions of use, purpose of the product vary so much that the product attributes, method of presentation, method of promoting the product may have to be varied to suit the characteristics of different markets.
Eg:- Bicycles are mostly a means of transportation in many developing countries, whereas in several developed countries they are used largely for exercising and sporting.
Eating habit, consumer preferences and the resultant demand patterns vary greatly from one market to another.

**SOCIAL RESPONSIBILITY OF BUSINESS**

Social responsibility of business refers to what the business for the benefit of the society as business has some moral obligations to the society. Just as Individuals, corporates are also integral part of the society and their behaviour shall be guided by certain social norms.
The operation of business enterprise affects a wide spectrum. The sources they make use of are not limited to those of the impact of their operations is felt also by many people who are in no way connected with the enterprise. The shareholders, the suppliers of resources, the consumers, the local community and the society at large are affected by the way an enterprise functions. It has become a Joint enterprise in which workers, management, consumers, the locality, government and the trade union official are a part of it. There has been a growing acceptance that business should be socially responsible in the sense that the business enterprise, which uses the resources of society and depends on society for its functioning, should discharge its duties and responsibilities for the welfare of the society of which it is an integral part. A business should undertake new investment and promote the dispersal of economic activity and set up industries in backward areas to spread the business culture, and also provide labour, as business also helps in promoting social welfare activity.

Eg;- Ford's third world truck brand names Fiera meant 'ugly old woman'.
Eg;-.Chervrolet's brand name Nova in Spanish means 'it doesn't go'.

The Arabic language is read from right to left and many Arabian sequence things from right to left. In the area of translation of advertisements etc there are two problems. The appropriate word is not there in some languages. The second problem is that literal translations many a time do not convey the right meaning, sometimes they convey quite different meanings. Non-verbal communications creation equally, perhaps even more, difficult problems. Body language has different things in different countries and sometimes in different religions of the same country. Non-verbal-communications create difficult problems sometimes as body language has different interpretations in different cultures.

## Unit—VI
## PUBLIC SECTOR

The strategy of Indian industrialization did not change much from independence to 1990. It emphasized the development of heavy industry, public enterprise and import substitution. There is contempt for price mechanism and a belief that competition is harmful. The industrial policy resolution of 1948 divided the industry into four groups:

a. The manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport were to be exclusive monopoly of the central govt.
b. The second category covered coal, iron, and steel, aircraft manufacture, ship - building manufacture of telephone, telegraphs and wireless apparatus etc. - New undertakings in these industries could henceforth be undertaken only by the govt.
c. The third category was made up of industries of such basic importance that the central govt. would feel it necessary to plan and regulate them.
d. A fourth category comprising the remainder of the industrial field, left open to private enterprise individual as well as co-operative.

The 1948 policy made it clear that the public sector going to play a dominant role in Indian economy. The Public sector was seen as the tool to implement the socialist ideology of government.

**Objectives of the Public Sectors**

Following were the objectives in promoting public sector in India:

1. To provide impetus to the economic growth and to boost industrialization in the country.
2. To develop infrastructure.
3. To develop strategic important areas in the interest of the nation such as railways, telecommunication, nuclear power, defence etc.
4. To check concentration of economic power
5. To promote redistribution of income and wealth
6. To create employment opportunities
7. To ensure a balanced regional development of country
8. To produce substitutes for import
9. To invest in those areas where private investors are to invest either because of low ROI high risk, large gestation period or of lack of technology.
10. To ensure easier availability of articles of mass consumption, to check process of important articles, etc.
11. To utilize the natural sources of country in the national interest.

British have developed India as a raw material producing country. India exported raw material to British and various other European nation and imported finished products. Most of the Indian business community was engaged in trading business except a few business houses. Indian capital was risk averse. For rapid growth investment in heavy industries is required and for that the government heavily invested in industry.

India needs infrastructure for development. There too also private entrepreneurs are not ready to invest due to lack of capita. India's reluctance to once again invite foreigners meant that domestic investment was necessary. The huge incidence of poverty and unemployment also promoted the govt. to join for labour intensive industry. At the time of independence, the Indian economy was an import dependent economy with an adverse balance of payment. The demand of the day was to produce import substitution, and investment took place along those lines. India was also regarded as an economy of

**Contribution of Public Sector Enterprises in India**

1. **Capital Formation:** Gross domestic capital formation has increased from 10.7% of GNP during the first plan to 24.6% during the Sight Plan. However the share of the public sector improved from 3.5% during first plan to 9.2% during Eight Plan. The share of the public sector, which accounted for one third of capital formation during the first plan gradually increased to about one half during the sixth plan, and thereafter declined to about 37%. This reflects the increasing importance of private sector. The share of public sector improved marginally from 17% during 1951-56 to 21% during 1974 and thereafter declined continuously till it touched a low level of 6.3% of total during the Eight Plan.
2. **Employment:** The total number of workers employed in the public sector in 1971 was 71 lakhs and the number grew to 196 lakhs by March 1997. Since employment in public sector is confined to the organized sector, in 1997 the public sector employed 70% of the workers employed in organized sector.
3. **Share of Public Sector in GDP:** During the last five decades the share of the public sector in net domestic product (NDP) has shown an steady improvement. Measured at 1980-81 prices, in 1960/ 61 the share or public sector in total GDP At 8% ,which rose to 14% in 1970/71,20% in 1980/81, 25% in 1992/93, this shows a Sharp increase in the share of public sector in total GDP. There are some sectors such as agriculture and small scale sector in which the share of the state is almost zero. However in insurance, civil aviation, defence equipment, railways indigenous crude oil production etc. government ownership was cent percent.
4. **Development of Infrastructure:** Without a sufficient expansion of irrigation facilities and power and energy, without an adequate development of transportation and communication facilities, fuel and energy, and basic heavy industries, the process of agriculture development and industrialization cannot be sustained. India has inherited an undeveloped basic infrastructure from the colonial period. The private sector did not show any inclination to develop the same it nor did it heavy any resources to make this possible. The government took the initiative to create and expand the infrastructure quite successfully. The private sector also has benefited immensely from this investment undertaken by the public sector.
5. **Strong Industrial Base:** It is the public sector, which boosted the rapid industrialisation in the country after independence. Industrial policy reserved certain industries like atomic energy, ammunition, and armament, aircraft etc. for the government in the interest of national security. State undertook the responsibility of developing certain industries like coal, iron and steel, aircraft, ship building sector. Because of low profitability and long gestation period, the private sector did not take initiative in these industries. In. 1 996, share of public sector in mining, communication, railways, and defence was 100% of the total GDP. In electricity, water and gas they had 95% share and in banking and insurance upto 83%. It clearly shows how public sector played a key role in laying the foundation for industry in India.
6. **Export Promotion:** Several public sector industries played a key role in expanding the country's exports of the country. Specific mention of Hindustan Steel Limited, Hindustan Machine Tools limited, Bharat Electronics Ltd. State Trading Corporation and Metals and Minerals Trading Corporation can be made. The foreign exchange earnings of the public sector increased from about Rs. 35 crore in 1965-66 to about Rs. 9,198 crores in 1991-92.
7. **Import Substitution:** Because of the shortage foreign exchange, industries of import substitution are of crucial importance for the economy. BHEL, Bharat .Electronics Limited, Hindustan Antibiotics ltd. IDPL, IOC, ONGC, etc were established with a vision of making Indian a self-reliant country.
8. **Removal of Regional Disparities:** The major proportion of public sector industries has been directed towards backward states. For instance, of the cumulative investment of Rs.1,14,647 crore by public sector enterprise till 1990-91, as much as Rs.40,721 crore (i.e.35.5%) was accounted by the four backward states of Bihar, Orissa, Madhya Pradesh and Uttar Pradesh. All the major steel plants were established in backward states. All the units of HMT and IFFCO were established in backward areas. Thus, the public sector helped in the development of the backward areas.

9. **Raising Internal Resources:** Internal sources consist of depreciation and retained profit. With every five year plan, public sector was able to mobilise larger internal resources. In the Seventh Plan, the public sector generated Rs. 29,750 crore through internal source and the Eight Plan it generated Rs. 1,31,450 crore through internal sources,
10. **Contributor to Exchequer**. The public sector has been making substantial contribution to the national exchequer through payment of corporate taxes, excise duty, custom duties, and other duties. Public enterprises contributed Rs. 27, 570 crores during the Sixth Plan and 1,33,780 crore during the Eight Plan.
11. **Reducing Inequalities in the Economy:** The public sector helped in reducing the inequalities in the economy in a number of ways such as –
    a. Profits of the public sector can be used directly by the govt. for its welfare programme
    b. The Public sector can follow a discriminatory policy by supplying material to small industries ay low prices and to big industry at higher prices.
    c. The public sector can give better wages to labour and can implement various welfare schemes.
    d. The public sector can orient production machinery towards the production of mass consumption goods.
    e. There can be effective regulation of the income of top executives in public enterprises.
    f. Public enterprise can follow discriminatory pricing to benefit poorer classes.

**Privatization Defined:**

Privatization is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking. In a broader sense, it connotes private ownership (or even without change of ownership) the induction of private control and management in the PSUs. Barbara Lee and John Nellis (1990) describe it thus: "Privatization is the process of involving the private sector in the ownership of operation of a state-owned enterprise. Thus the term refers to private purchase of all or part of a company. It covers the contracting out and privatization of management-through management contract, leases or franchise arrangement."

The performance of most PSU is very pathetic. It is unethical to charge the Indian taxpayer simply to pay people for unproductive work. Instead, it is better to give it to someone, who can run it in a bettor manner. Whether Private or public, every business uses the resources of nation and society i.e. human, capital, land and machine. And if it cannot add value to these resources then it is a burden on society as well as on the nation. A loss is PSUs not only depetes the nation's resources but also increases the fiscal deficit that results in inflation.

Acharya Vishnugupt (Chattakya) once said that the state should not indulge in business.

**The Issue of Privatization in India**

The new industrial policy announced by the government in July 1991 emphasized the following four major to reform the public sector enterprise:

1. Reduction in the number of industries reserved for the public sector from 17 to 8 (further reduced to 4 and then to 2) and the introduction of selective competition in the reserved area.
2. The disinvestment of shares of a select set of public sector enterprises.
3. The policy towards sick public sector enterprises to be the same as that for private sector.

**Dereservations:** The 1991 industrial policy reduced the number of industries reserved for the public sector to 4 from 17. The reserved sectors are :

- Arms and ammunition and allied items of defence equipment, combat aircraft and warships.
- Atomic Energy.
- Minerals specified in the schedule to the Atomic Energy Order, 1953.
- Railway Transport. Presently, only Railways and Atomic Energy are reserved areas.

**Disinvestment**

The performance of the public sector was far from satisfactory. Diseconomies of scale crept into in the public sector. The nine high-performing public sector enterprises (navratnas) account for nearly 75% of profits of all public sector enterprises. Most of the others are running in losses. The profitability and ROl of profit-making units too is very low compared to industry standards. Of the various factors responsible for low profits in the public sector undertakings, the following are particularly important:

- Price policy of public sector undertaking
- underutilization of capacity
- Problems related to planning and construction of projects
- Problems of labour, personnel and management
- Lack of autonomy

In or to alleviate to these problems the government decided to disinvest its sake in PSUs.

Disinvestments connote reducing government stake in the public sector. Disinvestment involves he conversion of money claims or securities into money or cash. They may or may not lead to privatization, i.e., transfer of control in private hands. As in the case of Maruti Suzuki and BALCO, disinvestments led to the transfer of control into private hands, but the in case of public sector banks and host of the oil companies, disinvestments resulted in the issue of shares through the IPO route to get financial institutions, and therefore majority stake and control remained with the government.
scarcity as everything was scarce here, and for everything a black market flourished. To stop the black marketing and to make things available India needed rapid industrializations, and our then government did the same by investing in industry.

The public sector was seen as the means to the objective of socialism. As profits in private sector arc declared and distributed among shareholders. This creates income inequalities among people. On the other hand, surplus of public sector enterprises can be directly used for capital formation to promote the objective of accelerated economic development.
The disinvestment programme was started in 1991-92. The total realization to the government from 7 various rounds of disinvestments till 1998-99 was Rs. 16,809 crore.

**Objectives of Disinvestment**

The following are the main objectives of the disinvestment policy:

- To reduce the financial burden on government.
- To improve public finances
- To introduce competition and market discipline
- To improve growth
- To encourage wider share of ownership
- To de-politicize essential services

The main objective of disinvestment is to put national resources and assets to optimal use and in particular, to unleash the productive potential inherent in public sector enterprises. The policy of disinvestment specifically aims at:

- Modernization and upgradation of public sector enterprises.
- Creation of new assets;
- Generating of employment; and
- Retiring of public debt.

The government would continue to ensure that disinvestment does not result in alienation of national assets, which, through the process of disinvestment, remain where they are. It will also ensure that disinvestment does not result in private monopolies.

In order to provide complete visibility to the government's continued commitment of utilization of disinvestment Proceeds Fund. This Fund will be used for financing fresh employment opportunities and investment, and for retirement of public debt.

**Methods of Disinvestment in India**

There are three methods adopted by the government for the valuation of shares for disinvestment. They area

1. Net Asset Method: This will indicate the net asset of the enterprise as shown in the books of accounts. It shows the historical value of the assets, It does not reflect position of profitability.
2. Profit Earning Capacity Value Method: The profit earning capacity is generally based on the profits actually earned or anticipated.
3. Discounted Cash Flow Method: In this method the future incremental cash flows are forecasted and discounted into present value by applying cost of capital rate. The method indicates the intrinsic value of the firm.

**Foreign Direct Investment (FDI)**

Consistent economic growth, de-regulation; liberal investment rules and operational flexibility are all the factors that help increase the inflow of Foreign direct Investment or FDI.

FDI or Foreign Direct Investment is any form of investment that interest in enterprises which function outside of the domestic territory of the investor.

FDIs require a business relationship between a parent company and its foreign subsidiary. Foreign direct business relationships give rise to multinational corporations. For an investment to be regarded as an FDI, the parent firm needs to have at least 10% of the ordinary shares of its foreign affiliates. The investing firm may also qualify for an FDI if it owns voting power in a business enterprise operating in a foreign country.

**Types of Foreign Direct Investment: An Overview**

This classification is based on the types of restrictions imposed, and the various prerequisites required for these investments. An outward-bound FDI is backed by the government against all types of associated risks. This form of FDl is Subject to tax incentives as well as disincentives of various forms. Risk coverage provided to the domestic industries any subsidies granted to the local firms stand in the way of outward FDIs, which are also known as investments abroad.

Different economic factors encourage inward FDIs. These include interest loans, tax breaks, grants, subsidies, and the removal of restrictions and limitations. Factors detrimental to the growth of FDIs include necessities of differential performance and limitations related with ownership patterns.

Further categorizations of FDI exist as well. Vertical Foreign Direct Investment takes place when a multinational corporation owns some shares of a foreign enterprise, which supplies input for it or uses output produced by the MNC.

Foreign direct investment may be classified as Inward.Foreign direct investment, which is inward, is a typical form of what is termed as 'inward investment'. Here, investment of foreign capital occurs in local resources. The factors propelling the growth of inward FDI comprises tax breaks, relaxation of existent regulations, loans on low rates of interest and specific Tar ea behind this is that, the long run gains from such a funding far outweighs the disadva me loss incurred in the short run. Flow of Inward EDI may face restrictions from factors e t on ownership and disparity in the performance standard. Foreign direct investment, 's ou is also referred to as "direct investment abroad". In this case it is the local capital, which vested in some foreign resource. Outward FDI may also find.use in the import and export de foreign country. Outward FDI flourishes under government backed insurance at risk coverage

**Impact of FDI**

FDI has a wide spread impact on a country not only economically but also socially. Foreign investment is always accompanied by superior technology and transfer of technical knows how. It has an impact on local industry as it provides them both opportunity and threat. It gives consumers a wide choice that too at reasonable price. FDI increases not only GDP but also exports and therefore results in higher per capital income and large forex reserves.

**Impact on Local Industry**

Mckensey studied the impact of FDI on local industry and it found that FDI unambiguously helped the receiving economy. It raised productivity and output in the sector involved there by national income, while lowering prices and improving the quality and selection of services and products and consumers.

FDI nearly always generated positive spillover for the rest of economy. It generated big opportunities for local manufacturers as they become OEM to them. Hyundai and Suzuki developed ancillary units in India Coca Cola and Pepsi developed bottling plants of world class; they gave local manufacturer an opportunity to export. Not only has an opportunity for manufacturing, FDI also given technical knowhow to OEM which increases the level of quality. Today's Coca- Cola' bottling plant are far better, infact of international quality then those of Park which Coca-Cola acquired OEMs of Maruti Suzuki don't only supplies to Suzaki but also export it. MacDonald's trained local farmers and bakers to produce product of international quality and today they are not only supplying it to MacDonald's but are also exporting it. Simultaneously it gives impetus to service industry. FDI has a big role in the development of the BPO industry in India. The entire framework of BOP industry in India is an outcome of FDI. And today India is the most preferred nation for BPO in the world.

**Impact on Employment**

FDI in India has contributed in the creation of a more than $10 -billion-a-year software and outsourcing industry which employees 5,00,00 people directly. Projections suggest that it will employ 2,000,000 people by 2008. These are the estimates of only one industry. FD1 has created jobs in every field manufacturing, telecommunication, advertising, media, and above all services.

**Impact on Consumer**

Perhaps biggest beneficiary of the FDI is the Indian consumer. By the 1980 we were driving Ambassador or Premier Padmini and after the investment by Suzuki 8 new models were launched now we have access so many international brands. Prices have been steadily decreasing in all the segments because of FDI, like electronics, computers, ACs, automobiles, and even soft drinks, two wheelers, etc. Not only this, today consumer has wide choice as these organizations are launching new variants with improved Performance every day. Recently we have seen that how HLL decreased its price as a reaction to aggressive policy of P&G. Price of ACs, Television, and Washing Machine fell by 10% in two thousand alone because of MNCs.

Besides this there is a macro economic impact as contribution to GDP, though it may be argued that there is not any significant growth after liberalization as compared to previous decade. But FDI has contributed a lot in transforming whole economy. Earlier we were producing substandard goods and driving cars of 1960s and today gradually we are becoming the exporting hub of telecommunication tools, software and automobile. It had not only improved Balance of Payment but also fetched Foreign Exchange for the nation because of this Forex reserve of the nation is very high. Opponents of FDI argue that it will cannibalize local industry, to a extent it is true also which may be true. But it is not the MNCs, which threaten them; in fact it is their inefficiency, which is their biggest threat.
This leads to serious issues. The investor does not have to be completely obedient to the economic policies of the country where they have invested the money. At times dime have been adverse effects of foreign direct investment on the balance of payments of a country. Even in view of the various

disadvantages of foreign direct investment it may be said that foreign direct investment has played an important role in shaping the economic fortunes of a number of countries around the world.

**Foreign Direct Investment and Economic Development**

Foreign direct investment has a major role to play in the economic development of the host country. Over the years, foreign direct investment has helped the economies of the host countries to obtain launching pad from where they can make further improvements. This trend has manifested itself in the last twenty years. Any form of foreign direct investment pumps in a lot of capital knowledge and technological resources into of a country. This helps in taking the particular host economy ahead. The fact that the foreign direct investors have been able to play an important role vis-a-vis the economic development of the recipient countries has been due to the fact that these countries have changed their economic stances and have allowed the foreign direct investors to come in and improve their economies. It has often been observed that the economically developing as well as underdeveloped countries is dependent on the economically developed countries for financial assistance that would help them to achieve some amount of economical stability. The economically developed countries, on their part, can help these countries financially by investing in these countries. This financial assistance can be channelized into various sectors of the economy. The channelization is normally done on the basis of the requirements of particular sectors.

It has been observed that the foreign direct investment has been able to improve the infrastructural condition of a country. There is ample scope of technological development of a country as well. The standard of living of the general public of the host country could be improved as a result of the foreign direct investment made in a country. The health sector of many a recipient country has been benefited by the foreign direct investment. Thus it may be said that foreign direct investment plays an important role in the overall economic and social development of a country.

It has been observe that the private sector companies are not always interested in undertaking activities that help in improving the infrastructure of the country. This is because the gains from these infractural activities are made only in the long term; there are no short term benefits as such. This is where the foreign direct investment can come in handy. It can also assist in helping economically underdeveloped countries build their own research and development bases that can contribute to the technological development of the country. This is a very crucial contribution as most of these countries are not able to perform these functions on their own. These assistances come in handy, especially in the context of the manufacturing and services sector of the particular country, that are able, to enhance their productivity and ultimately advance from an economic point of view.

Horizontal foreign direct investments happen when a multinational company carries out a similar business operation in different nations.

Foreign Direct Investment is guided by different motives. FDIs that are undertaken to strengthen the existing market structure or explore the opportunities of new markets can be called 'market-seeking FDIs.' 'Resource-seeking FDIs' are aimed at factors of production which have more operational efficiency than those available in the home county of the investor. Some foreign direct investments involve the transfer of strategic assets. FDI activities may also be carried out to ensure optimization of available opportunities and economies of scale. In this case, the foreign direct investment is termed as 'efficiency-seeking.'

**Foreign Direct Investment and Infrastructure Development**

One of the many areas in which foreign direct investment can benefit a country or any entity, for that matter, is that of development of infrastructure. It has been observed, over the years, that a lot of countries as well as other recipients of direct investment from overseas entities have used that money in order to develop the infrastructural facilities at their disposal. All the various types of infrastructure that are at the disposal of a country like health or education, for example, may be benefited by foreign direct investment. Technological infrastructure is one of the many areas in which foreign direct investment is meant to benefit a country. With the help of foreign direct investment being made in a country the government can construct, as well as, improve the existing technological tools at their disposal. This in turn also plays a very crucial role in the economic development of a country as this technological advancement assists a country in upgrading its industries and thus helps them to face the challenges of the contemporary global economy.

Foreign direct investment is also capable of uploading the health infrastructure of a particular country. This could be done by way of providing high-end equipments or medicines. Such investment is normally made by the world level organizations in countries that are economically backward and have no or little medical infrastructure to speak of. For years; the World Health Organization, as well as the World Bank and the International Monetary Fund have been providing a number of the economically backward countries, all over the world and especially in Africa, with money and medicines in order to eradicate critical diseases or improve the medical infrastructure in place. They have also been sponsoring public health awareness programs that make people aware about critical diseases that need to be eradicated. In India, for example, pulse polio and HIV prevention measures have been at the centre of such activities.

Communication infrastructure is an important area where the foreign direct investment can come in handy. The money that is invested in a country by overseas entities can be used for the construction of roads, railways and bridges. These facilities are used for establishing connections with the remote areas of a country and for transporting important services to these parts like medicines and aids at times of floods or other natural disasters. A lot of construction groups are taking active interest in developing the communicational infrastructure of other countries. Foreign direct investment is also used for the purpose of educating the unskilled labor force that is present in a country. In India during the later stages of 80s and 90s there was a situation whereby there was a huge labor force but it was mostly unskilled and was employed in the unorganized sector. It was possible with the help of the financial assistance from the stress direct investors to train these people so that they may be capable of being recruited into the industry. Foreign direct investment is also useful for executing mass educational programs that can educate those people who remain out of the bounds of conventional and institutional education as they are not able to afford it or- it may not be available in their areas.

**Disadvantages of Foreign Direct Investment**

The disadvantages of foreign direct investment occur mostly in case of matters related to operation, distribution of the profits made on the investment and the personnel. One of the most indirect disadvantages of foreign direct investment is that the economically backward section of the host country is always inconvenienced when the stream of foreign direct investment is negatively affected. The situations in countries like Ireland, Singapore, Chile and China corporate such an opinion. It is normally the responsibility of the host country to limit the extent of impact that may be made by the foreign direct investment. They should be making sure that the entities that are making the foreign direct investment in their country adhere to the environmental, governance and social regulations that have been laid down in the country.

The various disadvantages of foreign direct investment are understood where the host country has some sort of national secret — something that is not meant to be disclosed to the rest of the world. It has been observed that the defense of a country has faced risk as a result of the foreign direct investment in the country.

At times it has been observed that certain foreign policies are adopted that are not appreciated by the workers of the recipient country. Foreign direct investment, at times, is also disadvantageous for the ones who are making the investment themselves.

Foreign direct investment may entail high travel and communications expenses. The differences of language and culture that exist between the country of the investor and the host country could also pose, problems in case of foreign direct investment

Yet another major disadvantage of foreign direct investment is that there is a chance that a company may lose out its ownership to an overseas company. This has often caused many companies to approach foreign direct investment with a certain amount of caution.

At times it has been observed that there is considerable instability in a particular geographical region. This causes a lot of inconvenience to the investor.

The size of the market, as well as, the condition of the host country could be important factors in the case of the foreign direct investment. In case the host country is not well connected with their more advanced neighbors, it poses a lot of challenge for the investors.

At times it has been observed that the governments of the host country are facing problems with foreign direct investment. It has less control over the functioning of the company that is functioning as the wholly owned subsidiary of an overseas company.

Greenfield investments involve the flow of FDI for either building up of new production capacities in the host nation or for expansion of the existent production facilities of the host country. The plus points of this come in form of increased employment opportunities, relatively high wages, R&D activities and capacity enhancement.

The flip side comes in the form of declining market share for the domestic firm and repatriation of profits made to a foreign country, which if retained within the country of origin could have led to considerable capital accumulation for the nation.

Multinationals mostly rely on mergers to bring in FDI. Until 1997 mergers and acquisitions for around 90% of FDI flow to the US economy. FDI flow through acquisitions does not render any long run advantage to the economy of the host nation as under Greenfield investments. Some other types of foreign direct investment in vogue are termed as Horizontal FDI Forward Vertical FDI, Vertical FDI and Backward Vertical FDI.

**Foreign direct investment and the developing world**

Foreign investment can be a significant driver of development in poor nations. It provides an inflow of foreign capital and funds, in addition to an increase in the transfer of skills, technology, and job opportunities. Many of the East Asian tigers such as China, South Korea, Malaysia, and Singapore benefited from investment abroad. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

**Outward FDI faces restrictions under a host of factors as described below:**

- Tax incentives or the lack of it for firms, which invest outside their country of origin or on profits, which are repatriated
- Industries related to defense are often set outside the purview of outward FDI to retain government's control over the defense related industrial complex
- Subsidy (theme targeted at local businesses

- Lobby groups with vested interests possessing support from either inward FDI sector or state investment funding bodies
- Government policies, which lend support to the phenomenon of industry nationalization foreign direct investment, may be further classified by their set target. The areas here are Greenfield investment and Acquisitions and Mergers.

**Ques.** What are the forms in which business can be conducted by a foreign company in India?
**Ans.** A foreign company planning to set up business operations in India may —

- Incorporate a company tinder the companies Act 1936 as a Joint venture or a wholly owned subsidiary.
- Set up a liason office/representative office or a branch office of the foreign company which can undertake activity permitted under the foreign exchange management regulations 2000.

**Ques.** What is the procedure for receiving foreign direct investment us an Indian Company?
**Ans.** An Indian Company may receive foreign direct investment under the two routes —

- Automatic route FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sector as specified in the FIN policy issued by the government of India from time to time.
- Government Route FDI in activities not covered under the automatic route requires prior approval of the government which are considered by the foreign investment promotion board (FIPB), department of economic affairs, Ministry of Finance.

**Ques.** Which are the sectors where FIN is not allowed in India, both under the automatic route as well as under the Government Route?
**Ans.** FDI is prohibited under the Government Route as well as the automatic route in the following sector —

a. Automatic Energy
b. Lottery Business
c. Gambling and betting
d. Business of chit fund
e. Nidhi Company, i.e. a company registered under company's Act and notified as a nidhi company by Central Government under section 620-A of companies act. It's a non banking finance company doing the business of lending and borrowing with its members and shareholders.
f. Agricultural and plantation activities.
g. Housing and real estates.
h. Trading in transferable development rights (TDRs i.e. transferring developing rights between properties)
i. Manufacture of Cigar, cigarettes, tobacco and its substitutes.