Business Environment

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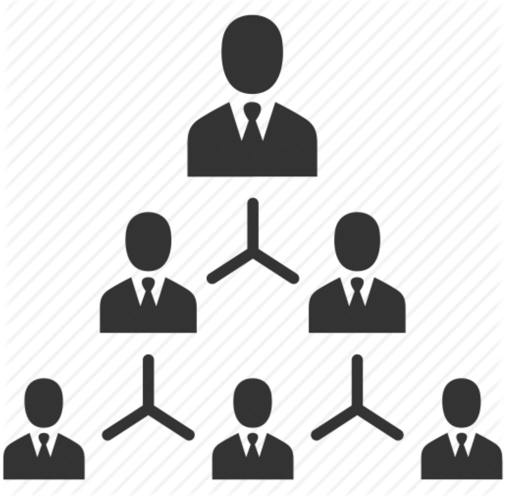
Unit 1: Business Structure



In this unit, you will be able to learn:

- Evolution from local to global state
- Changing Scenario since liberalization
- Concept of Business Structure
- Structural relationship of Business components

Introduction

The business world has witnessed a paradigm shift in the last two decades. With the advent of liberalization, globalization and privatization, Indian economy has perceived a significant transformations with respect to its operational activities. The bureaucratic set up which was earlier predominant in the Indian business is transformed radically.

Before the rise of the modern industrial system in the world economy, Indian producers (largely artisan classes) had a world-wide market. Indian muslin and calicos were in great demand worldover. Indian industries not only supplied all local needs but also enabled India to export its finished products. Indian exports consisted chiefly of manufactures like cotton and silk fabrics, calicos, artistic ware, silk and wollen clothing.

The impact of the British rule and the industrial revolution that took place in Britain led to the decay of the Indian handicrafts. Instead, machine-made goods started coming to India. The gap created by the decay of Indian handicrafts was not filled by the rise of modern industry in India because of the british policy of encouraging the imports of manufactured products into and export of raw materials from India.

The progress of industrialisation during the four decades and more since the beginning of the planning era has been a significant feature of the Indian economic development. The process of industrialisation, initiated as cognizant and calculated policy under Industrial Policy Resolutions of 1948 and 1956 involved heavy investments in basic and heavy industries besides those in consumer goods industries.

As a result of efforts for rapid industrialisation, a steady industrial base has been achieved. Industrial production grew by about 5 times and India now is one of the most industrial countries in the world. India now has a well-diversified industrial sector covering the entire range of consumer, intermediate and capital goods industries. The progress the country has made in respect of industrial sector is clearly reflected in the commodity composition of India's foreign trade.

The share of imports of manufactured goods in foreign trade has steadily declined, while industrial products, particularly engineering goods have become a growing component of India's exports. Further, the rapid progress in industrialisation has been accompanied by a corresponding growth in technological and managerial know-how for efficient operation of the most modern and sophisticated industries and also for planning, designing and construction of such industries.Growth of basic and capital goods industries has been particularly remarkable.

As industrial development ensues in an economy, several structural changes take place in the industrial sector. Historically, industrial development has progressed in three stages. In the first stage, industry was concerned with the processing of primary products. Milling grain, extracting oil, tanning leather, spining vegetable fibres, preparing timber, and smelting ores. The second stage in the evolution of secondary industry comprises the transformation of materials making bread and confectionary, footwear, and metal goods, cloth, furniture and paper. The third stage consists of the manufacture of machines and other capital equipment to be used not for the direct satisfaction of any current want but in order to simplify the future process of production.

The present day economic environment of business is a complex phenomenon. The business sector has economic relations with the Government, the capital market, the household sector and the foreign sector. These different sectors, together, influence the trends and structure of the economy. The form and functioning of the economy varies from country to country. The design and structure of an economic system is conditioned by socio-political arrangements. Such arrangements are relevant from the standpoint of macro-economic decision-making.

Post liberalisation in India

The economic reforms lead to certain amount of stability in the economy and high growth rate. In the ninth five-year plan it was envisaged to have balanced development. For this the focus was on speedy industrialization, human development, full-scale employment, poverty reduction, and self-reliance on domestic resources.

The main objectives directly related to liberalisation and privatisation as a continuation of the previous plan period were

- to generate adequate employment opportunities and promote poverty reduction
- to stabilize the prices in order to accelerate the growth rate of the economy
- to create a liberal market for increase in private investments

Other objectives served the purpose of human development. They were

- To ensure food and nutritional security.
- to provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy
- to check the growing population increase
- to encourage social issues like women empowerment, conservation of certain benefits for the Special Groups of the society

Size of Industrial Units – Another Structural Dimension

The size of an industrial unit can be measured using different criteria. Output, total assets, fixed capital, and employment are some of the major criteria to measure size of the industrial units. Changes in the average size of the industrial units represent an important structural change of the industrial sector in an economy.

As future managers you must know about this important dimension of the structure of industry. Such synthesis provides guidance for making the proper choice of the optimum size for the firm. A large firm would be more efficient in situations where:

a) the product is standardized and can be produced on mass scale with longer production runs such as iron and steel, industrial chemicals and fertilizers;

b) the product and/or machines used in its production are large in size such as automobiles and electricity generation;

c) the economies of linked processes are significant as in the case of pulp and paper industry and steel among others;

d) the markets for the product are concentrated and/or transport costs are considerably low in comparison to the price of the product;

e) there are occasional indivisibilities in different units or operations of the plant which are to be belanced; and

f) research activities are essential to compete in the market such as in chemical industries.

The industrial policies pursued till 1990 enabled India to develop a vast and diversified industrial structure. India attained self–sufficiency in a wide range of consumer goods. But the industrial growth was not swift enough to create ample employment, to reduce regional inequalities and to improve poverty. It was felt that government controls and regulations had put shackles on the growth of different segments of Indian Industry. Lack of adequate competition resulted in inadaquate emphasis on the reduction of costs, up-gradation of technology and enhancement of quality standards.

The socio-economic environment of any country can be explained in terms of an institutional framework and a physical framework, the economic policy statements of the government, economic plan documents, the political constitution, economic regulations and controls, among others which define the role and status of private sector, public sector, multinationals, corporations, small business, etc. The critical elements which constitute the institutional framework of an economic environment. The trends in economic variables such as income, price, output, investment, foreign trade, labour supply and other factor endowments and the structural relation among these variables constitute the physical framework of an economic environment.

Discretion and personal judgement play an important part. Difficulties arise in the context of both institutional and physical framework. Just as various interpretations of policy statements are possible various conclusions could also be drawn from the economic data.

The critical elements of macro-economic environment are :

- economic system
- nature of the economy
- anatomy of the economy
- functioning of the economy
- economic planning and programmes
- economic policy statements and proposals
- economic controls and regulations
- economic legislations

• economic trends and structure, and

• economic problems and prospects

These critical elements may not always be mutually exclusive. But you may treat them separately for analytical purposes.

An economic system defines the institutional framework of the environment. The ownership control and management of enterprises reveals the nature of the economic system. The role and responsibility of the private sector, public sector, joint sector, etc. throw light on the philosophy and practice of an economic system – capitalist, socialist or missed. The mixed economic system operates through a combination of planning and pricing.

The level of economic development and the structure of the economy defiant he physical framework of the environment. The level and composition of per capita income indicate the level of growth and development. Available natural resources, human resources and material resources of a country set a limit to its factor endowment which determines its production. The occupational distribution of the labour force, the structure of the national output, the composition and pattern of foreign trade, the structure of savings investment and capital formation, the pattern of income distribution (interpersonal and inter-regional), and the degree of urbanization – all thee bring out the significance of the agriculture, industry, and service sectors in the national economy.

Economic planning is supposed to give a direction to the changes in the economic environment,. Most countries function today on the basis of planning. Either it is planning by direction – typical of a socialist economy, or it is planning by incentives, i.e.,

democratic planning typical of a mixed economy, or it is indicative planning typical of the French economy. It is through the system of a perspective planning, five year planning and annual planning that the economies try to overcome their environmental constraints and optimize their achievements over a period to time.

Planning is a programme of action, it is not a guarantee in itself. The formulation of plans and programmes must, therefore, be flowed by proper implementation. This calls for economic policy statements and legislations. Apart from having general policy statements affecting industry and agriculture, the Government often formulates and executes fiscal-cum-budgetary policies. The central bank will work through the instruments of money and credit policies, exchange rate policies, etc. Some sort of physical policies of controls and regulations may also be needed. Price control, trade control and exchange control are all moves in the same direction. Sometimes legislations and enactments become necessary for effective implementation of all these policy statements are proposal. The national economic environment of business is determined by the existing macro-economic policy framework.

These policies, planning and pricing together make the economy function effectively. The functioning of a economy is reflected in short-period fluctuations and long-term trends in macro-economic variables like income, money supply, prices, production, employment, balance of trade and payments, foreign exchange earnings, etc. These trends decide the course of the prevailing economic environment. Some of these economic trends may define the nature and dimension of various macro-economic problems like inflation, unemployment, recession and the like. The problems have to be analysed with the objective of making the national economic management efficient. Economic problems and economic prospects in the environment throw challenges to the corporate business management as well as national economic management.

Firstly, a simple mixed economic system is characterized by the existence of the private and public sectors. India has a multiplicity of sectors: private and public sectors. India has a multiplicity of sectors: (dominant undertakings, foreign companies, etc.), public, joint, co-operative, workers' sectors and also "tiny sector". We hear of different sectors in different areas of the Indian economy: big sector, small sector, heavy sector, light sector, licensed sector, deli censed sector, national sector, core sector, reserved sector, etc. India is a complex vector of sectors.

Secondly, a simple mixed economy is characterized by complementarily between central planning and pricing. India has a multiplicity of mechanisms at work: five-year plans, annual plans during plan holidays, pointed economic reform and reconstruction programmes during and after plan vacations, ideas of rolling plans; an elaborate system of controls and regulatory measures, attempts towards streamlining and simplification of procedures, private traders and public distributors for the same product and hence a system of dual prices, ceiling prices, floor prices, subsidized prices, statutory prices, retention prices, procurement prices, levy prices, and free market prices; concretionary monetary policies and expansionary fiscal policies, etc.

In India there is a complex system of liberal rules, strict regulations, control mechanisms, planning and a host of price regulations (which of course are being gradually relaxed).

Finally, a simple mixed economy is expected to reach a target level of social welfare, and for this task, the profit policies are to be designed according to a social purpose. The social welfare function in India is defined by the multiplicity of objectives which are sometimes conflicting in nature. For example, in terms of our five-year plans, India is aiming at efficiency, justice and stability. Productive efficiency in a static sense refers to the efficiency-allocation of the given resources. Productive efficiency in its dynamic sense refers to economic growth. This fruits of economic growth have to be distributed.

The New economic Policy

The new economic policy was announced in July 1991 which is of far reaching importance. The new economic policy, among other things, has a baring on: (1) Industrial Licensing, (ii) Foreign Investment and Foreign Technology Agreements, (iii) MRTP regulations, and (iv) Public Sector. Our purpose is to acquaint you with the main ideas or philosophy behind the economic policy. And this we intend to do by taking up all these aspects briefly. (all these aspects will be taken up for further discussion in the appropriate units).

Industrial Licensing: The statement of new economic policy emphasized that the system of industrial approval needed a number of changes to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of policy measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgments. Government policy and procedures must be geared to assist the entrepreneurs in their efforts by making essential procedures fully transparent, by eliminating delays and removing restraints on capacity creation, while, at the same time, ensuring that overriding national interests are not jeopardized.

The decisions taken in this respect are listed as under:

• Abolition of industrial licensing for all projects except for a short list of industries related to security and strategic concerns, social reasons, hazardous chemicals and overriding environmental reasons and items of elitist consumption. Industries reserved for the small-scale sector would continue to be so reserved.

• Areas where security and strategic concerns predominate will continue to be reserved for the public sector.

• In projects where imported capital goods are required, automatic clearance will be given in certain cases.

• In locations other than cities of more than 10 lakhs (1 million) population, there will be no need for obtaining industrial approvals from the Central government except fro industries subject to compulsory licensing.

• Existing units will be provided a new broad-banding facility to enable them to produce any article without additional investment.

• Exemption from licensing will apply to all cases of substantial expansion of existing units.

• The mandatory convertibility clause will no longer be applicable for term loans from the financial institutional for new projects.

Foreign Investments and Foreign Technology Agreements : Regarding direct foreign investment, the Government announced its decision to grand approval for investment up to 51% foreign equity in high priority industries without any bottlenecks in the progress of approval. This was intended to invite foreign investment in industrial requiring large investment and foreign technology. The list of high priorities industries identified for the purpose include 34 broad areas like metallurgy, electrical equipment, transportation, food processing, and hotel and tourism industry. However, clearance will be given if foreign equity covers the foreign exchange requirements for imported capital goods. Proposals which do not meet the above criteria will continue to need prior clearance. But foreign equity proposals need not necessarily be accompanied by foreign technology agreements. Payment of dividends on foreign equity would be monitored through the Reserve Bank of India so as to ensure that outflows on that account are balanced by export earnings over a period of time.

Foreign Institutional Investors (FIIs) have been permitted to enter the Indian capital market and allowed to trade both in the primary and secondary markets, without any restriction on the total volume of investment and lock in period.

Foreign Technology Agreements :The Policy statement emphasised that there is a great need for promoting an industrial environment where the actualization of technological capability receives priority. Towards that end, governmental interference with commercial technology relationships of Indian entrepreneurs with foreign technology supplies was unnecessary.

As viewed by the Government, in the fast-changing world of technology the relationship between the supplies and users of technology must be a continuous one, whereas governmental interference on a case-to-case basis involved inordinate delays and fostered uncertainty. The Indian entrepreneur had come of age and no longer needed bureaucratic clearances of technology relationships.

Thus, Indian companies will, hereafter, be free negotiate the terms of technology transfer with their foreign counterparts according to their own commercial judgement within the specified parameters.

Changes in MRTP Regulations : A significant change initiated by the new policy was the removal of the threshold limits of assets in respect of MRTP companies and dominant undertakings. With this decision, prior approval of the Central Government will not be required for the establishment of new undertakings, expansion of undertakings, merger, amalgamation and takeover of companies. Instead, emphasis will be on controlling and regulating monopolistic, restrictive and unfair trade practices as provided under the MRTP Act. At the same time, the MRTP Commission will be empowered and authorised to imitate investigations sue motto or on complaints received from individual consumers or classes of consumers in regard to monopolistic, restrictive and unfair trade practices.

Public Sector Policy : In the context of massive investments made, the policy statement noted two aspects of the performance of public enterprises. The mature enterprises have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas.

On the other hand, in many of the enterprises, serious problems have manifested themselves, which are observed in insufficient growth of productivity, poor project management, over-manning, lack of continuous technological upgrdation, and inadequate attention to R & D and human resource development. The consequent low rate of return has inhibited the ability of such enterprises to regenerate themselves in terms of new investment as well as in technology development. Thus, many of the public enterprise have become a burden on rather than on asset to the Government.

The original concept of public sector has undergone considerable dilution. The take-over of sick units from the private sector has resulted in losses of a certain category of public sector units amounting to almost one third of the total losses of Central Government enterprise. A number of enterprises in the consumer goods and services sector do not fit into the original idea of the public sector being at the commanding heights of the economy.

The policy decision in the above context are based on a new approach as follows :

• The portfolio of public sector investments will be reviewed with a view to focus the public sector on strategic, high-tech and essential infrastructure.

• Public enterprises which are chronically sick and which re unlikely to be turned around will be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar institutions created for the purpose, for the formulation of revival/rehabilitation schemes. A social security mechanism will be created to protect the interest of workers likely to be affected by such rehabilitation packages.

• In order to raise resources and encourage wider public participation, a part of the Government's shareholding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

Challenge of Global Competition and Quality Standards : Industrial enterprises in India, after years of protection from foreign competition, have been exposed to competitive markets both within and outside since the policy of liberalisation was initiated in 1991. With the entry of MNCs and growth of foreign companies, domestic product markets are

being increasingly subjected to forces of competition. On the other hand, export promotion is directly linked with the competitiveness of India products in market abroad.

Price and quality are two major factors by which the competitive strength of a company is determined. Except for elitist products, price has been the more important factor determining the sales performance of firms. However, brand images of foreign companies are making a dent in the domestic market with buys becoming more quality conscious. In export markets, although price influences buying decisions to a large extent, the quality of the product is an equally important factor in export marketing.

It is in the above context that the significance of quality standards has been recognised widely in India industries. At the national level quality standards have been developed by the Bureau of Indian Standard (BIS) for a large number of products and components. BIS, at present, manages 16,000 standards developed over the years fro over 14,000 products. The Standards Mark of Certification – the ISI Mark - is granted by the Bureau where the goods conform strictly to the relevant standards set by it. The certification scheme is designed to ensure the quality of goods, particularly those affecting the health and safety of consumers. It also ensures that mass-produced and mass-consumed products conform to the required standards of quality, safety and durability.

Grading and standardization of agricultural commodities is provided for under the Agricultural Produce and Marketing Act 137. For fixing grade standards there are sixteen regional laboratories besides the Central Agmark Laboratory at Nagpur.

The existing business environment may act either as a stimulant or as a constraint for business management. If the prevailing environment is favorable to business growth and prosperity, then the management feels happy and responds positively. Small business owns, for example, are often encouraged to produce more when the government pays them a subsidy. On the other hand, when the prevailing environment is unfavourable, it acts as a disincentive.

For example, when the Government tries to impose a high tax rate on corporate profits, many business concerns try to evade tax by under-reporting their profits. It is interesting to note that the same environment may act both as, stimulant and constraint – stimulating for some and constraining for other Reconsider the last example. A high tax rate increases the propensity to evade taxes; it induces the corporate tax payer to restrict their output sales or profits. At the same time, this very situation provides an opportunity to the tax consultant for a thriving business.

For the management, the environment is not limited to the institution of the Government. There are other institutions and forces as well. The management has to take care of the interests of other groups also such as the workers, suppliers and contractors, consumers, shareholders and many others. The workers, organised in trade unions, often ask for higher wages. The salaried middle-level managers, through their associations, may also ask for a particular package of pay and perks. The suppliers, organised in guilds, may not always supply materials as per the specifications father management, and they may seek revised rates or change the quality and schedules of delivery. The shareholders may ask for higher dividends or may like to have a greater say in management. The consumer cooperative may seek lower prices and better quality for the products they buy. All in all, the top management has to balance the interest of all the stakeholders – Government, trade unions, manufactures' association, financial institutions, consumer cooperatives and so on. Very often, the management's own economic aspirations may come in conflict with those of other groups. If the management can easily resolve thee conflicts, it get the better of the environment. And if the management accentuates thee conflicts, it becomes the city of the environment. The management may dictate or be dictated to by the negative/positive foresee the environment.

A good amount of managerial skills is required in adjusting to the environment. The managers must have a thorough knowledge and understanding of the immediate business environment. With experience and maturity, the alert managers acquire the skill to deal with the environment. When an environment repents itself, experienced managers effectively display their capability to take care of it. When the changing dimensions of the environment establish a sudden departure from past trends and tendencies, the managers are called upon to demonstrate their capability to deal with the situation of risk and uncertainty. The environment, thus, poses a challenge to the management. Managerial efficiency and/or effectiveness is a measure of adaptability to the existing business environment.

Actors involved in sensing opportunities

To sense an entrepreneurial opportunity, an entrepreneur employs his/her sharpened skills of observation, analysis and synthesis to identify an opening. The most important factors involved in the process are:

1. Ability to perceive and preserve basic ideas which could be used commercially

2. Ability to harness different sources of information

3. Vision and creativity

Ability to perceive and preserve basic ideas

Spotting an idea often triggers the process of sensing an opportunity. The following are the various sources which lead to the emergence of basic ideas.

a**) Problems:** When a problem exists, an idea leads to a solution to resolve that problem, it emerges as a business opportunity.

b) **Change:** A change in social, legal, technological aspects etc. leads to new opportunities to start a business.

c) **Inventions:** New products or services leads to new business opportunities.

d) **Competition:** Competition often results in emergence of new and better ideas that result in new business opportunities.

e) **Innovation:** Creating new things of value as well as new and creative processes that add value to the existing products or services. For example, computers to tablets.

their vision to convert the solution into business opportunity helps them to move forward,

overcoming all the obstacles. They constantly

a) overcome adversity

b) exercise control over the business

c) make a significant difference.

Environment scanning

Business environment may be defined as all those conditions and forces external to a business unit under which it operates. Entrepreneurship does not emerge and grow spontaneously. Rather, it is dependent upon several economic, social, political, legal and other factors.

What is environment scanning?

Careful monitoring of an organization's internal and external environment for detecting early signs of opportunities and threats that may influence its current and future plans.

Why do we need to scan our environment?

In a rapidly changing environment, one rule of thumb applies: If you don't adapt, you don't endure. This is the core idea behind environmental scanning. Definitions of the term refers to the means by which organizations gather information on changing conditions and incorporate those observations into a process where necessary changes are made. The right information, combined with the right adaptations, can determine an organization's future viability. If an entrepreneur is not aware of the environment surrounding his/her business, he/she is sure to fail.

Importance of environment

Sensitivity to environmental factors is crucial for an entrepreneur. If a company is able to adapt to its environment, it would succeed in the long run. For example, Sony is failing to understand the changing trends in mobile phones and therefore losing it‟s market share. The benefits of understanding the relevant environment of business are:

i) Identification of opportunities to get first mover advantage:

By keeping in touch with the changes in the external environment, an enterprise can identify opportunities and find strategies to capitalise on the opportunities at the earliest.

For example, Volvo, the Swedish brand, has 74% share in the luxury bus segment as it had entered India earlier.

ii) Formulation of strategies and policies:

It helps in identifying threats and opportunities in the market. These can serve as the basis of formulation of strategies to counter threats and capitalise on opportunities in the market.

iii) Tapping useful resources:

If the company has a thorough knowledge of the external environment, it can tap raw materials, technology and even financial resources from the market at economical prices, at the right time.

iv) Better performance:

Proper understanding of the various elements of the external environment is necessary to take timely action to deal with threats and avail opportunities for the purpose of improvement in the performance of the firm.

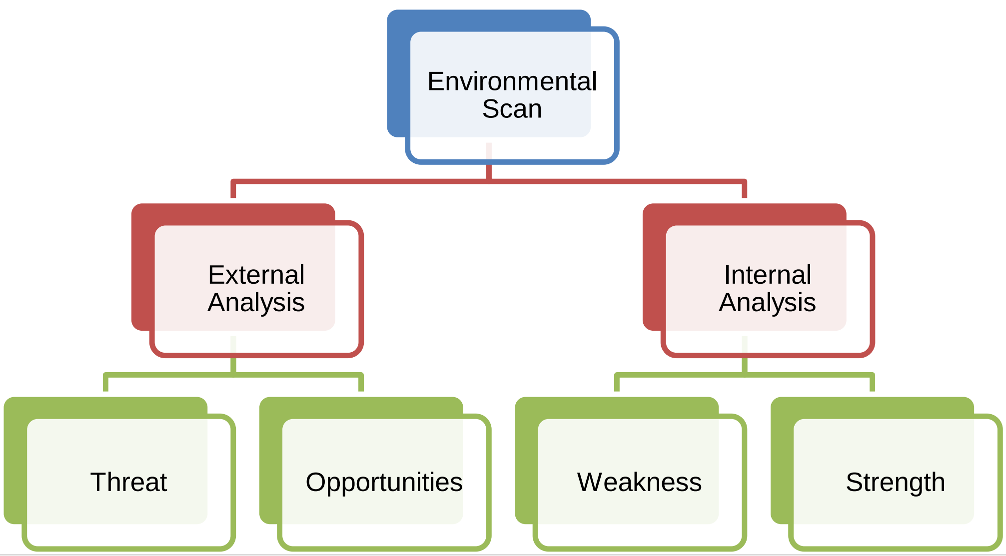
v) Sensitisation of entrepreneurs to cope up with rapid changes:

A keen watch on the trends in the environment would help sensitise the entrepreneur to changing technology, competition, government policies and changing needs of the customers. For example, trends in clothing.

i) Image building:

If a company is sensitive to the external environment, it will come out with new products and services to meet the requirements of the customers. This would build the image or reputation of the firm in the eyes of the general public. For example, call–radio taxis with additional features like GPS systems, online booking etc.

SWOT Analysis Framework



Analysis of environment

Environment analysis is the process of monitoring the economic and non-economic environment, to determine the opportunities and threats to an organisation. Such an analysis involves data collection, information processing and forecasting to provide a rational basis for developing goals and strategies for business survival and growth.

Information for environmental scanning can be collected from several sources. These include

a) verbal information from customers, wholesalers, retailers, distributors, consultants, etc.

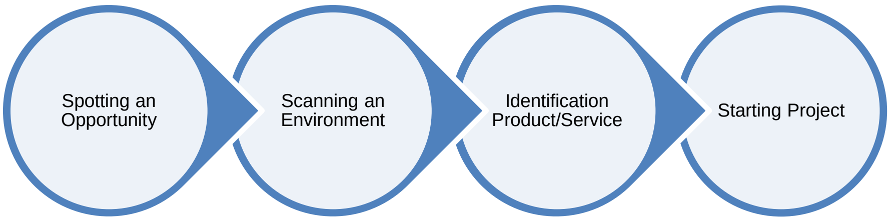
b) records of companies

c) government publications

d) publications by various financial institutions

e) formal studies conducted by strategic planners

Interface

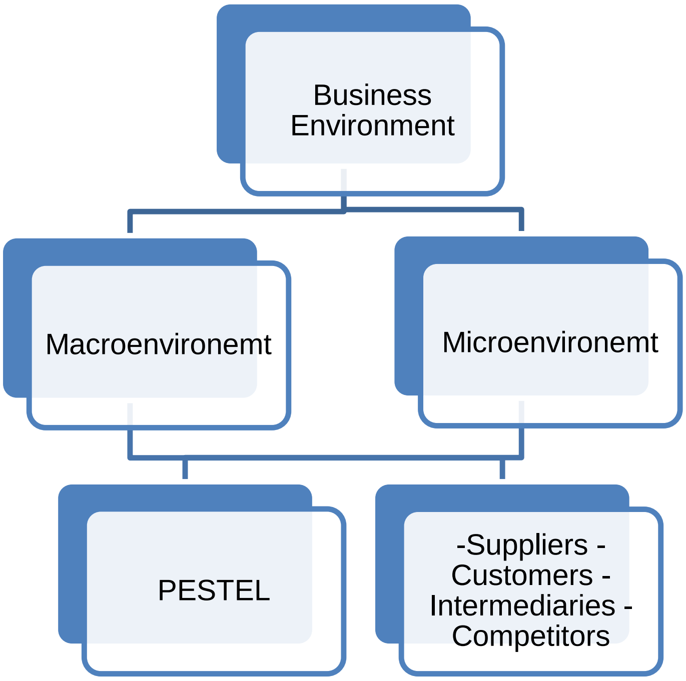


Opportunity – Project Interface

The flow chart shows that an opportunity received by the entrepreneur should be tested against important environmental parameters to arrive at a sound business choice. This interface is an evaluative process leading to a judgement.

Environmental factors

Entrepreneurship environment refers to the various forces within which various small, medium and large enterprises operate. These factors exert influence upon each other and do not operate in isolation. Business environment consists of two levels, i.e., micro environment and macro environment.



For example, an airline is planning to expand over the next five years. The following would be some of the **PESTEL** factors it should consider:

Political: Political unrest, terrorism, landing rights in foreign countries.

Economic: Oil prices, exchange rates, taxation (For example, VAT on fuel), economic boom or depression (airline revenues are very sensitive to business traffic)

Social: Change in population size, fashion (For example, increasing willingness to go on short breaks)

Technological: Engine efficiency, new aircraft being planned, better and cheaper video conferencing.

Ecological: Concern about the impact of carbon emissions from jet engines, noise, resistance to airport expansion.

Legal: Health and safety regulations, consumer legislation (For example, compensation for cancelled flights), safety and security legislations.

Advantages and Disadvantages of a PESTLE Analysis

The advantages of using the PESTLE tool are:

- The tool is simple and easy to understand and use.
- The tool helps understand the business environment better.
- The tool encourages the development of strategic thinking.
- The tool helps reduce the effect of future business threats.
- The tool enables projects to spot new opportunities and exploit them effectively.

The disadvantages of using the PESTLE tool are:

- The tool allows users to over-simplify the data that is used. It is easily possible to miss important data.
- The tool needs to be updated regularly to be effective.
- The tool is most effective when users come from different perspectives and departments.
- The tool requires users to have access to data sources which could be time consuming and expensive.
- Much of the data used by the tool is on an assumption basis.
- The business environment is changing drastically. Thus, it is becoming increasingly difficult for projects to anticipate developments.

Sam Walton, the founder of Wal-Mart, was another entrepreneur who touched millions of lives in a positive way. His innovations in distribution warehouse centers and inventory control allowed Wal-Mart to grow, in less than thirty years, from a single store in Arkansas to the nation"s largest

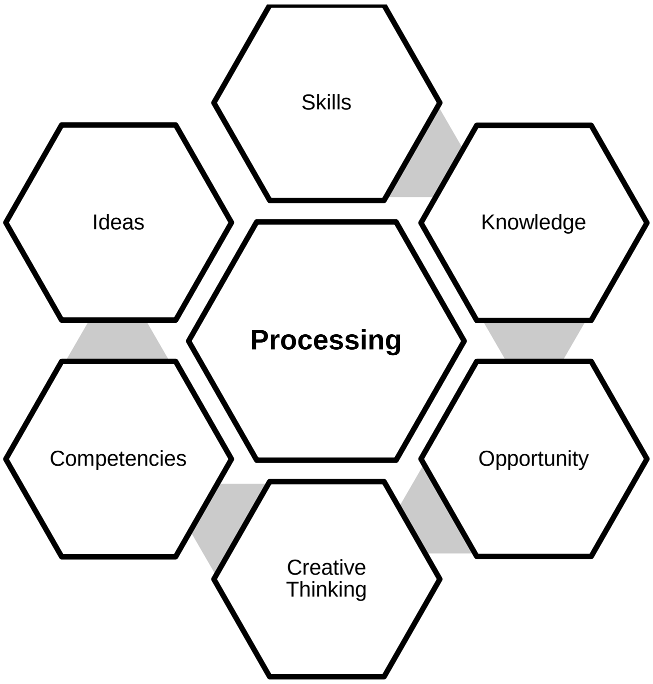
retail chain. Shoppers benefit from the low prices and convenient locations that Walton's Wal- Marts provide. Along with other entrepreneurs such as Ted Turner (CNN), Henry Ford (Ford automobiles), Ray Kroc (McDonald"s franchising), and Fred Smith (FedEx), Walton significantly improved the everyday life of millions of people all over the world.

Product identification

After opportunity spotting and scanning of the environment, an entrepreneurial idea should lead to a definite product.

Transformation of ideas into opportunities

While the initial spotting of ideas (i.e., basic idea) is of a random nature, the development of ideas after scanning the environment (i.e., post scanning) idea is a more purposeful activity. Thus the former is an experiential process while the latter is a strategic process. All basic ideas have to undergo a vigorous process of examination, evaluation, analysis and synthesis to identify viable opportunities. This process of a basic idea becoming an opportunity is shown in the diagram below:



The above figure shows that a strategic positioning is required to convert an idea into an opportunity. This simply means that knowledge, skills, competencies and creative thinking needed to develop an idea are backed by factors critical for market success. When knowledge, skills, competencies and creativity are strategically applied or market orientation, a viable venture is born.

Idea and opportunity assessment

In a sense generating ideas is relatively an easy exercise, especially if it is done in groups. However, this process can also become a wild goose chase because all ideas need not necessarily become sound business opportunities. We have to assess it in terms of the potentiality of the opportunity. The steps involved in this type of investigation are discussed below:

1. Product identification

An idea should lead the entrepreneur to a definite product/service which he can sell. So the first step is to obtain a concept of the product or service suggested by one idea. We should also see whether this product is already available in the market or not. If it is, then we should identify the reason for introducing the same product or service in the market. For example, innovating a new pendrive especially for teachers which will have a built in antivirus and which can be worn like a watch so it minimises the problem of losing the pendrive.

2. Application and use

Ideas should be examined for their real life use and application. If it already exists in the market, we will have to find out its present use, then we may think of modifying it for better use. In the above mentioned example, we can clearly see that even though there are many companies manufacturing pendrives, the latest will be in consonance with the upcoming trends.

3. Level of operation

This is a crucial test for product/service identification. Depending on the use of the product/service the entrepreneur will produce it in a cottage industry or a small scale– industry or a large–scale industry.

4. Cost

What is the per unit cost of the product at particular level of operation? Whether this cost is comparable with that of other competitive products? These are some of the questions that have to be answered. This will ultimately decide the sale price.

5. Competition

Any product or service will face market competition at some stage. So market competition

should be assessed through a study of the trends in demand and supply.

6. Technical complexity

What type of technology is required to produce the product? Whether training and application of such technology will be locally available or will it have to be supported from other places? What would be the position of supply of plant and machinery for such a technology? These are important issues that have to be resolved.

7. Annual turnover and profit margin

Ideas should also have to be examined on the basis of expected annual turnover. This will also indicate the market share of the product or service.

Once the entrepreneur has assessed the opportunities on these basis he/she should go ahead and assess the market also.

Market assessment

Selection of a product or service will depend upon many factors. While assessing the market, an entrepreneur has to prepare details on the following lines:

1. Demand

The demand assessment will be based on the size of market being targeted, i.e., local markets, market at state level or national/international market. It will also involve a study of the target groups of consumers, their preferences, tastes and other related variables.

2. Supply and nature of competition

While assessing market, supply position is also studied by entrepreneurs. By supply position what is meant is the complete picture of quantities of the product made available in the market by all the existing players. It should take into account future supplies from possible entrants in the field.

3. Cost and price of product

It is important to determine the cost of the product and its comparison with available products in the market. Cost variable of competitors in terms of transportation delays, wastage, storage etc., have to be studied to spot cost advantage. This will influence the delivery mechanism of the identified product or service.

4. Project innovation and change

Market assessment will require a study of prevailing innovations and changes being carried out by existing entrepreneurs. Technological advancements in the field have to be analysed because they may change the quality and influence the cost and price ultimately.

Environmental Scanning

Environmental scanning, thus, becomes an important step towards corporate planning and business policy decisions. Corporate mangos analyse the **Strengths (S), Weakness (W), Opportunities (O) and Threats (T)** that exist for their organisation in the context do its environment. The SWOT analysis precedes the making/taking of strategic and tactical decisions by the management.

The economic environment of business exercise a strong influence on the non-economic environment of business just as the non-economic environment influences the economic environment. The economic environment is, thus, both exogenous and indigenous, it determines as well as it is determined by the non-economic environment. Let us consider a few specific interactions.

The social environment affects and gets affected by the economic environment of business.

Social attitudes towards business and management determine how many people get attracted to private business as an activity and to management as a career. If business gets social sanction as a respectable profession, the occupational structure of a country

will reflect a sizable category of professional mangers. On the other hand, if more and roe of the active labour force joins professional management, the social attitude towards business and its management also changes.

Let us take another example : Social movements largely determine the economic system. If the workers cultivate an attitude of confrontation, rather than cooperation, with management, a repressive economic system may be needed to cope with industrial disorder. On the other hand, if the attainment of rapid economic growth is the target, the management must bring about a labour productivity revolution and the wages may be base don productivity of labour rather than profitability of business. To operate on productivity-based wages is cooperate on the system of incentives and positive attitudes of labour. The attainment of a specific economic objectives is, thus, conditioned by a specific social attitude and discipline.

The educational cultural environment and the economic environment of business are also interdependent. The state of economic development acts as a decisive factor in the choice of a system of education. For example, only a relatively high-income country can afford to impart costly higher education in science and technology. The system of education, on the other hand, may be responsible for a given economic environment. For example, the emphasis on education in the arts and a lack of vocational course may be held responsible for the economic problem of unemployment in many countries.

The politico-legal environment and economic environment of business are also interlocked to such an extent that we sometimes think of political economy business. In a situation of political stability, business enterprises happen to be forthcoming and businessmen are willing to take more economic risk. But if there is political instability, business uncertainties multiply and, therefore, entrepreneurs may not like to take up new business ventures.

The state of business in Assam and other North East states during the period of terrorism is a recent example. Similarly, the ideology of the ruling party influxes the economic system. The ruling party which believes in using socialism as a strategy and nationalization of enterprises as a tactic to strengthen the economy may not be favourably viewed by the private business sector. On the other hand, sometimes a series of political legislations may be necessary to cope with the economic environment. To fight economic and industrial recession, the strategy of streamlining the administration and simplifying the procedure my be adopted. In fact, different legislations of the Government (like MRTP Act, FERA, and Urban Land Ceiling Act) are often politico-economic in character. This is borne out by Ana analysis of the content and intent of different legislations and political announcements. Also the state of economic environment decides the continuity or discontinuity of a particular political administrating. The state of the political environment, in its turn, decides the pattern of economic legislations.

Ability to harness different sources of information

Various sources like magazines, journals, books, seminars, trade shows, family members, customers, friends etc. help in getting information that results in evolution of basic ideas. Bring together various sources of information and knowledge, and analyze it to the best possible extent. The analysis helps in the identification of the right opportunity to start a new business.

Vision and creativity

Creativity in innovating a solution and vision. The entrepreneur should be able to creatively identify an idea to generate a valuable solution to a problem.

Liberalization

Liberalization means relaxation of various government restrictions in the areas of social and economic policies. Liberalizing trade policy by the government that is removal of tariff, subsidies and other restrictions on the flow of goods and services between countries is also termed as liberalization.

Liberalization is the result of New Industrial Policy which abolished the **"License system".** All industries except six major industries were liberalized. As a result industries grew rapidly and therefore liberalization also means deregulation and delicensing of industries.

Autonomy at large has resulted because of liberalization. Liberalization means to follow liberal economic policy, accepted by the world. It has revolutionized the entire business world and has provided highly competitive opportunities for all countries. Liberalization has opened new business opportunities abroad and increased foreign direct investment.

Liberalized trade policy resulted in the free flow of goods from and within the country. A number of multinational company started operating world wide including India. New market for various goods came into existence and resulted not only in urban but also in rural development. It became very easy to obtain loans from banks for business expansion. "Foreign Collaboration" is the latest outcome of liberalization.

The major purpose of liberalisation was to free the large private corporate sector from bureaucratic controls. It, therefore, started dismantling the regime of industrial licensing and controls. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a short set of 18 industries.

Measures of Liberalization adopted by Government of India: The government of India has adopted several measures of liberalization. Some of these measures are as under :

- License rule, except six industries abolished.
- Limit for foreign equity increased to 51%.
- Import duty on export related capital goods reduced to 15% and for project imports 25%.

- Corporate tax for domestic companies reduced from 45% to 0% and from 15% to 55% for foreign companies.
- Relaxation in foreign exchange regulation Act.
- Reforms is custom duties.
- Basic Telecommunication services opened to private sectors.
- Abolished minimum lending rate for the amount exceeding Rs.2, 00,000/-.
- Allow private investment in private sector.
- Establishment of private banks allowed.
- Five year tax holiday to new industrial unit set up in backward areas.
- Automatic approval for 100% export oriented units and the units in export processing zones.

The environment and management thus influence each other. The existing environment influences corporate level planning, business strategy and business tactics; it also affects the size, structure, location integration and growth of business. The management's success or failure is determined by its adjustment to favourable/adverse environmental factors. The nature of such realisation, its frequency and duration induces corporate managers to cultrate some standards of business philosophy, business ethics and business practices. Simultaneously, Government mangers, the labour managers and the like also start adjusting to the changing organisation-culture. This yields a new business environment. And so the process continues. It is thus, a never-needing process of interactions : Environment - > Management -> Environment ->. It is like a biological organism which keeps both the environment and the management continuously responsive to each other.

Changing Scenario since liberalization

The main aim of the liberalisation was to dismantle the excessive regulatory framework that curtailed the freedom of enterprise. Over the years, the country had developed a system of "licence–permit raj'. The aim of the new economic policy was to save the entrepreneurs from unnecessary harassment of seeking permission from Babudom (the bureaucracy of the country) to start an undertaking.

Similarly, the big business houses were unable to start new enterprises because the **Monopolies and Restrictive Trade Practices (MRTP) Act** had prescribed a ceiling on asset ownership to the extent of Rs.100 crores. In case a business house had assets of more than Rs.100 crores, its application after scrutiny by the **MRTP Commission** was rejected. It was believed that on account of the rise in prices this limit had become outdated and needed a review. The second objection by the private sector lobby was that it prevented big industrial houses from investing in heavy industry and infrastructure, which required lump sum investment. In order that the big business could be enthused to enter the core sectors- heavy industry, infrastructure, petrochemicals, electronics etc., with big projects, the irrelevance of **MRTP** limit was recognized and hence scrapped.

The major purpose of liberalisation was to free the large private corporate sector from bureaucratic controls. It, therefore, started dismantling the regime of industrial licensing and controls. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a short dset of 18 industries.

Globalisation is primarily economic phenomenon, involving the increasing interaction, or integration, of national economic systems through the growth in international trade, investment and capital flows. A rapid increase in crossborder social, cultural and technological exchange is part of the phenomenon of globalisation.

Economic Reforms :

- Liberalisation,
- Globalisation and
- Privatisation

Globalization:

Globalization essentially means integration of the national economy with the world economy. It implies a free flow of information, ideas, technology, goods and services, capital and even people across different countries and societies. It increases connectivity between different markets in the form of trade, investments and cultural exchanges.

The concept of globalization has been explained by the IMF (International Monetary Fund) as 'the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology.'

The phenomenon of globalization caught momentum in India in 1990s with reforms in all the sectors of the economy. The main elements of globalization were:

1. To open the domestic markets for inflow of foreign goods, India reduced customs duties on imports. The general customs duty on most goods was reduced to only 10% and import licensing has been almost abolished. Tariff barriers have also been slashed significantly to encourage trade volume to rise in keeping with the World trade Organization (WTO) order under (GATT)General Agreement on Tariff and Trade.

The amount of foreign capital in a country is a good indicator of globalization and growth. The FDI policy of the GOI encouraged the inflow of fresh foreign capital by allowing 100 % foreign equity in certain projects under the automatic route. NRIs and OCBs (Overseas Corporate Bodies)may invest up to 100 % capital with repatriability in high priority industries. MNCs and TNCs were encouraged to establish themselves in Indian markets and were given a level playing field to compete with Indian enterprises.

Globalisation intends to integrate the Indian economy with the world economy. Globalisation is considered to be an important element in the reforms package.

It has four parameters :

(i) Reduction of trade barriers so as to permit free flow of capital and services across national frontiers;

(ii) Creation of an environment in which free flow of capital can take place;

(iii) Creation of an environment permitting free flow of technology among nation-states; and

(iv) Creation of an environment in which free movement of labour can take place in different countries of the world.

The advocates of globalisation, especially from the developed countries, limit the definition of globalisation to only **three components** viz., **unhindered trade flows, capital flows and technology flows.** They insist that the developing countries accept their definition of globalisation and conduct the debate on globalization within the boundaries set by them. But several economists and social thinkers in developing countries believe that this definition is incomplete. If the ultimate aim of the globalization movement is to integrate the world into one global village, then the fourth component of unrestricted movement of labour cannot be left out. But whether the debate about globalisation is carried out at the World Trade Organisation (**WTO**) or at any other international forum, there is a deliberate effort to black out 'labour flows' as an essential component of globalisation.

To pursue the objective of globalisation, the following measures have been take:

(i) Reduction of import duties: There has been a considerable reduction in import duties. A reduction in import duties and the extension of **MODVAT** credit on taxes paid on inputs have been important measures for improving efficiency of the tax system.

(ii) **Encouragement of foreign investment:** The government has taken a number of measures to encourage foreign investment. The main measures taken in this regard are:

a) Approval would be given for direct investment upto 51 per cent foreign equity in high priority industries as per Industrial Policy of 1991. There shall be no bottlenecks of any kind in this process. Such clearances will be given if foreign equity covers the foreign exchange requirements for imported capital goods.

b) To provide access to international markets, majority foreign equity holding up to 51% equity would be allowed for trading companies primarily engaged in export activities.

iii) Encouragement to foreign technology agreement: The Industrial Policy of 1991 undertook the following measures:

a) Automatic permission will be given for foreign technology agreements in high priority industries up to a lump sum payment of Rs.1crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% sales over a 10 year period from the date of the agreement or 7 years from commencement of production.

b) In respect of other industries, automatic permission would be given if no free foreign exchange were required for any payments.

c) No permission will be necessary for hiring of foreign technicians and foreign testing of indigenously developed technologies.

Advantages of Globalization:

- There is a decline in the number of people living below the poverty line in developing countries due to increased investments, trade and rising employment opportunities.
- There is an improvement in various economic indicators of the LDCs (Less Developed Countries) such as employment, life expectancy, literacy rates, per capita consumption etc.
- Free flow of capital and technology enables developing countries to speed up the process of industrialization and lay the path for faster economic progress.
- Products of superior quality are available in the market due to increased competition, efficiency and productivity of the businesses and this leads to increased consumer satisfaction.
- Free flow of finance enable the banking and financial institutions in a country to fulfill financial requirements through internet and electronic transfers easily and help businesses to flourish.
- MNCs bring with them foreign capital, technology, know-how, machines, technical and managerial skills which can be used for the development of the host nation.

Disadvantages of Globalisation:

• Domestic companies are unable to withstand competition from efficient MNCs which have flooded Indian markets since their liberalized entry. It may lead to shut down of operations, pink slips and downsizing. Moreover skilled and efficient labour get absorbed by these MNCs that offer higher pay and incentives leaving unskilled labour for employment in the domestic industries. Thus there may be unemployment and underemployment.

- Payment of dividends, royalties and repatriation has in fact led to a rise in the outflow of foreign capital.
- With increased dependence on foreign technology, development of indigenous technology has taken a backseat and domestic R and D development has suffered.
- Globalization poses certain risks for any country in the form of business cycles, fluctuations in international prices, specialization in fewexportables and so on.
- It increases the disparities in the incomes of the rich and poor, developed nations and LDCs. It leads commercial imperialism as the richer nations tend to exploit the resources of the poor nations.
- Globalization leads to fusion of cultures and inter-mingling of societies to such an extent that there may be a loss of identities and traditional values. It gives rise to mindless aping of western lifestyles and mannerisms however ill-suited they may be.
- It leads to overcrowding of cities and puts pressure on the amenities and facilities available in urban areas.

Privatisation

Privatisation deals with the transfer of businesses from the state to the private sector. This commonly involves complex contractual structures to be put in place, and the industries concerned are usually closely regulated.

Privatisation in narrow sense indicates transfer of ownership of a public sector undertaking to private sector, either wholly or partially. But in another sense, it implies the opening up of the private sector to areas, which were hitherto reserved for public sector. Such deliberate encouragement of investment to the private sector in the economy, will over a period of time increase the overall share of the private sector in the economy. This is the broader view in which privatisation of the economy can be effected. The basic purpose is to limit the areas of the public sector and to extend the areas of private sector operation including heavy industries and infrastructure.

Privatisation is, therefore, a process of involving the private sector in the ownership or operation of a state owned or public sector undertaking. It can take three forms:

(i) Ownership measures;

(ii) Organisational measures; and

(iii) Operational measures.

(i) **Ownership measures:** The degree of privatisation is judged by the extent of ownership transferred from the public enterprises to the private sector.

Ownership may be transferred to an individual, co-operative or corporate sector. This can have three forms:

a) Total decentralization implies 100 per cent transfer of ownership of a public enterprise to private sector.

b) Joint Venture implies partial transfer of a public enterprise to the private sector. It can have several variants – 25% transfer to private sector in a joint venture implies that majority ownership and control remains with the public sector. 51% transfer of ownership to the private sector shifts the balance in favour of the private sector, though the public sector retains a substantial stake in the undertaking. 74% transfer of ownership to the private sector implies a dominant share being transferred to private sector.

In such a situation, the private sector is in a better position to change the character of an enterprise.

c) Liquidation implies the sale of assets to a person who may use them for the same purpose or some other purpose. This solely depends on the preference of the buyer.

d) Workers' co-operative is a special form of decentralization. In this form, ownership of the enterprise is transferred to workers who may form a cooperative to run the enterprise. In such a situation, appropriate provision of bank loans is made to enable workers to buy the shares of the enterprise.

The burden of running the enterprise rests on the workers in a workers' Co-operative. The workers become entitled to ownership dividend besides getting wages for their services.

(ii) Organizational measures include a variety of measures to a limited state control. They include :

a) A holding company may be designed to taking top-level major decisions with sufficient degree of autonomy for the operating companies in its hold in their day-to- day operations. A big company like the **Oil & Natural Gas Commission (ONGC), Steel Authority of India (SAIL)** or **Bharat Heavy Electricals Limited (BHEL)** may acquire a holding status, thereby transferring a number of functions to its smaller units. In this way, a decentralized pattern of management emerges.

b) **Leasing:** In this arrangement, the government agrees to transfer the use of assets of a public enterprise to a private bidder for a specified period, say of 5 years. While entering into a lease, the bidder is required to give an assurance of the quantum of profits that would be made available to the state. This is a kind of tenure ownership. The government reserves the right to review the lease to the same person or to grant the lease to another bidder depending upon the circumstances of the case.

c) **Restructuring is of two types:** financial restructuring and basic restructuring.

(1) Financial restructuring implies the writing off of accumulated losses and rationalization of capital composition in respect of debt-equity ratio. The main purpose of this restructuring is to improve the financial health of the enterprise.

(2) Basic restructuring is said to occur when the public enterprise decides to shed some of its activities to be taken up by ancillaries or small-scale units.

(iii) **Operational measures:** The efficiency of public sector enterprises depends upon the organisational structure. Unless this structure grants a sufficient degree of autonomy to the operators of the enterprise or develop a system of incentives, it cannot raise its efficiency and productivity. These measures include: (a) grant of autonomy to public enterprises in decision making, (b) provision of incentives for workers and executives consistent with increase in efficiency and productivity, (c) freedom to acquire certain inputs from the markets with a view to reducing costs, (d) development of proper criteria for the investment planning, and (e) permission to public enterprise to raise resources from the capital market to execute plan of diversification/expansion. The basic purpose of operational measures is to infuse the spirit of private enterprise. ends of the society, just as nationalization and regulatory frame work were intended to achieve certain goals. These are:

1. To achieve high rate of growth of national and per capita income;

2. To achieve full employment;

3. To achieve self-reliance;

4. To reduce the inequality of income and wealth;

5. To reduce the number of people living below the poverty line;

6. To develop a pattern of society based on equality and absence of exploitation.

Privatization is a fuzzy concept. It covers a wide range of ideas, programmes and policies. In the broad sense of the term, privatisation is roll-back of the state in the lives and activities of citizen and strengthening the role of markets. In the narrow sense, privatization is transfer of ownership from the public to the private sector, or transfer of control over assets or activities as in the case of privatization through leasing, where ownership is retained, leaving management of assets and activity to private parties.

It may be noted that privatization changes the role of the state, and not necessarily reduces it. The monitoring and regulation of the privatised system, discussed later, is a complex and difficult job. The state also has the onerous responsibility of ensuring that a meaningful competition prevails in the privatised sectors of the economy, and the vulnerable sections of the society are not unduly adversely affected.

Reasons of Privatisation

(i) Micro-level Considerations

First, it is argued that private enterprise with accountability to shareholders and due to competitive atmosphere of the market economy can and often do improve performance.

Second, PEs in as much as they enjoy a monopolistic position and can have recourse to public resources, are not obliged to do well in the absence of a clearly defined index of accountability which can be enforced strictly.

Third, privatiation is also recommended on the ground that private enterprises are free from political interference at least in day-to-day operations, and also from bureaucratic redtapism in decision-making.

Fourth, private enterprises are supposed to benefit more from the managerial skills and efficiency.

(ii) Macro-level Considerations

First, there is much ideological fight against the public sector. The US government's approach has always been to emphasise market-oriented economic policies. The ultrarightist British government of Mrs. Thatcher was on a spree of denationalisation. This greatly pushed the idea of privatisation the world over. The pressure of the US government-controlled international financial institutions for privatisation is also relevant in this regard.

PEs have not been able to perform well commercially, interalia, due to overloading of undefined and vague social objectives. There has also been an excessive political and bureaucratic intervention. PEs did not get the required guidance and support from the government due to the incompetence and short-range perspective of the latter. For example, the government is not unaware of the need to provide a stable and competent board of directors to its enterprises. But it has consistently and continuously failed to meet its obligations due to various avoidable reasons, including petty and personal considerations. All this naturally affects PE performance and reflects poorly on the PE concept. This is particularly true of state-level PEs in India.

Aspects of Privatization:

The main aspects of privatization in India are as follows;

1.Autonomy to Public sector : Greater autonomy was granted to nine PSUs referred to as ‘navaratnas’ (ONGC, HPCL, BPCL, VSNL, BHEL) to take their own decisions.

2.Dereservation of Public Sector : The number of industries reserved for the public sector were reduced in a phased manner from 17 to 8 and then to only 3 including Railways, Atomic energy, Specified minerals. This has opened more areas of investment for the private sector and increased competition for the public sector forcing greater accountability and efficiency.

3.Disinvestment Policies : Till 1999-2000 disinvestment was done basically through sale of minority shares but since then the government has undertaken strategic sale of it’s equity to the private sector handing over complete management control such as in the case of VSNL , BALCO .etc.

Determinants of Privatization

There is ample evidence to support the finding that privatisation has been heavily conditioned by one constraining factor or the other in the cross-section of countries in the developing world. Some of these are considered below.

1. **Development planning.** Basic limits to privatization comes from the kind of development planning in the country Most developing countries have economic and social development plans - usually the five year plant. The essence of such plans is to inject in the economy forces of development that would not materialize if left to the market.

Privatization, in the sense of commercialization, is obviously an opposite concept. If this should succeed, planning which introduces wide-ranging 'administered' interventions in economic development should he given up, or there should be material relaxations in its mandatoriness. Few governments in the developing world can ignore the imperatives of the objective of national wellbeing. And it would be necessary to devise techniques of subserving the objectives of plannning, despite privatisation. This would not be easy but an attempt could be made so as to promote privatisation through appropriate non-divestiture options. It is also possible that the divested enterprise is brought into a contractual relationship with the government in respect of the 'socially desired' input and output objectives. In other words, the cost involved of the non-marketoriented but socially desired activities would be met through the budget.

2. Efficacy of private enterprise. Divestitures tend to be under constraints where the private sector to which enterprises may be transferred exists but its efficiency is not demonstrably clear. The private sector depends on disproportionately large funding from financial institutions in the public sector. It derives profit more from protected markets than from technical efficiency.

Further, the private sector is confined, by and large, to the categories of trade and secondary or light manufacturing industry, leaving the more basic, and slow and low yielding activities in the lap of the public sector.

3. Overall economic policies. Privatisation would have a limited chance of success, (i) unless the overall economic policies of the government are conducive to competition in input and output markets, (ii) unless there is adequate freedom for the entry and exit of foreign capital and for the conversion of the local currency into foreign (hard) currencies, and (iii) unless the financial institutions are so designed and regulated as to encourage economical financial management on the part of the enterprises.

4. Enterprise culture. In countries long dominated by PE, e.g. east Europe and Russia, the enterprise culture that is appropriate to a market economy does not exist. Privatisation in such cases is likely to have limited success pending an attitudinal change among the major actors - the bureaucrats, the owners, the managers and the workers. There will be continuing need of an interface between the bureaucrats and the enterprise, but this has to be qualitatively very different from the command-type intervention of the PE and central planning era. 'Owners' as a class have to be born and lived. Managers whose focus was on meeting the commands from above have to learn to behave by market disciplines.

5. Policy statement. Successful privatisation needs a clear statement of policy concerning privatisation. This simply does not exist in many countries, including India, UNDP's Guidelines on Privatisaium (1991), indicated the following to be covered in the policy statement. (i) Brief review of the PE sector and its performance. (ii) Objectives of privatisation, (iii) Modality options, (iv) Criteria of the choice of privatisation candidates, (v) Macro implication - (a)the distributional consequences, (b) the impact on the exchequer, (c) compatibility with national development Strategy, and (d) relationship to policies administrative reform, liberalisation and deregulation. (vi) Efficiency capabilities of domestic private enterprise, (vii) Establishment of a high-level Privatisation Advisory Body, (viii) Creation of a technical cell for privatisation with adequate resources, (ix) Publicity for privatisation decisions, and (x) Techniques of implementation.

6. Sequencing. Privatisation is not a one-day process. It takes years in terms of action and longer in terms of realising the objectives. A well-conceived sequencing helps privatisation as surely as an ill-conceived sequencing harm it.

Advantages of Privatization

Privatization indeed is beneficial for the growth and sustainability of the state-owned enterprises.

The advantages of privatization can be perceived from both microeconomic and macroeconomic impacts that privatization exerts.

A. Microeconomic advantages:

· State owned enterprises usually are outdone by the private enterprises competitively. When compared the latter show better results in terms of revenues and efficiency and productivity. Hence, privatization can provide the necessary impetus to the underperforming PSUs [16].

· Privatization brings about radical structural changes providing momentum in the competitive sectors [16].

· Privatization leads to adoption of the global best practices along with management and motivation of the best human talent to foster sustainable competitive advantage and improvised management of resources.

Macroeconomic advantages:

- Privatization has a positive impact on the financial health of the sector which was previously state dominated by way of reducing the deficits and debts.
- The net transfer to the State owned Enterprises is lowered through privatization.
- Helps in escalating the performance benchmarks of the industry in general.
- Can initially have an undesirable impact on the employees but gradually in the long term, shall prove beneficial for the growth and prosperity of the employees.

- Privatized enterprises provide better and prompt services to the customers and help in improving the overall infrastructure of the country.

Disadvantages of Privatization

Privatization in spite of the numerous benefits it provides to the state owned enterprises, there is the other side to it as well. Here are the prominent disadvantages of privatization:

- Private sector focuses more on profit maximization and less on social objectives unlike public sector that initiates socially viable adjustments in case of emergencies and criticalities.
- There is lack of transparency in private sector and stakeholders do not get the complete information about the functionality of the enterprise.
- Privatization has provided the unnecessary support to the corruption and illegitimate ways of accomplishments of licenses and business deals.
- Privatization loses the mission with which the enterprise was established and profit maximization agenda encourages malpractices like production of lower quality products, elevating the hidden indirect costs, price escalation etc..
- Privatization results in high employee turnover and a lot of investment is required to train the lesser-qualified staff and even making the existing manpower of PSU abreast with the latest business practices.
- There can be a conflict of interest amongst stakeholders and the management of the buyer private company and initial resistance to change can hamper the performance of the enterprise.
- Privatization escalates price inflation in general as privatized enterprises do not enjoy government subsidies after the deal and the burden of this inflation affects the common man.

Let us summarise these problems:

 The excessive development of bureaucratic controls began to act as shackles on growth;

 Overstaffing in public sector enterprises leads to an increase in cost of operation;

 Low rate of return on investment in public sector;

 Poor work ethic in public sector enterprises due to excessive job security and absence of incentives for better work;

 Entry of public sector in areas of consumer goods for which it was never meant. Thus, this unnecessary expansion resulted in absence of focus and dilution in the quality of management;

 Some public sector enterprises were incurring losses year-after year and as such had become a burden on the ex-chequer, instead of being an asset to the nation.

The measures undertaken, whether under liberalisation, globalisation or, privatisation are all designed to rectify these problems so that working of the economy becomes more efficient and the rate of growth of the economy improves. Higher rate of growth, it is felt, is the remedy to improve the level of employment, to reduce poverty and to assure a better living standard to the people.

The main aim of liberalisation was to dismantle excessive regulatory framework and bureaucratic controls that acted as shackles on freedom of enterprise.

The ceiling on assets fixed under **MRTP Act** has been abolished in order to permit large houses to undertake investment in the core sectors – heavy industry, infrastructure, petro-chemicals, electronics etc., with a view to introduce competition.

The number of items requiring licensing was reduced to a short list of bare 4 industries. This freed the private sector to set up industrial units quickly.

Globalisation intends to integrate the Indian Economy with the world economy.

Four parameters to globalisation are: (i) **trade flows**, (ii) **capital flows**, (iii) **technology flows** and (iv) **labour flows**. If the developed countries were to restrict the definition to only three and omit labour flows, globalisation will remain incomplete.

Measures promoting globalisation in India include:

(i) Reduction of import duties

(ii) Encouragement of foreign investment through

a) Grant of automatic approval for direct foreign investment upto 51 per cent equity participation.

b) Majority foreign equity holding upto 51 per cent allowed in trading companies.

(iii) Encouragement of foreign technology agreements within prescribed limit of payments in foreign exchange.

Privatisation is the process involving the private sector in the ownership or operation of a state-owned undertaking. It has three forms:

(i) Ownership measures include: (a) Total denationalization, (b) Joint Ventures, (c) Liquidation and (d) Worker's co-operatives

(ii) Organisational measures include: (a) A holding company structure, (b) Leasing, (c) Restructuring – either financial restructuring or basic restructuring, or both

(iii) Operational measures are aimed at improving the efficiency and productivity of an organisation. They include:

a) Grant of autonomy in decision-making

b) Provision of incentives for workers and executives

c) Freedom to acquire certain inputs from the market

d) Development of proper criteria for investment planning

e) Permitting public enterprises to raise resources from the capital market.

The basic purpose is to infuse the spirit of private enterprise in PSUs.

Privatisation in a broader sense implies encouragement of investment by private sector in areas hitherto reserved for the public sector so that the overall share of private investment sector improves in the economy in the long run.

Liberalisation, globalisation and privatisation are intended to achieve certain long-term goals of society. These goals are: (i) higher growth of national and per capita income, (ii) full – employment, (iii) self-reliance, (iv) reduction of inequalities of income and wealth, (v) reduction of population, below the poverty line. In nutshell these measures aim at creating a society based on growth with social justice.

Business Structures

Choosing the right business structure can have benefits and protections for legal obligations/liabilities, taxation matters and succession issues. The choice of the correct or most appropriate business structure, will be influenced by the advantages and disadvantages of each structure. For example:

- Running a business as a sole trader maybe appropriate for very small businesses which do not employ staff (or very few staff) and which do not have significant commercial risks.
- For slightly larger businesses employing staff and/or being subject to higher levels of commercial and creditor risk, a limited liability Company is likely to be a more viable structure.
- Partnerships or joint venture arrangements may be appropriate for individuals or entities operating in the same business enterprise.
- A Family Trust and/or a commercial “trading Trust” - or combination.

Types of Ownership Structures

The most common ways to organize a business:

 Sole Proprietorship

 Partnership

 Limited partnership

 Limited Liability Company (LLC)

 Corporation (for-profit)

 Nonprofit Corporation (not-for-profit)

 Cooperative.

Sole Proprietorships and Partnerships

For many new businesses, the best initial ownership structure is either a sole proprietorship or -- if more than one owner is involved -- a partnership.

Sole Proprietorships

A sole proprietorship is a one-person business that is not registered with the state like a **limited liability company (LLC)** or corporation. One doesn't have to do anything special or file any papers to set up a sole proprietorship -- one creates one just by going into business for oneself.

Legally, a sole proprietorship is inseparable from its owner -- the business and the owner are one and the same. This means the owner of the business reports business income and losses on his or her personal tax return and is personally liable for any business-related obligations, such as debts or court judgments.

Characteristics of sole proprietorship:

As 'sole' means single and 'proprietor' means owner, this type of business is one person show exhibiting following features:

1) Individual ownership: This business is exclusively owned by a single person.
2) **Individual management and control:** "What is to be done, how it is to be done, and when it is to be done‖ - all affairs are managed and controlled by the sole proprietor. Though, competent people can also be employed for efficient management.
3) **Individual financing:** All investment is made by the proprietor. Though, if required he/she has access to loans and debts to procure funds for business.
4) **No separate legal entity:** Legally, the proprietor and proprietorship are one and the same business and owner exists together, thus with owner's death, business too dies.
5) **Unlimited liability:** The proprietor is liable/responsible for all losses arising from business. In case the business assets are insufficient to pay off liabilities, his/her personal property can be called upon to pay his business debts.
6) **Sole beneficiary:** The sole proprietor alone is entitled to all the profits and losses of business. So he/she puts his/her heart and soul to increase his/her profits.
7) **Easy formation and closure:** Sole proprietorship is subjected to minimum legal formalities and regulations both at the time of commencing and/or closing.
8) **Limited area of operation:** This form of business generally has a limited area of operation due to:

- limited finance availability
- limited managerial abilities

Suitability of sole proprietorship form of business

The success or failure of an enterprise depends upon the intelligence, competence and sensible decision making capacity of the entrepreneur. Before opting for sole proprietorship, an entrepreneur should carefully compare and evaluate pros and cons of this form. Basically, this type of form is suitable when:

1. Capital requirement is limited
2. Confidentiality / secrecy is important
3. Market is local
4. Goods are of artistic nature or demands customized approach
5. Quick decision–making is necessary
6. Size of the venture is small.

Legal formalities involved

Sole proprietorship registration procedure

A sole proprietorship does not need to be registered (so yes, 'registration of a sole proprietorship' is a wrong thing to say) and is therefore an inexpensive manner of commencing business.

However, in order to start a sole proprietorship an entrepreneur requires certain industry specific licenses. A few general factors are:

1. Business name: Sole proprietors are under no obligations to select a trade name for their business. How so ever they are free to do so if they desire to.

2. Service tax registration: Form ST 1 is to be filled for registration if the taxable services are more than 10 lakh for a financial year.

3. GSTN registration: If proprietorship is selling tangible goods within a state then GST applies, if it is inter-state then CGST applies. The threshold for registration for GST varies depending on the city in which entrepreneur commences business but a CGST registration is imperative if he/she affect an inter-state transfer.

4. Others: PAN Card no. of the sole proprietor, bank account no. in the name of sole proprietorship business, Shops & Establishment License, Employee Provident Fund Registration or Importer Exporter Code (if in export-import business) as and where applicable, have to be complied with.

5. Payment of taxes: A sole trader has to ensure his/her business meets the state and federal taxation requirements. Due to the fact that legally, a sole tradership and a sole trader are a single entity, the sole trader bears the taxes of the business.

Partnerships

Similarly, a partnership is simply a business owned by two or more people that haven't filed papers to become a corporation or a **limited liability company (LLC).** One doesn't have to file any paperwork to form a partnership -- the arrangement begins as soon as one starts a business with another person. As in a sole proprietorship, the partnership's owners pay taxes on their shares of the business income on their personal tax returns and they are each personally liable for the entire amount of any business debts and claims.

Sole proprietorships and partnerships make sense in a business where personal liability isn't a big worry -- for example, a small service business in which one is unlikely to be sued and for which one won't be borrowing much money for inventory or other costs.

Partnership form of organisation has developed due to the inherent limitations of sole proprietorship i.e.

a) Limited capital

b) Limited managerial ability

c) Limited continuity

In this era of specialization, expansion and diversification, expecting one man to combat them all is not possible.

Business acumen and wealth seldom meet in one person. This, desirable combination probably led to the emergence of Partnership form of business.

Meaning:

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses.

Thus, two or more persons may form a partnership by making a written or oral agreement to carry a business jointly and share its proceeds.

Limited Partnerships

Limited partnerships are costly and complicated to set up and run, and are not recommended for the average small business owner. Limited partnerships are usually created by one person or company (the "general partner"), who will solicit investments from others (the "limited partners").

The general partner controls the limited partnership's day-to-day operations and is personally liable for business debts (unless the general partner is a corporation or an LLC). Limited partners have minimal control over daily business decisions or operations and, in return, they are not personally liable for business debts or claims. Consult a limited partnership expert if you're interested in creating this type of business.

Characteristics of partnership:

The essential features of partnership are as follows:

1) Two or more persons:

Partnership is the outcome of a contract. Thus:

a) There must be at least 2 persons to enter into contract to form partnership.

b) Minors cannot form a partnership firm as they are incompetent to enter into contract but can be admitted to the benefits of a running firm.

c) If these people intend to do banking business, the maximum number can be ten otherwise twenty for the other business.

2) Agreement:

The relation of partnership arises from contract and not from status. Though oral agreement is even acceptable but in practice written agreement is much more advisable as disputes can be resolved better with it.

3) Profit sharing:

The objective of the business is to make profits and distribute the same amongst partners. Any association initiated to do charity work is not partnership.

4) Unlimited liability:

Mostly, the liability of the partners of a firm is unlimited. Their personal properties can be disposed off to pay the debts of the firm if required. The creditors can claim their dues from any one of the partner or from all of them, meaning partners are liable:

- Individually
- Collectively

5) Implied authority:

There is an implied authority that any partner can act on behalf of the firm. The firm stands bound by the acts of partners.

6) Mutual agency:

The business of partnership can be carried on by all the partners or any one of them acting for all. Thus, every partner is principal as well as agent of other partners and of the firm. Thus, (i) Each partner is liable for acts performed by other partners, (ii) Each partner can bind other partners and the firm by his acts done in the ordinary course of business.

7) Utmost good faith:

Every partner is supposed to act honestly and give proper accounts to other partners. Thus, mutual faith and confidence in one another is the main strength of partnership.

Suitability

The use of better sophisticated production techniques has necessitated more investments.

Complex nature of businesses needs expert managerial hands. Thus, partnership form of a business is an ideal choice for starting a new venture, if the entrepreneur's–

1) capital and managerial requirements are higher as compared to that of sole proprietorship,

2) enterprise falls in the category of either being a small or a medium scale enterprise,

3) direct contact with the customers is essential.

Consequences for non–registration of a partnership firm:

Partnership firms in India are governed by the Indian Partnership Act, 1932. While it is not compulsory to register your partnership firm as there are no penalties for nonregistration, it is advisable since the following rights are denied to an unregistered firm:

1) A partner cannot file a suit in any court against the firm or other partners for the enforcement of any right arising from a contract or right conferred by the Partnership Act.

2) A right arising from a contract cannot be enforced in any Court by or on behalf of the firm against any third party.

3) Further, the firm or any of its partners cannot claim a set off (i.e. mutual adjustment

of debts owned by the disputant parties to one another) or other proceedings in a

dispute with a third party.

Drafting of partnership deed:

Partnership is an agreement between persons to carry on a business, entered into either orally or in writing. It is always desirable to have a written agreement so as to avoid misunderstandings and unnecessary litigations in future. When the agreement is in written form, it is called a 'Partnership Deed'. It must be duly signed by the partners, stamped and registered. Any alteration in one partnership deed can be made with the mutual consent of all the partners.

Although it is left to the choice of the partners of the firm to decide themselves as to what should be mentioned in their partnership deed, yet a partnership deed generally contains the following:

1. Name of the firm.

2. Nature of the business.

3. Name of partners.

4. Place of the business.

5. Amount of capital to be contributed by each partner.

6. Profit sharing ratio between the partners.

7. Loans and advances from the partners and the rate of interest thereon.

8. Drawings allowed to the partners and the rate of interest thereon.

9. Amount of salary and commission, if any, payable to the partners.

10. Duties, powers and obligations of partners.

11. Maintenance of accounts and arrangement for their audit.

12. Mode of valuation of goodwill in the event of admission, retirement and death of a partner.

13. Settlement of accounts in the case of dissolution of the firm.

14. Arbitration of case of disputes among the partners.

15. Arrangements in case a partner becomes insolvent.

Registration procedure

A partnership firm can be registered whether at the time of its formation or even subsequently. Entrepreneur needs to file an application with the Registrar of Firms of the area in which his/her business is located.

Step: 1

Application for partnership registration should include the following information:

1) Name of the firm

2) Name of the place where business is carried on

3) Names of any other place where business is carried on

4) Date of partners joining the firm

5) Full name and permanent address of partners.

6) Duration of the firm

Step: 2

Every partner needs to verify and sign the application. Ensure that the following documents and prescribed fees are enclosed with the registration application.

a) Application for registration in the prescribed form-I.

b) Duly filled specimen of affidavit

c) Certified copy of the partnership deed

d) Proof of ownership of the place of business or the rental/lease agreement thereof

It may be noted here that, the name of the partnership firm should not "contain any words which may express or imply the approval or patronage of the government except where the government has given its written consent for the use of such words as part of the firm's name."

Once the Registrar of Firms is satisfied that the application procedure has been duly complied with, he/she shall record an entry of the statement in the Registrar of Firms and issue a Certificate of Registration.

Joint Stock Company

Resources and the life span of both sole proprietorship and partnership form of organisation stands limited with liabilities being unlimited.

To comply with these growing needs, the demand was on rise for:

1) Capital

2) Managerial talent and skills

3) Limited liability

Thus, joint stock company as a modern form of business organisation emerged to meet the requirements of large sized business.

Meaning:

In common prevalence, a company means a voluntary association of a person formed for some common object with capital divisible into units of equal value called 'shares' and with limited liability. Company is a creation of law that is the birth of this artificial human being is by law and it can be put to death by law only.

According to section 3 of Indian companies act, 1956, "A company means a company formed and registered under this act or any previous act."

Thus, a company is an association of persons who contribute money in the shape of shares and the company gets a legal entity and enjoys a permanent existence.

Characteristics of a Company

A company is distinctive from other forms of organisation because of the following features:

1) Voluntary association

A single person cannot constitute a company. At least two persons, voluntarily, must join hands to form a private company, while a minimum of seven persons are

required for a public company.

2) Artificial person

A company is created by law. Though, it has no body and no conscience, it still exists as a person, having a distinct personality of its own.

3) Separate legal entity

A company has an independent status, different from its members. This implies that a company cannot be held liable for the actions of its members and vice-versa. Company has a distinct entity separate from its members.

4) Common seal

Being an artificial person, company cannot sign the documents. Hence, it uses a common seal on which its name is engraved. Putting the common seal on papers, is equivalent to that of signatures of a human being, making them binding on the company.

5) Limited liability

The liability of the shareholders of a company is normally limited to the amount of shares held or guarantee given by them.

6) Transferability of shares

No shareholder is forever wedded to the company. Subject to certain conditions, the shares are freely transferable. The private companies do impose some restrictions on the transfer of shares.

7) Diffusion of ownership and management

In this form of organisation, entrepreneur should clearly understand there exists separation of ownership from management.

As the shareholders could be scattered across country here, they give the right to the directors to manage the company's affairs.

8) Number of members

Private company:

Minimum required members : 2

Maximum members : 50 (excluding employees)

Public company:

Minimum requirement : 7

Maximum number : No limit

9) Limitation of action

The scope of this artificial person is determined by:

a) The Indian Companies Act

b) Memorandum of Association

c) Articles of Association

10) Winding up

The mode of incorporation and termination (winding up) is both as per the

Companies Act only. It's born out of law and can be liquidated only by law.

Choice to be made:

An entrepreneur, under the 'Company' form of organisation has a further choice to incorporate

an enterprise either as either a:

a) Private company or,

b) Public company

A private company:

1) has a minimum of two and a maximum of fifty members excluding its past and present employees.

2) restricts the right of its members to transfer shares.

3) prohibits an invitation to the public to subscribe for any shares or debentures of the company, or accept any deposits from persons other than its directors, members or relatives.

4) has a minimum paid up capital of one lakh rupees (subject to change)

5) uses the word 'Pvt. Ltd.' at the end of its name.

B) Public company

Under Section 3(i) (ii) of the Companies Act, a public company is a company which is not a private company. By implication, a public company:

1) has minimum seven people to commence with no upper limit to membership

2) does not restrict any transfer of shares

3) invites public to subscribe for its shares, debentures and public deposits.

4) has a minimum paid up capital of five lakh rupees.

5) uses the word 'Ltd.' at the end of its name.

Suitability

On comparing the advantages and limitations of company form of business, it is suggested that an entrepreneur should choose this form provided his/her:

1) Venture is a heavy and basic industry type

2) Large-scale operations are involved

3) Business requires huge funds

4) Enterprise involves heavy risks

To commence a "Company" in India

The idea of forming a company is conceived either by a person or by a group of persons known as promoters. Our entrepreneurs are basically the promoters as they are the ones who:

a) Conceive the idea.

b) Scan it against the environmental forces to establish its feasibility and viability.

c) Procures the resources essential for its commencement.

d) Ensure the incorporation of the enterprise.

e) Arrange for commencing of the business.

g) Plans out expansion and diversification strategies.

The concept of the company is born in the entrepreneur's mind – they investigate the potential and take a lead for bringing human resources, money, materials, machinery and methods together for converting his/her dream into reality.

Joint Hindu family / firm (HUFs):

Joint Hindu family or Hindu Undivided Family Business is a unique form of business organisation prevailing only in India. It is governed by Hindu law and represents a form which is owned, managed and controlled by the male members of a joint Hindu family.

Meaning of HUFs: The HUFs have been defined under the Hindu law "as a family, which consists of male lineally descended from a common ancestor and included their wives and unmarried daughters." The relation of HUFs arises from the status not from legal contracts. Creating HUFs are the best possible way to save taxes. Schools of law under HUF: Two schools of law are there in order to create a HUF:

a) Dayabhaga – It is prevalent in West Bengal and Assam. As per this school of law, the son acquires the right in the family property only after the death of his father.

b) Mitaakshara – It is prevalent in rest of India under which, the son acquires the right in the family property right from his birth.

There are two conditions for existence of HUFs. They are:

1) Minimum two members must be there in the family.

2) Existence of some ancestral property.

Characteristics of Hindu undivided family

The main features of HUF are as follows:

1) Creation: It arises by status or operation of Hindu Law.

2) Membership: A male member becomes a member merely by his birth. By adoption, an outsider can be admitted to its membership but not otherwise.

3) Management: The senior most male member of the family known as 'Karta' manages the affairs, having unlimited powers. The other male members called 'Coparceners' have no right to deal with outsiders or inspect accounts.

4) Liability: The liability of Karta is unlimited and that of coparceners is limited to the extent of their share in property which is jointly held by the family. The self-acquired property of any member cannot be taken in order to satisfy business liabilities.

5) Right of Accounts: The members other than Karta do not have right to inspect and/or copy contents of the account books.

6) Minor as member: A male from the time of his birth becomes the member in this form of enterprise.

7) Dissolution: The HUF continues to operate forever as death of members does not effect it. As upper links are removed by death, the lower ones are added by birth. So there is no limit to its membership. But if all members want to mutually dissolve the firm, they can do so.

8) Implied Authority: Only the Karta has implied authority to bind the HUF by acts done in the ordinary course of the business of the firm. That's why he alone has unlimited liability.

4) Apply of PAN: Application of PAN (Permanent Account Number) is also an important step to be undertaken while forming a HUF. After executing the deed, the Karta is required to obtain a permanent account number PAN for the HUF.

Obtaining PAN is a mandatory requirement as all financial transactions shall carry PAN.

5) Open a Bank Account: After PAN has been allotted, the Karta is required to open a Bank a/c in the name of the HUF. It is also advisable to get some stationery printed for official communication. The HUF is now ready to function. The Karta will have to invest in tax saving instruments and file tax returns on behalf of the HUF. Only the money related to the business of HUF shall be invested in such Bank accounts.

Legal formalities involved

Steps involved in creation of HUFs

Entrepreneur who is interested to operate his/her enterprise as an HUF is required to comply with following requirement.

1) Capital and members: For an HUF to be created the major requirements is the capital and persons. Capital can be in the form of ancestral property, assets gifted by relatives and friends, or received by the HUF through a will. The minimum no. of members required is two.

2) Select a suitable name: The HUF to be created should have proper name.

Entrepreneur should select a proper name for the HUF, ensuring it does not violate the laws or have any negative impact.

3) **Form a Deed:** Formation of HUF should be embodied in a deed which provides that proper legal deed or agreement is required before creating a HUF, disclosing the name of Karta, coparceners, address and source of funds in the corpus.

Corporations and LLCs

Forming and operating an LLC or a corporation is a bit more complicated and costly, but well worth the trouble for some small businesses. The main benefit of an LLC or a corporation is that these structures limit the owners' personal liability for business debts and court judgments against the business.

What sets the corporation apart from all other types of businesses is that a corporation is an independent legal and tax entity, separate from the people who own, control and manage it. Because of this separate status, the owners of a corporation don't use their personal tax returns to pay tax on corporate profits -- the corporation itself pays these taxes. Owners pay personal income tax only on money they draw from the corporation in the form of salaries, bonuses, and the like.

Like corporations, LLCs provide limited personal liability for business debts and claims. But when it comes to taxes, LLCs are more like partnerships: the owners of an LLC pay taxes on their shares of the business income on their personal tax returns.

Corporations and LLCs make sense for business owners who either 1) run a risk of being sued by customers or of piling up a lot of business debts, or 2) have substantial personal assets they want to protect from business creditors.

Nonprofit Corporations

A nonprofit corporation is a corporation formed to carry out a charitable, educational, religious, literary, or scientific purpose. A nonprofit can raise much-needed funds by soliciting public and private grant money and donations from individuals and companies. The federal and state governments do not generally tax nonprofit corporations on money they take in that is related to their nonprofit purpose, because of the benefits they contribute to society.

Cooperatives

A co-operative is a different form of business enterprise as here, the main motive is not earning profit but mutual help. It works with the principle of each for all and all for each.Some people dream of forming a business of true equals -- an organization owned and operated democratically by its members. These grassroots business organizers often refer to their businesses as a "group," "collective," or "co-op" -- but these are often informal rather than legal labels. For example, a consumer co-op could be formed to run a food store, a bookstore, or any other retail business. Or a workers' co-op could be created to manufacture and sell arts and crafts.

The Indian Co-operative Societies Act, 1912 defines co-operative in section 4 as, "Society which has its objectives as the promotion of economic interests of its members in accordance with co-operative principle."

Features

Co-operative is a self-help as well as mutual help system, exhibiting following characteristics:

1. **Voluntary organisation:** Co-operative organisation is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organisation at their own will without any coercion or intimidation.
2. Democratic management: The management of a co-operative organisation is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote'. Democracy is, thus, the keynote of the management of a cooperative society.

3. Service motive: Rendering services to its members rather than to earn profit as the primary objective is the feature that distinguishes a cooperative organisation from the other forms of

business. The primary objective of a co-operative society is to render services to its members rather than to earn profits.

4. Capital and return thereon: The capital is procured from its members in the form of share capital. A member can subscribe subject to a maximum of 10% of the total share capital or Rs. 1,000 whichever is higher. Shares cannot be transferred but surrendered to the organisation. The rate of dividends paid to the members/shareholders is restricted to 9% as per the Co-operative Societies Act, 1912.

5. Government control: In India, the activities of co-operative societies are regulated by the Co-operative Societies Act and the State Co-operative Societies Acts. Cooperative societies are required to submit their annual report and accounts to the Registrar of Co-operatives.

6. Distribution of surplus: After giving dividends to the members, the surplus of profits, if any, is distributed among the members on the basis of goods purchased by each member from the society.

Environmental Management

Environmental deterioration is a multi-dimensional problem of which resource depletion is only a part. Business leader in general have a significant and practical role to play in managing the environment. No organisation can now sensibly ignore its Environmental obligations. Environmental Management encompasses environmental planning, protection, monitoring, assessment, research, education, conservation and sustainable use ofresources. It can be accepted as major guiding factor for the sustainable development of the nation. It is realised that while environment problems attributable to poverty (and underdevelopment) could be tackled by more rapid development, the unintended sideeffects of the process of development itself have given rise to many of the environmental problems confronting the nation today. Thus, to achieve the long-term goal of making development sustainable, environmental and ecological imperatives need to be built into the total planning process right from the beginning.

This requires that, while providing for current needs, the resource base should be managed in such a manner that it achieves sustainable development in harmony with the environment.

Tying up the environmental issues, the Government has drawn up an Environmental Action Programme (EAP) focusing on the following priority areas :

i) Conservation of biodiversity including forests, marine life and mountain ecosystems.

ii) Conservation of soil and moisture and ensuring that water sources do not get polluted.

iii) Control of industrial pollution and wastes

iv) Access to clan technologies

v) Tackling urban environmental issues.

vi) Strengthening environmental education, training, awareness and resource management.

vii) Alternative energy plan.

PESTEL Analysis

A PESTEL analysis is a framework or tool used by marketers to analyse and monitor the macro-environmental (external marketing environment) factors that have an impact on an organisation. The result of which is used to identify threats and weaknesses which is used in a SWOT analysis.

PESTEL stands for:

P – Political

E – Economic

S – Social

T – Technological

E – Environmental

L – Legal

Political: The political environment includes taxation policy, government stability and foreign

trade regulations.

Economic: The economic environment includes interest rates, inflation, business cycles, unemployment, disposable, income, energy, availability and cost.

Social: The social/cultural environment includes population demographics, social mobility, income distribution, lifestyle changes, attitudes to work and leisure, levels of education and consumerism.

Technological: It is influenced by government spending on research, new discoveries and development, government and industry focus of technological effort, speed of technological transfer and rates of obsolescence.

Ecological: It considers the ways in which the organisation can produce its goods or services with minimum environmental damage.

Legal: It covers areas such as taxation, employment, law, monopoly, legislation and environmental protection laws.

Summary

The environment is a complex phenomenon. The term environment consists of several subsets, e.g., economic environment, socio-cultural environment, politico-legal environment, technological environment, etc. It thus represents the totality of all kinds of environments which have an impact on business. To a large extent, the environment is external to the firm, Business firms in general have little influence on external forces. Depending upon the nature and composition of several subsets of the environments, the business environment varies from country to country, and may even vary in the same country from one point of time to another. A number of problems are involved in the identification, description, explanation and prediction of environmental factors. The environmental factors are dynamic. It is difficult to conceptualise and/or quantify the proportion of change as well as the direction of change in environmental factors.

Self- Assessment

1. Liberalisation, globalisation and privatisation are the means to achieve certain ends by the society. In the light of this statement, list five major goals/ends which these instruments are intended to achieve.
2. List three major measures taken for integrating Indian economy with the global economy.
3. What are the four aspects of globalisation? In what aspects have steps been taken to globalise the Indian economy and what is the particular aspect which has remained neglected?
4. What is PESTEL model? Explain it.
5. Examine the sources from where business ideas emerge.

Unit 2 Business & Environment

In this unit, you will be able to learn:

- Introduction to Business
- Features of Business
- Types of Business
- Meaning of Business Environment
- Features of Business Environment
- Importance of Business Environment
- Factors of Business Environment

Objective

In order to operate a business successfully, it is very important to understand the environment in which it has to function. The environmental factors has a great impact on all aspects of business be it its location, distribution system, prices or policies. In this chapter we shall learn the concept of business, its features and types, concept of business environment, its features and its importance and the various components of business environment.

Concept of Business

The word "Business" is playing a very important role in our society. It role can be supplying of goods or services, using optimum and meaningful resources, generating opportunities for employment, revenue to the government ,helping to upgrade the standard the standard of living or facilitating to the economic growth of our country.

So according to L.H. Haney **"Business is a human activity directed towards producing or acquiring wealth through buying and selling activities**".

So in a simple term it is an organized activities of an organization to supply goods or services to consumers for a profit.

The term **"environment"** refers to the totality of all the factors which are external to and beyond the control of individual business enterprises and their managements. Environment furnishes the macro-context, the business firm is the micro-unit.

The environmental factors are essentially the "givens" within which firms and their managements must operate. For example, the value system of society, the rules and regulations laid down by the Government, the monetary policies of the central bank, the institutional set up of the country, the ideological beliefs of the leaders, the attitude towards foreign capital and enterprise, etc., all constitute the environment system within which a business firm operates. These environmental factors are many in numbers and various in form. Some of these factors are totally static, some are relatively static and some are very dynamic – they are changing every now and then. Some of these factors can be conceptualized and quantified, while other can be only referred to in qualitative terms. Thus, the environment of business is an extremely complex phenomenon.

The environmental factors generally vary from country to country. The environment that is typical of India may not be found another countries like the USA the (former) USSR, the UK, and Japan. Similarly, the American/Soviet/British/Japanese environments may not be found in India. There may be some factors in common, but the order and intensity of the environmental factors do differ between nations. What to say of countries, the magnitude and direction of environmental factors differ over regions within a country, and over localities within a region. Thus, one may talk of local, regional, national (domestic) and international (foreign) environment of business. For example, the local custom of "coolie" labour, the climate of the northern region of Assam, the policies of the State and Central Governments in India and the size of the world market : all these factors together will have an important bearing on tea industry. The production, consumption and marketing of tea will be affected by environmental factors.

The environment differs not only over space but also over time within a country. As such, we can talk of temporal patterns of environment, i.e., past, present and future environment. Future environment is the product of past and present environments. The Indian economy of tomorrow will be influenced by what the state of the economy is at present and what it was in the past.

Sometimes the environment may be classified into market environment and non-market environment depending upon whether a business firm's environment is influenced by market forces like demand, supply, number of other firms and the resulting price competition, or non-price competition, etc., or by non-market forces like Government laws, social traditions, etc.

Finally, we may classify the environment into economic and non-economic. Non-economic environment refers to social, political, legal educational and cultural factors that affect business operations. Economic environment, on the other hand, is given shape and form by factors like the fiscal policy, the monetary policy, the industrial policy resolution, physical limits on output, the price and income trends, the nature of the economic system at work, the tempo of economic envelopment, the national economic plan, etc. The non-economic environment has economic implications just the economic environment may have non-economic implications. Since the environment is the sum total of the history, geography, culture, sociology, politics and economic of a national, the interaction between economic and non-economic forces is bound to take place.

Business is an economic activity

An economic activity involves the task of adjusting the mans (resources) to the ends (targets), or the ends to the means. An economic activity may assume different forms such as consumption, production, distribution, and exchange. The nature of business differs deepening upon the form of economic activity being undertaken and organised. For example, manufacture is primarily concerned with production; the stock exchange.

For example, manufacture is primarily concerned with production; the stock exchange business of Government is to run the administration. The Government may also own, control and mange public enterprises. The business of banks is to facilitate transactions with short-arm and long-term ends. These examples can be easily multiplied. The point to be noted is that each business has a target to achieve, and for this purpose each business has some resources at its disposal. Sometimes the target has to be matched with the given resources, and sometimes the resources have to be matched with the given target, Either way, the task of business is to optimize the outcome of economic activities.

A business firm is an economic unit

A business firm is essentially a transformation unit. It transforms input into outputs of goods or services, or a combination of both. The nature of input requirements and the type of output flows are determined by the size, structure, location and efficiency of the business firm under consideration. Business firms may be of different sizes and forms. They may undertake different types of activities such as mining, manufacture, farming, trading, transport, banding etc. The motivational objective underlying all these activities is the same viz., profit maximization in the long run. Profit is essentially “a surplus value”- the value of outputs in excess of the values of inputs or the surplus of revenue over the cost. A business firm undertakes the transformational progress to generate this “surplus value”. The firm can grow further if the surplus value is productively invested. The firm, therefore, carefully plans the optimum allocation of resources (i.e., men, money, material, machine’s time, energy, etc.) to get optimum production. The entire process of creating, mobilisation and utilisation of the surplus constitutes the economic activity of the business firm.

Business decision-making is an economic process

Decision-making involves making a choice from a set of alternative courses of action. Choice is at the root of all economic activity. The question of choice and evaluation arises because of the relative scarcity of resources. If the resources had not been scarce, an unlimited amount of ends could have been met. But the situation of resources constraint is very real. A business firm thinks seriously about the optimum allocation of resources because resources are limited in supply and most resources have alternative uses. The firm, therefore, intends to get the best out of given resources or to minimise the use of resources for achieving a specific target. In other words, when "input" is the constraining factor, the firm's decision variable is the "output". And when "output" is the constraining factor, the firm's decision variable is the "input". Whatever may be the decision variable, procurement or production, distribution or sale, input or output, decision-making is invariably the process of selecting the best available alternative. That is what makes it an economic pursuit.

Since business is an economic activity, a business firm an economic unit, and business decision-making an economic process, it is the economics environment of business which is the primary consideration in evaluating the business policies, business strategies and business tactics of a corporate entity in any national economy.

Features of Business

Whatever may be the nature and scale of operations, a business enterprise possesses the following features:

- Continuous and regular buying and selling of goods and services.
- Involvement of risk and uncertainties.
- Creative and Dynamic
- Profit Oriented
- Organized Activities
- Social Interest and Responsibilities
- Better standard of living
- Government control
- Globalization
- Various Forms.

Importance Of Business Environment

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively.

As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

(a) **Determining Opportunities and Threats:** The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(c) **Continuous Learning:** Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

(d) **Image Building:** Environmental understanding helps the business organisations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

(e) **Meeting Competition:** It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

(f) **Identifying Firm's Strength and Weakness:** Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Economic Environment

You may now consider a firm as an economic institution in a market system. The market behaviour of the firm reflects the nature of the economic decisions taken by the manger of the firm. Micro-economic decision-making by the firm had nevertheless to be made within the broader macro-economic environment. The economic environment of business refers to the broad characteristics of the economic system in which a business firm operates.

The present day economic environment of business is a complex phenomenon. The business sector has economic relations with the Government, the capital market, the household sector and the foreign sector. These different sectors, together, influence the trends and structure of the economy. The form and functioning of the economy varies from country to country. The design and structure of an economic system is conditioned by socio-political arrangements. Such arrangements are relevant from the standpoint of macro-economic decision-making.

For example, in a democratic set up, people exercise an influence, direct or indirect, through the system of casting votes, on the nature of the decisions taken by the Government. In a parliamentary system, most decisions are processed by Cabinet ministers, whereas under a presidential form of Government the President acts as the real manager of the state: It is he who takes or makes decisions. Similarly, macro-real manager of the State : it is he who takes or makes decisions. Similarly, Marco-decision-making is more decentralized in a federal form of Government than in unitary form of Government.

In a capitalist society, the private sector induced by the profit motile and led by the free market, takes the major economic decisions of investment, production and distribution. In a socialist society, most of the economic decisions are taken by the Government which is glided by the social welfare motive and central planning. In a communist society, economic decisions, including those of consumption, are taken by the state in the interest of the community as a whole. In a mixed economy, the private, public and joint sectors and the like all have some say in the major decisions that influence the functioning of an economy.

All modern economics, whether capitalist, socialized, communist or missed, have certain fundamental economic problems to deal with. In each and every economy, including the so-called "affluent society", some or many resources are scarce. Consequently, choices concerning the resource use have to be made together by individuals, by business corporations, and by society. It is the social choice and community preferences which give substance to the question of macro-economic decisions. From the standpoint of resources, the basic economic problem of every economy is that of just allocation of resources and subsequent optimum production.

Three are may aspects to this problem : **What to produce** ? **How to produce** ? **For whom to produce** ? **When to produce** ?

Every economy has to decide on the quality and quantity of the goods and services to be produced. It has to decide on the nature of the technology and technique of production in view of factor endowment. It has to decide on the course and pattern of distribution of goods and services produced. It has to decide on the timing of production. The process of decision-making differs depending on how these problems are solved in different economies. This is what constitutes the functioning of the economy, or the nature of the economic environment.

At the risk of over-implication, certain points can be made about the organisation and functioning of modern economics :

i) In most economies, both "free market mechanism" and "Centralised planning" exist in different degrees even today. By "free market mechanism" or "price mechanism", we mean a free play of the market forces of demand and supply to determine an equilibrium solution of the allocation problem. Market mechanism determines commodity prices, factor prices, and income distribution.

ii) By “planning”, we mean a programme of action based upon consistency and feasibility of attaining a set of targets in view of a set of objectives through a set of instruments. In the present day world around us, planning is combined with free pricing to arrive at macro-economic decisions yielding “the maximum good to the maximum number”. Thus, the economy in which a business firm operates today is not an exclusively free economy making an indiscriminate use of prices and the markets. Rather, it is directed by a system of planning, control, regulation and coordination.

iii) In most economies, positive intervention by the Government in day-to-day economic affairs has existed over several decades in the past. Planning is a form of Government intervention. Besides this, the Government can also intervene through a system of controls and regulations. The “welfare state” principle induces the Government to enforce minimum wages, commodity controls, fair trade practices, etc, through legislation. The basic objectives of such economic legislations and policies are : growth, efficiency and equity. It is the intervene role fonder government that has made most business firms socially responsible. However, intervention by the Government is now on the decrees. Many economics have relaxed regulations and controls through economic reforms, and are allowing a free play of market forces.

iv) Modern economies age not “closed” and “open”; they are actively engaged in international trade and cooperation. So, the international transmission effect today is stronger than ever before. Though three are disparities in the levels of income and standards of living over space and time, there is a conscious effort to develop the port nations. The maintenance of steady growth and enveloped countries dependent on the acceleration of growth in underdeveloped countries. This idea has given new dimensions to issues like the role of multinational corporations, the ecological balance, the recycling of petrodollars, and the transfer of technology. The technological revolution is making strident moves. In order to keep their dynamism, the economics are determined to develop science and technology, and to balance environment and economy, and this is going to act as a unifying force for the world economic order.

These facts define the environment and set the constraints within which modern business firms must operate. The managements cannot overlook the environment, whether market or non-market. No management can ignore the functioning of markets, the objectives of national planning, the polices of the Government or their social responsibilities, or the rate, pattern and structure of economic changes, or the forms of international cooperation.

Progressive managements must keep themselves continuously informed about the magnitude and direction of changes in the national as well as international economic environment. Of course, both economic and non non-economic environment have an important bearing on managerial decisions.

Types of Business

The term Business should not be confused with Trade. Trade refers to purchase and sale of goods where Business refers to all activities from production to distribution of goods and services. The business activities may be grouped under two broad categories:

1. **Industry** and
2. **Commerce**.

1. **Industry** : The activities of extraction, production, conversion,processing of products are described as industry.the product of industry can be categorized under any one of the three catergories:
   a) **Consumers' Goods :** Goods used by final consumers are called consumers' goods.
   b) **Producers' Goods :** Goods used for the production of other goods are described as producers' goods. These are also called capital goods.
   c) **Intermediate Goods :** There are certain materials, which are the finished products of one industry and become the intermediate products of other industries.

Industrial activities may also be classified into (a) **primary** and (b) **secondary** industries.

(a) Primary industry may be either i) **Extractive industries** ii) **Genetic industries**

i) **Extractive Industries**: They either extract or draw out products from natural sources, such as earth, sea, air. The products of such industries are generally used by manufacturing and construction industries, for producing finished goods.

ii) **Genetic Industries**: Genetic means parentage, or heredity. Genetic industries are engaged in breeding plants and animals, for their use in further reproduction.

(b) Secondary industry may be either **i) Manufacturing industries**, ii) **Construction Industries** or iii) **Service Industries**.

i) **Manufacturing Industries**: These are engaged in producing goods through the creation of form utility. Such industries are engaged in the conversion, or transformation of raw materials, or semi-finished products into finished products. The products of extractive industries generally become the raw materials of manufacturing industries. Factory production is the outcome of manufacturing industry.

ii) **Construction Industries**: They are concerned with the making or construction of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries, such as iron and steel, cement lime, mortar, etc. and also the products of extractive industries, such as stone, marble etc. The remarkable feature of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

iii) **Service Industries**: There are several services such as transport, banking, insurance and warehousing, which are very important for satisfying human needs. They facilitate the production and distribution of business activity. A large number of business firms are engaged in transport, insurance and storage of goods and provision of banking and financial facilities to business units.Such firms are said to be engaged in service industries.

2) **Commerce**: Commerce links producers and consumers. The main object of commerce, is to ensure smooth distribution of goods and services to satisfy the wants to consumers. It is the sum total of all those activities, which are concerned with the transfer of goods and services from the producers to the consumers. Thus, it includes exchange of goods and the services, which facilitate exchange of goods. It can be categorized under two categories namely:

i) Trade which includes Retail, wholesale, import Export and

ii) Aids to Trade which includes Transport, warehousing, insurance, banking and finance, Advertisement and Salesmanship, Mercantile Agents and Traders.

Business Environment- Meaning and Definition

In order to understand business it is equally very important to study and understand all the factors related to business and its impact on it. There are many forces that are responsible to influence a business. All these forces comes under one term known as Environment.

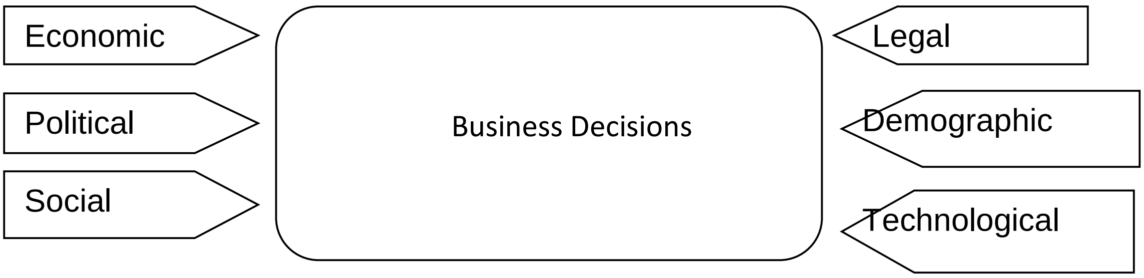
The success of any business depends on how well it can able to adapt itself to its environment within which it functions. For example we have seen that the introduction of Compact disc has replaced the cassettes or the introduction of Computers has replaced the typewriters. This is because the change in technology has render the exisiting product obsolete. Similarly if there will be any changes in government policies the business has to adapt itself to that new policies. So all these aspects are external forces which are uncontrollable for the business,. So in order to survive and succeed one should have clear understanding of business environment and its various components and its nature. Environment refers to all external forces and factors that includes customers, competitors, suppliers, government, and the social, political, legal and technological factors.

Some of these factors or forces may have direct influence over the business firm, others may influence indirectly.

So according to Barry M.Richman and Melvgn Copen "Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country".

William F. Glucck defines business environment "as the process by which strategists monitor the economic, governmental, market, supplier, technological, geographic, and social settings to determine opportunities and threats to their firms.

It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.



Features of Business Environment

On basis of the above discussion the features of business environment can be summarized as below:

- Environment is sum total of all the external forces that greatly influence the functioning of business
- Environment is dynamic in nature that keeps on changing
- Business to a greater extent cannot control environment.
- Environment creates opportunities and threats.
- Environment need adaptability to survive.
- Environment is multi faceted, complex and is inseparable from business.
- The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.

Importance of Business Environment

As stated above that Business Environment is complex, multi faceted and dynamic in nature and has a great impact on the business for its success and also for its survival. Proper understanding of economic, political, legal, social, technical environment can help the business in following ways:

- Helps in determining opportunity and threat.
- Helps in meeting competitions.
- Helps in continuous learning.
- Helps in giving direction for growth.
- Helps in building image.
- Helps in identifying firm's own strength and weakness.

Components of Business Environment

Business Environment can be divided into two different categories namely

1. Internal Environment
2. External Environment

Internal Environment are the factors which influence various strategies and decisions within the organization are known as internal factors. These factors are usually under the control of business. The study of internal factors is really important for the study of internal environment. These factors are

a. **Mission and objectives :** All company's direction, development and policies are guided by the mission and objectives of the company. The objective of all firms is generally maximisation of profit. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities.
b. **Value System:** The value system of an organisation means the ethical beliefs which helps the organization to achieve its mission and objectives.
c. Organization Structure: The nature of the organisational structure has a significant influence over the decision making process in an organisation. An efficient working of a business organisation requires that the organisation structure should be conducive for quick decision-making.
d. **Human Resource:** It is an important factor of internal environment of a firm. The factors like skill, quality, morale, commitment and attitude of employees can contribute a greater extent to the strength and weakness of an organization. Many a times organization face problems regarding modernization or restructuring because of resistance by its employees. Considering this problem all organization has come up with special training or courses for their managers so that they can be capable enough to select and manage efficiently the human resource of a company.
e. **Physical resources and Technological Capabilities:** Physical resources such as, plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers. Similarly, the rapid technological growth and the growth of information technology in recent years have increased the relative importance of intellectual capital and human resources as compared to physical resources of a company
f. **Labour union:** Labour unions generally negotiate for better wages and better working conditions of the different categories of workers with the managers. In order for smooth working of a business good relations between management and labour unions is required.

External Environment: Factors that affect a business organization from outside. External environment includes shareholders, competitors, customers, society, government laws and regulations, policies and technology. External environment is generally classified into micro environment and macro environment. The macro external environment includes larger factors such as economic, demographic, technological, political, natural and cultural factors. We will explain below micro and macro types of external environment of business.

a. Micro Environment includes those players whose decisions and actions have a direct impact on the company. Or in other words it consists of factors in the company's immediate environment that affects the performance of the company.
b. **Suppliers-** It is the most important factor of external micro environment of a business. It includes raw materials and components. In order to minimize risk and uncertainty organization prefers to be with multiple suppliers of inputs.
c. **Marketing intermediaries-** It plays an essential role of selling and distributing its products to the final customers.
d. **Competitors-** As a consequence of liberalisation and globalisation of the Indian economy since the adoption of economic reforms there has been a significant increase in the competitive environment of business firms. Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products or non- price competition.
e. **Customers-** Customers are the people who buy and use a firm’s product and services. They are important part of external micro environment. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied. A concern for customers’ satisfaction is essential for the success of a business firms.
f. **The publics-** Environmentalists, media groups, women’s associations, consumer protection groups, local groups, Citizens Association are some important examples of publics which have an important bearing on the business decisions of the firm. The existence of various types of publics influences the working of business firms and compels them to be socially responsible.

I. **Macro Environment: T**hey are uncontrollable by the management. Because of uncontrollable nature of macro forces an organization has to adjust or adapt it to these external forces. These are:

a) **Economic Environment:** It refers to all the economic factors that has impact on how the business will function. Every country has its own economic policies and the economic system also varies from one country to another.

Economic Resources, Level of Development, Assets and Income Distribution, Consumption pattern are the important aspects of business strategies. Economic system followed by the country has a large impact in determining the economic environment. Economic systems are the aggregate of various strategies which determines a coordinated suitable structure of a country. It decides what to produce, how to produce and for whom to produce.

b) **Political Environment:** It has a great influence on a business to run efficiently. It is the political system which decides, promotes, encourages, directs and controls the business activities. The primary factor for the growth of a business is the stability, honesty, efficiency of a political system in that country.

c) **Social Environment:** It includes habits, beliefs, traditions, values, customs, lifestyles, literacy, law. These factors influence business indirectly. It influences the demand of various goods and the employees required for it.

d) **Technological Environment:** It means the knowledge and use of mechanical arts and applied science into a practical tasks or activities. Technology helps to maximise surplus of an economy and make a society affluent. As technology changes rapidly one should keep a close look on those changes for its adaptation in their business.

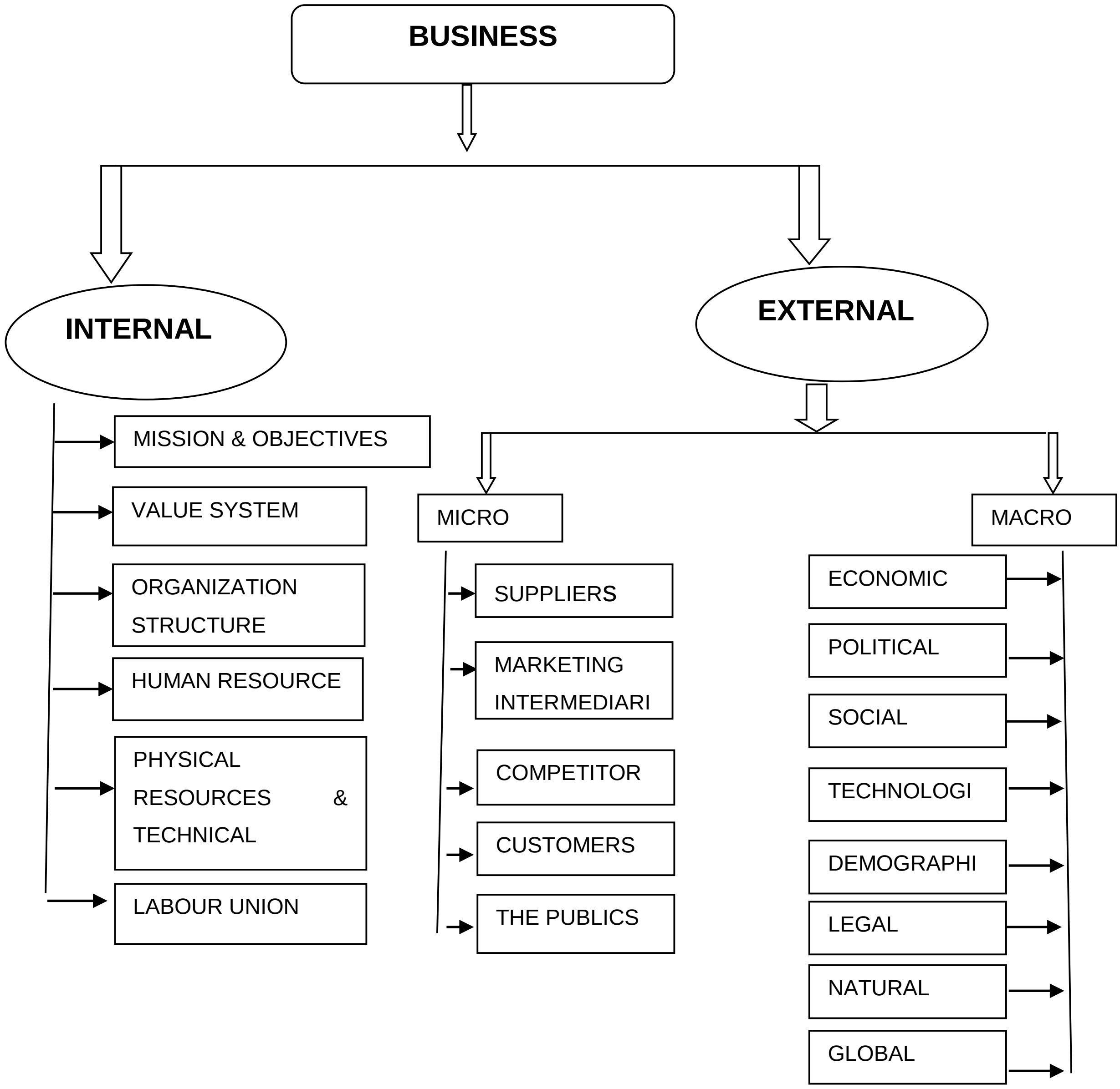
e) **Demographic Environment:** It includes size, density, distribution of population, growth of population. All these factors have a direct impact on the demand of various goods and services. So in order to run a business smoothly one should be aware about the changes on demographic front and have a clear understanding on it.

f) **Legal environment:** It includes flexibility and adaptability of law and other legal rules governing the business. The business and its operation is influenced by a set of laws and regulations which every business has to obey and work within it.

Apart from these factors mentioned above ,there are two other factors that has to be discussed:

g) **Natural Environment:** Nature is a gigantic repository of wealth from where we can get everything for our living. So natural environment includes availability of raw materials, weather and climatic condition, ecological factors as well as geo physical properties. Business has a great influence by natural environment as it influences the occupation and other economic activities of the people on that particular area.

h) **Global Environment:** Nowadays this term has been more relevant than earlier. It refers to a process of integration of world economies and removal of trade barriers. With the liberalization and globalization of the economy the business environment has become totally different. It calls for following the laws, cultures, traditions and demand pattern of local country. In other words it has to make a balance between global and local ones.



Types Of Business Environment

Confining business environment to uncontrollable external factors, it may be classified as (a) Economic environment; and (b) Non-economic environment.

The economic environment includes economic conditions, economic policies and economic system of the country.

Non-economic environment comprises social, political, legal, technological, demographic and natural environment. All these have a bearing on the strategies adopted by the firms and any change in these areas is likely to have a far-reaching impact on their operations. Let us have a brief idea about each of these areas of business environment.

Economic Environment

The survival and success of each and every business enterprise depend fully on its economic environment. The main factors that affect the economic environment are:

(a) **Economic Conditions:** The economic conditions of a nation refer to a set of economic factors that have great influence on business organisations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital market etc. All these help in improving the pace of economic growth.

(b) **Economic Policies:** All business activities and operations are directly influenced by the economic policies framed by the government from time to time. Some of the important economic policies are:

(i) Industrial policy
(ii) Fiscal policy
(iii) Monetary policy
(iv) Foreign investment policy
(v) Export –Import policy (Exim policy)

Summary

Economic reforms have an important impact on Indian economy. There are many changes in Indian economy, after adaptation of the policy of LPG i.e. Liberalisation, Privatisation and Globalisation in 1991. Because of these reforms many good thing are happen like increase in the India's GDP growth rate, Foreign direct Investment and Per Capita Income. Policy has facilitated the flow of foreign capital, technology and managerial expertise thereby improvingefficiency of industry. Also, unemployment rate is reduced. Though there are certain negative impacts are also there like low growth of agriculture sector, adverse impact on environment etc. Lastly we can say that development in India is takes place because of implementation of this policy.

Self Assessment

1. Define the term Business in your own words.
2. State the features of Business.
3. What are different types of business?
4. What do you mean by Extractive and Genetic Industries?
5. Define the term Business environment on your own words.
6. What are the features of Business Environment?
7. State the importance of Business environment.
8. Name the different components of Business Environment.

Unit 3: International Environment

In this unit, you will be able to learn:

- International trading environment
- Trends in world trade and the problems of developing countries
- Foreign trade and economic growth
- International economic institutions-GATT,WTO,UNCTAD,World Bank,IMF,GSTP;Counter trade

Introduction:

One of the most remarkable and significant world trends in the past two decades has been the brisk, sustained growth of international business. Markets have become truly global for most goods, many services, and especially for financial instruments of all types.

In the global forex markets, billions of dollars are transacted each day, of which more than 90 percent represent financial transactions unrelated to trade or investment.

This widespread growth in market interpenetration makes it gradually difficult for any country to avoid sizeable external impacts on its economy. In particular colossal capital flows can push exchange rates away from levels that accurately reflect competitive relationships among nations if national economic policies or performances diverse in short run..

The reason is that during the past few decades, the emergence of corporate empires in the world economy, based on the contemporary scientific and technological developments, has led to globalization of production. As a result of international production, co-operation among global productive units, the large-scale capital exports, —the export of production or —production abroad has come into prominence as against commodity export in world economy in recent years. Global corporations consider the whole of the world their production place, as well as their market and move factors of production to wherever they can optimally be combined. They avail fully of the revolution that has brought about instant worldwide communication, and near instant-transformation. Their ownership is transnational; their management is transnational. Their freely mobile management, technology and capital, the modern agent for stepped-up economic growth, transcend individual national boundaries. They are domestic in every place, foreign in none-a true corporate citizen of the world. The greater interdependence among nations has already reduced economic insularity of the peoples of the world, as well as their social and political insularity.

Definition of international business

International business includes any type of business activity that crosses national borders. Though a number of definitions in the business literature can be found but no simple or universally accepted definition exists for the term international business.

At the other end of the spectrum, international business is equated only with those big enterprises, which have operating units outside their own country. In the middle are institutional arrangements that provide for some managerial direction of economic activity taking place abroad but stop short of controlling ownership of the business carrying on the activity, for example joint ventures with locally owned business or with foreign governments.

A business can be a person or organization engaged in commerce with the aim of achieving a profit. Business profit is typically gauged in financial and economic terms. However, some level of sustained financial and economic profits are needed for a business to achieve other sustainable outcomes measured as social or environmental performance. For example, many companies that are for-profit businesses also have a social and environmental mission.

An importer sells products and services that are sourced from other countries; an exporter, in contrast, sells products and services in foreign countries that are sourced from its home country. Beyond importing and exporting, some organizations maintain offices in other countries; this forms the basis for their level of foreign direct investment. Foreign direct investment means that a firm is investing assets directly into a foreign country's buildings, equipment, or organizations. In some cases, these foreign offices are carbon copies of the parent firm; that is, they have all the value creation and support activities, just in a different country. In other cases, the foreign operations are focused on a small subset of activities tailored to the local market, or those that the entity supplies for operations every place in which the firm operates.

When a firm makes choices about foreign operations that increase national and local responsiveness, the organization is more able to adapt to national and local market conditions. In contrast, the greater the level of standardization—both within and across markets—the greater the possible level of global efficiency. In many cases, the choice of foreign location generates unique advantages, referred to as location advantages. Location advantages include better access to raw materials, less costly labor, key suppliers, key customers, energy, and natural resources.

Scope of International Business Activities

The study of international business focus on the particular problems and opportunities that emerge because a firm is operating in more than one country. In a very real sense, international business involves the broadest and most generalized study of the field of business, adapted to a fairly unique across the border environment.

International trade theories are simply different theories to explain international trade. Trade is the concept of exchanging goods and services between two people or entities. International trade is then the concept of this exchange between people or entities in two different countries.

People or entities trade because they believe that they benefit from the exchange. They may need or want the goods or services. While at the surface, this many sound very simple, there is a great deal of theory, policy, and business strategy that constitutes international trade.

1. **Local market resources and capabilities (factor conditions).** Porter recognized the value of the factor proportions theory, which considers a nation's resources (e.g., natural resources and available labor) as key factors in determining what products a country will import or export.

Porter added to these basic factors a new list of advanced factors, which he defined as skilled labor, investments in education, technology, and infrastructure. He perceived these advanced factors as providing a country with a sustainable competitive advantage.

2. **Local market demand conditions.** Porter believed that a sophisticated home market is critical to ensuring ongoing innovation, thereby creating a sustainable competitive advantage. Companies whose domestic markets are sophisticated, trendsetting, and demanding forces continuous innovation and the development of new products and technologies. Many sources credit the demanding US consumer with forcing US software companies to continuously innovate, thus creating a sustainable competitive advantage in software products and services.

3. **Local suppliers and complementary industries.** To remain competitive, large global firms benefit from having strong, efficient supporting and related industries to provide the inputs required by the industry. Certain industries cluster geographically, which provides efficiencies and productivity.

4. **Local firm characteristics.** Local firm characteristics include firm strategy, industry structure, and industry rivalry. Local strategy affects a firm's competitiveness. A healthy level of rivalry between local firms will spur innovation and competitiveness.

Framework for Analysing International Business Environment

Environmental analysis is defined as ―the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier/technological, geographic, and social settings to determine opportunities and threats to their firms.

―Environmental diagnosis consists of managerial decisions made by analyzing the significance of the data (opportunities and threats) of the environmental analysis.

The definition of environmental analysis given above has been made in the context of the strategic management process for an existing firm. It is, however, quite obvious that environmental analysis is the cornerstone of new business opportunity analysis too.

Every business enterprise, thus, consists of a set of internal factors and is confronted with a set of external factors.

The internal factors are generally regarded as controllable factors because the company has control over these factors; it can alter or modify such factors as its personnel, physical facilities, organization and functional means, such as the marketing mix, to suit the environment.

The external factors, on the other hand, are by and large, beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors, geo-physical factors etc. are, therefore, generally regarded as uncontrollable factors.

As the environmental factors are beyond the control of a firm, its success will depend to a very large extent on its adaptability to the environment, i.e. its ability to properly design and adjust the internal (the controllable) variables to take advantage of the opportunities and to combat the threats in the environment.

Foreign Direct Investment

Foreign direct investment (FDI) refers to an investment in or the acquisition of foreign assets with the intent to control and manage them. Companies can make an FDI in several ways, including purchasing the assets of a foreign company; investing in the company or in new property, plants, or equipment; or participating in a joint venture with a foreign company, which typically involves an investment of capital or know-how. FDI is primarily a long-term strategy. Companies usually expect to benefit through access to local markets and resources, often in exchange for expertise, technical know-how, and capital. A country's FDI can be both inward and outward. As the terms would suggest, inward FDI refers to investments coming into the country and outward FDI30 are investments made by companies from that country into foreign companies in other countries. The difference between inward and outward is called the net FDI inflow, which can be either positive or negative.

Governments want to be able to control and regulate the flow of **FDI** so that local political and economic concerns are addressed. Global businesses are most interested in using FDI to benefit their companies. As a result, these twoplayers—governments and companies—can at times be at odds. It's important to understand why companies use FDI as a business strategy and how governments regulate and manage **FDI**.

How Governments Encourage **FDI** Governments seek to promote FDI when they are eager to expand their domestic economy and attract new technologies, business know-how, and capital to their country. In these instances, many governments still try to manage and control the type, quantity, and even the nationality of the **FDI** to achieve their domestic, economic, political, and social goals.

• **Financial incentives.** Host countries offer businesses a combination of tax incentives and loans to invest. Home-country governments may also offer a combination of insurance, loans, and tax breaks in an effort to promote their companies' overseas investments.

• **Infrastructure.** Host governments improve or enhance local infrastructure—in energy, transportation, and communications—to encourage specific industries to invest. This also serves to improve the local conditions for domestic firms.

• **Administrative processes and regulatory environment.** Hostcountry governments streamline the process of establishing offices or production in their countries. By reducing bureaucracy and regulatory environments, these countries appear more attractive to foreign firms.

• **Invest in education.** Countries seek to improve their workforce through education and job training. An educated and skilled workforce is an important investment criterion for many global businesses.

• **Political, economic, and legal stability.** Host-country governments seek to reassure businesses that the local operating conditions are stable, transparent (i.e., policies are clearly stated and in the public domain), and unlikely to change.

There are two main categories of international investment: portfolio investment and **foreign direct investment (FDI)**. **Portfolio investment** refers to the investment in a company's stocks, bonds, or assets, but not for the purpose of controlling or directing the firm's operations or management. **FDI** refers to an investment in or the acquisition of foreign assets with the intent to control and manage them.

• **Direct investment** in a country occurs when a company chooses to set up facilities to produce or market its products or seeks to partner with, invest in, or purchase a local company for control and access to the local market, production, or resources. Many considerations can influence the company's decisions, including cost, logistics, market, natural resources, know-how, customers and competitors, policy, ease of entry and exit, culture, impact on revenue and profitability, and expatriation of funds.

• Governments discourage or restrict **FDI** through ownership restrictions, tax rates, and sanctions. Governments encourage **FDI** through financial incentives; well-established infrastructure; **desirable administrative processes** and **regulatory environment**; **educational investment**; and **political, economic**, and **legal stability**.

International economic institutions

GATT:

The General Agreement on Tariffs and Trade was the first worldwide multilateral free trade agreement. It was in effect from June 30, 1948 until January 1, 1995. It ended when it was replaced by the more robust World Trade Organization.

The purpose of GATT was to eliminate harmful trade protectionism. That had sent global trade down 65 percent during the Great Depression.

By removing tariffs, GATT boosted international trade. It restored economic health to the world after the devastation of World War II.

GATT had three main provisions. The most important requirement was that each member must confer most favored nation status to every other member. That means all members must be treated equally when it comes to tariffs. It excluded the special tariffs among members of the British Commonwealth and customs unions. It permitted tariffs if their removal would cause serious injury to domestic producers.

Second, GATT prohibited restriction on the number of imports and exports. The exceptions were:

When a government had a surplus of agricultural products. If a country needed to protect its balance of payments because its foreign exchange reserves were low.

- Developing countries that needed to protect raw industries.
- In addition, countries could restrict trade for reasons of national security.
- These included protecting patents, copyrights and public morals.

The third provision was added in 1965. That was because more developing countries joined GATT, and it wished to promote them. Developed countries agreed to eliminate tariffs on imports of developing countries to boost their economies. It was also in the stronger countries' best interests in the long run.

Advantages of GATT:

- GATT reduced tariffs.

- By increasing trade, GATT promoted world peace.
- By showing how free trade works, GATT inspired other trade agreements. It set the stage for the European Union.
- GATT also improved communication by providing incentives for smaller countries to learn English, the language of the world's largest consumer market. This adoption of a common language reduced misunderstanding. It also gave less developed countries a competitive advantage. English gave them insight into the developed country's culture, marketing and product needs.

Disadvantages of GATT:

Low tariffs destroy some domestic industries, contributing to high unemployment in those sectors.

GATT did not address the trade of services. That allowed them to grow beyond any one country's ability to manage them. For example, financial services became globalized. Foreign direct investment had become more important.

GATT reduced the rights of a nation to rule its own people. The agreement required them to change domestic laws to gain the trade benefits. For example, India had allowed companies to create generic versions of drugs without paying a license fee. This helped more people afford medicine. GATT required India to remove this law. That raised the price of drugs out of reach for many Indians.

Trade agreements like GATT often destabilize small, traditional economies.

WTO:

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who usually meet at least once every two years) or by their ambassadors or delegates (who meet regularly in Geneva).

- Location: Geneva, Switzerland
- Established: 1 January 1995
- Created by: Uruguay Round negotiations (1986-94)

Trade negotiations

The WTO agreements cover goods, services and intellectual property. They spell out the principles of liberalization, and the permitted exceptions. They include individual countries' commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets. They set procedures for settling disputes. These agreements are not static; they are renegotiated from time to time and new agreements can be added to the package.

Implementation and monitoring

WTO agreements require governments to make their trade policies transparent by notifying the WTO about laws in force and measures adopted. Various WTO councils and committees seek to ensure that these requirements are being followed and that WTO agreements are being properly implemented. All WTO members must undergo periodic scrutiny of their trade policies and practices, each review containing reports by the country concerned and the WTO Secretariat.

Dispute settlement

The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgements by specially appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

Building trade capacity

WTO agreements contain special provision for developing countries, including longer time periods to implement agreements and commitments, measures to increase their trading opportunities, and support to help them build their trade capacity, to handle disputes and to implement technical standards. The WTO organizes hundreds of technical cooperation missions to developing countries annually. It also holds numerous courses each year in Geneva for government officials. Aid for Trade aims to help developing countries develop the skills and infrastructure needed to expand their trade.

Outreach

The WTO maintains regular dialogue with non-governmental organizations, parliamentarians, other international organizations, the media and the general public on various aspects of the WTO and the ongoing Doha negotiations, with the aim of enhancing cooperation and increasing awareness of WTO activities.

Functions:

- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations

UNCTAD

UNCTAD is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues. UNCTAD is a permanent intergovernmental body established by the United Nations General Assembly in 1964.

Globalization, including a phenomenal expansion of trade, has helped lift millions out of poverty. But not nearly enough people have benefited. And tremendous challenges remain.

UNCTAD, which is governed by its 194 member States, is the United Nations body responsible for dealing with economic and sustainable development issues with a focus on trade, finance, investment and technology. It helps developing countries to participate equitably in the global economy.

UNCTAD carries out economic research, produces innovative analyses and makes policy recommendations to support government decision-making.

UNCTAD is a forum where representatives of all countries can freely engage in dialogue, share experiences and tackle critical issues affecting the global economy. It promotes consensus at the multilateral level.

UNCTAD turns research findings into practical applications and offers direct technical assistance to help countries build the capacities they need for equitable integration into the global economy and improve the well-being of their populations.

Trade and commodities

UNCTAD promotes development through international trade:

• Produces analyses and collects data to improve understanding of current and future problems in this area.

• Supports the participation of developing countries in international trade and international trade negotiations on an equitable basis.

• Seeks to strengthen international trade in services and promotes an integrated approach to trade, the environment, and sustainable development.

• Analyses issues related to competition policy and consumer protection

• Focuses on the contribution of the commodity sector to development, advocating diversification and risk management.

Investment and enterprise

UNCTAD offers member States expertise on issues related to investment and enterprise development. It also:

• Conducts cutting-edge research and analysis in the field of investment for sustainable development.

• Informs policymakers about the structure and evolution of foreign direct investment in the world and outlines the main trends in investment.

• Provides technical assistance to enable beneficiary countries to attract more investment for sustainable development, including through investment policy reviews.

• Serves as the focal point for issues related to international investment agreements.

• Promotes entrepreneurship and enterprise creation and expansion

• Participates in the setting of international accounting standards.

• Encourages responsible investment through initiatives such as the establishment of principles for sustainable development in agriculture.

• Analyses debt issues

• Provides developing countries with technical assistance on the management of public debt

• Lends assistance to the Palestinian people in support of their economic development.

Least developed countries

UNCTAD helps more than 90 countries in their efforts to reach the targets they have set for economic progress. These countries belong to categories that receive special attention from the United Nations, and, in many cases, special treatment to compensate for the disadvantages they face in the global economy.

• UNCTAD helps least developed countries – 47 States were recognized as such in 2017 – to achieve the socioeconomic progress that will allow them to graduate from this category.

• It supports landlocked developing countries which refuse to consider their landlocked nature as an obstacle to development.

• It also supports small island developing States in their continuing efforts to become less economically vulnerable, despite the many challenges they face.

Technology and logistics

In a globalized, knowledge-based economy, it is essential to stimulate innovation in developing countries to improve their competitiveness.

• Conducts research in science, technology (including information and communication technology) and innovation for development.

• Helps developing countries design and implement technology and innovation policies for economic growth and sustainable development.

• Carries out a broad programme of work to establish efficient services in transport, trade facilitation and customs.

World Bank:

The World Bank Group is one of the world's largest sources of funding and knowledge for developing countries. Its five institutions share a commitment to reducing poverty, increasing shared prosperity, and promoting sustainable development. It has five institutions:

- **IBRD**
  The International Bank for Reconstruction and Development
- **IDA**
  The International Development Association
- **IFC**
  The International Finance Corporation
- **MIGA**
  The Multilateral Investment Guarantee Agency
- **ICSID**
  The International Centre for Settlement of Investment Disputes.

Partnering With Governments

Together, IBRD and IDA form the World Bank, which provides financing, policy advice, and technical assistance to governments of developing countries. IDA focuses on the world's poorest countries, while IBRD assists middle-income and creditworthy poorer countries.

Partnering With The Private Sector

IFC, MIGA, and ICSID focus on strengthening the private sector in developing countries. Through these institutions, the World Bank Group provides financing, technical assistance, political risk insurance, and settlement of disputes to private enterprises, including financial institutions.

Accountability

The World Bank Group is accountable to its shareholders and the public through a set of feedback and accountability mechanisms. It continues to refine a set of indicators to track progress on client results and the effectiveness of its operations to demonstrate progress.

Founded in 1944, the International Bank for Reconstruction and Development—soon called the World Bank—has expanded to a closely associated group of five development institutions. Originally, its loans helped rebuild countries devastated by World War II. In time, the focus shifted from reconstruction to development, with a heavy emphasis on infrastructure such as dams, electrical grids, irrigation systems, and roads. With the founding of the International Finance Corporation in 1956, the institution became able to lend to private companies and financial institutions in developing countries. And the founding of the International Development Association in 1960 put greater emphasis on the poorest countries, part of a steady shift toward the eradication of poverty becoming the Bank Group's primary goal. The subsequent launch of the International Centre for Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency further rounded out the Bank Group's ability to connect global financial resources to the needs of developing countries.

Today the Bank Group's work touches nearly every sector that is important to fighting poverty, supporting economic growth, and ensuring sustainable gains in the quality of people's lives in developing countries. While sound project selection and design remain paramount, the Bank Group recognizes a wide range of factors that are critical to success—effective institutions, sound policies, continuous learning through evaluation and knowledge-sharing, and partnership, including with the private sector.

The Bank Group has long-standing relationships with more than 180 member countries, and it taps these to address development challenges that are increasingly global. On critical issues like climate change, pandemics, and forced migration, the Bank Group plays a leading role because it is able to convene discussion among its country members and a wide array of partners. It can help address crises while building the foundations for longer-term, sustainable development.

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The evolution of the Bank Group has also been reflected in the diversity of its multidisciplinary staff, who include economists, public policy experts, sector experts, and social scientists, based at headquarters in Washington, D.C., and in the field. Today, more than a third of staff are based in country offices.

IMF:

The International Monetary Fund (IMF) is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership.

Primary aims:

- Promote international monetary cooperation;
- Facilitate the expansion and balanced growth of international trade;
- Promote exchange stability;
- Assist in the establishment of a multilateral system of payments; and
- Make resources available (with adequate safeguards) to members experiencing balance-of-payments difficulties.

The IMF's responsibilities: The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.

Financial assistance: Providing loans to member countries that are experiencing actual or potential balance-of-payments problems is a core responsibility of the IMF. Individual country adjustment programs are designed in close cooperation with the IMF and are supported by IMF financing, and ongoing financial support is dependent on effective implementation of these adjustments.

Capacity development: The IMF provides technical assistance and training to help member countries build better economic institutions and strengthen related human capacities. This includes, for example, designing and implementing more effective policies for taxation and administration, expenditure management, monetary and exchange rate policies, banking and financial system supervision and regulation, legislative frameworks, and economic statistics.

SDRs: The IMF issues an international reserve asset known as Special Drawing Rights , or SDRs, that can supplement the official reserves of member countries. Total global allocations are currently about SDR 204 billion (some $290 billion). IMF members can voluntarily exchange SDRs for currencies among themselves.

Resources: Member quotas are the primary source of IMF financial resources. A member's quota broadly reflects its size and position in the world economy.

Governance and organization: The IMF is accountable to its member country governments. At the top of its organizational structure is the Board of Governors , consisting of one governor and one alternate governor from each member country, usually the top officials from the central bank or finance ministry.

GSTP:

The Global System of Trade Preferences among Developing Countries (GSTP) aims at promoting trade among developing countries. There are 42 country members of GSTP, including 7 LDCs (Bangladesh, Benin, Guinea, Mozambique, Myanmar, Sudan, and Tanzania). The Third Round of Trade Negotiations (Sao Paulo Round) concluded in December 2010, but has not yet become effective.

GSTP recognizes the special needs of LDCs and calls for concrete preferential measures in their favour (Article 3). LDCs are not required to make reciprocal concessions. Participating States may grant special concessions to LDC members (Article 9). Special considerations shall be given to requests for tariff reductions and other trade promoting measures by LDCs (Article 17). Rules of origin for LDCs may also be more flexible.

The GSTP establishes a framework for the exchange of trade concessions among the members of the Group of 77. It lays down rules, principles and procedures for conduct of negotiations and for implementation of the results of the negotiations. The coverage of the GSTP extends to arrangements in the area of tariffs, para-tariff, non-tariff measures, direct trade measures including medium and long-term contracts and sectoral agreements. One of the basic principles of the Agreement is that it is to be negotiated step by step improved upon and extended in successive stages. During the First Round India exchanged concessions with 14 countries. The number of tariff lines on which concessions were granted by India is 31 and in return India received tariff concessions on a wide range of products of its export interest from these 14 countries.

3. In order to carry forward the exchange of concessions, the second round of GSTP Negotiations was launched in 1991. During the Second round, India held bilateral negotiations for exchange of concessions with 12 countries. These concessions have not been implemented so far.

4. In the 16th Session of the GSTP Committee of Participants (COP) held in Geneva on 10th December, 2003 the Committee decided to constitute an Ad-hoc Technical Working Group amongst other issues to comprehensively review the operations of the GSTP Agreement and study the technical feasibility of the possible means of invigorating and furthering the objectives of the GSTP Agreement.

5. The recommendations of the Technical Working Group for a new round of negotiations were accepted by the Committee of Participants and in the Special Ministerial Session of the Committee of Participants held in Sao Paulo during UNCTAD XI on 16th June, 2004, the Ministers decided to launch the third round of negotiations under the GSTP. As per the decision taken therein, a

Negotiating Committee will commence negotiations in November, 2004 and conclude the negotiations by not later than November, 2006.

Components of the GSTP

The GSTP may inter alia consist of the following components:(a) arrangements relating to tariffs;(b) arrangements relating to para-tariffs;(c) arrangements relating to non-tariff measures;(d) arrangements relating to direct trade measures including medium and long-term contracts;(e) arrangements relating to sectoral agreements.

Counter trade

Countertrade is a system of international trading that helps governments reduce imbalances in trade between them and other countries. It involves the direct or indirect exchange of goods for other goods instead of currency.

Countertrade is often used when a foreign currency is in short supply or when a country applies foreign exchange controls, which are limits imposed on the availability of foreign currencies to importers for the purchase of foreign products. Countertrade is often used by developing countries to control trade and as a development technique.

Types of Countertrade

- Barter- direct exchange of goods or services having equivalent values without a cash transaction
- Counterpurchase: involves 2 simultaneous separate transactions between 2 parties with or without cash
- Buyback or compensation: involves repayment in the form of goods derived from directly from, or produced by, the technology, plant, or equipment provided by the seller.
- Offsets: involves an arrangement whereby the seller is required to assist in or to arrange for the marketing of products produced by the buying country or to allow some portion of the exported product to be assembled or manufactured by producers located in the buying country.
- Switch-trading: refers to a switch in the country of destination goods

A direct offset occurs once a seller of a product to be imported into a foreign country agrees to purchase parts or materials used to produce the product. The direct offset will effectively reduce the price of the imported good because of the profit earned by the local foreign company selling components to the seller.

Benefits of Countertrade

- Allows entry into difficult markets
- Increases company sales
- Overcomes currency controls & exchange problems
- Increases sales volume
- Overcomes credit difficulties
- Allows fuller use of capacity
- Allows disposal of declining products
- Provides sources of attractive inputs
- Gain competitive edge over competition

Disadvantages of Countertrade

- No “in house” use of goods offered by customers
- Time consuming and complex negotiations
- Uncertainty
- Increase costs
- Difficult to resell goods by offsets
- Brokerage costs
- Getting businesses in which firm may have no knowledge
- Risky if commodities are involved

Self-Assessment:

1. What is meant by GATT? Briefly describe.
2. Describe the functioning of IMF.
3. What is GSTP?
4. Describe the characteristics of UNCTAD and its contribution.