MADURAI KAMARAJ UNIVERSITY

(University with Potential for Excellence)

DISTANCE EDUCATION

674

P.G. Diploma in Entrepreneurship Development

PAPER - II

ENTREPRENEURSHIP ENVIRONMENT & SMALL BUSINESS LAWS

Recognised by DEC

w.w.w.mkudde.org

2051

Ad-mku
9252

STAR / 1000 COPIES/SEP 2010

SYLLABUS

UNIT - I

Introduction : Historical background of Indian business, professionalism Vs. family management, management education in India, interface between industry and academic-Gaps, problems, solution, India corporate culture, values.

UNIT - II

Political environment : Forms of government administration - federal, united systems - appropriateness thereof as of now, Indian political philosoph, towards business enterprises, political stability, integrity - implications for stable business policies.

UNIT - III

Legal environment : Important provisions and administrative aspects of the following acts with latest amendments :-

- Foreign Exchange Regulations Act, 1992
- Indian companies Act, 1956 and recent companies bills
- Law of contract
- Income tax wealth Tax, Gift Tax
- Labour Laws
- Stock Exchange Board of India Act Securities Contract Regulations Act, 1956
- Consumer Protection Act
- Environment Protection Act

UNIT - IV

Economic Environment : Economic liberalization : Privatization of public sector units, new industrial policy, opening up of economy to multinationals, economic dependence, trade related intellectual properties (TRIPS), industrial growth and development. Balance of growth between agricultural, industrial, services sectors, economic prosperity and maturity, GATT, an evaluation of operations of IFCI, LIC, GIC, UTI, IRBI - changing structure - Internations Economic Environment Globalization of India economy importance of international ginsnvisl management in Indian Business Companies, international standard organization, important aspects in International Financial Management Foreign financial institutions, regional trade blocks, southeast Asian Crises.

UNIT - V

Technological environment : Concept of technology, appropriate technology process of innovation, rate of technological development for selected industries (like agriculture, computers, drugs, etc.) laws relating to product and process patents, role of WTO - Investment in R&D by Indian companies basic and applied research. Multination strength in technology and other resources - Total quality management, bench marking, zero defects, etc. - Electronic Commerce and Internet Marketing.

UNIT - VI

Socio cultural environment : Impact on business, emerging middle class, rise in consumer spending, mega buck executives advertising as a major force to feflect contemporary socio-cultural values, social responsibilities and socio-audit.

CONTENTS

S.No.	Topics	Page No.
1.	Basic concept of Indian Business Environment	4
2.	Political Environment	25
3.	Foreign Exchange Regulation Act	46
4.	Law of Contract in India	61
5.	India and the World Economy	108
6.	Evaluation of ISO	127
7.	Socio Cultural Environment	152
8.	Real Stars of the Corporate World	182
9.	Social Responsibility of Business	193
10.	Social Audit	207

UNIT - I

BASIC CONCEPT OF THE INDIAN BUSINESS ENVIRONMENT

1.1 DEFINITION OF BUSINESS ENVIRONMENT

The term 'Business Environment' refers to the totality of all the relevant forces external, to and beyond the control of, an individual business enterprise and its management. These force, despite being externally located, continue to exercise a significant and meaningful influence on the life and growth patterns of individual enterprises. They-may include diverse constituents such as:

- the ideological beliefs of the ruling class,
- value systems of the society,
- rules and regulations laid down by the government, and
- the monetary policies of the Reserve Bank of India and many others,

Some of these constituents may be static, some only relatively so, while others may be changing every now and then. Similarly, while it may be possible conceptualize and / or quantify some elements, others may be referred to only in a perceptual sense. In terms of time also, the environment may be conceived as having elements of the past, the present and the projected future.

The environment factors vary fro: ı « ountry to country, even region to region. The environment of busi· ss ·, thus is an extremely complex and dynamic phenomenon.

Business environment can be clarie ed into two major categories; the economic environment and the on-economic environment. The economic environment consists of fa ts like the fiscal policy, the monetary policy, the industrial policy, the physical limits on output, the price and income equation, nature of the economic system, the pace of economic developn.cnt etc.

The non-economic environment refers to social, cultural, political, legal, technological factors etc. Despite this segregation, the economic environment has non-economic implication just as the non-economic environment has economic implications.

In today's business environment, considerable skill and dexterity is required in adjusting, coping with and managing the environment of business. This becomes more so due to the changing nature of today's business context.

It is to facilitate development of these skills that study of the critical elements of business environment becomes vital. These critical elements facilitate as in understanding this turbulent and dynamic environment help us in decision-making.

1.2 THE ECONOMIC ENVIRONMENT OF BUSINESS

A business firm is an economic institution in a market system. Its market behaviour reflects the nature of the economic decisions taken by the manager of the firm. Micro-economic decision-making by the firm has, nevertheless, to be made within the broader macro-economic system in which a business firm operates.

The present-day economic environment of business is a complex phenomenon. Business sector has economic relations with the government, the capital market, the household sector, and the foreign sector These different sector, 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.

1.3 CRITICAL ELEMENTS OF THE ECONOMIC ENVIRONMENT OF BUSINESS

From the standpoint of both the corporate business management and national economic management in India, the following may be highlighted as the critical elements of the economic environment of business.

The institutional framework of the environment : The philosophy and practice of an economic system will, to a large extent, determine the relative roles and responsibilities of the private sector, the public sector, the sector etc

The physical framework of the environment : The level of the economic development and the structure of the economy define the 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 national output, the composition and pattern of foreign trade, the structure of savings, investment and capital formation, the pattern of income distribution, the degree of urbanization etc, bring out the significance of agriculture, industry, and the service sector in the national economy.

Physical anatomy of national economy : The national economy is a combination of the household sector, the corporate business sector, the government administration, the capital markets, and the foreign sector. The order and strength of each of these sectors throw light on our understanding of the economic environment.

- **Functioning of the economy :** Money is the blood life of business activity and the economic system. The flows of consumption, investment, savings, income, employment, and output are all affected by it. The nature of monetary transaction affect the price level, thereby influencing the real value of all economic variables. It also provides further insights into the role of centralized planning, administered price system as well as free market pricing, and central banking.
- **Economic Planning and programme :** Economic planning gives a direction to the change in the economic environment. Most economies today function through one kind of planning or the other to overcome their environmental constraints, and optimize their achievements over a period of time.
- **Economic policy statements and legislations :** Planning is a programme for action, not an end in itself. It must, therefore, be followed by proper implementation. This calls for economic policy statements affecting both industry and agriculture. RBI works through the instrument of money and credit policies, while the government exercise its control through fiscal-cum-budgetary policies.
- **Fluctuations and trends in macro-economic variable :** The functioning of an economy is reflected in short-term fluctuations, and long-term trends, in macro-economic variables like income. money supply, price, production, employment, the balance of trade and payment, foreign exchange earning, etc. These trends decide the course of the prevailing economic activity.
- **Economic problems and prospects :** Some of the economic trends as mentioned above may define the nature and dimensions of various macro-economic problems like inflation,

unemployment, recession etc. Economic problems and prospects in the environment throw challenges to corporate as well as national economic management.

1.4 THE SOCIO-CULTURAL ENVIRONMENT OF BUSINESS

Just as business is an economic activity, it also has a social purpose. Business must discharge social responsibility, social obligations, and social commitment. Else, it cannot enjoy social sanction.

A host of factors constitute such a socio-cultural environment. They include factors like social values, culture, beliefs, traditions and conventions, social attitudes, social institutions, class structure, social group pressure etc. The nature of social objectives and priorities, along with the set of the social constraints, give form and content to several social movements. Successful business managers cannot afford to neglect these movements and their underlying ethos. Business ethics are very much influenced by the social movements, social systems, and social preferences.

In a board sense, thus, the socio-cultural environment happens to be a culmination of forces operating from different platforms such as history, culture, policy, ethics and morality, values and institutions, geography and ecology etc. The society itself has to balance the achievements and aspirations of various individuals, groups and institutions.

No business can survive and grow without social harmony. Different countries may attain this social harmony and order through different forms, ways and means. The socio-cultural environment will, thus, differ markedly over space, time, and method.

1.5 CRITICAL ELEMETNS IN THE SOCIO-CULTURAL ENVIRONMENT OF BUSINESS

These different critical elements include :

- **Social institutions and systems :** Examples include the caste system, the joint family system, child marriage, the patriarchal family and the like that have evolved over time through history, culture and heritage.

- The celebrated caste system in India, for example, till recently, ensured a simple occupational division of labour. The joint family system clearly defined the place of individuals in the familial hierarchy. The position of women and children was similarly laid down.
- **Social values and moves :** Changing social values and moves are beginning to question the basics of the age old social institutions and systems. Customs, traditions and conventions are not rigid anymore. Views towards authority, responsibility, and delegation; attitudes towards business as a profession, views towards achievements and work; views towards ownership and management, are all undergoing rapid changes.
- **Education and culture :** Attitude towards education; need for business education; role of business schools, spread of business education, and their impact on business ethics, business morality and organisational culture, are again major elements of socio-cultural environment of business.
- **The social responsibility of the government :** Growing levels of achievement and aspiration have to be bridged through a continuous and relentless social effort, keeping in view the social welfare and social constraints. This is where the role of the government comes in. The government has to make sure that the social progress is not handicapped by the tyranny of the majority, otherwise, social tensions will mount affecting business unfavorably.
- **Social groups and social movements :** In a society, individuals form groups on the basis of caste, creed, religion, language, trade and profession etc. Some of them e.g., trade union-

ism and the cooperative movement have direct economic interests, and pose challenges for business operations.

- **Socio-economic order :** In a pluralistic society like ours (with differences in food, dress, language, religion and sub-cultures); a dual economy (the traditional co-existing with the modern); technological dualism (bullock carts along with airbuses). These reflect a unique socio-economic order in India. From time to time, this socio-economy order gets disturbed, modified or changed, hopefully for the better, through social movements and social policy formulation on subjects like science and technology, ecology and forestry, family planning, animal husbandry etc.

- **Social problems and prospects :** These are often offshoots of a changing socio-economic order. As society moves from "pre-industrial" to "post-industrial" stage to development, it may experience growing unemployment and poverty, poor housing and sanitation, urban congestion, pollution and increasing incidence of anti-social activities. What is, therefore, needed is a social cost-benefit analysis of industrial development.

1.6 THE POLITICO-LEGAL ENVIRONMENT OF BUSINESS

In this sub-unit the politico-legal aspects of the business environment are discussed.

The government is a political institution. As discussed earlier it also has a social purpose; it enacts and executes social policies and exists with social consent, providing ways and means of maximising social benefits and minimising social costs. In other words, the government and its structure and style have a definite impact on business, and is of immense social value.

More so in the modern world, where business of any type and size is affected by the government policies, programmes, and legislations. We see that, very often, depending on the nature of the government at work, businessmen and reorient their business strategy and tactics.

Quite a few of the government policies are executed through legislations. These legislations, enactments, rules and regulations, directives and guidelines, issued by the government, constitute the politico-legal environment of business. For a successful manager it becomes necessary to take stock of the relevant politico-legal environment of business and then capitalize on the opportunities offered by it.

1.7 CRITICAL ELEMENTS IN THE POLITICO-LEGAL ENVIRONMENT

- **The form and structure of the government** : The form of the government can be democratic, communist, capitalist or a mix? Each of these choices will imply a corresponding relationship between business and the government.
- The ideology of the ruling party may itself influence the ownership, management, structure and size of business. As a reaction to this ideology, business houses adopt pro-Government or anti-Government stance.
- **The strength of the opposition in legislature** : A strong, fair, firm and consistent opposition may ensure constructive criticism of the existing government policies affecting business.

  This will also prevent the government from acting irresponsibly with regard to business.
- **The role and responsibility of the bureaucracy** : Ministers may change from time to time but the government's machinery must run without a break. Bureaucracy, thus, maintains

continuity un the system; its role becomes especially powerful when the government controls and regulates business extensively.

- **The direction and the speed of the government policies and programmes** : Policies may be formulated with tremendous "speed". They may come one after another though their "direction" may not be clear. Sometimes, policies may have a clear direction but may be evolved at a snail's pace. Either way it is unfavourable for business.
- **Socio-economic legislations** : Business laws are numerous in number and diverse in form. They are enacted to protect the interests of various groups in society. Thus, there are laws to protect the consumers, workers, owners, shareholders, and the society at large. It is though these legislations that order is maintained in the industrial economy. Laws not only protect business they also create business.
- **The politico-legal institutions** : The functioning of the legislative, executive, and judicial organs of the government affect business environment directly and indirectly. All these organs function through organisations and institutions. For example, the judicial system functions through the Supreme Court, the High Courts and the lower courts. Unless these courts function efficiently, implementation of business law, like other laws will be at stake.

1.8 SOCIAL REPONSIBILITIES OF BUSINESS

Business exists in the context of a society, in an intertwined relationship. In traditional, pre-industrial society, business transactions were negligible if not non-existent. Production was mainly for self-consumption and the need for exchange was minimal.

In modern industrial society, business grew by leaps and bounds; production was meant for the market; the subsistence system was replaced by a commercial system and, therefore, exchange transactions multiplied.

In post-industrial society, business is getting specialized and professional. With growing magnitude, the complexity of business is growing manifold. It is growing in variety and becoming more and more service oriented, away from being production oriented.

Thus, as transitions takes place in society through various stages, business too is changing in terms of size, structure, strategy and system. Similarly, as business change in its form and organization, society too is undergoing changes. Social values, social institutions, social order, social contract, social conflict, social problems – everything is changing along with changes in business culture. In other words, business determines society as much as society determines business. Therefore, it is important for business to be socially responsible.

It is no longer fashionable for business corporations the world over to take an immense pride in making money. What is more fashionable today is to show that they are great innovators, more specifically great public benefactors and that they exist to serve the 'public'.

From the standpoint of business, we have identified each element of this 'public'. They are; owners / shareholders, managers, workers, suppliers, distributors, consumers, government officials and other similar social groups.

Each and every social group has a very definite expectation from business. These expectations too have been indicated in the Box I-A. Unless these expectations are fulfilled, the constituents of the 'public' begin to withdraw their involvement, organise to obtain fulfillment of their expectations (e.g., workers environmentalists), utilize their administrative power, or take recourse to the judicial process to obtain their due.

The most diffused set of expectations perhaps comes from those who are not directly concerned with business. They could be groups of ordinary citizens, banding themselves into clubs or associations of some form, for promoting education and culture; the ecologists who want business to minimize, if not totally avoid, pollution or degradation of the physical environment; the social workers who want business to adopt backward villages and undertake all round development of housing, health and sanitation.

Business has to balance these multifarious expectations and optimize a general "social welfare policy" subject of the constraint of maintaining social harmony. This is a difficult task and involves a measure of "social efficiency" of business operations. Normally, private business enterprises do not bother about social efficiency; they are guided by commercial profitability criteria. For them, social responsibility is more a facade and helps in maximizing the long-run return on investment.

For public enterprise, social desirability is an important consideration. Therefore, they have to attempt a detailed social cost-benefit analysis of their projects and operations. Such enterprises that produce public goods and services, have to maximize net social returns. However, social responsibility does not mean that they should run on losses. After all. they are not meant for supplying free social service; social obligations should not eclipse their economic viability, which in itself serves a social purpose. Thus, even public enterprises have social as well as commercial obligations. In fact, we want our public enterprises to generate surplus for development finance. The profit of a public enterprise is an important source of financing planned economic development. A losing public enterprise is ultimately a social burden; therefore it is better to close it down. This closure may cause temporary hardships such as unemployment and industrial unrest; but this can never be an alibi for an unsatisfactory economic and financial performance of an industrial unit.

Box 1-A

CONSTITUENT 'PUBLIC' OF BUSINESS

Shareholders

- ***Promoters / owners :***
  - fair return on investment
  - business
- ***Distributors & agents :***
  - after sales commission on sales

Other like environmentalists, social workers etc.,

  - Minimize pollution and degradation of the physical environment
  - adoption of backward villages
  - undertakes all round development etc.
- ***Government official :***
  - taxes and accountability for subsides
- ***Consumers :***
  - quality product and service at a fair price
- ***Managers :***
  - remunerative pay and perks
- ***Workers :***
  - fair wage and bonus
- ***Suppliers :***
  - prompt settlement of bills

Public enterprises are accountable to people through (i) the Parliament, (ii) Audit, and (iii) Annual Reports. Public accountability or private enterprises is also required. Often, the AGMs are an occasion when the shareholders may take management of a public limited company to task. But this requires the shareholders' movement to be organised; and a strong consumerist movement are additional requirements for enabling any business - private or public, national or multinational, small or big – to discharge its social obligations and commitment.

Just as society has expectations from business, business too has legitimate expectations from society. The society must also act towards business responsibly. The social groups, through violent and irresponsible methods, can hold business to ransom and ruin it. Ultimately, that will be a social loss. Business can discharge its responsibility, provided it enjoys some authority and support facilities. Social movements should support business by indicating right directions in the national interest.

1.8 BUSINESS DECISION-MAKING AND THE IMPACT OF THE MICRO ENVIRONMENT

The micro environment consists of the players in the company's immediate environment that affect its ability to serve its markets, specifically the company itself, the suppliers, market intermediaries, customers, competitors, and the public. The company itself consists of several interacting departments, all of which influence management's decision-making. Suppliers, through their influence on cost and availability of productive inputs also have an influence on business decisions; the company converts their supplies into useful products and services and uses middlemen, physical distribution facilitators, marketing service agencies, and financial intermediaries to find customers and deliver the goods. The target market itself will consist of consumers, producers, resellers, or the government agencies here or abroad. In carrying out its marketing task, the company faces several types of competitors; desire competitors, generic competitors, product form competitors, and brand competitors. The company also has to deal with various people that have an actual or potential interest in, or impact on the company's ability to achieve, its objectives; financial, media, government, citizens action, and general and internal, people. All these factors make up the company's micro environment and influence its business decisions.

1.9 BUSINESS DECISION – MAKING AND THE IMPACT OF THE MICRO ENVIRONMENT

Business's micro environment consists of six major forces; demographic, economic, natural, technological, political and cultural.

The demographic environment : In consists of population growth, birth rate, changing lifestyles of the family, a rise of non-family households, geographical population shifts, a ore educated and white collar populations a changing ethnic and racial population, and a shift from a mass market to micro markets.

The economic environment : It shows a change in the real income patterns, low savings an high debts, ad changing consumer expenditure patterns.

The natural environment : It shows availability patterns of raw materials, cost of energy, increased pollution levels, and a changing role of the government in environment protection.

The technological environment : It exhibits accelerating technological change, unlimited innovational opportunities, high R&D budgets, concentration on minor improvements rather or major discoveries, and increased regulation of technological change.

The political environment : It shows substantial business regulation, strong government-agency enforcement, and the growth of public interest.

The cultural environment : The cultural environment shows long-run trends toward self-fulfillment, immediate gratification and a more regular orientation.

SUMMARY :

In this unit the basic meaning of business environment was classified. The business environment consists of two dimensions, viz., economic environment and non- economic environment The critical factors comprising the economic environment were discussed. Major facets of the socio-cultural and the politico-legal environment were highlighted. Impact of micro environment on business decision was emphasized.

Values

Business, like other social institutions, develops certain belief systres and values for which they stand, and these beliefs and values are a source of institutional drive. These values derive from a multitude of sources, such as the mission of business as a social institution, the nation in which a business is located, the type of industry in which it is active and the nature of its employees. These values becomes guides for employees' decisions in the interface of business. Second, they become strong motivators for people in a business.

Viability : Davis and Blomstorm define viability as the drive to live and grow, to accomplish the potential not yet reached, and to achieve all that a living system is capable of becoming. If a business is to be a viable, vigorous institution in society, it must initiate its share of forces in its own environment, rather than merely adjust to outside forces as a bucket of quicksand does. Every business needs a drive and spirit all its own to make it a positive actor on the societal stage rather than a reactor or a reflector. To expect the business to be otherwise is to deny it the opportunities available to other institutions, the authors have pointed out.

Public Visibility : The term public visibility refers to the extent that an organisation's activities are known to persons outside the organisation. Public visibility is different from the idea of a public image. The term public image refers to what people think about an organisation's acts, while public visibility refers to the extent to which its acts are known. The importance of public visibility is that it subjects business activities to public examination, discussion and Judgement. If acts are not known, they cannot be judged.

In short, according to modern thinking, business is an integral part of the social system. It is a social organ to help accomplish the societal goals. Its activities and attitudes are, therefore, subject to public Judgement, which may have far-reaching implications. A business enterprise shall make profit only by accomplishing the socially accepted goals and by satisfying society.

Objectives and Importance of Business :

For quite a long time, it was held that the sole, objective of business was maximum of profit. But this is no longer a universally valid business objective. The memoranda of Association of Companies rarely state that profit maximization is the primary objective.

Top executive of a large number of companies and many economists today argue that profit is not the primary objective of a firm. Large companies, particularly, may strive to maintain or gain leadership in market share, sales volume, fixed assets, employment, etc, even sacrificing profit maximization. According to William, J.Boumal, the objective of a GNP which was less than the total annual sales of General Motors. These are indicative of the resources at the command of the MCNs and of their economic importance. Despite their drawbacks, the large corporations have made very significant contribution in many areas. Because of their resources position, they ' should be expected to make a significant contribution to research and development, and undertake many challenging tasks, Indeed, they have enriched society by their inventions, including the introduction of a number of vital drugs.

In short, as one of the leading Indian industrialists aptly observe businessmen, being leading eminent and senior citizens who are all materially better placed, are expected to be pace setters. They can provide the dynamism which can transform the country economically and social. This role is more than that of a mere manager or salesman'.

Professionalisation

The growth of management education and training has contributed the growing professionalisation of management; and professionalisation has contributed to the growing social orientations or business.

Professionalisation imparts a certain social responsibility and to management. *A professional is one who possesses systematic knowledge and skill to perform certain responsible functions with authority and is bound by certain ethics in the use of his knowledge and skill.* According to Lewis Allen, "a professional manager is one who specialize in the planning, organising, leading and controlling the efforts of others does so through a systematic use of classified knowledge, complete vocabulary and principles, and who subscribes to the standards of practice and code of ethics established by recognised body".

In this connection, Peter Drucker observes: "Management is pendent of ownership, rank or power. It is objective function and be grounded in the responsibility for performance. It is professional agement is a function, a discipline, a task to be done, and managers and professional who practice this discipline, carry out the functions discharge these tasks. It is no longer relevant whether the manager is an owner: if he it is incidental to his main function, which is to manager".

Trucker further remarks: " The professional has to have autonomy cannot be controlled, supervised, or directed by the client. He has private in that his knowledge and his judgement have to be entrusted decision. But it is also foundation of his autonomy, and indeed its rationale, that he sees 'himself as affected with the public interest'. A professional, in other words, is private in the sense that he is autonomous and not subject to political or ideological control. But he is public in the sense that the welfare of his client sets limits to his deeds and words".

A professional has enormous responsibilities. He shall not use his knowledge, skill and authority unscrupulously. He shall not knowingly do harm to his customers. He is socially bound by the ethics of his profession.

From what have been stated above, it is clear that professionalisaiton of business management means that the business should be managed by men,

(i) Who have formally acquired the specialized knowledge and skill for management

(ii) Who have authority and freedom to take the right decision;

(iii) Who have no ideological bias in the discharge of the functions; and

(iv) Whose decisions and actions are guided by certain ethical considerations.

Though progress has been made in the direction of professionalisation of management in India, there is still a long way to go, particularly in the many enterprises which are owned by one or a few families. Professionalisation does not, of course, mean that the owners shall not be the managers; but it certainly means that the managers should have proper management education and qualifications. In business circles, there has been a growing awareness of the need for professionalising management; and as a result, many "family concerns" have taken steps for this purpose.

Professionalisation makes business more efficient, dynamic and socially responsible. The growth of management education in the country and the facilities abroad to obtain management education have contributed to professionalisation in the business field.

Government spokesmen have repeatedly stressed the need for professionalising management. But the irony is that the government have a severe blow to professionalisation by appointing "professional" politicians in the top positions in several public sector organisations,

Business Ethics

The term *business ethics* refers to the system of moral principles and of conduct applied to business.

That there should be business ethics means that the business should conducted according to certain self-recognised moral standards. Business being a social organs, shall not conduct itself in a way detrimental to interests of society and the business sector itself.

A profession is bound by certain ethical principles and rules of conduct which reflect its responsibility, authority and dignity. The professionalisation of business management should, therefore, be reflected in the increasing acceptance of business ethics.

There is, however, no unanimity of opinion on what constitutes business ethics. In this connection, Peter Drucker very appropriately remarks; There neither is a separate ethics of business, nor is one needed". " For "men and women do not acquire exeption from ordinary rules of personal behaviour because of their work or job. Nor, however, do they cease to be human beings when appointed vice-president, city manager, or college dean. And there have always been a number of people who cheat, steal, lie, bribe or take bribes. The problem is one of moral values and moral education of the individual, of the family of the school".

One is inclined to agree wit Drucker that every individual and organ in society should abide by certain moral codes, and that there is no separate ethics of business.

However, certain norms and principles of conduct have been commonly advocated as constituting business ethics,

The most important professional ethics is expressed by the Hippocratic oath of the Greek physician: *Primum non nocere* ("not knowingly do harm"). This dictum implies that a professional should carefully evaluate his decision and ensure that his actions will not produce negative effects. Thus, this code rules out all antisocial business practices.

The code, *primum non nocere*, encompasses most business ethics. We may, however, list the important ethical principles that a business should follow.

(i) Do not deceive or cheat customers by selling substandard or defective products, by under measurement or by any other means.

(ii) Do not resort to hoarding, black marketing or profiteering.

(iii) Do not destroy or distort competition.

(iv) Ensure sincerity and accuracy in advertising, labeling and packaging.

(v) Do not tarnish the image of competitors by unfair practices

(vi) Make accurate business records available to all authorized persons.

(vii) Pay taxes and discharge other obligations promptly.

(viii) Do not form cartel agreements, even informal, to control production, price etc., to the common detriment.

(ix) Refrain from secret kickbacks or payoffs to customers, suppliers, administrators, politicians, etc.

(x) Ensure payment of fair wages to and fair treatment of employees.

Role of Trade Associations

Trade associations, which are voluntary organisations of businessmen formed to promote their common interests, can play an important role to promote business ethics.

Trade associations can promote business ethics in three important ways :

(i) *Education and Persuasion* : Trade associations can promote business ethics by educating the members in the importance of, and the need for, having business ethics, and persuading them to give due regard to ethical principles in the conduct of their business. The members should understand that if every business ethics, everyone of them would be benefited and there would be an improvement in tne general image of the business community in the eyes of the public.

(ii) *Code of Ethics* : Trade associations can formulate a Code of Conduct for their members. Such a code of conduct should also contain the code of ethics. the code of conduct will not only guide but also regulate the conduct of business by the members.

(iii) *Moral Sanctions* : "Sanctions" refer to the ways in which moral conduct is rewarded; or misconduct is punished. Such incentives and punishments should be expected to promote business ethics. A trade association may even debar a member for a serious violation of the code of conduct. Fear of such punishment might prompt members to refrain from unfair business practices. On the other hand, public recognition and reward for high moral standard in business might give a positive inducement to them to practise business ethics.

UNIT - II

POLITICAL ENVIRONMENT

1. INTRODUCTION

Before knowing the feature of the Indian Constitution, it is essential to know about its Preamble. The constitution of every country in the world has its own preamble. The preamble reflects the view and the objectives of the constitution-makers and also the basic values of the country and the constitution. We waged a long battle for freedom. The makers of the constitution has a dream of an ideal society which was stated in the following words:

We, the people of India, having solemnly resolved to constitute India into a Sovereign, Socialistic, Secular Democratic Republic and to secure for all its citizens, Justice, social, economic and political.

Liberty of thought, expression, belief, faith and worship:

Equality of status and opportunity, and to promote among them. Fraternity assuring the dignity of the individual and the unity at integrity of the Nation.

In our Constituent Assembly this, 26th day of November, 1949 do hereby adopt, enact, and give to ourselves this constitution.

The Preamble as given above clearly states that out country is now sovereign in all matters. The ultimate source of all power is 'the people'.

Democracy, secularism and socialism are the basic principles of our constitution. There are also some other features of our constitution.

- **Sovereignty :** This is the main feature of the Indian Constitution. India is completely an independent state now. We are not subordinate to any country in external or internal matters.

We the Indians run our own government. Our government is now capable of making its own decision in internal and foreign affairs.

- **Democracy :** Democracy means a government which is run by representatives who are elected on the basis of adult franchise. This means that each adult, man and women, elects a representative of his or her own choice. The representatives are elected after every five years. These representatives, together, form the government.
- **Secularism :** The State gives equal treatment to all religions. It does not favour any particular religion. The constitution gives complete freedom to its citizens to practice and preach their own religion.
- **Socialism :** The achievement of socialism, based on economic and social equality, is the chief goal of our constitution. It provides equal opportunities in education, employment, justice etc, to all. Special facilities have been given to the backward and the downtrodden people. The directive principles have been incorporated for the establishment of a Welfare State. Economic disparities, especially, create unrest in the country; under such condition the country cannot make may progress. Therefore, efforts have been made to create a society based on social and economic equality. Socialism is one of our national goals.

2. FEDERAL SYSTEM TO THE GOVERNEMNT

The federal system of the government is that system where the powers of the Central Government and the State Government are well defined in the constitution. Our constitution sets up a federal system of the government. In our country, there are 25 sets and 8 union territories. There are separate governments at the Centre and in the States.

The division of power between the Central and the State Government has been made according to the three lists in the constitution.

- **The union list :** Railways , Posts and Telegraph, Armed Forces, External Affairs etc, are some of the subjects included in this list.
- **The state List :** The subjects of local importance like the Police, Jails, Education, Agriculture, Health etc, are enumerated in this list.
- **The concurrent List :** Both the Parliament and the State Legislatures can make laws on the subjects given in this list.
- **Single Citizenship :** Our constitution provides for a single citizenship of this country. The citizen of each state is a citizen of India. We do not have the system of double citizenship in India. A person may be living in Madhya Pradesh or Maharashtra but he is called only a citizen of India.

The parliamentary system : Like Britain, there is also parliamentary system of Government of India. Real power is vested in the Parliament. The Ministers in the Central Cabinet are members of the Parliament. The Prime Minister and other Ministers are answerable to the Parliament for their actions.

3. THE DIRECTIVE PRINCIPLES OF THE STATE POLICY

To bring about economic and social welfare in the country, the directive principles of the State policy have been stated in our constitution. The purpose is to bring social equality in the country, special directions have been given for the uplift of the backward communities and weaker sections of our society. There is a provision to make special laws for women. The directive principles direct the government to work for the social well-being, security, economic and social prosperity of the nation. There is a Directive Principle which aims at achieving free and compulsory education for all children up to the age of 14 years. The directive principals also provide equal pay for equal work for both men and women.

4. THE FUNDAMENTAL RIGHTS AND DUTIES

The fundamental rights are the necessary condition for the development of the personality of an individual. These help in promoting democratic values. There are six fundamental rights guaranteed in the constitution, so necessary for the development of the personality of the citizens. Rights and duties are interrelated. One man's duty is another man's right. Neglect of duties is a curse for humanity and it hampers the growth the society. When citizens forget their duties there is lawlessness in society. Therefore, a proper balance should be maintained between the rights and the duties.

The Indian Constitution has guaranteed some important rights. Even the Parliament or the Legislative Assemblies cannot make any law which encroaches upon these rights. Any law which interferes with fundamental rights can be set aside by the Supreme Court. It is only during an emergency that the fundamental rights can be set aside by the Supreme Court. It is only during an emergency that the fundamental rights can be suspended.

Our constitution has guaranteed six types to the citizens as described below:

Our Fundamental Rights :

- **Right to equality** : Our constitution gives equal treatment to all citizens. The state cannot discriminate on the basis religion, caste, creed, sex, language, place of birth etc. The state gives equal opportunities to every individual, on the basis of abilities, in the fields of education, employment, profession, and earning a livelihood. Untouchability has been abolished. Scheduled castes, scheduled tribes and other backward classes have been given special facilities. Due to their backwardness, some seats have been reserved for them in schools, colleges and government services, so that they may come at part with other sections of society. All the titles awarded before Independence have been abolished. In free India such distinctions as 'Bharat Ratna' and 'Padmshri' are conferred for outstanding service to the country.

- **Right to freedom :** Every citizen has the right to read and write, speak, hold public meeting peacefully and form any association or union. A citizen is free to go to any part of the country and settle there. He can take up any job or trade anywhere in India. He is also free to acquire property anywhere in the country.

- **Right against exploitation :** The purpose of this right is to prevent any exploitation in the society. It is an offense to buy or sell men, women and children. The constitution prohibits forced labour or 'begar'. Nobody can be asked to work against his wishes. No child under the age of 14 years can be employed to work in any factory or mine.

- **Right to freedom of religion :** Every citizen in India has the freedom to practice his own religion. People of different religions have also the freedom to preach their religion in a peaceful manner. They can also form any religious association for religious purposes.

- **Cultural and educational rights ;** Every Indian citizen has the right to preserve his own language, script, and culture. People in different parts of the country speak different language. They take pride in their language and culture. They have the right to establish their own educational institutions.

- **Right to constitutional remedies :** Each citizen has the right to approach the court in order to protect his fundamental rights.

In fundamental rights are curtailed or taken away by any law enacted by the government, the citizens can approach Supreme Court and challenge the action of the government. This is why the courts have been described as the protects of citizens' rights.

Our Fundamental Duties

Our constitution was enforced on January 26, 1950. But nothing was said about the duties of the citizens in the constitution. In order to make people conscious of their duties, the constitution was amended in 1986 and the fundamental duties of the citizens were incorporated in it. These are as under :

To show respect to the Indian Constitution , the National Flag, and the National Anthem.

- To have faith in the ideals of the national freedom movement.
- To protect the integrity and unity of the country.
- To develop a spirit of goodwill and brotherhood.
- To inculcate a scientific attitude among people.
- To preserve ancient culture.
- To protect the property of the nation.
- To protect forest, lakes and wild-life.
- To strive individually and collectively for the achievement of national goods.

There is a close relationship between fundamental rights and duties as enshrined in the constitution. The rights and duties are complementary to each other. You cannot think of the one without the other. The rights and duties are interrelated. Both are concerned with the development of a sense responsibility among the citizens. By doing so, our national character is developed.

One of the features of modern business is the increasing involvement of government in business activities. As of today, there is no country in the world where government of the land does not interfere, in one form or the other, in its economic activities. Involvement is all the more pervasive in our economy which till recently was a planned and regulated one.

Reasons for Intervention

Why the government should interfere in business activities is a relevant question. The following constitute the answer.

1. Economic historians have noted that the later a country moves towards economic development, the greater has to be the role of the State. Late growth has to be sponsored growth, and the government has to be the sponser.

2. It is argued that the modern economy must be a planned economy. The need for planning becomes clear if we examine the dangers of non-planning. In the absence of planning, there is no proper direction to the economy, wrong priorities are chosen, scarce resources are wasted, and booms and depressions occur regularly. In order to check these and some other evils, and to ensure speedy and balanced development of the economy with the least wastage of resources, planning becomes necessary. Who else except the State which should assume responsibility for planning and implementing the plans?

3. Our being a socialist society, the government is compelled to enter directly into industrial and commercial activities. Our Constitution binds the government to take an active part in economic activities. The State's role is clearly underlined in the Preamble, the Fundamental Rights and the Directive Principles of State policy. Articles 38 to 48 of the Directive Principles; the Right to Equality, the Right to Freedom and the Right

Against Exploitation of the Fundamental Rights and Justice, Liberty and Equality for all in the Preamble make it mandatory for the State to participate in economic activities.

4. The consideration which apply in deciding what undertaking is to be established, how it should be run, where it should be established, how its products will be priced and distributed, all these and others are influenced by the policy to which the government is committed. For instance, the government must consider not so much what the likely demand is going to be according to projections, but may in fact have to decide who the demand should be, and take steps to influence to demand either to build it up or to pare it down or to vary it. If the country is to achieve a certain pace of development, if certain standards of living are to be attained, certain demands must be created. Otherwise the whole pace of development will slow down, it will not be adequate to attain the targets which the nation has set before itself.

This is a feature which private enterprises cannot cope with. For example, the standard of living of a people can be statistically related to the power and to the steel per capita consumed in the country. There are several such indicators. A government politically committed to certain social objectives may then well decide that in order to achieve these per capita ratios it may be necessary to set-up to evolve and to operate a pattern of prices, subsidies, incentives or disincentives of different kinds in order to influence the consumption pattern.

5. The functions of government which were originally limited to the maintenance of law and order have considerably expanded. In our country, the government has assumed the responsibility of social and economic well-being of the people. In this changed context, taxation can no longer be solely depended upon and in fact has proved inadequate, for the task or raising the total

revenues the State now needs for its multifarious activities. By active participation in business, the State has sought to tap the gold mines of industry and commerce for the funds needed to discharge the new and heavier burdens it now shoulders.

6. State participation is necessary to lay a strong base for future development of industry and commerce. Government must assume responsibility for the development of such core industries and facilities such as power, fuel, iron and steel, transport, atomic energy, machine, building, machine tools, transportation and communication.

7. Finally, failure of markets invites government intervention in an economy. As is too well known markets may be monopolistic or competitive. Monopoly leads to wastage of resources and exploitation of consumers. Clearly, avoidance of these evils consumers against trade practices harmful to public interest is the main objective of the MRTP Act, 1969.

If monopolies fail, it does not imply that competitive markets succeed. In fact, competitive markets often fails because of atleast three reasons: (i) externalities (ii) public goods, and (iii) information problems.

Externalities : Externalities are costs or benefits that the market transactor imposes or confers on third parties (those external to a transaction) without their consent. Externalities are also referred to as neighborhood or spillover effects.

The most frequently used spillover of a negative externality is pollution, regulating from either the manufacturer or use of some product, which imposes costs on individuals who neither produce nor consume the product in question. In general, when production involves such negative externalities, the competitive markets fail.

Public goods : Public goods are those having atleast two properties : (i) consumption of the good by the person leaves no less of the good available for any one, and (ii) the costs of excluding those who do not pay for the public good are extremely high (i.e., the good is non excludable). Obviously, many goods that we commonly describe as public are not truly public goods. However, markets fail to deal with a product which is purely or partly public in nature. Government financing or even production is required.

Information problems : Embeded in most discussions of competitive markets is an assumption that consumers are well informed about various sellers and the prices and attributes of their products. Obviously, the real world never conforms to this idealized assumption.

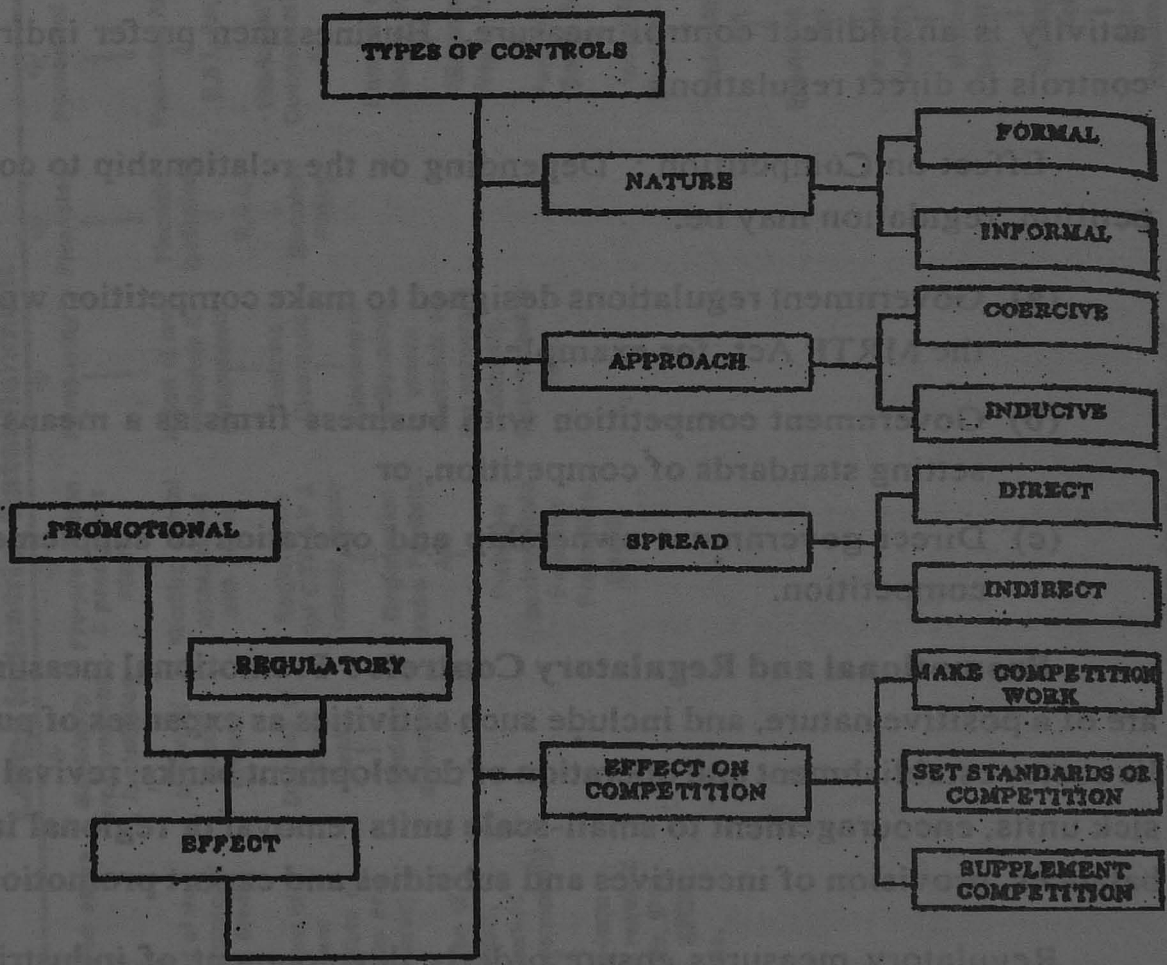
Even competitive markets, therefore, left to themselves impose serious welfare losses on society. Hence, the relevance and need for State intervention.

Types of Intervention

Also called controls or regulations, government intervention assumes several forms. Thus, we may distinguish between formal and informal controls, between inducive and coercive controls, between direct and indirect controls, controls in relations to competitions and promotional and regulatory controls (See Fig.10.1)

Formal and Informal Controls : Formal controls are usually those emanating from legislation, as for, example, the Industries (Development and Regualtions) Act,1951, the Companies Act, 1956, and the Monopolies and Restrictive Trade Practices Act, 1969. Formal controls are very powerful and when we think of government control over business, we generally mean formal controls. Informal controls refer to the controls which various groups impose upon themselves out of need and custom. Business firms in various lines of activity develop-conventions, informal agreements, and accepted ways of doing things that have important regulative implications.

Coercive and Inducive Controls : Coercive regulations require performance of certain actions or refraining from others in order



Classification of Controls

to avoid penalties. For instance, taxes must be paid or fine or imprisonment may result. In contrast induscive controls hold out a promise or reward for compliance with the desired lines of action. For example, subsidies may be granted to stimulate certain activities.

Direct and Indirect Controls : When government fixes prices of certain products or services, it is example of direct control. The administered price policy of the Government of India is a direct control measures. The variation of corporate income tax to influence economic activity is an indirect control measure. Businessmen prefer indirect controls to direct regulations.

Effect on Competition : Depending on the relationship to competition, regulation may be:

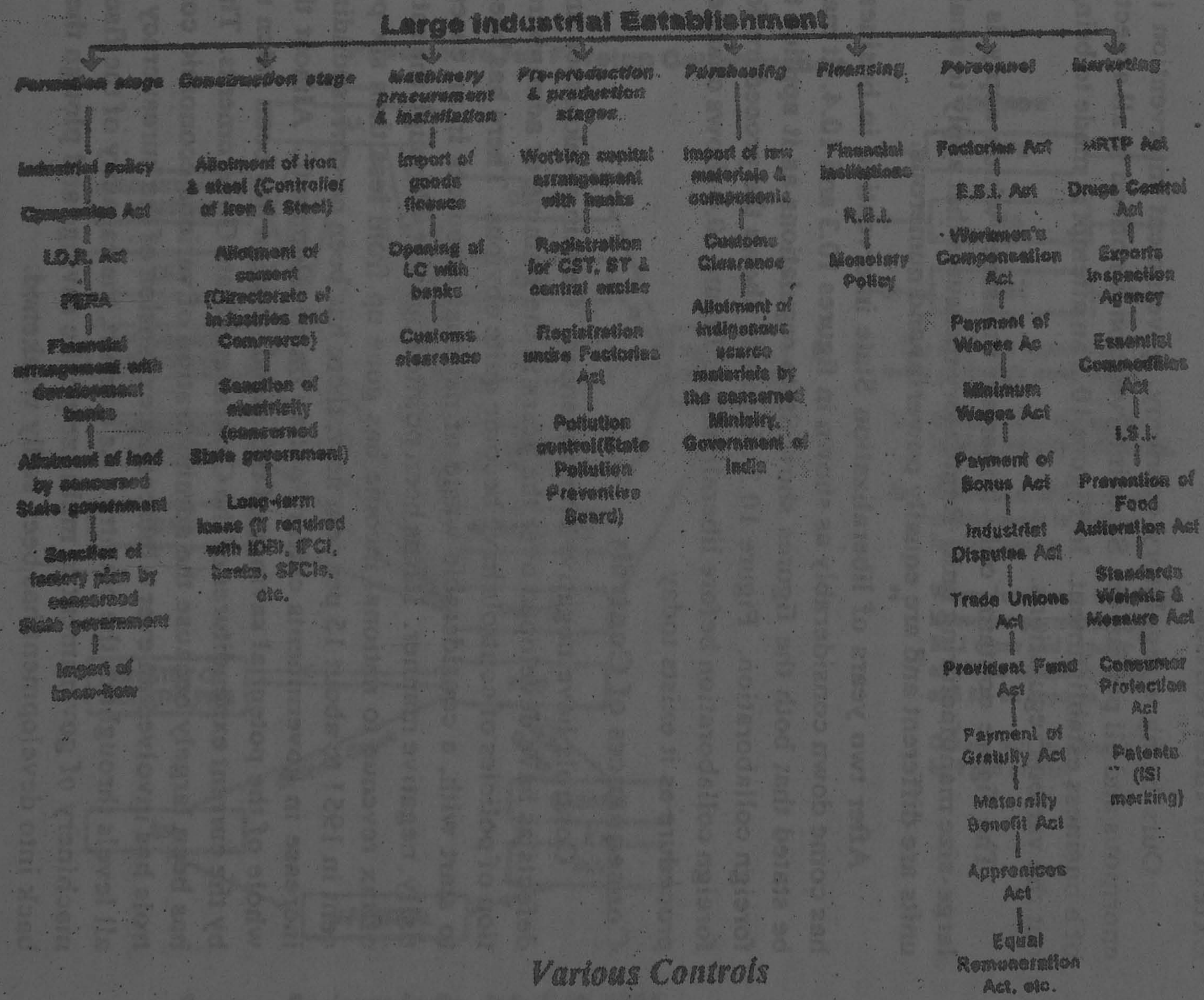
(a) Government regulations designed to make competition work, the MRTP Act, for example.

(b) Government competition with business firms as a means of setting standards of competition, or

(c) Direct government ownership and operation to supplement competition.

Promotional and Regulatory Controls : Promotional measures are of a positive nature, and include such activities as expanses of public sector establishment and operation of development banks, revival of sick units, encouragement to small-scale units removal or regional imbalances, provision of incentives and subsidies and export promotion.

Regulatory measures ensure orderly development of industries with the lease wastages of resources. Regulatory measures include direct controls like the Industries Development and Regulation) Act, the Monopolies and Restrictive Trade Practices Act, the companies Act, the Foreign Exchange Regulation Act, and price and distribution controls. labour laws, and indirect controls like monetary policy and fiscal policy.



Various Controls

Extent of Intervention

Ours being a regulatory economy, government intervention is enormous and all pervasive. State intervention is noticed in all aspects of a business establishment. In Figure 10.2 an attempt is made to bring out the various regulations.

The figure contains only important measures which apply is a large-size manufacturing unit. Regulatory measures that apply to small units are different and are equally powerful and numerous.

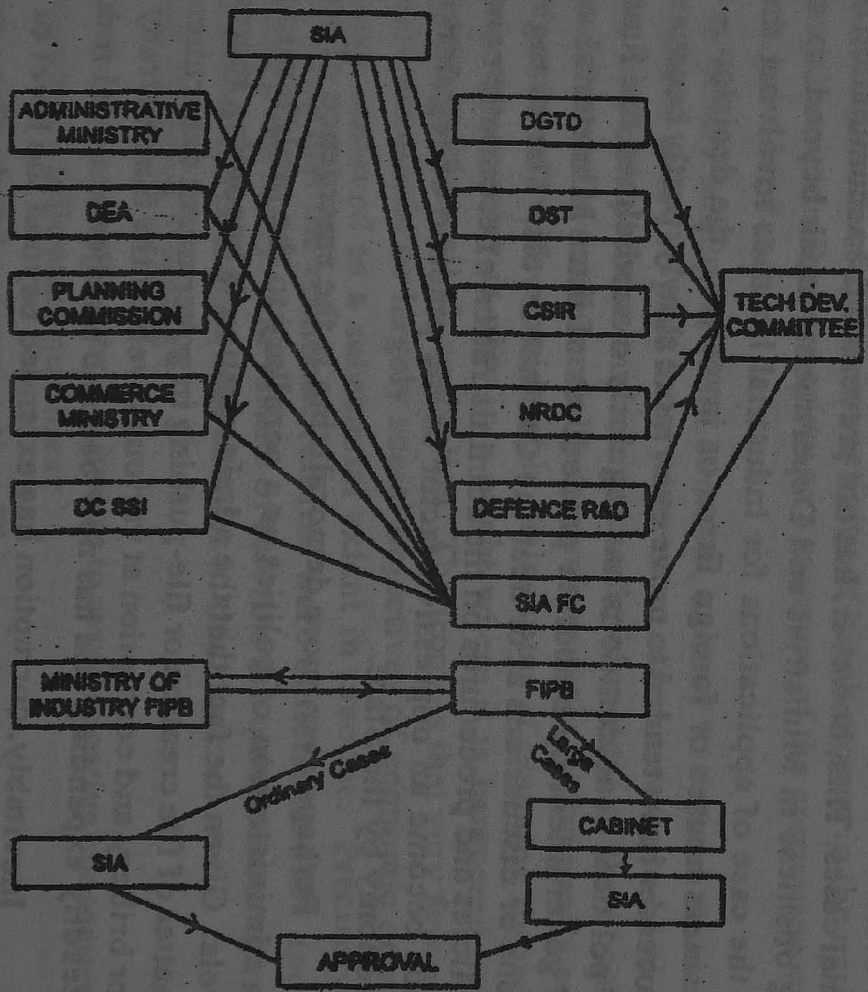
After two years of liberalization State intervention in business has come down considerably as shown in figures 10.3 and 10.4. It may be stated that both the figures show State regulations as it applies to foreign collaboration. Figure 10.3 obviously shows the procedure for foreign collaboration before liberalization. Figure 10.4 shows changed procedure as it exists today.

Consequences of Controls

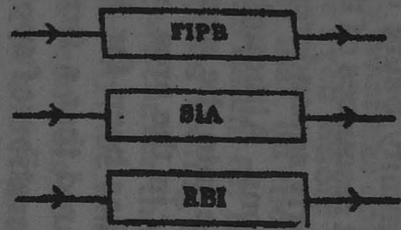
Controls have negative consequences. Certain weaknesses and defects as have developed over the years in the framing or administration of policies of controls have become quite obvious. There has been, to start with, a considerable waste of national resources in an essentially, negative manner. It has been pointed out that, although the ratio of tax revenue to national income has gone up from less than six per cent in 1951 to about 15 per cent now, there has been no corresponding increase in governments current outlay on development. Almost the whole of the potential savings of increased taxation has been eaten up by the current expenditures of the Central and State Governments. This has been largely because the administration of various economic controls has involved an ever – increasing expansion of the bureaucracy at all levels throughout the country. As a result, the capacity of the fiscal machinery of government to mobilize public savings and plough them back into development has been sadly weakened.

Procedure for Foreign Collaboration

THEN.....



AND NOW



The RBI will approve all cases of foreign investment:

1. Up to 51% of the equity in high priority industries.

2. Where cost of import of capital goods is met by foreign equity.

3. Where lump sum technical knowhow payments upto Rs.1 crore and royalty at 5% on domestic sales and 8% on exports.

Others will be cleared by FIPB or SIA

Source : Business India, July 6-19, 1992

Apart from capital formation in the community being thus adversely affected, an equally precious development resources of the community, namely, time, seems to have been similarly squandered on the largely negative purpose of controls and regulations. Although a number of committees of the government have gone into the question of streamlining the control procedures particularly in the area of industrial licensing, improvement actually effected has been far from impressive. Form time to time, it has been declared that a firm policy decision has been taken not to delay the consideration of applications for industrial license beyond a period of sex months expect in exceptional cases. This, however, has not prevented the accumulation of pending business in Ministries and Departments much beyond six months. In the case of applications for industrial licenses involving the larger business houses or foreign firms or investors, the decision – making processes have tended to move even more slowly, partly because a spate of political considerations has regularly overwhelmed the functioning of government by elaborate procedures of inter Ministerial consultations or discussions at or near the Cabinet levels. The stranglehold of policies and procedures on the administration of economic controls has thus become an oppressive factor in the practise of regulation of the economy by the State.

Perhaps even more demoralizing is the emergence of corruption in administration of politics as a corollary to the proliferation of controls. Given the fact that the administration is becoming increasingly a matter of file creation or file-pushing in government departments, scope for bribery and corruption at various levels of the bureaucracy has been steadily expanding and has now become a major national industry.

Inevitably, corruption has extended beyond the level of mere administration. Partly because of the high cost of electioneering, there has been a growing temptation for politicians in power to collect funds for part coffers by exploiting the machinery of economic controls and the policy – making powers of the government, in this respect to grant or deny what has come to be regarded as favors to individual businessmen or even whole industries. This sad situation is fully reflected in the fact that, on the relatively rare occasions when a prompt decision has been taken, for instance, on an application for an industrial license, the popular feeling is that money must have changed hands. In other words, whenever the government or the administration happens to act with alacrity, the immediate inference in the public mind is that someone has been able to buy favors from the officials or the ministers concerned. While it has never been very easy to organise sufficient legal proof to bring home the guilt of dishonest official or unscrupulous politicians, the growth of intensive activity of black money in the national economy has naturally been taken as a measure of the corruption which controls have bred.

In purely empirical term, controls, as they have been framed or administered over the past forty years or so, do not seem to have contributed in a conspicuous manner to the development of the economy on sound lines or in a substantially dynamic manner. After nearly seven Five Year Plans, with considerable dislocation of planning thrown in between, the country is now in a plight where it is hampered by the population problem all along the line. The irony is that very few of the professed economic or largely social objectives of economic controls have been achieved to a substantial extent in practice. Precisely for these reasons that the economic reforms were initiated in 1991 and are continuing even today. The results of reforms are quite encouraging as will be explained in subsequent chapter in this book.

A Good Control System

A good system of control, if it were to avoid negative consequence, should have the following qualities :

(i) It must be democratic. This means that it must be exercised in the interest of the governed as they see their interests.

(ii) It should know what is wants

(iii) It must be powerful – powerful enough to make an unwilling minority obey the will of the majority.

(iv) It must be efficient, and at the same time, it must not destroy the efficiency of the thing it is regulating.

(v) It must 'economies coercion'.

(vi) It must utilise all the strongest and most persistent motives of human nature, both generous and selfish hope of reward, fear of punishment, and those loyalties, persuasions, and suggestions which rest upon the deeper fact that the individual is essentially a part of the community.

(vii) The duties imposed must be simple enough to be understood; and this means, among other thing, that social control must follow precedent a great deal of the time.

(viii) Control must be guided by experience or by wise experiment.

(ix) It must be adaptabel

(x) It must be farseeing. It must look beyond the immediate effect of doing a given thing to the further results of leading people to expect it in the future.

(xi) And, lastly, social control must be capable of progressively raising the level of mankind. In a democracy, where the mass of mankind does the ultimate controlling, this amounts to saying that social control must, some how, to rise higher than its source.

Government involvement in Business – Historical perspective

State intervention in business seems to be as old as business itself. Even in the days of laissez faire, which apparently shunned State intervention, government's role in the economy was almost inescapable. "There is a grave doubt", writes Eugene V. Schneider, "as to whether this doctrine (laissez faire) gave an accurate picture of the relationship between industry and government even in the days of industrialism. The laissez faire doctrine ignored the fact that industrialism had always operated in an economy whose orderliness was guaranteed by the government. An aura of sanctity may have surrounded the contract, but in the last analysis, it was only the State which could enforce the contract. Similarly, the entrepreneur may have considered his property as belonging to him by virtue of divine right, or as a reward for his virtue, or as the outcome of a natural economic law, but it was only the government which could guarantee him continued possession and use of his property. Further more, even in the early days of industrialism, the entrepreneur looked to government for, and received from foreign competition. His labour supply was ensured by the destruction, through governmental acts, of feudal ties between man and land, between peasant and noble man. Later, the judicial machinery of government would protect him against the 'conspiratorial' efforts of his working men to form unions. Franchises, grants of land, outright subsidies – all these special privileges and many others besides attested to the existence of a strong relationship between industry and government".

As years went by, State intervention become a historical necessity, particularly after the Industrial Revolution of the late 18th and early 19th centuries. The Industrial Revolution of the late revolutionised the methods of production, brought in its trail social evils of a very bitter type. The era of Industrial Revolution witnessed the inhumanity of man to man and brutalisation of human nature in those very countries in those very societies where the greatest advances were made in the fields of science, technology and organisations. Affluence and poverty, distress and luxury, and exploitation and helplessness become so juxtaposed that the need for State intervention began to be felt much more than ever before.

The factory laws of the 19th century marked the first normal and active State involvement. The establishment of trade unions compelled the state to intervene.

Then came the First World War which confirmed the inevitability of State intervention in economic activities. War required that all economic activities be geared towards meeting its requirements and it was the State alone which ensure this. The second World War only confirmed the trend.

Nearer at home, State intervention became forceful since 1939 when India become a participant in the War. India did not become a military base in the true sense of the world until the entry of Japan into the War in December 1941, more than two years after the War began. But even before that event, India was major supplier of goods and materials needed to sustain the War effort of the Allies. Her economy was placed on a war footing and geared to cater to the needs of the War. It was when this happened that its inadequacies and shortcomings became forcefully apparent to those safety depended on it. A period of controls and regulations began and lasted, in the case of India, till long after most similar controls had been lifted elsewhere. Plans began to be formulated and for the first time was heard of the concept of planning at government level.

In 1944, when the War was still in progress, the Department of Planning and Development was set-up. A new Industrial Policy was announced by the then Viceroy, Lord Wavell, declared in 1945 : "Government has decided to take positive steps to encourage and promote industrialisation of the country to the fullest extent possible".

Positive steps were taken and industries such as iron and steel, heavy engineering, machine tools, heavy chemicals and the like, which would lay the foundation for future economic development, were set-up.

Even after the War, distortions in the economy continued, some of them in new dimensions, and many of the war-time regulations could not be removed or even relaxed.

The coming of Independence in 1947 did not bring any change in the role of State. On the other hand, government's role in removing the poverty of millions of people and improving their living standards was realized by all concerned. Resources being li. .ited and priorities being several, economic planning become a dire necessity which would usher in faster economic prosperity in a phased manner. Thus, the First Five year Plan was launched, heralding a greater role for the State in the economic development of the country. As we went through Seven Five Year Plans the role became deeply entrenched.

State intervention in our economy is not peculiar to the present century. It was there during the Ma. yan times and later. "Thus, in Mauryan times" observed A.L.Basham, "every aspect of life of the individual was watched over, and as far as possible controlled, by the government. Though no later, the State developed the same degree of control as did the Mauryas, the ideas of the Arthasastra did not wholly disapprove. The government not only regulated the economic life of the country, but also took an important part in it. All mines, which term for the ancient India included pearl fisheries a.d salt pans, were owned by the State, and were either worked directly with the labour of criminals or serfs, or let out to entrepreneurs, from whom the king claimed a percentage of their output as royalty. The produce of the forests, from elephants to firewood, was the property of the State. There were large State farms, cultivated either by direct labour or on a share-cropping basis the products of which went to the State granaries. The State owned manufactories for spinning and weaving, which were staffed by indigent women, rather like the houses of industry under the Elizabethan Poor – Law. Munitions of war were made in State arsenals, and ships were built in State ship-yards to be let out to fishermen and merchants. In fact, there was no question of laissez faire . ancient India".

UNIT - III

FOREIGN EXCHANGE REGULATION ACT, 1973

An Act to consolidate and amend the law regulating certain payments, dealings in foreign exchange and securities, transactions indirectly affecting foreign exchange and the import and export of currency, for the conservation of the foreign exchange resources of the country and the proper utilisation thereof in the interests of the economic development of the country.

BE it enacted by Parliament in the Twenty-fourth Year of the Republic of India as follows :

Short title, extent, application and commencement

1. 1) This Act may be called the Foreign Exchange Regulation Act, 1973.

2) It extends to the whole of India.

3) It applies also to all citizens of India outside India and to branches and agencies outside India of companies or bodies corporate, registered or incorporated in India.

4) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint in this behalf:

Provided that different dates may be appointed for different provisions of this Act and any reference in any such provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision.

Definitions

2. In this Act, unless the context otherwise requires, -

(a) "Appellate Board" means the Foreign Exchange Regulation Appellate Board constituted by the Central Government under sub-section (1)of section 52;

(b) "authorised dealer" means a person for the time being authorised under section 6 to deal in foreign exchange;

(c) "bearer certificate" means a certificate of title to securities by the delivery of which (with or without endorsement) the title to the securities is transferable;

(d) "certificate of title to a security" means any document used in the ordinary course of business as proof of the possession or control of the security, or authorising or purporting to authorise, either by an endorsement or by delivery, the possessor of the document to transfer or receive the security thereby represented;

e) "coupon" means a coupon representing dividends or interest on a security;

The provisions of F.E.R. (Amendment) Act, 1993 (hereafter referred to as Act 29 of 1993) came into force on the 8th day of January 1993.

(f) "currency" includes all coins, currency notes, banks notes, postal notes, postal orders, money orders, cheques, drafts, traveller's cheques, letters of credit, bills of exchange and promissory notes;

(g) "foreign currency" means any currency other than Indian currency;

(h) "foreign exchange" means foreign currency and includes -

(i) all deposits, credits and balances payable in any foreign currency, and any drafts, traveller's cheques, letters of credit and bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency;

(ii) any instrument payable, at the option of the drawee or holder thereof or any other party thereto, either in Indian currency or in foreign currency or partly in one and partly in the other;

(i) "foreign security" means any security created or issued elsewhere than in India, and any security the principal of or interest on which is payable in any foreign currency or elsewhere than in India;

(j) Deleted by Act 29 of 1993

(k) "Indian currency" means currency which is expressed or drawn in Indian rupees but does not include special bank notes and special one-rupee notes issued under section 28A of the Reserve Bank of India Act, 1934;

(l) "Indian custom waters" means the waters extending into the sea to a distance of twelve nautical miles measured from the appropriate base line on the coast of India and includes any bay, gulf, harbour, creek or tidal river; (m) "money-changer" means a person for the time being authorised under section 7 to deal in foreign currency;

(n) "overseas market", in relation to any goods, means the market in the country outside India and in which such goods are intended to be sold;

(o) "owner", in relation to any security, includes any person who has power to sell or transfer the security, or who has the custody thereof or who receives, whether on his own behalf or on behalf of any other person, dividends or interest thereon, and who has any interest therein, and in a case where any security is held on any trust or dividends or interest thereon are paid into a trust fund, also includes any trustee or any person entitled to enforce the performance of the trust or to revoke or vary, with or without the consent of any other person, the trust or any terms thereof, or to control the investment of the trust moneys;

(p) "person resident in India" means -

(i) a citizen of India, who has, at any time after the 25th day of March, 1947, been staying in India but does not include a citizen of India who has gone out of, or stays outside, India, in either case— (a) for or on taking up employment outside India, or (b) for carrying on outside India a business or vocation outside India, or (c) for any other purpose, in such circumstances as would indicate his intention to stay outside India for an uncertain period;

(ii) a citizen of India, who having ceased by virtue of paragraph (a) or paragraph (b) or paragraph (c) of sub-clause (I) to be resident in India, returns to, or stays in, India, in either case -(a) for or on taking up employment in India, or (b) for carrying on in India a business or vocation in India, or (c) for any other purpose, in such circumstances as would indicate his intention to stay in India for an uncertain period;

(iii) a person, not being a citizen of India, who has come to, or stays in, India, in either case -(a) for or on taking up employment in India, or (b) for carrying on in India a business or vocation in India, or (c) for staying with his or her spouse, such spouse being a person resident in India, or (d) for any other purposes, in such circumstances as would indicate his intention to stay in India for an uncertain period;

(iv) a citizen of India, who, not having stayed in India at any time after the 25th day of March, 1947, comes to India for any of the purposes referred to in paragraphs (a), (b) and (c) of sub-clause (iii) or for the purpose and in the circumstances referred to in paragraph (d) of that sub-clause or having come to India stays in India for any such purpose and in such circumstances.

Explanation - A person, who has, by reason only of paragraph (a) or paragraph (b) or paragraph (d) of sub-clause (iii) been resident in India, shall, during any period in which he is outside India, be deemed to be not resident in India;

(q) "person resident outside India" means a person who is not resident in India;

(r) "precious stone" includes pearl and semi-precious stone and such other stone or gem as the Central Government may for the purposes of this Act, notify in this behalf in the Official Gazette;

(s) "prescribed" means prescribed by rules made under this Act;

(t) "Reserve Bank" means the Reserve Bank of India;.(u) "security" means shares, stocks, bonds, debentures, debenture stock, Government securities as defined in the Public Debt Act, 1944, savings certificates to which the Government Savings Certificates Act, 1959 applies, deposit receipts in respect of deposits of securities, and units or sub-units of unit trusts and includes certificates of title to securities, but does not include bills of exchange or promissory notes other than Government promissory notes;

(v) Deleted by Act 29 of 1993

(w) "transfer", in relation to any security, includes transfer by way of loan or security.

Classes of officers of Enforcement

3. There shall be the following classes of officers of Enforcement, namely:-

(a) Directors of Enforcement;

(b) Additional Directors of Enforcement;

(c) Deputy Directors of Enforcement;

(d) Assistant Directors of Enforcement; and

(e) such other class of officers of Enforcement as may be appointed for the purposes of this Act.

Appointment and powers of officers of Enforcement

4. (1) The Central Government may appoint such persons as it thinks fit to be officers of Enforcement.

(2) Without prejudice to the provisions of sub-section (1), the Central Government may authorise a Director of Enforcement or an Additional Director of Enforcement or a Deputy Director of Enforcement or an Assistant Director of Enforcement to appoint officers of Enforcement below the rank of an Assistant Director of Enforcement.

(3) Subject to such conditions and limitations as the Central Government may impose, an officer of Enforcement may exercise the powers and discharge the duties conferred or imposed on him under this Act.

Entrustment of functions of Director

5. The Central Government may, by order and subject to such conditions and limitations as it thinks fit to impose, authorise any officer of customs or any Central Excise Officer or any police officer or any other officer of the Central Government or a State Government to exercise such of the powers and discharge such of the duties of the Director of Enforcement or any other officer of Enforcement under this Act as may be specified in the order.

Authorised dealers in foreign exchange

6. (1) The Reserve Bank may, on an application made to it in this behalf, authorise any person to deal in foreign exchange.

(2) An authorisation under this section shall be in writing and -

(i) may authorise transactions of all descriptions in foreign currencies or may be restricted to authorising dealings in specified foreign currencies only;

(ii) may authorise dealings in all foreign currencies or may be restricted to authorising specified transactions only;

(iii) may be granted to be effective for a specified period, or within specified amounts;

(iv) may be granted subject to such conditions as may be specified therein.

(3) Any authorisation granted under sub-section (1) may be revoked by the Reserve Bank at any time if the Reserve Bank is satisfied that, - (i) it is in the public interest to do so;or (ii) the authorised dealer has not complied with the conditions subject to which the authorisation was granted or has contravened any of the provisions of this Act or of any rule, notification, direction or order made thereunder:

Provided that no such authorisation shall be revoked on the ground specified in clause (ii) unless the authorised dealer has been given a reasonable opportunity for making a representation in the matter.

(4) Any authorised dealer shall, in all his dealings in foreign exchange and in the exercise and discharge of the powers and of the functions delegated to him under section 74, comply with such general or special directions or instructions as the Reserve Bank may, from time to time, think fit to give, and, except with the previous permission of the Reserve Bank, an authorised dealer shall not engage in any transaction involving any foreign exchange which is not in conformity with the terms of his authorisation under this section.

(5) An authorised dealer shall, before undertaking any transaction in foreign exchange on behalf of any person, require that person to make such declarations and to give such information as will reasonably satisfy him that the transaction will not involve, and is not designed for the purpose of, any contravention or evasion of the provisions of this Act or of any rule, notification, direction or order made thereunder, and where the said person refuses to comply with any such requirement or makes only unsatisfactory compliance therewith, the authorised dealer shall refuse to undertake the transaction and shall, if he has reason to

believe that any such contravention or evasion as aforesaid is contemplated by the person, report the matter to the Reserve Bank.

Money-changers

7. (1) The Reserve Bank may, on an application made to it in this behalf, authorise any person to deal in foreign currency.

(2) An authorisation under this section shall be in writing and -(i) may authorise dealings in all foreign currencies or may be restricted to authorising dealings in specified foreign currencies only; (ii) may authorise transactions of all descriptions in foreign currencies or may be restricted to authorising specified transactions only; (iii) may be granted with respect to a particular place where alone the money changer shall carry on his business; (iv) may be granted to be effective for a specified period, or within specified amounts; (v) may be granted subject to such conditions as may be specified therein.

(3) Any authorisation granted under sub-section (1) may be revoked by the Reserve Bank at any time if the Reserve Bank is satisfied that -(i) it is in the public interest to do so; or (ii) the money-changer has not complied with the conditions subject to which the authorisation was granted or has contravened any of the provisions of this Act or of any rule, notification, direction or order made thereunder:

Provided that no such authorisation shall be revoked on the ground specified in clause (ii) unless the money-changer has been given a reasonable opportunity for making a representation in the matter.

(4) The provisions of sub-sections (4) and (5) of section 6 shall, in so far as they are applicable, apply in relation to a money-changer as they apply in relation to an authorised dealer.

Explanation - In this section, "foreign currency" means foreign currency in the form of notes, coins or traveller's cheques and "dealing" means purchasing foreign currency in the form of notes, coins or traveller's cheques or selling foreign currency in the form of notes or coins.

Restrictions on dealing in foreign exchange

8. (1) Except with the previous general or special permission of the Reserve Bank, no person other than an authorised dealer shall in India, and no person resident in India other than an authorised dealer shall outside India, purchase or otherwise acquire or borrow from, or sell, or otherwise transfer or lend to or exchange with, any person not being an authorised dealer, any foreign exchange:

Provided that nothing in this sub-section shall apply to any purchase or sale of foreign currency effected in India between any person and a money-changer.

Explanation - For the purposes of this sub-section, a person, who deposits foreign exchange with another persons or opens an account in foreign exchange with another person, shall be deemed to lend foreign exchange to such other person.

(2) Except with the previous general or special permission of the Reserve Bank, no person, whether an authorised dealer or a money-changer or otherwise, shall enter into any transaction which provides for the conversion of Indian currency into foreign currency or foreign currency into Indian currency at rates of exchange other than the rates for the time being authorised by the Reserve Bank.

(3) Where any foreign exchange is acquired by any person, other than an authorised dealer or a money-changer, for any particular purpose, or where any person has been permitted conditionally to aquire foreign exchange, the said person shall not use the foreign exchange so acquired otherwise than for that purpose or, as the case may be, fail to comply with any condition to which the permission granted to him is subject, and where any foreign exchange so acquired cannot be so used or the conditions cannot be complied with, the said person shall, within a period of thirty days from the date on which he comes to know that such foreign exchange cannot be so used or the conditions cannot be complied with, sell the foreign exchange to an authorised dealer or to a money-changer.

(4) For the avoidance of doubt, it is hereby declared that where a person acquires foreign exchange for sending or bringing into India any goods but sends or brings no such goods or does not send or bring goods of a value representing the foreign exchange acquired, within a reasonable time or sends or brings any goods of a kind, quality or quantity different from that specified by him at the time of acquisition of the foreign exchange, such person shall, unless the contrary is proved, be presumed not to have been able to use the foreign exchange for the purpose for which he acquired it or, as the case may be, to have used the foreign exchange so acquired otherwise than for the purposes for which it was acquired.

(5) Nothing in this section shall be deemed to prevent a person from buying from any post office, in accordance with any law or rules made thereunder for the time being in force, any foreign exchange in the form of postal orders or money orders.

Restrictions on the appointment of certain persons and companies as agents

(1) Without prejudice to the provisions of section 47 and notwithstanding anything contained in any of other provision of this Act or the Companies Act, 1956, a person resident outside India (whether a citizen of India or not) or a person who is not a citizen of India but is resident in India, or a company (other than a banking company) which is not incorporated under any law in force in India or any branch of such company, shall not, except with the general or special permission of the Reserve Bank act, or accept appointment, as agent in India of any person or company, in the trading or commercial transactions of such person or company, or

(2) Where any such person or company (including its branch) as is referred to in sub-section (1) acts or accepts appointment as such agent, without the permission of the Reserve Bank, such acting or appointment shall be void.

(3) Where any such person or company (including its branch) as is referred to in sub-section (1) acts as, or holds the appointment of, any such agent as is referred to in that sub-section at the commencement of this Act, such person or company (including its branch) shall, within a period of six months from such commencement or such further period as the Reserve Bank may allow in this behalf, make an application to the Reserve Bank in such form and containing such particulars as may be specified by the Rese ·e Bank for permission to continue to act, as such agent.

(4) On receipt of an application under sub-section (3), the Reserve Bank may, after making such inquiry as it deems fit, either allow the application subject to such conditions, if any, as the Reserve Bank may think fit to impose, or reject the application:

Provided that no application shall be rejected under this sub-section unless the parties who may be affected by such rejection have been given a reasonable opportunity for making a representation in the matter.

(5) Where any application has been rejected under sub-section (4) the acting, appointment or permission, as the case may be, shall be void on the expiry of a period of ninety days, or such other later date as may be specified by the Reserve Bank, from the date of receipt by the person or company (including its branch) concerned of the communication conveying such rejection.

(6) Where no application has been made under sub-section (3) by any such person or company (including its branch) as is referred to in sub-section (1), the Reserve Bank may, by order, direct such person or company (including its branch) to desist from such acting on the expiry of such period as may be specified in the direction:

Provided that no direction shall be made under this sub-section unless the parties who may be affected by such direction have been given a reasonable opportunity for making a representation in the matter.

(7) Where any direction made under sub-section (6) has not been complied with by any person or company (including its branch), then, without prejudice to any action that may be taken under this Act, the acting, shall be with effect from the expiry of the period specified in the direction.

Explanation - For the purposes of this section, -(a) "agent" includes any person or company (including its branch) who or which buys any goods with a view to sell such goods before any processing thereof; (b) "company" means any body corporate and includes a firm or other association of individuals; (c) "processing" means any art or process for producing, preparing or making an article by subjecting any material to a manual, mechanical, chemical, electrical or any other like operation but does not include any process incidental or ancillary to the completion of a manufactured product such as dividing, pressing, compressing, packing, re-packing, labeling, re-labeling, branding or the adoption of any such treatment as is necessary to render such product marketable to the consumer.

(d) Deleted by Act 29 of 1993

Restrictions on establishment of place of business in India

(1) Without prejudice to the provisions of section 28 and section 47 and notwithstanding anything contained in any other provisions of this Act or the provisions of the Companies Act, 1956, a person resident outside India (whether a citizen of India or not) or a person who is not a citizen of India but is resident in India or a company (other than a banking company) which is not incorporated under any law in force in India or any branch of such company, shall not, except with the general or special permission of the Reserve Bank, -(a) carry on in India, or establish in India a branch, office or other place of business for carrying on any activity of a trading, commercial or industrial nature, other than an activity for the carrying on of which permission of the Reserve Bank has been obtained under Section 28; or (b) acquire the whole or any part of any undertaking in India of any person or company carrying

on any trade, commerce or industry or purchase the shares in India of any such company.

(1A)A company (other than a banking company) in which the non-resident interest is more than forty per cent, shall not, except with the general or special permission of the Reserve Bank, carry on in India any activity relating to agriculture or plantation or acquire the whole or any part of any undertaking in India of any person or company carrying on any activity relating to agriculture or plantation or purchase the shares in such company..(2) (a' Where any person or company (including its branch) referred to in sub-section (1) carries on any activity referred to in clause (a) of that sub-section at the commencement of this Act or has established a branch, office or other place of business for the carrying on of such activity at such commencement, then, such person or company (including its branch) may make an application to the Reserve Bank within a period of six months from such commencement or such further period as the Reserve Bank may allow in this behalf for permission to continue to carry on such activity or to continue the establishment of the branch, office or other place of business for the carrying on of such activity, as the case may be.

(b) Every application made under clause (a) shall be in such form and contain such particulars as may be specified by the reserve Bank.

(c) Where any application has been made under clause (a), the Reserve Bank may, after making such inquiry as it may deem fit, either allow the application subject to such conditions, if any, as the Reserve Bank may think fit to impose or reject the application:

Provided that no application shall be rejected under this clause unless the parties who may be affected by such rejection have been given a reasonable opportunity for making a representation in the matter.

(d) Where an application is rejected by the Reserve Bank under clause (c), the person or company (including its branch) concerned shall discontinue such activity or close down the branch, office or other place of business established for the carrying on of such activity, as the case may be, on the expiry of a period of ninety days or such other later date as may be specified by the Reserve Bank from the date of receipt by such person or company (including its branch) of the communication conveying such rejection.

(c) Where no application has been made under clause (a) by any person or company (including its branch), the Reserve Bank may, by order, direct such person or company (including its branch) to discontinue such activity or to close down the branch, office or other place of business established for the carrying on of such activity, as the case may be, on the expiry of such period as may be specified in the direction:

Provided that no direction shall be made under this clause unless the parties who may be effected by such direction have been given a reasonable opportunity for making a representation in the matter.

(3) Notwithstanding anything contained in sub-section (2), the Reserve Bank may, having regard to -

(i) the fact that any person or company (including its branch), referred to in sub-section (1), is carrying on any activity referred to in clause (a) of that sub-section at the commencement of this Act or has established a branch, office or other place of business for the carrying on of such activity at such commencement, in either case, in pursuance of any permission or licence granted by the Central Government;

and

(ii) the nature of the activity which is being, or intended to be, carried on by such person or company (including its branch), by order, exempt -(a) such person or company (including its branch); or (b) any class of such persons or companies (including their branches), in relation to such activity as may be specified in the order, from the operation of the provisions of sub-section (2) subject to such conditions as may be specified in the order:

Provided that the Reserve Bank shall not make any order under this sub-section in a case where the activity which is being, or intended to be, carried on is solely of a trading nature.

(4) (a) Where at the commencement of this Act any person or company (including its branch) referred to in sub-section (1) holds any shares in India of any company referred to in clause (b) of that sub-section, then, such person or company (including its branch) shall not be entitled to continue to hold such shares unless before the expiry of a period of six months from such commencement or such further period as the Reserve Bank may allow in this behalf such person or company (including its branch) has made an application to the Reserve Bank in such form and containing such particulars as may be specified by the Reserve Bank for permission to continue to hold such shares.

(b) Where an application has been made under clause (a), the Reserve Bank may, after making such inquiry as it may deem fit, either allow the application subject to such conditions, if any, as the Reserve Bank may think fit to impose or reject the application:

Provided that no application shall be rejected under this clause unless the parties who may be affected by such rejection have been given a reasonable opportunity for making a representation in the matter.

(c) Where an application has been rejected under clause (b) or where no application has been made under clause (a), the Reserve Bank may, if it is of opinion that it is expedient so to do for the purpose of conserving the foreign exchange, direct such person or company (including its branch) to sell or procure the sale of such shares:

Provided that no direction shall be made under this clause unless notice of such direction for a period of not less than ninety days has been given to the person or company (including its branch) to be affected by such direction.

Explanation - For the purposes of this section, -(i) "company" has the same meaning as in clause (b) of the Explanation to section 28:

(ii) "non-resident interest" means partici⸤ation in the share capital by, or entitlement to the distributable profits of any individual or company resident outside India, or any company not incorporated under any law in force in India, or any branch .. such company whether resident outside India or not.

LAW OF CONTRACT IN INDIA

The statutory framework

The law of contracts in India is principally dealt with, in the Indian Contract Act, 1872. It deals with the general principles of the law of contracts, and also with certain special contracts such as guarantee, indemnity as bailment pledge and agency.

The law relating to sale of goods, partnerships and negotiable instruments are dealt with in separate Acts. Parliament enacted in 1972 the Hire-Purchase Act, but it has not yet been brought into force.

Essentials

The Contract Act defines "contract" as an agreement enforceable by law. The essentials of a (valid) contract are:

(a) intention to create legal relations;

(b) offer and acceptance;

(c) consideration;

(d) capacity to enter into a contract

(e) free consent of the parties

(f) lawful object of the agreement

Writing is not essential for the validity of a contract, except where a specific statutory provision requires writi.. . An arbitration clause must be in writing.

Intention to create legal relations

[Balfour v. Balfour, (1919) 2 KB 571]. The parties must have had an intention to create legal relations. Thus, an offer made by way of a joke, or a mere social obligation cannot create a contract.

Offer and acceptance

In order to constitute a contract, there must be an offer and its acceptance. If there is no offer, there is no contract, because there is no meeting of minds. Again, if there is an offer by one party, but it is not accepted by the other party or if the ostensible acceptance of the offer is defective, then also, there is no agreement and therefore no "contract".

A large bulk of commercial litigation, however, requires the court to deal with the basic questions, which are:

(i) Whether there has there been an offer at all in the particular case, or whether there is something less than an offer;

(ii) Whether there has been an acceptance of the offer;

(iii) If there is an acceptance; in the proper form;

(iv) Whether the acceptance has been communicated to the offeror.

Requirements of a valid offer

An offer (or proposal) is generally understood as denoting the expression, by words or conduct, of a willingness to enter into a legally binding contract. By its terms, it expressly or impliedly indicates that it is to become binding on the offeror as soon as it has been accepted, usually, by a return promise or an act on the part of the person (the offeree), to whom it is so addressed.

An acceptance, in relation to an offer, is a final and unqualified expression of assent to the terms of the offer.

Offer followed by acceptance, is an "agreement". If an agreement is enforceable by law, it is a "contract".

Statements which are not offers

Every statement of intention is not an offer. A statement must be made with the intention that it will be accepted and will constitute a binding. Following are not offers:–

(a) Statement made during negotiation, without indicating that the maker intends to be bound without further negotiation.

(b) A statement which invites the other party to make an offer (e.g., a notice inviting tenders).

(c) Statement of lowest price. [Harvey v. Facey, (1893) AC 552; Macpherson v. Appanna, AIR 1951 SC 184]. It is regarded as an invitation to make offers. [Re Webster (1975) 132 CLR 270].

(d) A quotation. [Mylappa Chettiar v. Aga Mirza, (1919) MLJ 912. Display of goods in a shop with price tags is not an offer, but is merely an invitation to make an offer, so that the trader may not accept the offer if the price is incorrectly marked. [Fisher v. Bell, (1960) 3 All ER 731].

Offer by and to whom

An offer must be made by a person legally competent to contract or on his behalf, by someone authorised by him to make the offer. It is usually made to a person (or to a number of persons), but it can be made to the entire world, as happened in Carlill v. Carbolic-Smoke Ball. Co., [(1893) 1 QB 256: (1891-94) All ER R 127]. In that case, the defendants (manufacturers of medicinal smoke balls) promised to pay £100 to anyone who, after having bought and used their smoke balls, caught influenza. Plaintiff did so and caught influenza. Plaintiff was held entitled to recover. It was no defence that there was no particular individual to whom the announcement was addressed. Such contracts are sometimes called "unilateral contracts" – not a very happy term, because a contract can never be "unilateral". There must be two parties. It is really a case of innumerable offers, made to all potential readers of the announcement.

Intention to be bound

A definite intention to be bound is required. This is highlighted in Gibson v. Manchester City Council, [(1979) 1 All ER 192]. In 1970, M adopted a policy of selling council houses to tenants. In February, 1971, the City Treasurer write to G, stating that council "may be prepared to sell the house to you at £2,180 (freehold)". The letter asked G to make a formal application. This he did, and the council took the house off the list of council-maintained properties. Before the completion of the normal process of preparation and exchange of contracts when property is sold, control of the council changed hands and the policy of selling council houses was reversed. The new council decided only to complete those transactions where exchange of contracts had already taken place. In the Court of Appeal, it was held (by a majority) that a contract had been made between G and M. Lord Denning suggested that "there is no need to look for strict offer and acceptance" in every case. In this particular instance a price had been agreed and the parties intended to carry through the sale. However, the house of Lords held that the February letter was (at the most) an "invitation" of treat. G's application was an offer and not an acceptance. (Informal agreements for the sale of houses are not lightly to be held as binding contracts, because, otherwise, buyers may find themselves committed before securing mortgage finance).

Termination of offer

Some parties clearly indicate that their statements or documents do not constitute offers, e.g., estate agents. The caution is expressed usually in specific terms.

Until an offer is accepted, it creates no legal rights and it may be terminated at any time in a variety of ways. Principal modes of termination of an offer are:

(a) By the offeror revoking (or withdrawing) the offer before acceptance. (Communication is necessary).

In Great Northern Rly. Co. Ltd. v. Witham, [(1873) LR 9 CP 16]. Great Northern Railway advertised for tenders for the supply of such stores as they might require for one year. W submitted a tender to supply the stores in such quantities as Great Northern Railway might order from time to time and his tender was accepted. Orders were given for some time, but eventually W was given an order which he refused to carry out. It was held that W was in breach. A tender of this kind was a standing offer which was converted into a series of contracts as Great Northern Railway made their orders. W might revoke his offer for the remainder of the period covered, but must supply the goods already ordered. Revocation of an offer is effective, only when communicated to the offeree.

(b) By the offeree rejecting the offer outright or by making a counter-offer.

(c) By lapse of time, (if the offer is stated to be open only for a fixed time).

Acceptance to be absolute and unconditional

(a) When parties carry on lengthy negotiation, it may be hard to say exactly when an offer has been made and accepted. [Butler Machine Tool Co. Ltd. v. The Ex. Cello Corp. (Eng.) Ltd., (1979) 1 WLR 401 (CA)].

(b) A conditional offer, if accepted must be accepted along with the conditions. [Shyam Sunder v. Mun. Chairman, AIR 1984 Orissa III-113].

(c) The court must look at the entire correspondence to decide whether an apparently unqualified acceptance did, in fact, conclude the agreement.

(d) However, in regard to international agreements governed by the UN Convention on Sale of Goods, there is a slight qualification. (See article 19 of the Convention).

Communication

Acceptance must be communicated. [Bhagwandas v. Girdharilal, AIR 1966 SC 543].

Consideration

As a rule, an agreement without "consideration" is void. The Act defines "consideration" as follows:

"When, at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does abstains from doing, or promises to do or abstains from doing, something, such act, abstinence, or promise is called a consideration for the promise."

A mere promise to give a donation, either orally or in writing, is not enforceable. Settlement of bona fide but doubtful claims involves a bargain between the contracting parties and is, therefore, based on consideration.

Money is not the only form of consideration. A consideration may consist sometimes in the doing of a request act, and sometimes in the making of a promise by the offeree. Forbearance of sue at the promisor's desire constitutes good consideration.

Consideration is not required for a promise to compensate, wholly or in part, a person who has already voluntarily done something for the promisor or something which the promisor was legally compellable to do. It is also required for a written and signed promise by the debtor (or his duly authorised agent) to pay a time-barred debt to the creditor.

Capacity of parties

Parties must be competent to contract. A person is competent to contract if, at the time of making it, he is of sound mind, major and not disqualified from contracting under law. where he has not attained the age of 18 years (or being under a court of wards, has not attained the age of 21 years), he cannot contract. Agreements made by minors are void. Minors cannot, on attaining majority, ratify agreements entered into during their minority.

But if a minor makes a fraudulent misrepresentation about his age and obtains a loan, he can be required (at the discretion of the court) to refund it or to make compensation for it. An unadjudged lunatic can enter into a valid contract during lucid intervals. A corporation can contract subject to certain limits.

Consent

When consent of a party to a transaction is procured by coercion, undue influence, fraud or misrepresentation, the agreement is voidable at the option of the party whose consent was so procured. Cases of undue influence arise where the transaction is ex facie unconscionable and one party was in a position to dominate the will of the other. Where parties are bound by a fiduciary relationship, (as in the case of father and son, doctor and patient, master and servant, advocate and client), the law protects the weaker party, throwing on the other party the burden of proving that no undue influence was exercised.

Mutual mistake in respect of material facts in the formation of a contract renders the agreement void. A unilateral mistake, however, does not render an agreement void. Nor does a mistake of law affect its validity. [Kalyanpur Lime Works Ltd. v. State of Bihar, AIR 1954 SC 163].

Unlawful agreements

An agreement whose consideration or object is unlawful, is void. The consideration or object of an agreement is unlawful, if it is forbidden by law or it would defeat the provisions of any law or is fraudulent, or involves or implies injury to the person or property of another or the court regards it as immoral or opposed to public policy.

A party to an illegal agreement who has advanced money under it to the other party is entitled to recover it, if the illegal purpose has not been partly or wholly carried out.

The Monopolies and Restrictive Trade Practices Act, 1969 now deals with the law relating to trade combinations.

Agreements in restraint of marriage, trade and legal proceedings are void. The seller of the good-will of a business may, however, validly agree with the buyer to restrain from carrying on a similar business within specified local limits, provided the limits are reasonable.

Persons bound by the contract

Promises bind the promisors and in case of death of promisor (before performance) their legal representatives, unless there is contract to the contrary, or the nature of the contract is such that it depends upon the personal qualifications of any party.

There are special provisions in the law dealing with the case where time is the essence of contract. In commercial contracts, it is better to provide specifically that time is of the essence. A contract is validly discharged by faithful performance, by release or remission by the promisee or by "frustration" (under law) or by "Novation" (by agreement).

Subsequent events and frustration

If, subsequent to the making of the contract, some event happens, which the parties could not control so that the agreement cannot be performed, the contract is said to be ""frustrated"" because the contract then becomes impossible of performance. Frustration may occur by a change in the law, destruction of the subject-matter, supervening incapacity of the contracting party to perform the contract or fundamental change in circumstances after the contract is made. Mere strike, lock-out in the factory, rise in price of the contracted goods or other commercial difficulties do not, as such, render the contract "impossible" of performance.

Frustration leads to automatic termination of the contract, and exempts the parties from performance or further performance of the contract without rendering any of them liable for damages. Where, however, any party has received any benefit under the agreement, he must restore it or make compensation for it to the other party.

Introduction of the permit system by statute does not absolve the promisor from supplying the goods. He must make reasonable efforts to procure the permit to fulfill his agreement. Change in market conditions also does not justify a supplier in demanding a price higher than that stipulated, unless there is an "escalation" clause.

Remedies for breach of contract

The legal remedies for breach of contract are:

(a) damages;

(b) specific performance of the contract; and

(c) injunction.

In practice damages constitute the main remedy.

When a contract has been broken, the party who suffers by such breach is entitled to receive, from the party who has broken the contract, compensation for any loss or damage caused to him thereby, being loss or damages which naturally arose in the usual course of things from such breach or which the parties knew, when they made the contract, to be likely to result from the breach of it.

Such compensation is not to be given for any remote and indirect loss of damage sustained by reason of the breach.

The same principle applies for determining the quantum of damages for breach of an obligation arising from quasi-contract.

In estimating the loss or damage arising from a breach of contract, the means which existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account.

Liquidated damages and penal stipulations

If a sum is named in the contract as the amount to be paid in case of breach of contract, or if the contract contains any other stipulation by way of penalty, the party complaining of the breach is entitled, whether or not actual damage of loss is proved to have been caused thereby, to receive, from the party who has broken the contract, reasonable compensation, not exceeding the amount so named or the penalty stipulated for.

A stipulation for increased interest from the date of default may be regarded as a stipulation by "way of penalty". The court is empowered to reduce it to an amount which is reasonable in the circumstances.

Specific performance

In certain special cases (dealt with in the Specific Relief Act, 1877), the court may direct against the party in default "specific performance" of the contract, that is to say, the party may be directed to perform the very obligation which he has undertaken, by the contract. This remedy is discretionary and granted in exceptional cases.

Taxation - Income Tax - Introduction

Under the Income-tax act, every person, who is an assessee and whose total income exceeds the maximum exemption limit, shall be chargeable to the income tax at the rate or rates prescribed in the finance act. Such income tax shall be paid on the total income of the previous year in the relevant assessment year. But the total income of an individual is determined on the basis of his residential status in India.

Resident and Non Residents : The income tax to be paid by an individual is determined by his residential status. An individual can be termed as a 'resident' if he stays for the prescribed period during a fiscal year i.e. 1st April to 31st March either for—

- 182 days or more, or

- 60 days or more (182 days or more for NRIs) and has been in India in aggregate for 365 days or more in the previous four years.

Any person who does not satisfy these norms is termed as a 'non-resident'.

Besides remuneration for work, individuals may be taxed on the following Income:

- Income from house property
- Income from business or professions
- Income from capital gains
- Income from other sources.

Spouses are treated separately for tax purposes and their income is not normally clubbed. However, income of all minors, except handicapped minors, is clubbed with the income of their parents unless the income is derived from manual work or an activity involving skill, specialised knowledge and experience.

Personal Taxable Incomes :

It is obligatory for any person residing in specific cities to file Tax Return under the existing law. It was compulsory to furnish his return of income, if he fulfilled any two of the given criteria:

1. Occupation of an immovable property of specified dimensions:

2. Ownership of a car;

3. Subscription of a telephone;

4. Foreign Travel during the year. Two more economic indicators were added to these

5. Holding of a credit card not being an add-on card;

6. Membership of a Club where entrance fee charged is Rs. 25000 or more.

There were amendments made in the laws and initially when there were 12 cities now there are 35 cities which are included under the obligatory laws. Also, now a person has to file his returns of income if he satisfies any one of the six criteria.

But blanket obligatory rules is going to cause very severe hardship to small traders and salary earners. These days owning a telephone or 'occupying' a property are the things that everyone, irrespective of his social status or income level, does. Combining two criteria had logic behind it, but this proposed amendment seems to have been drafted in haste, and might result in severe hardship to many. Moreover, the energy of the Income Tax Department would be wasted in handling petty cases.

Taxation - Income Tax - Rate Slab

The individual tax rates for 1997-98 Financial Year are as follows : (Taxes are usually deducted at source.)

Taxable income slab (Rs.)	Rate (%)
Upto 40,000	nil
40,001 - 60,000	20
60,001 - 120,000	30
120,001 upwards	40

Special provisions relating to income of non-resident Indian individuals :

When the income of an NRI consists only of investment income or income from long-term capital gains, the tax payable is at the rate of 20 per cent. Capital gains on transfer of assets acquired in foreign exchange is not taxable in certain cases.

Non-resident Indians are not required to file a tax return if their income consists of only interest and dividends, provided taxes due on such income are deducted at source. The tax rate on such income is 20 per cent. It is possible for non-resident Indians to avail of these special provisions even after becoming residents by following certian procedures laid down by the Income Tax act.

It is statutorily obligatory for every person to furnish a return of his total income or the total income of any other person in respect of which he is assessable under the income tax act, in all cases where his total income or the total income of any other person in which he is liable to be assessed exceeds, in any relevant accounting year the maximum amount which is not chargeable to income tax. the return of income must be furnished by the assessee in the prescribed manner by the board from time to time.

The assessee is obliged to voluntarily file the return of income without waiting for the notice of the assessing officer calling for the filing of the return. The time limit for filing of the return by an assessee if his total income of any other person in respect of which he is assessable exceeds the maximum amount not chargeable to tax shall be as follows :

(a) where the assessee is a company the 30th day of November of the assessment year

(b) where the assessee is a person, other than a company :-

i) where the account of the assessee are required to be audited under the income tax act or any other law, or in cases where the report of the chartered Accountant is required to be furnished under sections 80HHC or 80HHD i.e.. for deduction in respect of profits retained for export business and also in respect of earnings in convertible foreign exchange, or in case of a cooperative society, the 31st day of October of the assessment year ii) where the total income includes any income from the business or profession, not being a case falling under sub clause (i), the 31st day of August for the assessment year iii) in any other case, 30th day of June of the assessment year

The requirements of Income-tax Act making it obligatory for the assessee to file a return of his total income apply equally even in cases where the assessee has incurred a loss under the head 'profit and gains form business and profession' or under the head 'capital gains' or maintenance of race horses. Unless the assessee files a return of loss in the manner and within the same time limits as required for a return of income or by the 31st day of July of the assessment relevant to the previous year during which the loss was sustained, the assessee would not be entitled to carry forward the loss for being set off against income in the subsequent year.

Mandatory Return :- A person fulfilling two of the following four economic criteria must file his return even if he has no taxable income-

- is in operation of an immovable property exceeding a specified floor area, whether by way of ownership, tenancy or otherwise, as may be specified by the CBDT in this behalf

- is the owner or the lessee of a motor vehicle

- is a subscriber to telephone - has incurred expenditure on himself or any other person on travel to any foreign country

Belated Return :-

Any person who has not filed the return within the time allowed may be file a belated return at any time before the expiry of one year from the end of the relevant assessment year or before the completion of the assessment, which ever is earlier. However, in case of returns relating to assessment year 1988-89 or any other assessment year, the period allowable is two years.

Revised Return :-

An assessee who is required to file a return of income is entitled to revise the return of income originally filed by him to make such amendments, additions or changes as may be found necessary by him. Such a revised return may be filed by the assessee at any time before the assessment is made. There is no limit under the income tax Act in respect of the number of time for which the return of income may be revised by the assessee. However, if a person deliberately files a false return he will be liable to be imprisoned under section 277 and the offence will not be condoned by filing a revised return.

Where the return relates to assessment year 1988-89 or any earlier assessment year, the period of limitation is two years from the end of the relevant assessment year.

Defective Return :-

If the assessing officer considers that the return of income furnished by the assessee is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within 15 days from the date of such intimation or within such further period as may be allowed by the assessing officer on the request of the assessee. If the assessee fails to rectify the defect within the aforesaid period, the return shall be deemed invalid and further it shall be deemed that the assessee had failed to furnish the return. However, where the assessee is made the assessment officer may condone the delay and treat the return as a valid return.

Signing of Return :- The return of income must be signed and verified. In case of an individual i) by the individual himself ii) where he is absent from India, by the individual himself or by some person duly authorised by him in this behalf iii) where he is mentally incapacitated from attending to his affairs, by his guardian or any person competent to act on his behalf iv) where for any other reason, it is not possible for the individual to sign the return, by any person duly authorised by him in this behalf.

Penalty :

Under the existing law, penalty for delay in filing of return of income is calculated as a percentage of the shortfall of tax. Where tax has already been deducted at source, or advance tax has been duly paid, no penalty is leviable. It is proposed to amend the law to provide for the penalty of Rs.1000 even in such cases. This provision is targeted towards the salary earners who always had the impression that their liability was over the moment the tax was deducted by the employer.

Taxation - Paying Income Tax

Deductions at the source:-

The Finance Act, 1994 has increased the income tax exemption limit, and abolished surcharge on income tax for individuals. To widen the tax base, the union budget for 1995-95, made a new provision in the Income-Tax act subjecting the sums payable by way of fees for professional or technical services to the requirement of deduction of income-tax at source at the rate of 10%. There will be no deduction of tax at source where the aggregate of payments or credits during the financial year is below Rs.22,000 or where payments are made by individuals and HUF's.

1. ***Salaries :-*** i) Income tax is deducted by the person paying salary at the time of payment on the amount payable at the rates applicable to the estimated income of the assessee for that financial year. The following deductions are made on such salaries :

- amount deductible under sections 80D and 80DD
- donations made to the national defence fund, Jawahar Lal Nehru Memorial Fund, The prime Minister's drought relief fund and others subject to canditions laid down under section 80G.
- deductions under section 80GG in respect of rent paid
- deductions under section 80RRA in respect of remuneration received in foreign currency

ii) The employer may increase or reduce the amount to be deducted for the purpose of adjusting any excess or deficiency arising out of any previous deductions or failures to deduct during the financial year.

iii) The trustees of a recognised provident fund or an approved superannuation fund shall deduct tax at the time of the accumulated balance due to an employee is paid provided it is not exempted.

The non government employers are required to send monthly details about tax deducted at source from the salaries to the assessing officer in form No.23. Further, every employer shall file a return in form No. 24 by May 31 following the close of the relevant financial year showing— a) the name and address of every employee who is drawing such amount as may be prescribed. b) the amount of income so recieved by or so due to each such person. c) the amount of tax deducted from the income of any such person

2. ***Interest on Securities :-*** Income tax has to be deducted by the person who is paying interest on securities in cash or cheque or draft or any other mode at the rate in force on the account of the interest payable. However tax shall not be deducted from the interest on the following securities :

- 4-1/4 % National Defence Bonds, 1972 held by a resident individual.
- 4-1/4 % National Defence Loan, 1968 and 4-3/4 % National Defnce Loan 1972 and National Development Bonds
- National Savings Certificates
- Debentures issued by co-operative society or any other institution or auhority as the central Government may specify in the official gazette
- Gold Bonds provided the assessee is a resident individual and the nominal value of the bonds did not exceed Rs. 10,000 at any time during the period to which the interest relates
- Securities of the central Government or state Government

- Any interest payable to a resident of India, on debentuires issued by a company in which the public are substanially interested, being debentures listed on a recognised stock exchange in India in accordance with the Securities contracts (regulation) act, 1956 vii) Interest on such debentures as are issued a by statutory corporation or a Government company

3. Dividends
4. Interest other than interest on securities
5. Winnings from Lotteries or Crossword Puzzles
6. Winnings from Horse races
7. Payments to residents contractor or Sub-contractor
8. Insurance commission
9. Payments to non-resident sportsmen or sports associations
10. Payment inrespect of deposits under NAtional Savings Scheme
11. Commission etc on sale of lottery tickets
12. Rent
13. Professional and technical fees
14. Payments of other sums to non residents
15. Income from units
16. Income from foreign currency bonds or shares of Indian company

No tax shall be deducted at source if—

a) Interest is payable to the UTI in respect of any securities owned by it.

b) On any interest payable to the LIC of India in respect of securities owned by it and if the sum is payable to

i) The Government

ii) The Reserve Bank of India

iii) A corporation esatblished by or under a central Act which is, under any law for the time being in force, exempt from income-tax on its income

iv) any of the mutual funds

The list of forms of certificates to be issued and necessary form filled with assessing officer by the person deducting the tax at source:—

Consumer Protection Act

Government has accorded a very high priority to the consumer protection programme.Ministry of Food & Consumer Affairs, Deptt. of Consumer Affairs in the CentralGovernment, has been designated as the nodal Department to deal with the subject of consumer protection. Since, 1986, the Department has taken a number of measures to promote a strong and broad based consumer movement in the country. Some of such measures include :

> Enactment and enforcement of the Consumer Protection Act, 1986;

> Amendment of various legislations such as Prevention of Food Adulteration Act,1954 etc.

> To empower the consumers and registered consumer organisations to file complaints in the courts;

> Institution of Swami Vivekananda National Awards for consumer organisations, youth and women;

> Grant of financial assistance to consumer organisations through CWF ;

> preparation of audio visual material;

> publishing quarterly magazine " Upbhokta Jagaran";

> publishing of printed material and its free distribution etc.

The various measures taken by the Government has aroused lot of expectations amongst the consumers.

In the last few years, a major thrust has been given to the consumer protection programme and a number of additional steps have been taken to protect the interests of the consumers.

Enactment of Consumer Protection Act, 1986 was one of the most important steps taken. The present position of the implementation of this Act is as follows:-

(i) All the provisions of the Act came into force w.e.f. 1.7.1987.

(ii) The State level consumer protection councils are functioning in all States/ UTs.

The Central Govt. constituted the first Central Consumer Protection Council on 1.6.1987. Though it was re-constituted in the year 1990,1993,1997 and 2000. The present Council has since been reconstituted w.e.f. 18.4.2000 for a period of three years. So far, 21 meetings of the Council have been held. The main object of the Councils is to protect and promote the rights of consumers such as the right to safety, the right to information, the right to choose, the right to be heard, the right to seek redressal and the right to consumer education.

(iii) As per the Act the National Commission was established and it started functioning w.e.f. 27.12.1988. For further details please visit their web-site http://www.ncdrc.nic.in .

iv) Initially, the progress in establishment of State Commissions/ District Fora by the State Govt. However, after constant persuasion of the Central Government and the Write petition filed by a consumer organisation "Common Cause" in the Supreme Court, the position has improved. 32 State Commissions and 570 District forums are functioning in the country including a State Commission and two Divisional Forums set up under the Jammu & Kashmir Consumer Protection Act.

v) On persistent requests from State Governments the Ministry with the approval of the Planning Commission provided one-time-grant assistance of Rs. 61.80 crores , during 1995-1999. to the States/UTs to supplement their efforts to strengthen the infrastructure facilities of the consumer disputes redressal agencies.

vi) Amendment to the Consumer Protection Act, 1986:

The Act was amended in the year 1991 and 1993 to make it more effective and purposeful Still. However the delay in disposal of cases by the redressal agencies at the district, State and National level has been a cause of major concern. Therefore, the Govt. made further proposals for amending the Consumer Protection Act. The amendments are mainly aimed at facilitating quicker disposal of complaints, enhancing the capability of redressal agencies, strengthening them with more powers, streamlining the procedures and widening the scope of the Act to make it more functional and effective. These proposals have been conceived based on the recommendations of the Naren De Working Group Report, Expert Group Report, consultations with Presidents of the National/State Commissions, Members of the Central Consumer Protection Council, National Commission and Ministry of Law in addition to the experience gained in administering the Act by the Department.

The highlights of the amendment proposals contained in the Consumer Protection (Amendment) Bill, 2002 which has been passed by Rajya Sabha on 11 March, 2001 are as follows:

(A) For quicker disposal of complaints

(1) Enabling provision for creation of benches of National Commission and State Commission and holding of circuit courts.

(2) Time-frame prescribed for admission of complaint, issue of notice and disposal of complaint.

(3) Ordinarily no adjournment.

(4) Enabling provision for service of notices by courier, fax, etc.

(5) Monetary limits of cases to be disposed of by consumer courts at different levels susbstantially revised.

District Forum - from Rs.5 lakhs to Rs.20 lakhs.

State Commission - from Rs.20 lakhs to Rs.1 crore.

National Commission – from above Rs.20 lakhs to above Rs.1 crore.

(6) Services utilised for commercial purpose excluded from purview of consumer courts (Goods already excluded).

(Commercial organizations will not be able to approach consumer courts and will have to seek relief in Civil Courts. Consumer Courts will therefore concentrate on providing relief to individual consumers).

(B) Making Consumer Courts more capable

(1) Minimum qualification prescribed for members (graduate, minimum 35 years of age, minimum 10 years in relevant field).

(2) Disqualification also prescribed (conviction for offence involving moral turpitude, insolvency, etc.)

(3) Provision for reappointment of Presidents & Members of forums/Commissions.

(C) Widening Scope of Act

(1) Sale of spurious goods/services included in unfair trade practice.

(2) Concept of unsafe goods widened. Also extended to services.

(3) Complaint can also be made against service provider indulging in unfair/restrictive trade practice.

(D) Strengthening Consumer Courts

(1) Consumer Courts to have powers of First Class Judicial Magistrate to punish those not obeying order of court. (This will remove any scope for challenging the constitutional validity of power of consumer courts to impose penalty of imprisonment.

There is already an SLP before the Supreme Court on this issue).

(2) Compensation amount ordered by court can be recovered through certificate case as arrears of land revenue.

(3) Consumer courts can issue interim orders (complainant can get immediate relief in deserving cases).

(E) Streamlining procedure

(1) Legal heir can be substituted if complainant/Opposite Party dies.

(2) Minimum amount to be deposited before appeal.

PRINCIPLE /RULES

New Delhi, the 1st Feb. 1971

G.S.R. 190

In exercise of the powers conferred by sub-section (3) of Section 1 of the Contract Labour (Regulation & Abolition) Act, 1970, (Act 37 of 1970) the Central Government hereby appoints the 10th of Feb. 1971, as the date from which all the provisions of the said Act shall come into force.

(No.M.18011 (2)/71-LW.I/Con.II)

G.S.R. 191

In exercise of the powers conferred by section 35 of the Contract Labour (Regulation & Abolition) Act, 1970, the Central Government hereby makes the following rules, the same having been previously published as required by the said section, namely: -

CHAPTER-I

RULES

Short title and commencement

1) These rules may be called the Contract Labour (Regulation & Abolition) Central Rules, 1971.

2) They shall come into force on the date of their publication in the Official Gazette.

Definitions

In these rules, unless the subject or context otherwise requires, —

(a) "Act" means the Contract Labour (Regulation & Abolition) Act, 1970;

(b) "Appellate Officer" means the Appellate Officer appointed by the Central Government under sub-section (1) of Section 15;

(c) "Board" means the Central Advisory Contract Labour Board constituted under section 3;

(d) "Chairman" means the Chairman of the Board;

(e) "Committee" means a Committee constituted under sub-section (1) of Section 5;

(f) "Form" means a form appended to these rules;

(g) "Section" means a section of the Act.

CHAPTER II

CENTRAL BOARD

3. The Board shall consist of the following Members: -

(a) A Chairman to be appointed by the Central Government;

(b) the Chief Labour Commissioner(Central) — *ex-officio*;

(c) One person representing the Central Government, to be appointed by that Government from amongst its officials;

(d) [two] persons representing the Railways, to be appointed by Central Government after consultation with the Railway Board;

(e) [five] persons, one representing the employers in coal mines. [two] representing the employers in other mines and two representing contractors to whom the Act applies, to be appointed by the Central Government after consultation with such organizations, if any, of the employers and the contractors as may be recognized by the Central Government;

(f) [seven] persons, [two] representing the employees in the Railways one representing, the employees in coal mines, two representing the employees in other mines, and two representing the employees of contractors to whom the Act applies, to be appointed by the Central Government after consultation with such organization, if any, of employees representing the respective interest as may be recognized by the Central Government.

4. TERMS OF OFFICE

(1) The Chairman of the Board shall hold office as such for a period of three years from the date on which his appointment is first notified in the Official Gazette.

(2) Each of the members of the Board, referred to in clauses (c) and (d) of rule 3, shall hold office as such during the pleasure of the President.

(3) Each of the members referred to in clauses (e) and (f) of rule 3 shall hold office as such for a period of three years commencing from the date on which his appointment is first notified in the Official Gazette:

Provided that where the successor of any such member has not been notified in the Official Gazette on or before the expiry of the said period of three years, such members shall, notwithstanding the expiry of the period of his office, continue to hold such offices until the appointment of his successor has been notified in the Official Gazette.

(4) If a member is unable to attend a meeting of the Board, the Central Government or the body which appointed or nominated him may, by notice in writing signed on its behalf and by such member and addressed to the Chairman of the said Board, nominate a substitute in his place to attend the meeting and such a substitute member shall have all the rights of a member in respect of that meeting and any decision taken at the meeting shall be binding on the said body.

5. *REGISTRATION*

(1) A member of the Board, not being an *ex-officio* member, may resign his office by a letter in writing addressed to the Central Government.

(2) The Office of such a member shall fall vacant from the date on which his resignation is accepted by the Central Government, or on the expiry of thirty days from the date of receipt of the letter of resignation by that Government whichever is earlier.

6. *CESSATION OF MEMBERSHIP*

If any member of the Board, not being an *ex-officio* member, fails to attend three consecutive meetings of the Board, without obtaining the leave of the Chairman for such absence, he shall cease to be member of the Board:

Provided that the Central Government may, if it is satisfied that such member was prevented by sufficient cause from attending three consecutive meetings of the Board, direct that such cessation shall not take place and on such direction being made, such member shall continue to be a member of the Board.

7. *DISQUALIFICATION FOR MEMBERSHIP*

(1) A person shall be disqualified for being reappointed, and for being a member of the Board, -

i) if he is of unsound mind and stands so declared by a competent court; or

ii) if he is an undischarged insolvent; or

iii) if he has been or is convicted of an offence which, in the opinion of the Central Government, involves moral turpitude.

(2) If a question arises as to whether a disqualification has been incurred under sub-rule (1), the Central Government shall decide the same.

8. REMOVAL FROM MEMBERSHIP

The Central Government may remove from office any member of the Board, if in its opinion such a member has ceased to represent the interest which he purports to represent on the Board:

Provided that no such member shall be removed unless a reasonable opportunity is given to him of making any representation against the proposed action.

9. VACANCY

When a vacancy occurs or is likely to occur in the membership of the Board the Chairman shall submit a report to the Central Government and on receipt of such report the central Government shall take steps to fill the vacancy by making an appointment from amongst the category of persons to which the person vacating membership belonged and the person so appointed shall hold office for the remainder of the term of office of the member in whose place he is appointed.

10. STAFF

(1) i) The Central Government may appoint one of its officials as Secretary to the Board and appoint such other staff as it may think necessary to enable the Board to carry out its functions.

ii) The salaries and allowances payable to the staff and the other conditions of service of such staff shall be such as may be decided by the Central Government.

(2) The Secretary-

i) shall assist the Chairman in convening meetings of the Board;

ii) may attend the meetings but shall not be entitled to vote at such meetings;

iii) shall keep a record of the minutes of such meetings; an

iv) shall take necessary measures to carry out the decisions taken at the meetings of the Board.

11. ALLOWANCES OF MEMBERS

1) The traveling allowance of an official member shall be governed by the rules applicable to him for journey performed by him on official duties and shall be paid by the authority paying his salary.

2) The non-official members of the Board shall be paid traveling allowance for attending the meeting of the Board at such rates as are admissible to Grade I officers of the Central Government and daily allowances shall be calculated at the maximum rate admissible to Grade I officers of the Central Government in their respective places.

12. DISPOSAL OF BUSINESS

Every question which the Board is required to take into consideration shall be considered at a meeting, or, if the Chairman so directs, by sending the necessary papers to every member for opinion, and the question shall be disposed of in accordance with the decision of the majority:

Provided that in the case of equality of votes, the chairman shall have as second or a casting vote.

Explanation - "Chairman" for the purposes of this Rule shall include the Chairman nominated under rule 13 to preside over a meeting.

13. MEETINGS

(1) The Board shall meet at such places and times as may be specified by the Chairman.

(2) The Chairman shall preside over every meeting of the Board at which he is present and in his absence nominate a member of the Board to preside over such meeting.

14. NOTICE OF MEETINGS AND LIST OF BUSINESS

(1) Ordinarily seven days' notice shall be given to the members of a proposed meeting.

(2) No business which is not on the list of business for a meeting shall be considered at that meeting without the permission of the Chairman.

15. QUORUM

No business shall be transacted at any meeting unless at least five members are present:

Provided that if at any meeting less than five members are present, the Chairman may adjourn the meeting to another date informing members present and giving notice to the other members that he proposes to dispose of the business at the adjourned meeting whether there is prescribed quorum or not, and it shall thereupon be lawful for him to dispose of the business at the adjourned meeting irrespective of the number of members attending.

16. COMMITTEES OF THE BOARD

(1) i) The Board may constitute such Committees and for such purpose or purposes as it may think fit.

ii) While constituting the Committee the Board may nominate one of its members to be the Chairman of the Committee.

(2) i) The Committee shall meet as such times and places as the Chairman of the said Committee may decide.

ii) The provisions of rules 12, 13(2), 14 and 15 shall apply to the Committee for transaction of business at its meetings as they apply to the Board, subject to the modification that the quorum specified in rule 15 shall be 'one-third' of the members' instead of 'five members'.

(3) The provisions of rule 11 shall apply to the members of the Committee for attending the meetings of the committee as they apply to the members of the Board.

CHAPTER III

REGISTRATION AND LICENSING

17. MANNER OF MAKING APPLICATION FOR REGISTRATION OF ESTABLISHMENTS.

1) The application referred to in sub-section (1) of Section 7 shall be made in triplicate Form I to the registering officer of the area in which the establishment sought to be registered is located.

2) The application referred to in sub-rule (1) shall be accompanied by a [demand draft] showing payment of the fees for the registration of the establishment.

3) Every application referred to in sub-rule (1) shall be either personally delivered to the registering officer or sent to him by registered post.

4) On receipt of the application referred to in sub-rule (1), the registering officer shall, after noting thereon the date of receipt by him of the application grant an acknowledgement to the applicant.

18. *GRANT OF CERTIFICATE OF REGISTRATION*

1) The certificate of registration granted under sub-section (2) of Section 7 shall be in Form II.

2) Every certificate of registration granted under sub-section (2) of Section 7 shall contain the following particulars, namely: -

(a) the name and address of the establishment;

(b) the maximum number of workmen to be employed as contract labour in the establishment;

(c) the type of business, trade, industry, manufacture or occupation which is carried on in the establishment;

(d) such other particulars as may be relevant to the employment of contract labour in the establishment.

(3) The registering Officer shall maintain a register in Form III showing the particulars of establishments in relation to which certificates of registration have been issued by him.

(4) If, in relation to an establishment, there is any change, in the particulars specified in the certificate of registration, the principal employer of the establishment shall intimate to the registering officer, within thirty days from the date when such change takes place, the particulars of, and the reasons for, such change.

19. *CIRCUMSTANCES IN WHICH APPLICATION FOR REGISTRATION MAYBE REJECTED*

1) If any application for registration is not complete in all respects, the registering officer shall require the principal employer to amend the application so as to make it complete in all respects.

2) If the principal employer, on being required by the registering officer to amend his application for registration, omits or fails to do so, the registering officer shall reject the application for registration.

20. *AMENDMENT OF CERTIFICATE OF REGISTRATION*

1) Where, on receipt of the intimation under sub rule (4) of rule 18, the registering officer is satisfied that an amount higher than the amount which has been paid by the principal employer as fees for the registration of the establishment is payable, he shall require such principal employer to [pay] a sum which, together with the amount already paid by such principal employer, would be equal to such higher amount of fees payable for the registration of the establishment and to produce the [demand draft] showing such deposit.

2) Where, on receipt of the intimation referred to in sub rule (4) of rule 18, the registering officer is satisfied that there has occurred a change in the particulars of the establishment, as entered in the register in Form III, he shall amend the said register and record therein the change which has occurred;

Provided that no such amendment shall affect anything done or any action taken or any right, obligation or liability acquired or incurred before such amendment.

Provided further that the registering officer shall not carry out any amendment in the register in Form III unless the appropriate fees have been deposited by the principal employer.

THE SCHEDULE

Industrial Employment (Standing Orders) Act, 1946

[Act No. 20 of 1946 As Amended by Acts Nos. 3 of 1951, 36 of 1956, 16 of 1961, 39 or 1963, 51 of 1970 and 18 of 1982]

[23rd April, 1946]

An Act require employers in industrial establishments formally to define conditions of employment under them

Whereas it is expedient to require employers in industrial establishments to define with sufficient precision the conditions of employment under them and to make the said conditions known to workmen employed by them.

It is hereby enacted as follow :

1. Short title, extent and application:-

(1) This act may be called the Industrial Employment (Standing Orders) Act, 1946.

(2) It extends to[5] [the whole of India [* * *]]

(3) It applies to every industrial establishment wherein one hundred or more workmen are employed, or were employed on any day of the preceding twelve months:

Provided that the appropriate Government may, after giving not less than two months' notice of its intention so to do, by notification in the Official Gazette, apply the provisions of this Act to any industrial establishment employing such number of number of persons less than one hundred as may be specified in the notification :

[* * * *]

[(4) Nothing in this Act shall apply to-

(i). any industry to which the provisions of Chapter VII of the Bombay Industrial Relations Act, 1946, apply; or

(ii) any industrial establishment to which the provisions of the Madhya Pradesh Industrial Employment (Standing Orders) Act, 1961 apply :

Provided that notwithstanding anything contained in the Madhya Pradesh Industrial Employment (Standing Orders) Act, 1961, the provisions of this Act shall apply to all industrial establishments under the control of the Central Government .]

2. *Interpretation:-* In this Act, unless there is anything repugnant in the subject or context

(a) "appellate authority" means an authority appointed by the appropriate Government by notification in the Official Gazette to exercise in such area as may be specified in the notification the functions of an appellate authority under this Act :

[Provided that in relation to an appeal pending before an Industrial Court or other authority immediately before the commencement of the Industrial Employment (Standing Orders) Amendment Act, 1963, that Court or authority shall be deemed to be the appellate authority:]

(b) "appropriate Government" means in respect of industrial establishments under the control of the Central Government or a

[Railway administration] or in a major Port, mine or oil field, the Central Government, and in all other in all other cases the State Government :

[Provided that where question arises as to whether any industrial establishment is under the control of the Central industrial establishment is under the control of the Central Government that Government may, either on a reference made to it by the employer or the workman or a trade union or other representative body of the workmen, or on its own motion and after giving the parties an opportunity of being heard, decide the question and such decision shall be final and binding on the parties :]

(c) "Certifying Officer" means a Labour Commissioner or a Regional Labour Commissioner, and includes any other officer appointed by the appropriate Government, by notification in the Official Gazette, to perform all or any of the functions of a Certifying Officer under this Act:]

(d) "employer" means the owner of an industrial establishment to which this Act for the time being applies, and includes-

(i) in a factory, any person named under [clause (f) of sub-section (1) of Section 7 of the Factories Act, 1948], as manager of the factory;

(ii) in any industrial establishment under the control of any department of any Government in India, the authority appointed by such Government in this behalf, or where no authority is so appointed. the head of the department;

(iii) in any other industrial establishment, any person responsible to the owner for the supervision and control of the industrial establishment;

(e) "industrial establishment" means

(i) an industrial establishment as defined in clause (ii) of Section 2 of the Payment of Wages Act, 1936, or

(ii) [a factory as defined in clause (m) of Section 2 of the Factories Act, 1948, or]

(iii) a railway as defined in clause (4) of Section 2 of the Indian Railway Act, 1890, or

(iv) the establishment of a person who, for the purpose of fulfilling a contract with the owner of any industrial establishment, employs workmen;

(f) "prescribed' means prescribed by rules made by the appropriate Government under this Act ;

(g) " standing orders" means rules relating to matters set out in the Schedule:

(h) "trade union" means a trade union for the time being registered under the Indian Trade Union Act, 1926;

(i) "wages" and "workman" have the meanings respectively assigned to them in clauses (rr) and (s) of Section 2 of the Industrial Disputes Act, 1947 (14 of 1947).] .

3. *Submission of draft standing orders.—*

(1) Within six months from the date on which this Act becomes applicable to an industrial establishment, the employer shall submit to the Certifying Officer five copies of the draft standing orders proposed by him for adoption in this industrial establishment.

(2) Provision shall be made in such draft for every matter set out in the Schedule which may be applicable to the industrial establishment, and where Model standing orders have been prescribed shall be, so far as is practicable, in conformity with such model.

(3) The draft standing orders submitting under this section shall be accompanied by a statement giving prescribed particulars of the workmen employed in the industrial establishment including the name of the trade union, if any, to which they belong.

(4) Subject to such conditions as may be prescribed, a group of employers in similar industrial establishments may submit a joint draft of standing orders under this section.

4. Conditions for certification of standing orders.—Standing orders shall be certifiable under this Act if—

(a) provision is made therein for every matter set out in the Schedule which is applicable to the industrial establishment, and

(b) the standing orders are otherwise in conformity with the provisions of this Act ;

and it [shall be the function] of the Certifying Officer or appellate authority to adjudicate upon the fairness or reasonableness of the provisions of any standing orders.

5. Certification of standing orders:-

(1) On receipt of the draft under Section3, the Certifying Officer shall forward a copy thereof to the trade union, if any, of the workmen, or where there is no such trade union, if any, of the

workmen or where there is no trade union, to the workmen in such manner as may be prescribed, together with a notice in the prescribed form requiring objections, if any, which the workmen may desire to make to the draft standing orders to be submitted to him within fifteen days from the receipt of the notice.

(2) After giving the employer and the trade union or such other representatives of the workmen as may be prescribed an opportunity of being heard, the Certifying Officer shall decide whether or not any modification of or addition to the draft submitted by the employer is necessary to render the draft standing orders certifiable under this Act, and shall make an order in writing accordingly.

(3) The Certifying Officer shall thereupon certify the draft standing orders, after making any modifications there in which his order under sub-section (2) may require, and shall within seven days thereafter send copies of the certified standing orders authenticated in the prescribed manner and of his order under sub-section (2) to the employer and to the trade union or other prescribed representatives of the workmen.

6. Appeals.—

(1) [Any employer, workmen, trade union or other prescribed representatives of the workmen] aggrieved by the order of the Certifying Officer under sub-section (2) of Section 5 may, within [thirty days] from the date on which copies are sent under sub-section (3) of that section, appeal to the appellate authority, and the appellate authority, whose decision shall be final, shall by order in writing confirm the standing orders either in the form certified by the Certifying Officer or after

amending the said standing orders by making such modifications thereof or additions there to as it thinks necessary to render the standing orders certifiable under this Act.

(2) The appellate authority shall, within seven days of its order under sub-section (1) send copies thereof to the Certifying Officer, to the employer and to the trade union or other prescribed representatives of the workmen, accompanied, unless it has confirmed without amendment the standing orders as certified by the Certifying Officer, by copies of the standing orders a certified by it and authenticated in the prescribed manner.

7. **Date of operation of standing orders.**—Standing orders shall, unless an appeal is preferred under Section 6, come into operation on the expiry of thirty days from the date on which authenticated copies thereof are sent under sub-section (3) of Section 5, or where an appeal as aforesaid is preferred, on the expiry of seven days from the date on which copies of the order of the appellate authority are sent under sub-section (2) of Section 6.

8. **Register of standing orders.** — A copy of all standing orders as finally certified under this Act shall be filed by the Certifying Officer in a register in the prescribed form maintained for the purpose, and the Certifying Officer shall furnish a copy there of to any person applying there for on payment of the prescribed fee.

9. **Posting of standing orders.**—The text of the standing orders as finally certified under this Act shall be prominently posted by the employer in English and in the language understood by the majority of his workmen on special boards to be maintained for the purpose at or near the entrance through which the majority of the workmen enter the industrial establishment and in all departments thereof where the workmen are employed.

10. Duration and modification of standing orders.—

(1) Standing orders finally certified under this Act shall not, except on agreement between the employer and the workmen [or a trade union or other representative body of the workmen] be liable to modification until the expiry of six months from the date on which the standing orders or the last modifications thereof came in to operation.

[(2) Subject to the provisions of sub-section (1), an employer or workman or a trade union or other representative body of the workmen] may apply to the Certifying Officer to have the standing orders modified, and such application shall be accompanied by five copies of [***] the modifications proposed to be made, and where such modifications are proposed to be made by agreement between the employer and the workmen [or a trade union or other representative body of the workmen], a certified copy of that agreement shall be filed along with the application.]

(3) The foregoing provisions of this Act shall apply in respect of an application under sub-section (2) as they apply to the certification of the first standing orders.

(4) [Nothing contained in sub-section (2) shall apply to an industrial establishment in respect of which the appropriate Government is the Government of the State of Gujarat or the Government of the State of Maharashtra.]

10-A. Payment of subsistence allowance.—

(1) Where any workman is suspended by the employer pending investigation or inquiry into complaints or charges of misconduct against him, the employer shall pay to such workman subsistence allowance-

(a) at the rate of fifty per cent of the wages which workman was entitled to immediately preceding the date of such suspension, for the first ninety days of suspension; and

(b) at the rate of seventy-five per cent of such wages for the remaining period of suspension if the delay in the completion of disciplinary proceedings against such workman is not directly attributable to the conduct of such workman.

(2) If any dispute arises regarding the subsistence allowance payable to a workman under sub-section (1), the workman or the employer concerned may refer the dispute to the Labour Court, constituted under the Industrial Disputes Act, 1947 (14 of 1947), within the local limits of whose jurisdiction the industrial establishment wherein such workman is employed is situate and the Labour Court to which the dispute is so referred shall, after giving the parties an opportunity of being heard, decide the dispute and such decision shall be final and binding on the parties.

(3) Not with standing anything contained in the foregoing provisions of this section, where provisions relating to payment of subsistence allowance under any other law for the time being in force in any State are more beneficial than the provisions of this section, the provisions of such other law shall be applicable to the payment of subsistence allowance in that State.]

THE ENVIRONMENT PROTECTION ACT, 1986

The Environment protection Act provides for protection and improvement of environment and for matters connected therewith.

The United Nations conference on human environment, held in Stockholm in June 1972, proclaimed that "Man is both creator and molder of his environment, which gives him physical sustenance and affords him the opportunity for intellectual, moral, social and spiritual growth. In the long and tortuous evolution of the human race on this planet a stage has reached when through the rapid acceleration of science and technology man has acquired the power to transform his environment in countless ways and on unprecedented scale. Both aspects of man's environment, the natural and man made are essential to his well being and to the enjoyment of basic human rights even the right to life itself.

"Environment" includes water, air, and land and the interrelationship that exists among and between water, air and land and human beings, other living creatures, plants, micro-organism and property.

"Environmental Pollutant" means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be injurious to environment.

"Hazardous Substance" means any substance or preparation which, by reasons of its chemical or physico-chemical properties or handling, is liable to cause harm to human beings, other living creatures, plants, micro-organism, property or environment.

Environmental pollution means imbalance in environment. The materials or substances when after mixing in air, water or land alters their properties in such manner, that the very use of all or any of the air water and land by man and any other living organism becomes lethal and dangerous for health.

POWERS OF THE SUPREME COURT

The Act does not curtail the powers of the Supreme Court. It has from time to time in various matters issued directions and orders to control pollution.

DIRECTIONS ISSUED TO CONTROL VEHICULAR POLLUTION

In Mehta v Union of India 1999 in order to control the chaotic traffic conditions and vehicular pollution, the Supreme Court issued the following directions.

(a) All commercial/transport vehicles which are more than 20 years old should be phased out and not permitted to ply in Delhi after October 1998

(b) All such commercial /transport vehicles which are 17 to 19 years old (3200) shall not be permitted to ply in the National Capital Territory, Delhi after 1998;

(c) Such of the commercial /transport vehicles which are 15 and 16 years old (4962) shall not be permitted to ply after December 31, 1998

The Supreme Court made this order applicable to all commercial/transport vehicles whether registered in the National Capital Territory of Delhi or outside (but ply in Delhi) which are of more than stipulated age and which do not have any authority to ply in Delhi.

PROTECION OF COAST LINE OF INDIA

In Indian Council for Enviro-Legal Action v Union of India the Supreme Court in regard to the 600 kms long coast line emphasised that that it would be the duty and responsibility of the coastal states and Union Territories in which the stretch exists, to see that the notifications issued, declaring the coastal stretches should be properly and duly implemented. Further the various restrictions on the setting up and expansion of industries, operation or process, etc. in the regulation Zone should be strictly enforced.

In the same case the court enunciated the principle further that the polluter pays. Once the activity carried on is hazardous or inherently dangerous, the person carrying on such activity is liable to make good the loss caused to any other person irrespective of the fact whether he took reasonable care while carrying on his activity. Under this principle it is not the role of the Government to meet the costs involved in either prevention of such damage or in carrying out remedial action, because the effect of this would be to shift the financial burden of the pollution incident on the taxpayer. The responsibility of repairing the damage is that of the offending industry.

In Vellore Citizen Welfare Forum v. Union of India & others the polluter principle as interpreted by the Supreme Court means that the absolute liability for harm to the environment extends not only to compensate the victims of pollution but also the cost of restoring the environmental degradation. Remediation of the damaged environment is part of the process of "Sustainable Development" and as such polluter is liable to pay the cost to the individual sufferer as well as the cost of reversing the damaged ecology.

In Goa Foundation v Diksha Holdings Pvt. Ltd the court observed that with a view to protect the ecological balance in the coastal areas, notifications having been issued by the Central Government, there ought not to be any violation and prohibited activities should not be allowed to come up within the area declared as CRZ notification. The court also emphasised that no activities which would ultimately lead to unscientific and unsustainable development and ecological destruction should be allowed.

POWER OF CENTRAL GOVERNMENT TO TAKE MEASURES TO PROTECT AND IMPROVE ENVIRONMENT

- The Central Government, shall have the power to take all such measures as it deems necessary or expedient for the purpose of protecting and improving the quality of the environment and preventing controlling and abating environmental pollution.
- Such measures may include measures with respect to all or any of the following matters, namely:

i. co-ordination of actions by the State Governments, officers and other authorities- (a) under this Act, or the rules made thereunder, or (b) under any other law for the time being in force which is relatable to the objects of this Act;

ii. planning and execution of a nation-wide programme for the prevention, control and abatement of environmental pollution;

iii. laying down standards for the quality of environment in its various aspects;

iv. laying down standards for emission or discharge of environmental pollutants from various sources whatsoever:

Provided that different standards for emission or discharge may be laid down under this clause from different sources having regard to the quality or composition of the emission or discharge of environmental pollutants from such sources;

v. restriction of areas in which any industries, operations or processes or class of industries, operations or processes shall not be carried out or shall be carried out subject to certain safeguards;

vi. laying down procedures and safeguards for the prevention of accidents which may cause environmental pollution and remedial measures for such accidents;

vii. laying down procedures and safeguards for the handling of hazardous substances;

viii. examination of such manufacturing processes, materials and substances as are likely to cause environmental pollution;

ix. carrying out and sponsoring investigations and research relating to problems of environmental pollution;

x. inspection of any premises, plant, equipment, machinery, manufacturing or other processes, materials or substances and giving, by order, of such directions to such authorities, officers or persons as it may consider necessary to take steps for the prevention, control and abatement of environmental pollution;

xi. establishment or recognition of environmental laboratories and institutes to carry out the functions entrusted to such environmental laboratories and institutes under this Act;

xii. collection and dissemination of information in respect of matters relating to environmental pollution;

xiii. preparation of manuals, codes or guides relating to the prevention, control and abatement of environmental pollution;

xiv. such other matters as the Central Government deems necessary or expedient for the purpose of securing the effective implementation of the provisions of this Act.

The Central Government may, if it considers it necessary or expedient so to do for the purpose of this Act, by order, published in the Official Gazette, constitute an authority or authorities by such name or names as may be specified in the order for the purpose of exercising and performing such of the powers and functions (including the power to issue directions under section (5) of the Central Government under this Act and for taking measures with respect to such of the matters referred to in sub-section (2) as may be mentioned in the order and subject to the supervision and control of the Central Government and the provisions of such order, such authority or authorities may exercise and powers or perform the functions or take the measures so mentioned in the order as if such authority or authorities had been empowered by this Act to exercise those powers or perform those functions or take such measures.

As considerable adverse environment impact has been caused due to degradation of the environment with excessive soil erosion and water and air pollution due to certain development activities therefore it is necessary to protect the environment. This can be achieved only by careful assessment of a project proposed to be located in any area, on the basis of an environment impact assessment and environment management plan for the prevention, elimination or mitigation of the adverse impacts, right from the inception stage of the project.

The Central Government has passed certain notifications laying that the expansion or modernisation of any existing industry or new projects listed shall not be undertaken in any part of India, unless it gets environmental clearance by the Central Government, or the State Government.

UNIT - IV

INDIA AND THE WORLD ECONOMY

The last few years have seen much talk of globalisation, economic liberalisation and global integration in India. The completion of the Uruguay Round of trade negotiations in April 1994 and the establishment of the World Trading Organisation (WTO) in January 1995 has further raised many issues regarding India's participation in world trade in future, its integration with the world economy and the likely costs and benefits from this integration. This chapter is devoted to a discussion of these issues.

GLOBALISATION

Stated in simple terms, globalisation means integrating the economy of a county with the world economy. In the Indian context, this implies opening up the economy to foreign direct investment by providing facilities to foreign companies to invest in different fields of economic activity in India; removing constraints and obstacles to the entry of MNCs in India (through dilutions and ultimate scrapping of restricitive laws like FERA); allowing Indian companies to enter into foreign collaborations in India and also encouraging them to set up joint ventures abroad; carrying out massive import liberalisation programmes by switching over from quantitative restrictions to tariffs in the first place(so that there is more 'transparency' in import policy), and then bringing down the level of import duties considerably; and instead of a plethora of export incentives (like duty drawbacks, cash compensatory support, replenishment licences and other fiscal incentives etc.) opting for exchange rate adjustments for promoting exports. As our discussion in the chapters on 'Industrial Policy' 'Trade Policy of the Government of India', 'Foreign Capital and Aid' 'Multinational Corporations, FERA and FEMA' clearly shows, seeds of this globalisation process were sown in the early eighties itself as many concessions were granted to foreign capital, MNCs were allowed to enter a number of crucial sectors to which their entry was previously restricted or banned, provisions of FERA were not strictly enforced, import liberalisation process was accelerated considerably, and downward adjustment in the exchage rate of the new economic policy introduced by the Government of India in July 1991 at the behest of the IMF and the World Bank. In all recent discussion there fore globalisation has been identified with the policy reforms of 1991 and the subsequent extension of these reforms carried out in later years.

The push Towards Globalisation

As stated in the chapter on 'India's Balance of payments problem', the period after 1980 -81 was marked by severe balance of payments difficulties. The second oil shock pushed up the import bill substantially while exports lagged considerably behind. Thus trade deficit rose to astronomical heights. During Seventh Plan private remittances also showed a tendency of flattening out. As a result, net invisibles could finance only 24 per cent of trade deficit in the year soared to Rs.16,934 crore and invisibles also recorded negative earnings. As a result, current account deficit was as large as Rs.17,369 crore in 1990 -91. The problem got further accentuated by India's increased reliance on high cost external commercial borrowings and non - resident deposits all through the eighties as the flow of concessional assistance was considerably less than the requirements. Much of this borrowing on commercial terms was in the form of relatively short - term and potentially volatile instruments increasing the vulnerability of Indian economy to changes in investors confidence and expectations. With the downgrading of India's economy to changes in investors' confidence and expectations. with the downgrading of India's credit rating by some international agencies consequent upon the large deficit in India's balance of payments in 1990-91 and the political uncertainties at home, the investors' confidence in the Indian economy was shaken suddenly and there was a substantial capital outflight. As stated in the section on Non-Resident Deposits' in the chapter 'Foreign Captital and Aid' there was a substantial withdrawal from these depo ts (over 300 million per month over the period October 1990 to the second quarter of 1991). Despite drawing 1.8 billion from the contingency compensatory Financing Facility (CCFF) in January 1991, adopting import compression measures, and pledging gold abroad, the crisis could not be stemmed. Foreign exchange reserves dwindled to 1.1 billion in June 1991 - less than sufficient for two weeks of import requirements. Default on dept servicing appeared imminent and the Government of India was pushed to the wall. Default could be avoided only if credit was made available from the IMF or the World Bank. Assistance was indeed made available by these institutions but on their own terms and conditions. These terms and conditions entailed the adoption of a 'stabilisation and structural adjustment programme' by India.

The stabilisation and structural adjustment programme of the IMF - World Bank had the following three components, "(a) stabilisation which basically implies cutting down fiscal deficit and the rate of growth of money supply, (b) domestic liberalisation which consists of relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocation, and (c) external sector liberalisation or relaxing restrictions on international flows of goods, services, technology and capital.'' Globalisation is identified with(c) i.e. external sector liberalisation. However, it needs to be emphasized that success on (a) and (b)fronts deficit and the rate of growth of money supply are essential for keeping inflation and balance of payments under control as both these problems arise from a mismatch between aggregate demand and aggregate supply. (Foreign investment is attracted only when inflation and balance of payments are under control). Domestic liberalisation involving relaxation of restrictions on production and investment leads not only to a reduction in bureaucratic interference and controls which have since long outlived their utility but also sends 'definite positive signals' to the foreign investors about the 'genuineness' of the reform process.

The above discussion shows that the conditions that prevailed in 1990 and 1991 'pushed' India into adopting the structural adjustment programme of the World Bank. Since globalisation is a part of the structural adjustment programme, Dalip Swamy is right in stating that it were the desperate conditions of 1990 and 1991 that 'pushed' India towards globalisation.

MULTINATIONAL CORPORATIONS, FERA AND FEMA

Multinational Corporations (MNCs) are huge industrial organisations. which extend their industrial and marketing operations through a network of their branches or their Majority Owned Foreign Affiliates (MOFAs). MNCs are also known as Transnational Corporations (TNCs). Instead of aiming for maximization of their profits from one or two produts, the MNCs operate in a number of fields and from this point of view, their business strategy extends over a number of products and over a number of countries. There are now 40,000 TNCs whose tentacles straddle the international economy through some 2,50,000 overseas affiliates. They possess staggering resources as would be clear from the fact that the sales of 200 top corporations in 1982 were equivalent of 24.2 percent of the world's GDP and have risen to 28.3 percent of the world's economic activity. In fact, the combined sales of these 200 MNCs estimated at 7.1 trillion in 1998 surpass the combined economies of 182 countries. If we subtract the GDP of the big nine economies the United States of America, Japan, Germany, France, Italy, the United Kingdom, Brazil, Canada and china - from the world's GDP, the GDP of the remaining 182 countries of the world comes to 6.9 trillion in 1998 which is less than the sales of the 200 top MNCs. An idea of the giant size of these MNCs can also be had from the revelation made in a study conducted by the washington based Institute of Policy Studies (IPS) that of the 100 largest economies in the world, 51 are corporations; only 49 are countries.

The above date show the massive control exercised by the MNCs on the world economy. In fact, because of their huge capital resources, latest technology and worldwide goodwill, MNCs are in a position to sell whatever product they choose to manufacture in different countries. The fact is that people in underdeveloped countries are' crazy' for the products of these corporations and prefer their products to the products produced indigenously.

REASONS FOR THE GROWTH OF MNCs

Reasons for the growth of multinationals are manifold, the important ones being as follows:

1. Expansion of market territory. As the operations of a large - sized firm expand and as its international image builds up, it seeks more and more extension of its activities beyond the physical boundaries of the country in which it is incorporated.

2. Marketing superiorities. A multinational firm enjoys a number of marketing superiorities over the national firms: (a) It possesses a more reliable and uptodate market information system; (b) It enjoys market reputation and faces less difficulty in selling its products;(c) It adopts more effective advertising and sales promotion techniques; and (d) It has efficient warehousing facilities due to lower inventory requirements.

3. Financial superiorities. A multinational firm enjoys the following financial superiorities over the national firm:(a) It has huge financial resources with which it can easily turn all circumstances in its favour;(b) It maintains a high level of funds utilization by generating funds in one country and using them in another; (c) It has easier access to external capital markets; and (d) Because of its international reputation it is able to raise more international resources. Even investors and banks of the host country are eager to invest in it.

4. Technological superiorities. The main reason why MNCs have been encouraged by the under developed countries to participate in their industrial development is on account of the technological superiorities which these firms possess as compared to national companies. The underdeveloped countries regard transfer of technology from MNCs useful on account of the following reasons: (a) Industrialization represents the most important way out of under development and the resources of these countries are insufficient to sustain the industrial progress on their own; (b) Local manpower, materials, local capital equipment etc. have to be optimally exploited and these countries are unable to accomplish this; (c) Depending totally on local companies would require heavy imports of raw materials, capital equipment, machinery and technical knowledge whereas MNCs bring these on their own; and (d) The under developed countries have to face stiff competition for selling their products in international markets. Unless their goods meet international standards and quality specifications, they cannot sell. MNCs help them in producing such goods.

5. Product innovations. MNCs have Research and Development Departments engaged in the task of developing new products and superior designs of existing products. Therefore their production opportunities are far greater as compared to national companies.

DOMINATION OF MNCs

MNCs have a strong hold over Indian economy. In fact, even two decades ago, these corporations controlled 53.7 percent of the assets of the giant sector in India. According to the Industrial Licensing policy Inquiry Commitee, there were 112 companies in India in 1966 with assets worth Rs.10 crore or more. Of these, 48 were either foreign branches or Indian subsidiaries of foreign companies, In addition, 14 Indian companies had extremely heavy loans and equity capital and, therefore, were virtually foreign controlled. These 62 companies had Rs.1,370 crore worth of assets which constituted 54 percent of the total assets of India's giant sector. According to Dalip S.Swamy, a number of other compaines were also under foreign domination in one way or the other. In return for technical assistance, they had promised an assured market of machines and spares to their foreign associates. Some companies were heavily dependent on international financial institutions for economic assistance. Thus, western foreign capital dominated the country's big business and controlled the apex of India's industrial pyramid in the mid-sixties.

An interesting thing about the operations of MNCs in India is that they have raised a major part of investment resources from with in the Indian economy. A study on the sources of finance of MNCs was conducted by Sudip Chaudhuri for the period 1956-75. The sample selected for study included 50 largest foreign subsidiaries. His analysis revealed that for the period 1956-75 as a whole, foreign sources (in the form of foreign share capital and foreign loans) contributed only 5.4 percent of the financial resources of these compaines, 94.6 percent being contributed by the domestic sources. Directly comparable data are not available for the period after 1975. However, Table 5.4 of John Martinussen's study4 shows that the amount of capital issues consented with foreign participation declined from 61.5 percent of all consent to public limited companies in 1976 to a mere 29.5 per cent in 1980. John Martinussen indicates that 20 TNC affiliated companies even reduced their foreign funding. Several of these companies obtained no foreign funds at all during the period from 1974 to 1983. This fact about the financing behaviour of MNCs explodes the myth that they bring in large amounts of foreign capital with them. The real position is that MNCs collect most of the capital from with in the country itself but repatriate large amounts of the profits to their home countries.

Privatisation

Privatisation, which has gathered momentum since around the 1980 as become the hallmark of the new wave of economic reforms sweeping across the world. More than 8,500 state owned enterprises have been givatised in over 80 countries during 1980-92.

Privatisation means transfer of ownership and/or management of an enterprise from the public sector to the private sector. It also means the vithdrawal of the State from an industry or sector, partially or fully, Privatisation marks a change from dogmatism to pragmatism and amounts to a reyersal of policy.

The trend towards privatisation has been observed in developed and developing economies; in market oriented and socialist, including communist countries; and cuts across socio-cultural systems.

In the 1960s, there was a trend towards nationalisation in Britain. But since the late 1970s, the trend has been towards privatisation by selling State-owned enterprises (SOEs). Besides the U.K., countries, which have sold or accounced the policy of sale of SOEs in the recent years include Argentina, Bangladesh, Brazil, Britain, Federal Republic of Germany, France, Italy, Japan, mexico, Negeria, Spain, Thiland and Turkey. A number of other countries, including India, have deregulated or liberalised the Industrial sector in varying degrees. Besides China, which started privatisation in the the 1970s, privatisation has spread to other communist countries like former USSR, East European countries and Cuba.

As professor Berg rightly remarks, the privatisation response is in a real sense a reaction to the worldwide growth of government. The rapidity with which the public sector in many countries expanded over the last two decates, roughly in the period from 1960 to 1980, is frequently overlooked. In effect a revolution, a quiet one, occurred in the shifting of resources in the public sector in the decade of the 1970s. In the less developed countries and in many of the poorest countries, the growth of the public sector was characterised by the growth of the Parastatal sector –State-owned enter prises. State-owned enterprises now account for 10 to 20 per cent of GDPs much of the less developed world, and they are dominant in manufacturing in a great number of countries. What is true for GDP is also true for capits investment. Parastatal enterprises are estimated to be responsible for between 20 and 60 per cent of total investment spending in the less developed world. Regardless of whether socialist or market-oriented, virtually a countries in the 1960s and 1970s saw an expansion of the public sector, and in particular an expansion of state-owned enterprises, across a broad from.

The performance of SOEs in many countries have, by and large, been far from satisfactory. They have oftern put large burdens on public budget and external debt. For example, the net deficit of a sample of SOEs accounted for about 4 percent of Niger's GDP in 1982. For the seven larges Latin American economies, the combined deficit of SOEs rose from about per cent of GNP in the mid-1970s to about 4 per cent in 1980-82. One study has found that countries in which SOEs accounted for higher shares of gross domestic investment generally had lower rates of economic growth.

The heavy financial burden imposed by the SOEs and the growing public discontent against them due to their inefficiency; indifferent, irresponsibleand sometimes even arrogant attitude and lack of concern for the customer needs; and corruption, nepotism and squander associated with their organisation and management have led to the growing interest in privatisation. As Professor Samuel Paul points out, in country after country unbridled state expansion has led to :

(i) economic inefficiency in the production activities of the public sector, with high costs of production, inability to innovate, and costly delays in delivery of the goods produced;

(ii) ineffectiveness in the provision of goods and services, such as failure to meet intended objectives, diversion of benefits to elite groups, and political interference in the management of enterprises; and

(iii) rapid expansion of the bureaucracy, severely straining the public budget, causing problems in labour relations within the public sector, inefficiency in government, and adverse effects on the whole economy. These problems have led many govenmnets to undertake programmes of public sector reform, and pushed by a need to curb public expenditure, to reevaluate the possibilities for shifting publicly managed activities into the provate sector.

Industrial Policy

The Industrial Policy of the Government of India and the regulator measures introduced to achieve the policy objectives have always been matters of severe controversy. While the industrialists and many others in India and abroad and many foreign governments and international development organisations regarded the policy as too restrictive and the regulation and procedures too cumbersomen and perplexing, the leftists in India we demanding a more restrictive regime and are now opposing the liberalisations.

The era of deregulation ushered in by the narasimha Rao Government is an open acknowledgement of the failure of the control regime to delivery the goods. The Indian planners were fascinated and influenced by the Russian model so that the development strategy in India was directe towards creating a *socialist pattern* of society. It is interesting to note the recently the Soviet newspaper *Izvestia*, which observed that many element of the Indian economic system were borrowed from the Soviet model, state that the main culprit for the present economic crisis in India was the obsoles economic system based on socialism.

The industrial policy and regulation had grown more and more restrictive until about the mid Seventies. Having realised the deleterious effects of the restrictive regime, the 1980s saw a very slow process a liberalisation.

The following page give a brief review of the industrial policy since Independence.

INDUSTIRAL POLICY RESOLUTION, 1948

The Industrial policy Resolution of 1948 which envisaged that the "State must play a progressively active role in the development of industries" established exclusive monopoly of the Central Government in the case of (i) manufacture of arems and ammunitions (ii) production and control of atomic energy and (iii) ownership and control of railway transport. Further, establishment of new undertakings in six other major industries (coal; iron and steel; aircraft manufacture; ship building; manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets; and mineral oils) was made the exclusive responsibility of the State, except where, in the national interest, the State itself found it necessary to secure the cooperation of private enterprise subject to such regulations and controls as the Central Government prescribed. The rest of the industrial field was normally left open to the private enterprise, individuals as well as cooperative. However, the right of the State to participate in any of these industries and to take over any industry in appropriate cases was expressed in the Resolution.

The Industrial Policy Resolution of 1948, thus, envisaged a *mixed economy* and emphasised the entrepreneurial, promotional, regulatory and planning roles of the State in the industrialisation of the country.

INDUSTRIAL POLICY RESOLUTION, 1956

In the light of certain important developments–the enactment of the Constitution of India which guarantees certain Fundamental Rights and enunciates the Directive Principles of State Policy, the constitution of the Planning Commission and the inauguration of development planning, and the adoption by Parliament of the *socialist pattern of society* as the objective of social and economic policy–the Government felt it necessary to bring forth a fresh statement on industrial policy that must be governed by the principles laid down in the Constitution, the objective of socialism and the experience gained till then. A new Industrial Policy Resolution was, therefore, announced on 30th April 1956 and this remained the basic plank of the industrial policy until 1991.

The Resolution of 1956 made the industrial policy more socialist-oriented, and widened the scope of the public sector. In order to realise the aims specified in the preamble to the Constitution and to give effect to the Directive Principles of State Policy as well as to achive the object of socialist pattern of society, it was decided that "the state will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake state trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible, and a steadily increasing proportion of the activities of the private sector be developed along co-operative lines." It was, thus, clear that the adoption of the principle of socialist pattern of society did not mean the end of the private sector. Instead, the private sector was assigned and expected to play and important role in the nation's economy. The Industrial Policy Resolution of 1956, thus, reiterated the resolve to foster national development through a system of mixed economy.

Industrial Financial Institutions

Finance is a pre-requisite to mobilise real resources for organising production. In a developing economy, however, lack of finance is not the only deterrent to economic development. Even when finance is available, other important factors like imperfections in the information flow and dearth of entrepreneurship may come in the way of industrial and economic development. Hence, it is necessary to make finance and other development assistances in a package to take the dormant and developing economies to the take off stage. The present trend, therefore, is to set up 'Development Banks' rather than institutions which merely provide finance.

"A Development Bank is a multipurpose institution which shares entrepreneurial risk, changes its approach in tune with the industrial climate and encourages new industrial projects to bring about speedier economic growth. The concept of development banking is based on the assumption that mere provision of finance will not help to bring about entrepreneurial development. Successful entrepreneurial banking should include the discovery of investment projects, undertaking the preparation of project reports, provision of technical advice and management services and finally assisting the management of industrial units."

After Indenendence, starting with the establishment of the Industrial Finance Corporation of India in 1948, a number of development banks have been set up at all - India and State levels for assisting the development of large, medium and small industries by providing financial and various other promotional assistances.

There are three all - India Development Financial Institutions (DFIs), viz., Industrial Development Bank of India (IDBI), Industrial Financial Corporation of India (IFCI) and Industrial Credit and Investment Corporation of India (ICICI). The Industrial Reconstruction Corporation of India (IRCI) established in 1971 with the main objective of revival and rehabilitation of viable sick units was converted into the Industrial Reconstruction Bank of India (IRBI) in 1985 with more powers.

Besides the four institutions referred to above, the all-India financial astitutions (AIFIs) providing industrial finance are some investment institution, namely the Unit Trust of India (UTI), Life Insurance Corporation of India (LIC), and the General Insurance Corporation of India (GIC) and its subsidiaries.

Development banks have been established at the State level too. In 1987, there were 18 State Financial Corporations (SFCs) and 26 State Industrial Investment/Development Corporation (SIDCs).

Financial assistance is provided, directly or indirectly, also by National small Industries Corporation (NSIC), State Small Industries Development Corporations (SSIDCs) and Khadi and Village Industries Commission (KVIC), although financing is only an ancillary function of these organisations.

The IDBI is the apex institution which co-ordinates the activities of various institutions.

A very important source of industrial finance is commercial banks.

Provision of rupee and foreign currency loans, subscription to shares and debentures, underwriting of shares and debentures, guaranteeing of deferred payments and loans are the important types of financial assistance provided by these institutions (some of the institutions to not provide some of these assistances).

Development activities of the DFIs include identifying industrial potentials of different areas; development of entrepreneurship through training and notivation; assistance in project identification, feasibility studies and preparation of project reports; technical and managerial consultancy; seed/risk capital assistance, etc.

Direct assistance from the all-India development banks is normally confined to projects costing over Rs. 3 crores; various state level institutions and certain special institutions like the National Small Industries Corporation (NSIC), State Industries Development Corporations (SSIDCs), Khadi and village Industries Commission (KVIC) and banks assist small-scale (including khadi and village) units and medium-scale units involving investment of less than Rs. 3 crores. However, these institutions, particularly the IDBI, assist the small-scale sector indirectly, through schemes of refinancing, rediscounting of bills, resource support to institutions assisting small-scale sector, etc.

The limit of direct subscription by the all-India DFIs to equity of companies has recently been raised from Rs. 50 lakhs to Rs. 1 crore.

Projects involving very large investment are assisted by the all-India financial institutions through *consortium financing* (i.e., the project is jointly financed by a group of financial institutions). In consortium financing, one of the institutions plays the lead role. The AIFIs have been trying to make the single window concept more effective and to expedite the process of sanctic and disbursement of assistance.

GATT/WTO and Trade Liberalisation

The Bretton Woods Conference of nations held in 1944, suggested the establishment of :

1. The International Monetary Fund (IMF) to help to bring about exchange rate stability and to help countries with balance of payment problems.

2. The International Bank for Reconstruction and Development (IBRD) –World Bank – to help the reconstruction of economies ravaged by the War and the development of the developing economies by providing long-term financial assistance.

3. An International Trade Organisation (ITO) to liberalise international trade.

Although the IMF and World Bank were established in 1946, the proposal for ITO did not materialise; insteead the GATT, a less ambitious organisation, was formed in 1948.

It may be noted that as a result of the Uruguay Round the GATT was transformed into a World Trade Orgainsation (WTO) with effect from January, 1995. Thus, after about five decades, the original proposal of and International Trade Organisation has taken shape as the WTO. The WTO, which will be a more powerful body than the GATT will have an enlarged role than the GATT.

India is one of the founder members of the IMF, World Bank, GATT and the WTO.

The international trading system since 1948 was, at least in principle, guided by the rules and procedures agreed to by the signatories to the GATT which was an agreement signed by the member nations which were admitted on the basis of their willingness to accept the GATT disciplines.

The primary objective of GATT was to expand international trade by liberalising trade so as to bring about all-round economic prosperity. The Preamble to the GATT mentioned the following as its important objectives.

1. Raising standard of living.
2. Ensuring full employment and a large and steadily growing volume of real income and effective demand.
3. Developing full use of the resources of the world.
4. Expansion of production and international trade.

GATT embodied certain conventions and general principles governing international trade among countries that adhere to the agreement. The rules or conventions of GATT required that :

(i) Any proposed change in the tariff, or other type of commercial policy, of a number country should not be undertaken without consultation of other parties to the agereement, and

(ii) That the countries the adhere to GATT should work towards the reduction of tariffs and other barriers to international trade, which should be negotiated within the framework of GATT.

For the realisation of its objectives, GATT adopted the following principles :

(1) Non-discrimination : The principle of non-discrimination requires that no member country shall discriminate between the members of GATT in the conduct of international trade. The ensure non-

discrimination the members of GATT agree to apply the principles of Most Favoured Nation (MFN) to all import and export duties. The means that "each nation shall be treated as well as the most favoured nation." As far as quantitative restrictions are permitted, they too, are to be administered without favour.

However, certain exceptions to this principle are allowed. For instance GATT does not prohibit economic integration such as free trade areas or customs union, provided the purpose of such integration is "to facilitate trade between the constituent territories and not to raise barriers to the trade of other parties." The GATT also permits the members to adopt measures to counter dumping and export subsidies. However, the application of such measures shall be limited to the offending countries.

(2) Prohibition of Quantitative Restrictions : GATT rules seek to prohibit quantitative restrictions as far as possible and limit restrictions on trade to the less rigid tariffs. However, certain exceptions to this prohibition are granted to countries confronted with balance of payments difficulties and to developing countries. Further, import restrictions were allowed to apply to agricultural and fishery products if domestic production of these articles was subjects to equally restrictive production or marketing controls.

(3) Consultation : By providing a forum for continuing consultation, it sought to resolve disagreements through consultation. So far eight Rounds of trade negotiations were held under the asupices of the GATT. Each Round took several years. The Uruguary Rounds, the Latest one, took more than seven years to conclude, as against the originally contemplated more than four years. This shows the complexity of the issues involved in the trade negotiations.

Multinational Corporations

Large corporations having investment and business in a number of countries. known by various names such as multinational corporation, known by various names such as multinational corporation, transnational corporation, international corporation and global corporation (or firm, company or enterprise) have become very powerful driving force in the world economy. Although the multinational corporation took birth in the early 1860s, it was after the Second World War that the multinational have grown rapidly.

In 1862-63, the U.S. based Singer Sewing Machines established production facility in England. A year or two before Singer did this, an English company set up local production facilities in Australia. The first MNC came to India in 1921.

In the early days, the United states was the home of most of the MNCs. Now there are a number of European and Japanese multinationals. Multinationals have been emerging from the developing countries too.

Definitions

There is, however, no universally accepted definition of the term multination corporation. As an ILO report observes, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred to for convenience as the "home country") while the enterprise carries out operations in a number of other countries as well ("hose countries"). Obviously, what is meant is "a corporation that controls production facilities in more than one country, facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large they may be, solely by exporting or by licensing technology are not multinational enterprises."

Jacques Maisonrouge, president of IBM World Trade Corporation, defines an MNC as a company that meets five criteria:

(i) It operates in many countries at different levels of economic development.

(ii) Its local subsidiaries are managed by nationals.

(iii) It maintains complete industrial organisation, including R and D and manufacturing facilities in several countries.

(iv) It has a multinational central management.

(v) It has multinational stock ownership.

Jame C. Baker defines the multinational corporation as a company:

(a) which has a direct investment base in several countries; and

(b) which generally derives from 20 per cent to 50 per cent or more of its net profits from foreign operations; and

(c) whose management makes policy decisions based on the alternatives available any where in the world.

Terms such as international corporation, multinational corporation, transnational corporation and global multinationals have evolved into certain advanced stage of transnational organisation and operations that it becomes necessary to draw some distinction between these terms.

A company with manufacturing investment (or service operation) in at least one foreign country may be regarded as an *international corporation*. However, multinational implies internation operations of more significance than this, as indicated in the definition of the MNC given above, such as direct investment in several countries and a considerable share of the total business being in foreign countries. A multinational corporation is, obviously, an international corporation. Only those international corporations which satisfy certain criteria as described above, may be regarded as multinationals.

It would be useful to draw a distinction between the multinational corporation and transnational corporation.

EVOLUTION OF ISO

In 1972 the British Standards Institution published BS4891 "A Guide to Quality Assurance" and BS5179 "Guide to Quality Systems" in year1975.

Being guides, these early documents were unsuitable for specifying customer requirements in contracts or for the assessment of a supplier's quality System. This led to major purchasing organisations producing their own contractually binding version. The resulting multi-assessments led to a demand for a single national standard and in 1976, the BS 5750-Series of Quality System Standards was issued.

Following the lead taken by the UK, other national Quality System standards were introduced in various parts of the world. Many of these were substantive copies of the British Standard with amended or additional requirements. Increasing international Standards Organisation (ISO) developing and publishing the ISO 9000 - Series of Quality System standards in 1987.

The standard was reviewed and re-issued in July 1994 as ISO 9000:1994. The second revision was issued on 15 Dec.2000 in its present version i.e.ISO 9000:2000

This series represente harmonisation of many internationally recognised Quality System standards as amended by contributions from the National Standards Organisations represented on the ISO draifting committee.

Introduction to ISO Organisation; what is ISO?

The international Organisation for Standardization (ISO) is a world - wide federation of national standards bodies, one from each of approximately one hundred and thirty countries.

It started in the electrotechnical field and its forerunner was the IEC, the International Electrotechnical Commission, which was created in 1906. In addition the International Federation of the National Standardizing Associations (ISA), which was created in 1926, undertook other pioneering work, primarily in mechanical engineering.

The Second World War interrupted their work and subsequent to a meeting of twenty - five countries in 1946, a new international organisation was created with the objective of "the facilitation of the international co - ordination and unification of industrial standards". ISO was duly formed and began its official functions on 23rd February 1947.

ISO is a non - governmental organisation which now sees its mission as the promotion of the development of standardisation and related activities in the world with a view to facilitating the international exchange of goods and services, and developing co-operation in the spheres of intellectual, scientific, technological and economic activity. Its work results in international agreements, which are published as International Standards.

What is the Make-up of ISO?

ISO is made up of three categories of members:

Member body of ISO is the national body most representive of Standardisation in its country and as such there is only one such body admitted to membership. They have full voting rights and are known as p-Members.

Correspondent member is usually an organisation in a country, which does not yet have a fully developed national standards activity. They do not participate in policy or development work but are entitle to be kept fully informed concerning relevant interesting issues. They are known as O- Members.

Subscriber membership is for countries with very small economies and as a result they pay reduced membership fees. This membership does enable them to maintain contact with international standardisation work.

How is the work done?

The work of ISO is carried out by a hierarchy of technical of technical commitee TCs; sub - committees SCs and working groups WGs. These total in the region of 2,800 groups.

Within these committees there are qualified industry representatives, research institutes, consumer bodies, government authorities and world-wide international organisations whose objective is the resolution of global standardisation issues. They are all of equal status within a group and it is estimated that some 30,000 experts participate in meetings each year.

The administrative responsibility for a standards committee is accepted by one of the national standards bodies.

The Central Secretariate of ISO, located in Genva, co-ordinates the dissemination of documentation; facilitates clarification with chairmen and the agreement of technical content by committees; co-ordinates meetings and generally provides overall support.

All International Standards are reviewed at least once every five years by the responsible TCs/SCs.

A majority of p-members of the TC/SC decide whether an International Standard should be confirmed, revised or with drawn.

UNIT - V

TECHNOLOGICAL ENVIRONMENT

CHAPTER OUTLINE

Main Features of Technology

Impact of Technology

- Technology and Society
- Economic Effects of Technology
- Technology and plant Level

Management of Technology

LEARING OBJECTIVES

After reading this chapter, you should be able to:

1. Describe the features of technology
2. Analyse the impact of technology on society, economy and on an individual plant
3. Discuces the problems in managing technology
4. Describe the status of technology in India
5. Understand our policy towards technology

Among all the segments of macro-environment, technological environment exerts considerable influence on business. This section is devoted to a detailed discussion of the interface between business and technology.

J.K.Galbraith defines technology as a 'systematic application of scientific or other organised knowledge to practical tasks'. During the last 150 years, technology has developed substantially. Science and technology enabled man to conquer distances; control birth rate; save lives; generate, preserve and distribute energy; discover new materials and substitutes to existing ones; introduce machines to do the work of human beings; substitute mental work with computers; probe deep into the seas and space in search of new treasures; provide himself with lot of leisure and comfort ad infinitum.

As years roll by, new discoveries have been added. 1983 was particularly considered by scientists as the year of scientific success. In this year, scientists put a billion dollar technology into space; produced the world's first test-tube triplets and obtained evidence of another solar system. In the field of medicine, Japan marketed the much-awaited artificial blood system. A major break through was achieved in the field of genetic engineering to cure dwarfism. The US physicists stripped off all the electrons from the uranium atom thus exposing the bare nucleus. It was also the year when the doctors were confronted with a baffling disease, viz., AIDS also named 'Gray Plague' that has taken a heavy toll of human lives.

The year 1998 belonged to nuclear scientists of India-they shook the world with serial underground nuclear blasts at Pokhran: resurrected a dead atomic rector in Rajasthan, and concluded negotiations with Russia on building a 2000 - megawatt power station in Tamil Nadu.

Globally, the year witnessed an array of events: construction of an international space station, a lamp delivered by the world's first cloned sheep Dolly, the block-buster anti-impotency pill Viagra, teleportation and the discovery that a strange force is pushing the Universe apart.

Technology is the most dramatic force shaping the destiny of people all over the world. Some of the technological inventions the man feels, are wonders, some others are horrors, and yet others have mixed blessings. Automoblies and television, for example, have evoked mixed reactions. Hydrogen bomb, nerve gas and sub-marine guns have proved to be horrors. penicillin, open heart surgery and birth control pills are wonders.

Whether one is enthralled or appalled by a technological invention depends on one's attitude towards it.

FEATURES OF TECHNOLOGY

Before we describe the impact of technology on business, we propose to bring out the salient features of technology. The first teature of technology is its change and then more change. Technology forces change on people whether they are prepared for it or not. In the modern society, it has brought so much change that it creates what is called *future shock*, which means that change comes so fast and furiously that it approaches the limits of human tolerance and people lose their ability to cope with it successfully.

More ideas are being worked on, the time gap between idea and implementation is falling rapidly and the time between introduction and peak production is shortening considerably. Experts have estimated that 80 to 90 of all the scientists who ever lived are still alive today. Business leaders must always watch out for changes and developments taking place around. New developments must be adopted and new ideas explored lest the business units would perish at the earliest.

Another feature of technology is that its effects are widespread, reaching far beyond the immediate point of technological impact. Technology ripples through society until every community is affected by it. The shock, waves push their way into even the most isolated places. People cannot escape it. Even if they travel to remote places, as in Far East, technology is still represented by vapour trials from airplanes flying overhead, microwave communication signals from satellites moving at the speed of light and a haze from air pollution often preventing a view of the afar side.

An additional feature of technology is that it is self-reinforcing. As stated by Alvin Toffler, '*Technology feeds on itself. Technology makes more technology possible*'. This self-reinforcing principle implies that technology acts as a multiplier to encourage its own faster development. It acts with other parts of society so that an invention in one place leads to a sequence of inventions in other places. Thus, invention of the wheel led rather quickly to a dozen or more application These applications, in turn, have affected 50 other parts of the system and led to several additional inventions that similarly in fluenced society as technology multiplies.

A. Technology and Society

Perhaps the most striking influence of technology is found on society. Practically every area of social life and the life of every individual has been, in some sense or the other, changed by the developments in technology.

1. Technology Reaches people Through Business

Business is an institution through which man expects new discoveries to be converted into goods and services. Managers of business organisations pool the necessary resources and work on the new discoveries to convert them into useful products. New discoveries would remain mere ideas in mind, sketches on paper or mock models in laboratories but for business institutions.

Printing, housing, education and television are all dependent on business activities to make them work productively. Society depends on business to benefit from new discoveries flowing into useful goods and services for all mankind. Developing countries have learnt that scientific discoveries mean very little to them unless they have competent business units to produce for people what science has discovered. Developed countries have learnt that their progress stops unless they operate a business system which contributes to discovery and uses discovery to produce for their people.

That technology reaches people through business is only part of the story. The economic prosperity of a nation depends on technology. 50% of economic growth of USA. UK, Germany, France, and Japan has come from technical progress achieved in these countries.

2. High Expectations of Consumers

Technology has contributed to the emergence of affluent societies. Affluent citizens want more of many things than more of same thigs. New varieties of products, superior in quality, free from pollution, more safe and more comfortable, are to be produced and supplied to the affluent sections. This calls for substantial investments un R&D. One important compulsion for investing in technological advances in Japan is its customer's high expectations regarding design sophistication, quality, delivery schedules and prices. Industry owners in Japan swear by the dictum-the customer is a god who is always right. High expectations of consumers pose a challenge and an opportinity to the owners of business institutions.

3. System Complexity

Technology has resulted in complexity, Modern machines work better and faster, no doubt. But if they fail, they need services of experts to repair. They fail often because of their complexity. A machine or a system is composed of several hundred components. All parts must work in tandem to accomplish a desired task. Reliable performance of each part, therefore, assumes greater significance.

Also there is inter-dependence of systems. Failure of power supply, for example, will cause dry water taps, closed petrol bunks, suspended elevators between floors, dark streets, dark houses, no television and radio broadcasts, closed retail establishments and so on. A localised problem in a power house balloons into a regional problem affecting thousands of people. It is possible that technology might eventually lead to simplicity and small independent operational units. Such a possibil.., still remains a distant dream. Meanwhile, more complexity in work and product systems is expected. Management is, therefore, under pressure to keep the whole system working all the time.

B. Technology and Economy

1. Increased Productivity

The most fundamental effect of technoloty is greater productivity in terms of both quality and quantity. This is the main reason why technology at all levels is adopted. In a hospital the objective may be qualitative, such as maintaining life with electronic monitoring equipment regardless of costs. In a factory, the objective may be quantitative in terms of more production at less cost.

As a result of productivity improvements, real wages of employees tend to rise and prices of some products decline, which spreads the beneficial economic effects of technology throughout the whole social system. The result is that employees and citizens are motivated to want more technological advancement, thereby placing on business major responsibilities to introduce it with due concern for its social and environment effects.

2. Need to spend on R&D

Research and Development (R&D) assumes considerable relevance in organisations as technology advances. In this context, firms are required to consider, decides and take action on atleast seven issues. ***First,*** is the allocation of resources to R&D intensity (its spending on R&D as a percentage of sales revenue) is a principal means of gaining market share in global competition. Besides, consistence in resources allocation to R&D across lines of business improves corporate performance by enacbling the firm to better develop synergies among product lines and business units.

We spend very less on R&D. As percentage on GNP, our normal spending on R&D is less than one percent.

National spending as percentage on GNP	1980-81	0.62
	1985-86	0.89
	1987-88	0.98
	1989-90	0.94
	1990-91	0.89

(**Source :** Department of Science and Technology, Pocket Data Book, 1992)

In contrast, UK spends more than 20%, Japan 1.96% and US 2.3%. In terms of absolute figures, these sums work out to be staggering because GNPs of these countries themselves run into astronomical figures.

Even the industry, for which technology is directly useful, spends too less on R&D. Take the case of R&D spending by 1250 units. During 1993-94, all these units spent Rs. 1,300 crores, during 1994-95 Rs. 1,450 crore and Rs. 1,575 crore during 1995-96. As a percentage on turnover, R&D spending works out to be less than one per cent.

Secondly, Technology transfer, the process of taking new technology from the laboratory to the market place is equally important.. This transfer takes larger time as organisations grow in size. The US based chemical giant Du Pont ha: long been known for its excellence in basis corporate research. In the early 1990s, for example, it led US chemical companies in patents applied for and granted. The company spent more than $13 billion on chemical and related research during the 1980s but the management admitted that the company failed to develop much in the way of major innovations.

Thirdly, time factor is important in R&D. The time between innovation and commercialisation is getting considerable reduced.

Companies can no longer assume that competitors will allow them the time needed to recoup their investment. Time to market, therefore, is an important consideration because 60% of successful potential innovations are limitated within four years at 65% of the cost of innovation. In the 1980s, Japanese auto manufacturers gained incredible competitive advantage over US manufacturers by reducing new products time to market to only three years. Us auto companies needed five years.

Fourthly, as new technology comes in, the old technolgy needs to be abandoned. The process of lod replaced by new is called *technology discontinuity.* Such discontinuity occurs when a new technology cannot be used simply to enhance the current technology but actually substitutes for that technology to yield better performance. The R&D manager must determine when to abandon present technology and then to develop or adapt new technology.

Fifthly, the firm must also decide on its own R&D or to outsource technology. The make or buy decision can be important to a company's R&D. Although in-house R&D has been traditionally and important source of technical knowledge for companies, firms can also tap the R&D capabilities of competitors, suppliers and other organisations through contractual agreements such as licensing, R&D agreements and joint ventures. When product life cycles were longer, a company was more likely to choose its own R&D, not only because it gave the firm a longer lead time before competitors limitated it, but also because it was more profitable in the long run. In today's world of shorter life cycles and global competition, a company may no longer have the luxury of waiting to reap a long-term profit. As a rule, it may be stated that a company should buy technologies that are commonly available but make (and protect) those that are rare, valuable, hard to limitate, and have no close substitutes. In addition, out sourcing technology may be appropriate when:

- The technology is of little significance to competitive advantages;
- The supplier has proprietary technology
- The supplier's technology is better and/or cheaper and reasonably easy to integrate into the current system;
- The technology development process requires special expertise and
- The technology development process requires new people and new resources.

The *sixth* issue relates to the decision on product innovation or process innovation. In the early stages, product innovations are most important because the product's physical attributes and capabilities affect financial performance considerably. Later, process innovations such as improved manufacturing, facilities, increasing product quality and faster distribution become important in maintaining the product's economic returns. German and Japaneses firsm have been most successful in process innovations.

C. Plant Level Implications

1. Technology and Organisation Structure

Technology has considerable influence on organisation structure, length of the line of command, and span of control of the chief executive. where companies use technology which is fast changing, *matrix structures* are more common. Some companies use a matrix even though the rate of technological change is not fast. Besides technology, other factors which have their influence on organisation structure are history and background of a company and the personalities of the people who founded the firm and managed it subsequently but the impact of technology is considerable.

The length of line of command is determined by whether production process is mass-process based (routine) or customised (non-routine). Line of command tends to be lengthy where the production is routine and process based. Decision-making is highly centralised. It tends to be short if the production activities are customised. The use of specialists will be more and hence decision-making gets delegated.

Technological factors seems explain the wide variations in the span of control of chief executives, the people responsible to the policy-forming body for the conduct of their firm's business. In mass production technologies, the number of people whom an executive controls tends to be larger than when the production is unit based.

Technology has its impact on other areas of an organisation. Any technological advancement will result in (a) the expanded availability of a range of products and services' (b) substritution of capital for labour, leading to higher productivity and lower costs; (c) increases in sales orpower for the innovating organisation relative to its competitors; (d) initiation of changes in behaviour among customers, suppliers, employees, or society and (e) side effects on the quality of physical environment.

2. Fear of Risk

There is always the fear of risk. Take the case of DuPont's Corfam. an intended substitute for the fore casted shortage of shoe leather. After an investment of $300 million, the company abandoned the project in 1971 because of quality and cost problems. Even a research-oriented company like DuPont, which was responsible for adding totally new dimensions to the textile industry with its introduction of synthetic fibres begining in 1939, was unable to manage technology without great risks and some subsequent failures.

3. Resistance to change

The manager of a given business unit shall face resistance to change. New technology poses new problems which may not be to the liking of the organisational men. The resistance to change is purely psychological.

A typical businessman himself is opposed to new technology. He does not encourage new technology. Reasons are not purely psychological. Adopting new technology is expensive and risky. When he is making enough money with obsolete technology why must he worry about new technology? Take the case of Telco for example. Telco's trucks are still antiquated models only found in developing countries. But the turnover of Telco was Rs. 1,969 crores during 1989-90. Another example is Bajaj Auto, Ltd. The company claims to be number two in the world in the manufacture of two wheelers. But during the last two decades the company could not develop a self-starting scooter. Or take the case of Indian Telephone Industries (ITI) which was till recently manufacturing strowger crossed switching equipment that became outdated 10 years ago with the development of electronic switching system.

Specifically, resistance to change stems from the following reasons:

1. Psychological and social commitments to existing products, processes and organisation,
2. Sizable capital investments in long-life single-use-facilities,
3. Low profits and reduced rate of growth,
4. Small size or fragmented activities,
5. Complacent top management,
6. Industry norms and associations or cartels which perpetuate industry-bound thinking,
7. Lack of successful models to emulate, and
8. Powerful labour resistance to changes in methods.

4. Total Quality Management (TQM)

Total Quality Management refers to deep commitment of an organisation to quality. Quality of product and service is an obsession and every step in the company's processes is subjected to intense and regular scrutingy for ways to improve it. Almost every issue is subject to exploration, and the process is a continuing one of long duration. Employers are provided with extensive training in problem solving, group decision making and statistical methods.

TQM replaces traditional beliefs about quality with a new set of principles. Traditional beliefs which are discarded include:

- High quality costs more.
- Quality can be improved by inspection.
- Defects cannot be eliminated completely.
- Quality is the job of the quality control personnel.

The new principles of TQM are:

- Meet the customer's requirement on time, the first time, and 100% of the time.
- Strive to do error-free work.
- Manage by prevention, not by correction.
- Measure the cost of quality.

TQM has been introduced by almost all organisations. It has several implications for employees and organisations. Managers are required continuously to search for improved policies and activities. Employees can no longer rest on their past achievements. They too are required to search for newer and better ways of doing things. Some of them may experience stress from a work climate that no longer accepts complacency with the statusquo. Exployees will be more and more involved in process improvement. Management will look at them as a source of improvement of ideas.

Total Quality Management (TQM)

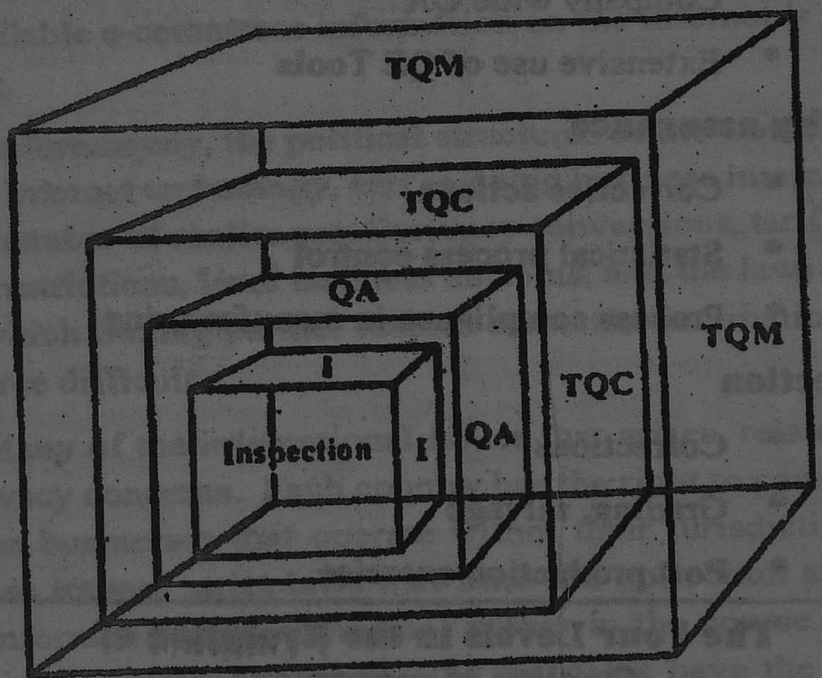
TQM is a fundamental shift from earlier phases of quality management evolution. TQM came into being, somewhere in early 1980s, largely as a result of competition in the market place, world over. While TQC talked of compliance, whereas TQCera had more of technology or what we call 'quality engineering' content, the TQM era realised that technology had its own limitations and aspect of continuous improvement could not be achnieved without having harnessed the unlimited potential of human resource. TQM accordingly establishes Strong link (rather it overlaps) with HRD function within the organisation. TQM calls for surpassing the limits on continuous basis. TQM organisation is one where continuous improvement is the norm, where every one at all levels and in all functions is committed to philosophy of problem prevention rather than fire fighting. In the quest for this self improving organisation, cultural change, use of TQM tools, leadership, teamwork, all have a part to paly. The organisation is designed based on customer focussed Quality system and uses Human Resource Management principles. One of the definitions of TQM very appropriately comes from the people (Employees) themselves:-

"We are engaged in an ongoing journey of continuous measurable improvements, championed by empowered individuals at all levels of the organisation. Our leadership philsophy inspires team work, trust and belief in people, which results in an enjoyable and productive workplace, dedicated to the highest possible level of customer satisfaction.

The key words about TQM are;

- **Continuous improvement through benchmarking.**
- **Customer orientation**
- **Empowered employees.**

Depicts four steges in the evolution of Quality Management While Inspection looks at product quality alone, QA calls for quality of manufacturing process. The TQC stage integrates Quality of all processes in the organisation. The four stages are additive and progressive. Inspection is included in QA, which is included in TQC. The TQM stage encompasses TQC and takes the organisation on journey of continuous improvement.



Total quality management

* Continuous improvement
* Customer orientation
* Empowered employees

Total quality control

* Corrective and preventive actions
* Company wide QA
* Extensive use of QE Tools

Quality assurance

* Corrective actions
* Statistical process control
* Process compliance in manufacturing

Inspection

* Corrections
* Grading, salvage
* Post production exercise

The Four Levels in the Evolution of Quality Management

ISO 9000 series of Standards in a way identify with TQC, as it lays emphasis on ' company wide quality assurance.' ISO 9000:2000 version, goes beyond TQC and even addressed some of the aspects of TQM.

History of E-commerce

Electronic commerce (e-commerce) has become a buzzword for businesses over the past few years, with increased awareness about the use of computer and communications technologies to simplify business procedures and increase efficiency. Combininig a range of processes, such as electronic data interchange (EDI), electronic mail (E-mail), World Wide (WWW), and Internet applications. E-commerce provides ways to exchange information between individuals, companies, and countries and, most important of all, between computers. More simply put, e-commerce is the movement of business on to the world wide web. This movement has been broken up into two main sectors consisting of business-to-business (B2B) and business-to-consumer (B2C). E-commerce referce to marketing, selling and business over the Internet. The available e-commerce information on the Internet is huge and still growing.

Unfortunately, the political structures of the world have not kept up with Internet technology, and so doing business internationally presents a number of challenges. Currency conversions, tariffs, import and export restrictions, local business customs, and the laws of each country in which trading partner resides can make international electronic commerce difficult.

Many of the international issues that arises, relate to legal, tax, and privacy concerns. Each country has the right to pass laws and levy taxes on businesses that operate within their jurisdiction. European countries impose strict laws that limit the collection and use of personal information that compaines gather in the course of doing business with consumers. Even in US, the states have the power to levy sales and use taxes on goods and services. In other countries, national sales and value-added taxes are imposed on an even broader list of business activities.

Advantages of E-commerce

Some of the key strengths of using Internet for businesses include the following :

1. ***24×7 operation.*** Round-the-clock operation is an expensive proposition in the 'brick-and-morter' world, while it is natural in the 'click-and-conquer' world.
2. ***Global reach.*** The net being inherently global, reaching global customers is relativesly easy on the net compared to the world of bricks.
3. ***Cost of acquiring, serving and retaining customers.*** It is relatively cheaper to acquire new customers over the net; thanks to 25×7 operation and its global reach. Through innovative tools of 'push' technology, it is also possible to retain customers' loyalty with minimal investments.
4. ***An extended enterprise is easy to build.*** In today's world every enterprise is a part of the 'connected economy'; as such, you need to extend your enterprise all the way to your suppliers and business partners like distributors, retailers and ultimately your end-customers. Internet provides an effective (ofter less expensive) way to extend your enterprise beyound the narrow confines of your own organization. Tools like enterprise resource planning (ERP), supply chain management (SCM) and customer relationship management (CRM), can easily be deployed over the net, permitting amazing efficiency in time needed to market, customer loyalty, on-time delivery and eventually profitability.
5. ***Disintermediation.*** Using the net, one can directly approach the customers and suppliers, cutting down the number of levels and in the process, cutting down the costs.
6. ***Improved customer service to your clients.*** It results in higher satisfaction and more sales.
7. ***Power to provide the 'best of both the worlds'.*** It enhances traditional business along with Internet tools.

Disadvantages of E-commerce

Some business processes may never lend themselves to electronic commerce. For example, perishable foods and high-cost items (such as jewellery, antiques, and the like) may be impossible to inspect adequately from a remote location, regardless of any technologies that might be devised in the future. Most of the disadvantages of electronic commerce today. However, stem from the newness and rapidly developing pace of the underlying technologies. These disadvantage will disappear as e-commerce matures and becomes more available to and accepted by the general population. Many products and services require a critical mass of potential buyers who are well-equipped and willing to buy through the Internet.

Businesses often calculate, the return-on-investment before committing to any new technology. This has been difficult to do with e-commerce, since the costs and benefits have been hard to quantify. Costs, which are a function of technology, can change dramatically even during short-lived e-commerce implementation projects, because the underlying technologies are changing rapidly. Many firms have had trouble in recruiting and retaining employees with technological, design, and business process skills needed to create an effective e-commerce atmosphere. Another problem facing firms that want to do business on the Internet is the difficulty of integrating existing databases and transaction-processing softwares designed for transforming traditional commerce into a software that enables e-commerce.

In addition to technology and software issues, many businesses face cultural and legal obstacles in conducting e-commerce. Some consumers are still some what fearful of sending change and are uncomfortable viewing merchandise on a computer screen rather than in person. The legal environment in which e-commerce in conducted is full of unclear and conflicting laws. In many cases, government regulators have not kept up with the trends in technologies.

Online Marketing

Online marketing means using the power of online networks, computer communications and digital interactive media to reach your marketing anyway. Instead, it will both add to and subtract from today's marketing mix. It will add more interactivity. But it will subtract costs. It will add more costomer choices. But it will remove marketing's dependence on paper. It will add "information value" to products and services. But it will take away barriers to starting a business or expending a business into international markets. And most importantly, it will turn upside down some old notions we've held of what marketing is all about.

There are three new market segments which are as follows :

Cyberbuyers

These are professionals who spend a good deal of time online, mainly at their places of business. These professionals often have to make complex purchasing decisions that require reams of data difficult to locate sources of supply, all within a tight time frame. That's a perfect fit with the capabilities of online technology.

Cyberconsumers

These are the home computer users wired up to commercial online services and the Internet. This group represents the pot of gold, and marketers simply need to find ways to make it more attractive to shop and buy online than to go to the local store.

Cybersurfers

This uses online technology to expand their horizons, challenge their abilities, and for fun. This segment is typically younger, and possesses shorter attention spans.

Some of the important aspects of marketing are advertising, sales, security of the transactions and the mode of payment used for payments. And all of these have had to adapt and change themselves according to the demands of the Internet.

How Should Buyers Pay Online?

The market place, as usual, is responding quickly to this concern. A few basic models or approaches to net-based sales transations are beginning to come into focus. They are :

1. The consumer, responding to net-based marketing presentation, sends in a check or calls and verbally transmits a credit card number over the merchant's telephone. This is a fairly traditional approach, and no financial transaction takes place on the net.

2. The consumer (i) sets up an account with a merchant or a third party organization, (ii) leaves his or her credit card number by means other than the net, and (iii) gives the merchant the authorisation to bill the account whenever the consumer chooses to buy something.

3. The consumer leaves his or her credit card number on an unsecure online order form. With this approach, the consumer is put at some risk that the credit card number will be compromised, but the risk is perhaps not much greater than giving it out over the phone.

4. The consumer uses a secure (encrypting) client software program to transfer his or her encrypted credit card number to a secure (decrypting) merchant server.

5. The consumer exchanges traditional currency (cash, check, credit card authorization) for some form of digital currency and then spends units of that currency whenever and wherever he or she likes. This requires some form of "electronic wallet" to hold the currency and an account set up

between the currency provider and the participating merchants.

Advantages of Online Marketing

Some of the advantages of online marketing can be listed in the following manner :

1. Online marketing offers bottom-line benefits that tie in directly to the demands placed on the organization trying to make a transition into the new economy.
2. Online marketing can save money and help you stretch your marketing budget. Electronic versions of catalogs, brochures, and specification sheets do not have to be printed, packaged, stored, or shipped. These can be updated online, and hence, you need not have to send them back to the printer for changes. This saves a lot of money.
3. Online marketing can save time and cut steps from the marketing process. Marketers no longer have to wait for one of their sales representatives to give them the desired information. They can get it online on their own. E-mail allows you to exchange information with potential buyers quickly. It help you get your message out to the market sooner, with online brochures, catalogues and so on.
4. Online marketing gives customers another way to buy, while enabling them to take control of the purchasing process. Today, customers want more. They want more information about the products they buy, more input into the product itself, and support after the sale. Smart marketers can leverage the inherent interactivity of online communications by encouraging the customers to get engaged in making decisions about the product. They can choose the colour, select the shipping method, and place the purchase order themselves. The more you can get the customer

involved in the process of customizine the product and the selling process to meet their particular needs, the more likel, it is that you will get the sale.

5. Online marketing can be information-rich and interactive. It appeals to information-hungry buyers and analytical buyers. It allows buyers and current customers to search and locate the information they need quickly.

6. Online marketing can offer you instant international reach and indeed, online networks have created and instant global community. Online marketing erases the time and distance barries that get in the way of conducting business transactions with customers in other countries.

7. Online marketing can lower barries to entry and offer equal opportunity for access. When you are doing business online, distinctions related to the ethnic background or gender or even the size of business do not seem to matter as much. The online world is a grat leveller. And online marketing helps to lower many of the market place barriers that have held some would-be entrepreneurs from full praticipation in the free market system.

8. Online marketing can be continuously available. One of the best attributes of an online information server is that it is always on the job, twently four hours a day, 365 days a year.

Unit - VI

SOCIO CULTURAL ENVIRONMENT

Sociological and cultural environment refers to the influences exercised by certain social factors which are "beyond the company's gate". Such factors include, among others, attitude of people to work, attitude to wealth, family, marriage, religion, education, ethics and social responsibility of business. All factors, except the social responsibility of business, are classified under the term "culture" and are discussed in this chapter. Social responsibility of business is dealt with in the next two chapters in this section.

CULTURE

In its narrow sense culture is understood to refer to such activities as dance, drama, music, and festivals. In its true sense culture is understood as that complex whole which includes knowledge, belief, art., morals, law customs and other capabilities and habits acquired by an individual as member of a society. "Culture consists of" write Elbert W.Steward and James A.Glynn, "the thought and behaviour patterns that members of a society learn through language and other forms of symbolic interaction their customs, habits, beliefs, and values, the common viewpoints which bind them together as a social entity. Cultures change gradually picking up new ideas and dropping old ones, but many of the cultures of the past have been so persistent and self-contained that the impact of such sudden change has torn the apart up rooting their people psychologically".

The interface between business and culture is brought out in the following paragraphs.

Culture Creates People

The concept of culture is of great significance to business because it is the culture which generally determines the ethos of people. It trains people along particular lines, tending to put a personality stamp upon them. Thus, we have Indians, Japanese, Americans, Germans, Britishers and so on. It is not that all people are alike in a particular culture. There are sub-cultures within a culture. For people have their own idiosyncrasies and are a blend of heredity, cultural experience, sub-cultural experience, family experience, and unique personal experience.

When people with different cultural backgrounds promote, own and manage organisations, organisations themselves tend to acquire distinct cultures. Thus, the culture of the Tata group of companies is different from that of the enterprises owned by Birlas.

Cultural and Globalisation

As business units go international, the need for understanding and appreciating cultural differences across countries is essential. Work motivation, profit motivation, business goals, negotiating styles, attitudes towards development of business relationships, gift-giving customs, greetings, significance of body gestures, meaning of colors and numbers, and the like very from country to country. Table I brings out a summary of how major management concepts are perceived by Japanese and Americans.

Table 1 Major Concepts in the Comparative Analysis of U.S. and Japanese Management

Management Concepts	*How Preceived in the United States*	*How Preceived in Japan*
Company	Team in sport	Family in village
Business goal	To win	To survive
Employees	Players in a team	Children in a family
Human relations	Functional	Emotional
Competitions	Cut-throat	Cooperation or sin
Profit motivation	By all means	Means to an end
Sense of identification	Job pride	Group prestige

Work motivation	Individual income	Group atmosphere
Production	Productivity	Training and diligence
Personnel	Efficiency	Maintenance
Promotion	According to abilities	Length of service
Pay	Service and results	Award for patience and sacrifice

(Source : Adapted from M. Murayana, "A Comparative Analysis of U.S. and Japanese Management Systems", in Sang M. Lee and Gary Schwendiman (eds.) *Management by Japanese System*, p. 237)

Social cultural Factors	*Japan*	*India*
Principles of government / administration	Emphasis on government by the virtuous and abrogation of coercion, mutual trust between employer and employee and acceptance of basic goodness of human nature. Results in minimum control from above, high level of delegation, highly motivated work force.	Prevalence of impersonal bureaucratic social relations, mistrust of fellow beings based on the assumption of human nature as evil. Results in highly centralized administration, overemphasis of hierarchial status in decision making bureaucratic delays, low levels of delegation, dissatisfied workforce and accentuation of apathy in individuals and groups

Attitude towards work and goals	Highly result oriented and directed towards perfection and growth through dedicated effort	General and deep-seated apathy, dissociation of work front its results based on the belief that the results are pre-ordained. Tasks are performed without any interest, dedication or pride
Discipline and order	Highly disciplined respect for superiors and respect for authority	Lack of discipline at all levels, basic mistrust of authority, poor superior-subordinate relationships
Group harmony	Very high based on informal affiliative pattern of behaviour	Assumption of inequality of human beings, nagging suspicion of fellow beings and highly self-centered behaviour resulting in a lack of cooperation and team work
Emphasis on education	Very high	Generally indifferent and highly ambivalent

(Source : *Vikalpa*, Oct.-Dec. 1991, IIMA)

Culture Determines Goods and Services

Culture broadly determines the type of goods and services a business should producc. The type food people eat, the clothes they wear, the beverages they drink and the building materials they use to construct dwelling houses very from culture to culture and from time to time within the same culture. Business should realize these cultural differences and bring out products accordingly.

The fact that culture determines the type of goods and services is not as important as its varied manifestations. Culture expresses itself through people's views of themselves, others organisations, society, nature, and cosmos.

Cultural Manifestation

People's views of Themselves : People vary in the relative emphasis they place on self-gratification versus serving others. The move towards self-gratification was especially strong during the 1960s and 1970s. Pleasure seekers sought fun, change, and escape. Others sought self-realization and joined therapeutic or religious groups. The marketing implications of a "me society" were many. People bought products, brands and services as a means of self-expression. They bought "dream cars" and "dream vacations". They spent more time in health activities (jogging, tennis), in introspection, and in arts and crafts. The leisure industry (camping, boating, arts and crafts, sports) benefited from the growing number of self-gratifiers)

People's views of Others : Some observes have pointed to counter movement from a "me society". They think that more people want serious and long-lasting relations with others. Some recent advertising features people in groups sharing things with others. A Doyle Dane Bernbacb survey showed a widespread concern among adults about social isolation and a strong desire for human contact. This portends a bright future for "social support" products and services that promote direct relations between human beings, such as health clubs. vacations, and games. It also suggests a growing market for "social surrogates", things that allow people who are alone to feel that they are not, such as television, home video games, and computers.

People's views of Organisations : People vary in their attitudes towards corporations, government agencies, trade unions, and other organisations. Most people are willing to work for these organisations, although they may be critical of particular ones. There appears to be decline in organisational loyalty. People are giving a little less to these organisations and trusting them less. The work ethic is eroding. Many see work not as a source of satisfaction but as a necessary pursuit to earn the means to enjoy their non-work hours.

Several marketing implications follow from this outlook. Companies need to find new ways to win consumer confidence. They need to review their advertising communications to make sure their messages are honest. They need to review their various activities to make sure they are being "good corporate citizens." More companies are turning to social audits and to public relations to improve their image with their publics.

People's Views of Society : People vary in their attitudes towards their society, from those who defend it (preserves), to those who run it (markers) to those who take what they can from it (takers), to those who want to change it (changers), to those who are looking for some thing deeper (seekers), those who want to leave it (escapers). Often people's consumption patterns will reflect their social attitude. Makers are high achieves, who eat, dress, and live well, while changers live more frugally by driving smaller cars, wearing simpler clothes, and so on. Escapers and seekers are a major market for movies, music, surfing and camping.

People's Views of Nature : People vary in their attitude towards the natural world. Some feel subjugated by it, others feel harmony with it, and still other seek mastery over it. A long-term has been people's growing mastery over nature through technology and the attendant belief that nature is bountiful. More recently, however, people have awakened to nature's fragility and finite supplies. People recognise that nature can be spoiled and destroyed by human activities.

People's love of nature is leading to more camping, hiking boating, and fishing. Business has responded with hiking boot, tenting equipment, and other gear for nature enthusiasts. Tour operators are packaging more tours to wilderness areas. Food producers have found growing markets for "natural" products, such as natural cereal, natural ice cream, and health foods. Marketing communications are using more scenic backgrounds in advertising their products.

People's Views of the Universe : People vary in their beliefs about the origin of the universe and their place in it. Most Americans are monotheistic, although their religious conviction and practices have been waning through the years. Church attendance has fallen steadily, with the exception of certain evangelical movements that have not been lost but have been redirected into an interest in Eastern religions, mysticism, the occult, and the human-potential movement.

As people lose their religious orientation, they seek more of the "good life" here on earth. Self-fulfillment and immediate gratification are rising cultural values. At the same time, a "futurist" will announce a new list of trends that warrant attention.

(Source : *Philip Kotler, "Marketing Management"*, 7th Ed., pp. 150-151)

People's Attitude to Business

Attitude of people towards business is largely determined by their culture. Business systems are a product of beliefs, mores and customs of the society in which they exist. Indeed, their very existence depends upon social philosophies which conduct and support various kinds of business actions. Businessmen (whether they realize it or not) must have some basic set of philosophies to guide their actions. Beliefs and value systems concerning what is right and what is wrong are basic to all business activity and serve as a justification for doing or not doing something in a particular and value system by which actions of businessmen and other groups are judged. Usually, these actions are judged by how well they contribute to the new social well-being throughout the whole system.

Attitude to Work

How a worker looks at his work in a factory depends on his culture. Motivation, morale and other related aspects of human resource management are based on the worker's attitude to this work. Attitudes to leisure vary from country to country. Higher incomes may produce more work or more spare rime. The work ethic means, in effect, that preoccupation with work is considered a virtue in some parts of the world and vice in others, As a result different types of appeal, reward and penalty are effective in different cultures.

It is said that total detachment from work, the main plank of our culture, conflicts with the commitment to work which is needed for business prosperity. The Japanese, it is argued, have achicved tremendous progress because of their commitment to work.

But our culture advocated detachment from the fruits of labour and not labour itself. "It is not the teaching of Vedanta", asserted C. Rajagopalachari, "that men should renounce the world. Vedanta does demand renunciation, but that is renunciation of attachment, not of work or duties. It wants men to get rid of the desire for pleasurable fruits, for this leads to error, pain, anger and confusion of mind".

Caste System

Our society, as is well known, was stratified into four major castes, viz., Brahmins, Kshatriyas, Vaishyas and Sudras. Brahmins were priests, Kshatriyas were rulers, Vaishyas traders and farmers, and Sudras, the lowest among the four castes, took to manual labour. Stratification has nor spared even semitic religions like Christianity and Islam (see box 34.2 for details) It is said that this stratification resulted in stagnation of technology.

It is not correct to say that the caste system has resulted in the stagnation of technology. Critics ignore the technological progress achieved during the Middle ages and during the Muslim rule.

Vaishas who looked after trade and agriculture, although placed lower than Brahmine and Kshatriyas had an honorable place in society. Close relationship that existed between agriculture and business in the early times avoided the conflict witnessed in European Countries. Social stratification was perhaps beneficial to business since traders received active support from rulers.

The advantages of caste system have been recorded in recent times. To quote Masani (1951): "The organisation of society on the basis of caste has stood the test for centuries. It was so to say an insurance against that uncontrolled working of economic forces which has been, since the last war, the source of much evil. It minimized class conflict that cut-throat competition.

Over the years significant changes have taken place in our caste system. Brahmins, for example, have shed their priesthood and have taken to business (TVS group), hotel industry, administration, factory jobs and other avocations. Similarly, several Vaichyas have taken to non-business activities the teaching and administration. Again several sudras (Reddys of Andhra) have shifted from agriculture to industry. A typical business establishment of today bears a cosmopolitan look with Raos, Iyers, Reddys, Gowdas, Peters, Khans, Patels, Mehtas, Joshis, Appas, Singhs and Nairs rubbing shoulders with one another.

Caste and semitic religions

Caste is an integral part of Indian religions. To being with, Manusmriti sanctioned it but is soon become an integral part of not only Hindusism but all other religious following it, be it Buddhism, Jainism, Sikkhism or any other Indian religion. But even Semitic religions like Christianity and Islam did not escape this fate in the Indian environment. Thus we see among Christians too, caste is an integral factor of their lives. There are separate churches for dailt and upper caste Christians. Of late, there has been caste conflict in Christian churches particularly in the South. The dalit Christians are asserting themselves now.

Indian Islam too could not escape this fate. Often, though mistakenly, it is thought that Islam is a monolithic religion and has no stratification like Hinduism.

Indian Islam is as stratified along caste lines as any other Indian religion, though the practice of untouchability has hardly ever characterized it. Thus we find among Indian Muslims the concept of ashraf and aliaf (i.e., Muslims of noble and mean social status). Feudal Islam was particularly characterized by such concepts. These concepts, needless to say, were rigidly adhered to by Indian Muslims though they had no religious sanction whatsoever at all. Thus, it is important to note that religious ideals and social realities are often at variance with each other.

Those who belonged to a higher social strata among Muslims held those who belonged to the lower ones in contempt and kept them at a distance. Intercaste marriages were unthinkable. It could cause a furore. A study of Dehra Dun Muslims undertaken during the Sixties by a sociologist showed that the bhangi Muslims (sweepers) prayed in a separate mosque. They were not allowed to enter the mosque where uppercaste Muslims prayed. It is unthinkable according to Islamic precepts.

(Source : Asghar Ali Engineer, "Caste and Indian Muslims", *The Hindu*, Aug. 12, 1994).

Collective and Individualism

The spirit of collectivism and individualism is related to such personnel aspects as employee morale, multiplicity of trade unions and inter and intra-union rivalries. It is said that our culture, unlike Christianity stresses individual salvation and negation of the world. Behind a small charity or a good deed, it is pointed out, there is the motive of self, rather than society's welfare. This is the main reason for the low morale of our workers, multiple unions and rivalries among them.

Contrary to popular belief, our culture did advocate collectivism and general welfare. As a proof of collectivism, we are told about guilds which played a major role in the economy of ancient India. "This was the guild (Sreni)", wrote A.L.Basham, "a form of industrial and mercantile organisation which played a big part in the economy of ancient or medieval civilizations. There are faint and uncertain references to some sort of guild organisations even in vedic literature and by the time of the composition of Buddhist scriptures, guilds certainly existed in every important Indian town, and embraced almost all trades and industries - we even read or a guild of thieves.

"The guild united both the craftmen's cooperatives and the individual workmen of a given trade into a single corporate body. It fixed rules of work and wages and standards and prices for the commodities in which members dealt, and its regulations has the force of law and were upheld by the king and government. Over its own members the guild had judicial rights, which were recognised by the state. A guild court could, like a caste council, expel a refractory member, a penalty which would virtually preclude him from practicing his ancestral trade and reduce him to beggary. We read in Buddhist literature of guild courts settling quarrels between members and their wives, and the rules of Buddhist order lay down that a married woman may not be ordained a run without the consent of her husband and his guild. Thus, the guild had the power not only over the economic, but also over the social life of its members. It acted as a guardian of their widows and orphans, and as their insurance against sickness. Its powers and functions in this respect were very similar to those of the caste councils in more recent times, and though some authorities would disagree with us, we cannot but conclude that the guilds played an important part in the evolution of trade castes".

Primary importance of community welfare is stressed even by Manu. Charity and philanthropy have a high moral value in our tradition.

Collectivism is the hallmark of our society. Whether it is celebrating a marriage, a social function, inauguration of a business unit or installing a CNC machine in a factory, we believe in people and crowds. We have factories (particularly in Public sector) which have thousands of employees and we have trade unions whose membership runs into lakhs.

Ambitious or Complacent

An individual's ambition to grow or remain complacent depends on his cultural ehos. An ambitious individual is highly motivated, is wealth acquisitive, has a strong urge to excel. is prepared to change organisations and even take risks. Economy becomes vibrant if a large proportion of population comprises ambitious people.

Majority of our people are known to be complacent. An average citizen will be happy to get into a government job (lower the order, the better) as it assures safety of tenure and demands no initiative, no skills, and no hard work. He is not prepared to join the private sector as the job here demands hard work and high productivity. Complacency of citizens is attributed to be one of the reasons for backwardness of our country.

Contrary to popular belief., our society has been known for its ambition, particularly in wealth acquisition. Ours is probably the only society in the world where wealth is worshipped in the form of Goddess Lakshmi unlike in the West where wealth is merely respected.

Looking at the past, in most Indian literature, the world is viewed from the angle of well-do-to. Poverty it is more than once said, is a living death; to serve another for one's keep is a dog's life and not worthy of an Aryan. From the time of the Rig Veda, which contains many prayers for riches, worldly wealth was looked as morally desirable for the ordinary man, and indeed essential to a full and civilized life. The ascetic who voluntary abandoned his wealth performed an act of renunciation which entitled him to the utmost respect, though by such renunciation he assured himself of spiritual advancement, as well as the way to salvation (Moksha). The fourth and ultimate aim of existence, the ascetic's life, was not that of an ordinary man, and the theoretical classification of the four stages of life gave ample scope in the second stage to the householder, who was indeed encouraged to build up the family fortunes, and to spend part of them at least on the pleasures of the senses. Thus the ideals of ancient India, while not perhaps the same as those of the West, by no means excluded money - making. India has not only a class of luxury - loving and pleasure - seeking dilettante but also one of wealth - seeking merchants and prosperous craftmen, who if less respected than the Brahmins and warriors, had an honorable place in society.

Education

The close interface of business and higher education is a new development. Centuries ago, each had a somewhat hands-off attitude towards the other. A relatively small intellectual elite maintained their seclusion in university halls, educating a few selected students to become intellectual and social leaders of their nation. Education was not masses who laboured in factories, fields and stores. University education had little interest in business, and businessmen had little interest in education. Each lived in a different world. Many educators showed an elitist disdain for businessmen who were perceived as less nobly motivated than educators. Most businessmen admitted that the disdain was mutual since the men in the ivory tower had little that was practical of offer to business.

The separation of business from education gradually waned as higher education expanded in accordance with the democratic ideals of equal opportunity, but the real breakthrough came with the rapid trend towards a knowledge-oriented society.

Industrial societies of today are knowledge-oriented and educated, and education is considered as one of the social overheads that has been accorded due priority among the developmental activities. But there are variations. A society without too man constraints on social mobility may accord prestige to the teaching profession and a large part of the national income will be spent on educational equipment than in a society which is more rigidly stratified. Educational institutions are sometimes resented in countries where children are regarded as a sources of income. Other countries, by no means always the same ones, will be opposed to welfare support for adults.

In our traditional society, education was a preserve of the Brahmins and it was unfortunate that people of other castes were denied the facility. The economic environment of the day also supported the prevailing system. Our economy was primitive, and occupations were based on heredity. No education was needed for a cobbler to stitch footwear, for a barber to shave, for an agriculturist to till land or for a goldsmith to make a piece of gold ornaments. All these and other crafts were passed down from one generation to the other.

Things changed over the passage of time. Economy gradually shed its primitiveness and almost turned into an industrialized one, demanding technical education at all levels and of all castes. Educational institutions sprang up in all corners of the country and it is estimated that we have more number of primary schools than the U.S.S.R and U.S.A put together. Vast sums have been spent on education in successive Plans and a staggering sum of more than Rs.29,000 crores had been allocated to education in the Seventh Plan alone.

Education benefits business: Business in turn has responded and started supporting education. This support is manifested in the starting and maintaining of educational institutions, sponsoring employees for continuing education and bearing the cost of the education of employees' children.

Family

Basic to all types of social organisations is the family, the institution which concerns itself with love, sexual relationship, marriage, reproduction, socialization of the child and the various statuses and rules involved in kinship organisation. Little wonder that the family is referred to as a remarkable institutions.

The family is recognised as the institution responsible for procreation and child-rearing. In civilized societies, especially the process of child socialisation has come to have tremendous significance. Gone are the days when the children should be seen but not heard; on the contrary, the importance of childhood and the effects of homelike on personality and character formation have been widely recognised. In fact, as the basic primary group, the family probably has more to do with the child's ultimate behavioural pattern than does any other single environment factor, and it is on this assumption, that a loose home life is so often associated with delinquency.

The family, through the husband-wife relationship, is also a recognised institution for the fulfillment of sexual needs. The sex urge is a powerful one and most societies have set-up rather elaborate safeguard to insure that sexuality is kept within the bounds. In a very real sense, the family is answer to man's sex problems.

The family is also one of the chief agencies of social life. This was not always so, and in some societies, it is not the case today. In any number of cultures, for example, men and women have tended to socialize in same sex-groupings. Yet over the years wherever women have been accorded a relatively equal status the husband-wife relationship has taken on an added meaning in terms of companionship, shared activities, satisfaction of emotional needs and other manifestations of primary group associations.

The family is important for a variety of other reasons, such as those relating to protection, inheritance, property rights, morality, care of the sick and the aged, and the transmission of cultural values.

Such is the role of family in societies. Family ties have been very strong in our culture. The joint family, also called the centuries. A joint family is understood as a group of people who generally live under one roof, who eat food cooked at one hearth, who hold property in common and who participate in common family worship and are related to each other as some particular type of kindred.

Like the European and Semitic family, the joint family was patriarchal and patrilinear. The father was the head of the house and administrator of joint property and except in Kerala, the headship descended in the male line.

The joint family had its plus points. In times of distress, a man could rely on his sapindas, and the never-do-well cousin or the indolent goof-for-nothing uncle, living in a corner of the family home in comparative comfort while adding little or nothing to the family fortunes.

Secondly, in the joint family, affection as well as dependence is diffused among so many relatives that the loss of even an important member, such as a parent, is less critical than in the nuclear family system which is so small that every member plays decisive role. In reality, the joint family is a revolving system which provides a full complement of young and adult people at all times to carry out its various functions.

Thirdly, safety and security needs of man, the second-level needs as per Maslow's need hierarchy are met through the joint family system. Finally, and the cr. cial point is the role of the joint family in entrepreneurial development. There believe that the individual is constrained and held back by the group. On the other hand, there is some evidence that, at least in the initial stages, joint family may be a useful institution in capital accumulation. Birlas, for instance, manage what is virtually a joint family business, but the brothers and the sons and the nephews live separately and the companies they control are also separate entities. The Mafatlas in Bombay live in the same building but the brothers have now separated and the companies have been parceled out among the brothers.

The joint family system had its blemishes. There was strain in the relationship among family member; life was not peaceful; women generally were forced to bear a longer share of family strains and a Basham put it. " The deep sense of solidarity and today the joint family system is beginning to weigh heavily on the younger generations".

The extended family system is almost on the wane, thanks to the spread of education, technological development, unmanageable size of families, the Mitakshara school of law which permits division of property even while the paterfamilias is alive and India's fight for Independence shook the older customary patterns of behaviour.

We do come across the existence of joint families here and there. One such instance is a family of 217 strong living at Shimoga in Karnataka (Box 34.3 gives more details).

Authoirty

The exercise of authority varies according to the management styles, but different styles are likely to be present in different cultures. One research relevant to this has produced a measure of the cultural differences-the power distance measure. This is defined, 'as a measure of inter-personal power of influence', between a boss and a subordinate, as perceived by the least powerful of the two, while the distance is seen as the extent to which either participant can influence the behaviour of the other. It is suggested that the distance is to considerable extent determined by their natural culture. The evidence for this statement has been provided by research in 39 countries in which questions were asked on such subjects as the fear subordinates have of expressing disagreement with their bosses (answer expressed by I am afraid very frequently' through to I am afraid seldom'). The answers have assembled in a series of tables showing power distance index values varying 94 ('very often afraid') for the Philippines to 11 ('very seldom afraid') for Austria.

What applies to the Philippines applies to our country, too, where the bose is held almost at a demigod. It is for this reason that egalitarian concepts like participative management do not mean much to our managers and workers.

Traditionally, our society was known for authority and power being concentrated with the king. But the greatest merit of our society has been that the king or the boss is governed by the principle of Dharma, a concept which is unique to our culture.

The view of Scientific Method

It is said that, unlike Western society, our society is steeped in fatalism and the theory of Karma. The followers of our religion do not appreciate the logic of wealth, rain fall, demand, supply, mechanization and related phenomena. It is also said that they believe in preserving traditional mores and are not adaptive to things modern.

Contrary to popular belief our views did not conflict with science. A study of the Upanishads will show Vendanta postulates that the universe is the result of a gradual unfolding of the creative power inherent in the primordial substance. In fact, it may be said that the philosophy of our religion anticipated the basic theories to biology and physics. To very approach to things to the Upanishads, the insistence on adherence to truth and on careless investigation is remarkable in the nature of an anticipation of the methods of science.

The followers of our culture are receptive and open. They have always absorbed new technology and adopted the latest methods of production. Most of our industrial establishments are highly mechanized and automated. Being scientific does not mean one should reject one's traditional culture. Traditional culture and modern science can go together as is proved in our country. Probably, it is only in our country that a manager performs pooja before installing a new machine in his factory. It is a tribute to our worker that he does not touch his tools on the shop floor in the morning without closing his eyes for a second in remembranee of god.

Even in a village, a farmer is not averse to adopting new varieties of seeds, fertilizers or new methods of cultivation. The two green revolution we had experienced so far would not have been possible if our farmers had stuck to the traditional methods of cultivation. The farmer should only be told about the possibilities and benefits of new varieties and methods, and then he would gladly adopt them. But never will he forget f break a coconut before sowing the seeds or harvesting the crop.

Ethics in Business

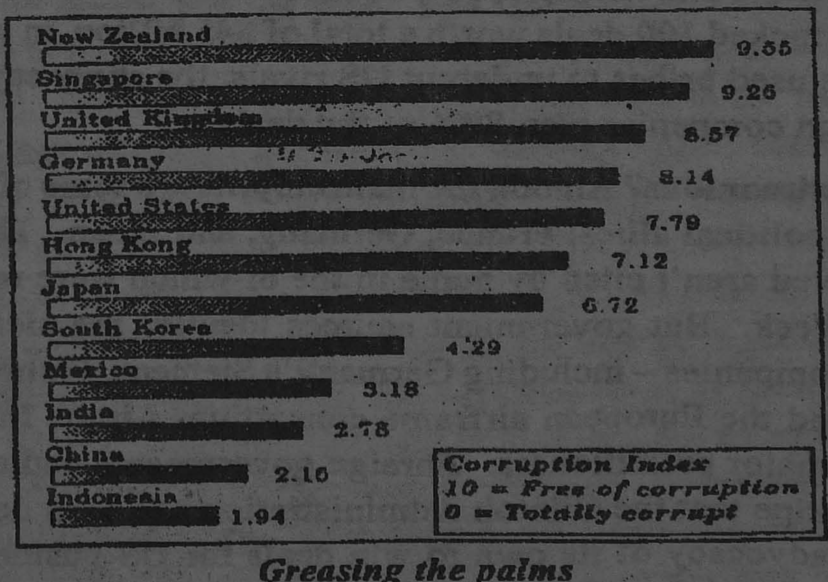
Ethics refers of the code of conduct that guides an individual a dealing with others. A formal definition of ethics is that it deals with personal conduct and moral duty and concerns human relations with respect to right and wrong. Ethics concerns morals and philosophy. It deals with the behaviour of individuals and the standards governing the interrelationship between individual.

Ethical rules differ from legal rules inasmuch as the former are not enforced by public authority whereas the latter are. Legal rules become unnecessary when ethical rules are observed by businessmen. Society expects businessmen to act ethically.

Ethics may be internal or external. As regards the former, a manager must be honest with oneself, since one's character. And one should be honest and straight forward with others, treating them in the same manner in which one wishes to be treated. Fairness in dealings wit compeers and subordinates is mandatory; one should never discriminate by dispending special favour or privileges, whether for remuneration or not, information coming to one confidentially should neither be revealed nor used to the disadvantage of any co-worker. One should ensure one's employment right to privacy. With reference to external ethics, the same suggestions as stated above can be followed.

Is it enough if the manager, as an individual, is ethical in his behaviour and dealings? Many people believe so. This is erroneous. Every individual has a responsibility of not only himself being ethical; he must make his group so. Ethical people doing nothing is the best way for moral decay to take over.

Are our businessmen ethical? The answer (with honorable exceptions) is in the negative (See.Fig.34.1). As is too well known most of our businessmen are lured by the fast-buck culture, i.e., to earn as much money and as fast as possible. Ends justify means for our businessmen.



Greasing the palms
(Source : Newsweek)

(Ranking of businessmen's perceptions of the level of bribery and dishonesty in 41 nations)

Our businessmen and businessmen are no exception. The weakness is universal.

A World of greased palms

Intrigue fairly leaps off the pages of the classified US government report. A German electronics giant pays bribes to win export sales. France demands 20% of Vietnam's telecommunications market in exchange for aid. A European aerospace company threatens to block European Union membership for Turkey and Malta unless their national airlines purchase its planes.

It's all part of a nasty, multibillion dollar war being waged over global makets. A secret Commerce Department study, newly prepared with the help of US intelligence agencies, catalogs scores of incidents of bribery, aid with strings attached, and other improper inducements of America's trading partners. In the case of strings-attached foreign aid, the deals may violate international trade pacts. And the cost of such practise to the US economy appears enormous. In 1994 alone, US intelligence tracked 100 deals worth a total of $45 billion in which overseas outfits used bribes to undercut US rivals, the study says. The result: Foreign companies won 80% of the deals.

Sanctimonious? Among the main culprits are some of America's staunchest political allies: France, Germany, and Japan. The corporations involved aren't cited by name in the of which were reviewed by Business Week. But government sources identify premier European high-tech companies – including Germany's Siemens, France's Alcatel Alsthom, and the European airframe consortium Airbus Industries as among the major practitioners. Foreign governments and companies, of course, gripe that the Clinton Administration has been doing lots of aggressive advocacy of its own to win deals for US business. "Each time we win a deal, it's because of dirty tricks", says an Airbus official with bitter sarcasm. "Each time being wins it is because of a better product".

Indeed, many officials overseas view the US holier - than thou attitude about shady business practices as naïve and hypocritical. As word of the report's contents gradually leaks (some 50 copies recently were distributed to Congress and key agencies), US trading partners may be angered to learn how closely American spies are tracking their dealings. Indeed, the growing role of the CIA and its sister shops in commercial contending that the spies are inappropriately trying to justify a $28 billion budget in the post-cold-war era. Bur former CIA general counsel Elizabeth J Rindskopf says the CIA is simply responding to demands from other US government agencies for information to help level the global playing field.

There's more to it than that, "As the importance of geopolitical struggle has declined, conflict has found a new home", says Edward N Luttwak, senior fellow at the Centre for Strategic and International Studies.

Economic trends tell the tale" The US is more dependent than ever on exports to fuel it economic growth. Europe and Japan are saddled by slow growth. Heightened global competition adds to the temptation to seek advantages through questionable tactics – particularly in key sectors such as aerospace, where demand is weak. "Companies and governments are more willing to resort to unconventional methods to make a sale because any sale is precious, " says Joel Johnson, international vice-president for the Aerospace Industries Association of America. During the next decade, the pervasiveness of such practices spells trouble for US companies girding to compete for an estimated $1 trillion worth of overseas infrastructure projects. American business already is handicapped by the US comparatively puny spending on export promotion. The Commerce report, which also reviews legitimate competitive practices such as missions and financial aid to exporters, reveals a stark gap.

Even so, Republican trade hawks on Capital Hill want to slash funds for Commerce's trade programmes. Commerce officials hope the competitive – practise report willl help derail those moves. It's certainly a timely showcase for Commerce Secretary Ronald H Brown to reemphasise his role as raving advocate for American business. "The findings are alarming", Brown told **Business Week**.

Wads of Cash : To some European executive the Clinton administration doesn't shy away from questionable arm-twisting. An Airbus official calls President Clinton's 1993 phone call to Kind Fahd of Saudi Arabia to lobby for Boeing Co. and McDonnell Douglas Corp a "blatant" disregard for the rules. "The power of the American government is far greater than any European government," the official says. Too bad, retorts one US official: "If we're going to provide a security umbrella for a country, it's reasonable to expect our companies to get hands. In October, a former vice-president at Lockheed Martin Corp was sentenced to 18 months in prison and a $125,000 fine for bribing a member of the Egyptian Parliament to win an order for three C-130 cargo planes. The case is surprising because Lockheed was at the centre of a bribery scandal in Japan nearly 20 years ago and has signed a consent decree to refrain from such practices. That paved the way for the 1977 Foreign Corrupt Practices Act, which bars US companies from paying bribes to win business.

Some US companies find creative ways to skirt the law. To secure a mining venture in a developing nation, an American company recently flew officials from the country to the US, put them up in a fancy hotel for a week, and gave them a wad of cash for a shopping spree. A US intelligence source says the trip is problematic: "What's the difference between giving an official shopping money and handing him an envelop of cash in his office.

But US and other trade experts have little doubt that overseas companies are more likely to offer bribes because their cultures and legal system permit it. In France, foreign payments-to middlemen are considered legitimate business tax deduction. Germany has similar rules, though officials in Bonn say they might junk them if there were an international accord to outlaw bribery.

Even so, there's little US support for easing anti-bribery laws. Instead, many American executives are urging the administration to mount an aggressive campaign to get foreigners to play more by US rules.

US officials vow to fight for reform. And foreign trading partners may find that a good idea. As long as everyone including the US-promises to play by the rules.

Unethical practices were found even in our ancient culture. Not only rates of interest were exorbitant (60per cent, 120 per cent and 240 per cent) but were charged differently to different castes. Manu and some other lawgivers laid down a sliding scale of interest for unsecured loans, according to the class of the debtor; Brahmins 24 per cent, Kshtriyas 36 per cent, Vaisyas 48 per cent, and Sudras 60 per cent per year".

Debtors were imprisoned or enslaved by creditors until they had paid off their debts. There were instances of debtors committing suicide unable to bear the harassment by creditors. We read stories about the atrocities committed by Sresti or Setty, the trader in his village. These stories may be mere tales, but we are sure, they were inspired by real situations which existed centuries ago.

Why is ethics important?

Ethics is important for several reasons as stated below:

(1) *Ethics corresponds to basic human needs* : It is a human trait that the man desires to be ethical, not only in his private life

but also in his business affairs where, being a manager, he knows his decisions may affect the lives of thousands of employees. Moreover, most people want to be part of an organisation which they can respect and be publicly proud of, because they perceive its purpose and activities to be honest and beneficial to society. Most top managers would like to respond to this need of their employees: and they (managers) themselves feel an equal need to be genuinely proud of the company they are directing. These basic ethical needs compel the organisations to be ethically oriented.

(ii) *Values create credibility with the public:* A company perceived by the public to the ethically and socially responsive will be honored and respected even by those who have no intimate knowledge of its actual working. There will be an instinctive prejudice in favour of its products, since people believe that the company offers value for money. Its public issues will attract an immediate response.

(iii) *Values give management credibility with employees* : Values are supposed to be a common language to bring leaderships and its people together. Organisational ethics, when perceived by employees as genuine, create common goals, values and language. The management has credibility with its employees precisely because it has credit with the public. Neither sound business strategy, nor a generous compensation policy and fringe benefits can win employee credibility; and perceived moral and social uprightness can.

(iv) *Values help better decision making* : Another point of great importance is that an ethical attitude helps management make better decisions, i.e, decisions which are in the interest of the public their employees, and the company's own long term good, even though decision making is slower. This is so because respect for ethics will force a management to take various aspects-economic and social and ethical aspects.

(v) *Ethics and Profit* : Ethics and profit go together. A company which is inspired by ethical conduct is also profitable one. Value driven companies are sure to be successful in the long run, though in the short run, they may lose money.

(vi) *Law cannot protect society*: ethics is important because government, law and lawyers cannot do everything to protect society. Technology develops faster than the government can regulate. People in an industry often know the dangers in particular technology better than the regulatory agencies. Further, government cannot always regulate all activities which are harmful to society. Where law fails, ethics can succeed. An ethical oriented management takes measures to prevent pollution and protect workers' health even before being mandated by law.

Making Business Ethical

One way of making business ethical is to enact legislations and enforcing them rigidly. This will discipline the errant businessman. But laws are no substitute for ethics. As ws stated above, law cannot protect society always.

The ideal way is to make businessmen frame their own codes of conduct and adhere to them. The process of drawing a code and its adherence should be institutionalized. Such institutionalization would involve three steps:

- Drawing up a company policy or code of ethics.
- Familiarizing all employees with the code.
- Ensuring the implementation of the code by means of a formally designated Ethics Committee of the Board of Directors.

Drawing up the code : Framing a code is a difficult task and need to be handled with care and caution. Series of discussions at all levels of organisational hierarchy must precede the drafting. Only after obtaining consent and cooperation of all employees, the code must be finalized and copies made. Where a company has a long history of ethical conduct, the code only needs to be formally promulgated or publicly declared. TISCO is an example of such a company.

Familiarising the employees: The fact that the employees were consulted at the drafting stage is proof enough that all of them are already familiar with the code. However, printed copies must be distributed to all employees. New employees must be given copies of the code along with their appointment orders.

Employees must be told about the implications of the code. This can be done by special sessions on ethical and social responsibility during regular training programmes.

Implementing the code: Companies draw elaborate codes just to gain goodwill of the public. Codes are subsequently dumped in implementation is itself an unethical behaviour. Hence, the code must be implemented with all genuine interest and sincerity.

The first step in the implementation of the code is to let every employee know that any unethical behaviour would not be tolerated, no matter what the pretext. Action taken against erring employees may be publicized in order to demonstrate how serious the management is about the adherence to the code.

The second step in the implementation of the code is to constitute an Ethics Committee. The committee shall have directors as its members. It will monitor the ethical conduct of the employees at all levels and take remedial wherever deviations are noticed. The Committee shall also revise the code where necessary.

Finally, social audit may be conducted to ensure that the code is implemented and its contents are adhered to (Read chapter 36 for more details on social audit)

Ethics Dilemmas

Determining what is right and what is wrong is difficult in certain situations, some of which are as follows:

(a) Your R & D department has modernized one of your products. It is not really 'new and improved' but you know printing this statement on the package and using it in the advertisement will increase sales. What would you do?

(b) You are interviewing a former product manager who just left a competitor's company. You are thinking of hiring him. He would be more than happy to tell you all the competitor's plans for the coming years. What would do you?

(c) You have a change to win a big account that will mean a lot to you and our company. The purchasing agent hinted than the would be influenced by a gift. Your assistant recommends sending a fine color television set to his home. What would you do?

(d) You produce an anti-dandruff shampoo that is effective with one application. Your assistant says that the product would turn over faster if the instructions on the label recommended two applications. What would you do?

(e) You work for a cigarette company and up to now have not been convinced that cigarette cause cancer. A recent report has come across you desk that clearly establishes the connection between cigarette smoking and cancer. What would you do?

Answer to all these questions are given by Kotler. According to him, all ethical philosophics deal with one more of three characteristics of the act. They judge the act itself (moral idealism), the actor's motives (institutionsm) or the act's consequences (utilitarianism).

Moral idealism is the most rigid and postulates certain acts to be bad in all or most circumstances. Moral idealism given managers a definite answer in the above cases, for example, the managers would not print the statement on the package, he would not hire the product manager and so on. By refusing to let the end justify the means, managers would have a stronger feeling of correct conduct.

Intuitionism is less rigid, leaving it to individual managers to sense the moral gravity of the situation. If managers feel that their motives are good and that they do not intend to hurt anyone, they are taking an intuitive approach to morally difficult situations.

Utilitarianism seeks to establish the moral locus not on the act or the motives but on the consequences. If the consequences represent a net increase in society's happiness, or at least, not a net decrease, the act is right.

Religion

Religion refers to a specific and institutionalized set of beliefs and practices generally agreed upon by a number of persons of sects. The major religions across the world are Hinduism, Christianity, Islam and Buddhism. Each has its own distinct characteristics and follows.

Religion plays an important role in one's life. It makes an individual lead disciplined and orderly life. Religious practices relieve a person from tension. However tensed up an individual is, visit to a place or worship will make him/her feel psychologically relaxed and reassured.

Nobody is free from religious feelings and beliefs. Seventy years to communism in the erstwhile Soviet Union could not obligate traditional beliefs and practices. Look at the speech delivered by Mr.Mikhail S.Gorbachev at the time of his resignation from the post of the U.S.S.R. president. "Addressing you for the last time", told Mr.Gorbachev to the nation, "In the capacity of President of USSR, I consider it necessary to express my evaluation of the road we have traveled since 1985, especially as there are a lot of contradictory, superficial and subjective judgements on the matter."

"*Fate had it that* (italics ours) when I found myself at the head of the state it was already clear that all was not well in the country."

Religion has considerable influence on business. Work culture of employees, boss-subordinate relations, people attitudes towards business and other related issues are governed by religious beliefs.

Even entreprenual traits of people seem to be influenced by religions and castes, if one were to take close took at the ownership pattern of successful companies in our country. Table 34.3 for example, shows that Marwaris own 27 out of 74 top companies followed by Parsis and other communities.

For many Indian businessmen business decision are made not by management expers but by astrologers and fortune tellers. For example, in 1983, Delhi based industrialist Vinod Jain faced a major crisis. Following the beef tallow controversy, work at his Jain Shudh Vanaspati was at a standstill. So, too were his plans to diversify into synthetic fibres. Jain had almost sold his license for the acrylon plant, when his astrologer, with the unusual name of Phyller, advised him to wait. He predicated that the allow controversy would die down. and that his new venture would be launched by the end of the year.

A Comparative Listing of Business Communities.

Community	*No.of Cos.*	*Sales**	*Profits**
Marwari	27	12,248.15	1,311.66
Parsi	12	8,159.35	928.34
Gujarati	12	5,461.94	703.84
North India / Punjabi	10	4,881.25	327.36
Sindhi	3	1,943.25	93.32
Chettiar	3	1,312.62	85.17
Mangalorean	3	753.41	41.90
Christian	1	575.09	22.46
Maharashtrian	1	465.17	27.26
Nair	1	321.28	17.34
Telugu	1	235.01	21.07

* All figures in Rs.crore for the year ended March 1990
(Source: *"The Business India Super 100"*, September 17, 1990).

Phyller's words proved prophetic. Today, Jain's Pasupati Acrylon is a successful Rs.150 crore company run by his son Mukesh. "Pasupati Acrylon was started absolutely based on Phyller's prediction, "says Jain.

REAL STARS OF THE CORPORATE WORLD

For many Indian businessmen like Jain, Rahu nd Ketu play as important a role in ehtier corporate strategies as Reddin and Kotler. Indeed, leading stars of the industrial firmament like R.P.Goenka, S.K.Birla, Sanjoy Dalmia and the Ambanis take key business decisions only after they have consulted their personal astrologers. "There is no businessman in India who does't consult an astrologer, though most of them lack the conviction and courage to admit it, "says B.V.Raman, a leading Bangalore-based practitioner.

From sporting array of rings and performing the right pujas, to analysing competitior's horoscopes and manipulating a rival's astrologer – anything goes in the celestial sweep stakes. R.P.Goenka's astrologer b..nds religion with fortune telling. "It is like climbing seven floors. Prayer can make the climb easier", says Goneka.

The results can sometimes be amusing. One member of the Birla clan recently insisted that six lines be drawn on each page of his corporate broachure, much to the chagrin of the designers. The logic (if you can call it that): he had been advised to include these lines to ensure the prosperity of the company. Similarly, one Bombay-based tycoon who did not want Sharad Pawar to move to the Centre is even said to have frantically contacted an astrologer, whom they both consulted, in Baramati to try and dissuade the Maharastra congressman.

The intra-family tussle for control over Swadeshi Polytex Ltd., a Ghaziabad-based ployester unit, exemplifies the role played by stars and planets in corporate India today. As the battle between step-brothers Sitaram and Rajaram to wrest control of the Jaipuria – owned company hotted up, both of them made a beeline for their respective astrologers. The reasons: to perform Chandi Puja an elaborate 7-14 day ritual, wherein the gods were invoked to mar the fortunes of the rival.

Actual assistance came in the more tangible form of Mahendra Swarup of Paharpur Cooling towers, a shareholder in Swadeshi Polytexm who backed Rajaram's bid for control in 1984. But that arrangement soon soured and while the issue was being debated in the Supreme Court, Rajaram was back to performing Chandi Puja, this time aimed at Swarup. Apparently puja didn't have the desired effect; the Court handed over control of Swadeshi Ploytex to NTC, yet another major shareholders.

Astrologer have always been key advisors to industrialists, virtually dictating their personal and business lives. Sitaram's son, Ashok

Jaipuria, 36 of Cosmo Films rembers how all his father's travel plans and business meetings depended on the auspicious time, date and even direction (East or West) recommended by astrologer L.D.Madan. Says Ashok, a non-believer: "All that is no longer relevant because life is much faster today".

While he may a point, going by the boom in business, astrologers and their ilk are still much in demand. And businessman-not just the orthodox, but young and otherwise rational ones, too – are turning to the likes of Pandit Parsai, K.N.Rao, Raman and Hira Lal Chaubey to gain an empyrean edge. "Astrology is like a forewarning. It prepares you for the future", says leather exporter Ajay Khanna, who is in his mid-30s.

Khanna's faith in astrology hardened after the ended up in hospital within 24 hours of landing in Germany in 1987. So severe was the pain in his abdomen that he nearly collapsed. It had been fated. For, before he left India, his astrologer had cautioned him not to undertake the trip. But, as Khanna says: "The pressures of business could not wait." From then onwards, he has treated his astrologer's advice as the gospal.

Small incidents like this have won over many a faithful. Take Jain's case. Ten years ago his business associate walked into his house with an astrologer, Raja Babu, in tow. Raja Babu asked to see Jain's horoscope. At the time Jain was saddled with a Rs.4 crore customs penally over palm oil imports from Malaysia. "I flung my horoscope at him in total mockery, "says Jain, who was a non-believer then.

Visibly insulted, Raja Babu walked out of his house. But before going, he made a simple prediction: that Jain's problem would be solved on the 17th of the month by 11.15 a.m. That prediction came true. At the hearing of his case in the collectorate of customs in Bombay, Jian was absolved of the penalty at 11.14 a.m. Today, Jain meets Raja Babu at least four times a week. "Ten years ago he had walked out of my house predicting that I would be running after him. I have been doing just that, "says Jain.

By and large, astrologer come to the fore usually when there is a crisis. Khanna finds his visits to astrologers rising when he has no order in hand. "They tell me the time by which the situation will improve. It gives me consolation, "he says.

Or take Calcutta-based P.K.Kanodia, who turned to his astrologer when his sugar mills plunged into the red. The astrologer's advice: diversify into steel. Rolta Steel Ltd, was born. Years later, when the steel sector slumped, he secured back to his astrologer. The advice this time: change the direction of the entrance gate and hold Chandi puja. Kanodi did so, and the company's fortunes improved.

Now that Rolta is again facing hard times, Kanodia is waiting for his astrologer;s next solution.

Others like Incab Industries chairman Kashinath Tapuriah 55, believe in what he calls the 'umbrella syndrome' following the astrologer's advice on a more regular basis, just to be on the safe side. "We should consult them specially during good times, because good times don't last long", says Tapuriah.

The astrologers' advice usually vary. It could simply be a puja before construction, or an elaborate Chandi puja to ward off enemies. Advocates of vastu shashtra emphasis having buildings face the right direction. Says R.P.Goneka: "There are two parts to astrology. One is calculation and the other interpretation. Astrologers who do not know both are not worth listening to."

Another favourite is advice on gemstones, either to nullify the effect of "bad stars" or promote the "good" ones. Interestingly, Geeta Sen, a specialist in gemology, has found that many businessmen who wear stones often try to hide the fact. She has found a way out:

"I have made modifications so that they can wear the stones around their neck or the arm, where it is not visible."

Warding against the uncertainties for the future doesn't come cheap. Consultation fees very depending on the businessmen and the type of problems. "It can be anywhere between Rs.100 and Rs.10,000," confides one astrologer. Sometimes, consultation is free, but money on the puja or the stones.

Though there may be many who will swear by their astrologers, there is no dearth of detractors. Says 35-year-old Vijay Mehta, the brain behind Inter Shoppe's success and a non-believer: "Success is a mix of hard work, perseverance and effort."

Ashok Jaipuria who preys on astrologers as people who prey on other's sense of fear and insecurity." He finds it curious that astrologers always seem to find excuses to explain wrong predictions, adding: "If an astrologer could predict everything so well, he'd be running my business, wouldn't he?"

Like doctors, the effectiveness of astrologers largely depends of faith. Either you have it, or you don't, For those who do, their fortunes could depend on what the stars foretell.

(Source : Economic Times, July 20, 1991).

The economy of a nation may be affected by religion. One of the reasons why Burma has remained economically backward is its religion. According to local custom every citizen in Burma must undergo monkhood for one year. It is said that Burmese have become lazy because of this practice. In Tibet and Sri Lanka too hundreds of people take to monkhood and stay in monasteries. The services of these people could have been used for more productive purposes.

In a country like ours where people of several religious beliefs live, harmony among them is vital for business to flourish. Conflict between religions will destroy business prospects as was demonstrated when communal clashes broke out after the Ayodhya incident.

Aftermath of Dec. 6th, 1992

Predictably, the economic consequences of Ayodhya were immediate. The major stock exchanges remained closed for most of last week, and share prices plummeted in unofficial deals. Shops downed shutters, the strike calls affected work in banks, curfew and firing in major cities disrupted normal functioning of factories and offices. Workers, notably the Muslism, stayed away for days.

Companies which have public issues opening last week were worried about their ability to raise the targeted amounts, and were forced to keep the issues open for all maximum permissible 10 days. Others with issues planned for the coming weeks were considering postponing their forary into the capital market. If that happens, much less money will be raised this year in rights and public issues than the Rs.20,000 crore expected.

An IMF team due in Delhi next week for talks with the Union Finance Ministry hs postponed its visit, a seminor in Jaipur aimed at attracting Japanese investment into India was put off by a month, and the Bush administration put out a travel advisory that advised all Americans to put on hold their travel plans to this country.

The Japanese embassy in India asked members of its community to postpone their business trips by a week. A delegation from Turkmenistan led by its deputy prime minister decided to cancel its trip to India, and 25 heads of Indian missions abroad who were in Delhi for an orientation programme on economic liberalization were sent back within two days of their arrival. The Joint Pa liamentary Committee on the securities scam put off its hearing by a week.

A broad, the India Growth Fund, the most visible barometer of investor sentiment of India, slumped heavily on the New York Stock Exchange, as did the global depository shares of Reliance Industries.

Foreign portfolio investment into India is also expected to be hit, with executives of US consultancy firms who have been trying to create interest in India, receiving calls from worried CEOs wanting to know the fallouts of the Ayodhya issue.

Said a German diplomat: "Just as overseas investors have started viewing India positively, its image has taken a knock. The violence in India has been the top story on television internationally for the past few days, and news about reforms will automatically take a back seat. Even India's credit rating may be affected if the violence continues."

A Japanese diplomatic source adds that businessmen in his country are "watching the situation in India carefully and hope that things will settle down quickly."

Says Adi Godrej, managing director of Godrej Soaps: "All this uncertainty is certainly going to affect business. Retailers and traders all over the country have had to close their shops due to the law and order problem. International confidence will fall. Indian tourism is going to be adversely affected".

(Source : *Economic Times*, Dec. 13, 1992).

Superwoman is Shackled

Japan has a severe case of royal fever. And the gloom of recession, last week's announcement that Crown Prince Naruthito, seemingly destined to a lonely life of bachelorhood, has finally found a bride, has provoked a range of emotions from tears of joy among shoppers to a forecast that the economy will grow by an extra 0.8 per cent this year.

There is a general sense that the crown prince, the 32 year-old heir to Japan's Chrysanthemum Throne, has chosen well. Miss Masako Owads, 29, a career diplomat, speaks English, French and German shares his love of skiing and tennis and after a stint at Harvard, studied. like the prince at Oxford University.

But his choice has also provoked a debate about the role of women in Japan. Miss Owads, whose father is vice foreign minister, is on a fast track on her career. She has sat in on negotiations with Mrs.James Baker the former US secretary of State, and Mrs. Carla Hills, the US trade representative. She has also been responsible for policy formulation on semiconductors, one of the sensitive trade between the US and Japan.

Her career will be sacrificed for the cloistered life of loyal wife to the crown prince, responsible for official tree planting and paper folding festivals. Miss Owada, likely to be wed in provoked dismay among some Japanese women, who are painfully making their way through the male dominated hierarchies of business and the government bureaucracy. " I can't believe she's giving up her job", said one career woman, expressing her shock over the resignation of Miss Owada, dubbed "Super woman" by the media.

By contrast, many Japanese men, who feel threatened by the emergence of stronger career women, are sure she has done the right thing. "Japanese women should follow her example, they've just not made for workplace", says one male office worker.

But Miss Owada's acceptance of the imperial proposal has also inspired hope that she may be able to weaken the stifling influence of the Imperial Household Agency, the division of the civil service that is in charge of imperial matters and keeps the imperial family aloof from the public. Many Japanese want their royal family to become more accessible, and see the British royal family as a model.

The agency's determinations to maintain its tight control over royal affairs and thę mystique of the imperial family was shown in a recent controversy over Princes Aki's hair.

The agency was outraged by an unauthorized snapshot of Prince, having a strand of hair swept from his forehead by Princess Kiko, his wife, moments before the wedding. The picture was banned by news agencies and the photographer was sacked.

Another sign of the agency's strong grip on royal affairs was its ability to impose a black-out on media coverage of Prince Naruhito's search for a bride. It blamed previous media reports for his difficulty in finding a match and said that, as the next emperor and spiritual head of the Shinto religion, Naruhito should be protected from press intrusion.

On a more worldly level, Japanese businessmen are hoping that the imperial marriage will stimulate the sluggish economy. Consumer spending received before the wedding of Akihito, the current emperor, and empress Michiko in 1959. The research arm of Nippon Life, the country's largest life assuror, estimates the royal engagement could add as much as Y3, 300bn (sterling 17bn) in consumer spending this year through sales of commemorative souvenirs and new housing demand triggered by an increase in the number of couples getting married.

The imperial wedding will certainly be over-promoted , with the Japanese government suggesting recently that it would be made a national holiday, and media organisations already assigning squadrons of reporters to prepare programmes on every conceivable royal issue. But whether the imperial marriage is a flop depends on Prince Naruhito, who will either take Miss Owada by the hand and lead her into a new era of openness or ensure a life of frustrating, refind confinement.

The prince has expressed a desire for a more informal relationship between the imperial family and the people, and has complained about excess security precautions. Film footage of the prince's life behind the palace walls this week showed him jogging, apparently alone, until the camera panned to the right, showing a pack of security officials scurrying behind him.

Having observed the British royal family during his time as a graduate student at Oxford, the prince recently expressed his admiration for the Windsors' social profile. After their recent problems, however, the crown prince may well be hoping that his journey through married life proves somewhat smoother.

Time Dimension

Time dimension is another cultural aspect that will influence business. Time dimension refers to peoples' orientation-past present or future. In some societies people are oriented towards past. In others they tend to be more focussed on the present. Still others are futuristic in their orientation. Business people in societies that focus on present care more for the current well-being of companies they float. Employees are hired and maintained as long as they are useful to the organisations and are dispensed with once they cease to be so. Employee training, job security, and loyalty of service are unusual with such industrial societies. The American society is an example of this type. Japan is an example of futuristic society. The Japanese have very long-term future oriented time horizons. When Japanese firms hire employees, they often retain them for a long time, even for life. The firm will spend a great deal of money to train them, and there is a strong, mutual commitment on both sides. Societies which are oriented towards part tend to preserve part heritage. Concepts and actions of yore continue to guide current plans and strategies. Our society is a striking example for past and future orientation.

Cultural Resources

Cultural resources refer to the heritage which makes the country distinctive. Our country is vastly rich in cultural heritage. A look at our past is a relevant and rejuvenating experience. It makes an individual feel proud that he is an Indian. It certainly makes him raise his head and look ahead with confidence and hope.

Ours is a beautiful country with vast, varied and rich mineral resources, splendid flora and fauna, varied animal life, beautiful rivers, huge mountains, dense forests, splendid architecture, innumerable temples and mosques and great thinkers and seers. It is on this land that Adishankara, Gautam, Buddha and Swami Vivekananda were born and it was here that Mahatma Gandhi led the country to freedom from colonial rule through non-violence.

The whole of South East Asia and Central Asia received culture from India. Along with culture, India conferred many p[illegible]tical blessings on the world, notably rice, cotton, the sugarcane, many spices, the domestic fowl, the game of chess, and the most important of all, the decimal system of numeral notation – the – invention of an known India mathematician early in the Christian era. India developed a grammatical system which is unparalleled in any other country. And Sankrit literature is one of the greatest contributions India has made to the culture of mankind.

Today, there are few Indians whatever their creed, who do not look back with pride on their ancient culture and there are few intelligent Indians who are not willing to abandon some of its effete elements that India may develop and progress. Politically and economically, India faces many problem, and no one can predict her future may be, the Indians of the coming generations will not be unconvincing and self-conscious carbon copies of Europeans, but will be men rooted in their own soil and traditions and aware of the continuity of their culture. Already the extremes of national self-denigration an fanatical culture chauvinism are disappearing. In the past, Hindu civilization had received, adapted and digested elements of many different cultures, Aryan, European, Mesopotamian, Iranian, Greek, Roman, Scythian, Turkish, Persian, Mughal and Arab. With each new influence, it has somewhat changed. Now, it is well on the way to assimilating the culture of the West.

Our civilization will, we believe retain its continuity. The *Bhagavad Gita* will not cease to inspire men of action, and the Upanishads men of thought. The charm are graciousness of the Indian way of life will continue, however much affected it may be, by the labour-saving devices of the West. People will still love the tales of the heroes of the *Mahbharatha* and the *Ramayana*, and of the lovers of Dusyanta and Puruvas and Urvasi. The quiet and gently happiness which has at all times provided Indian life where oppression, disease and poverty have not overclouded it, will surely not vanish before the more hectic way of the West.

Much that was unless in ancient Indian Culture has already perished. The extravagant and barbarious hecatombs of the Vedic age have long since been forgotten, though animal sacrificed.

SOCIAL RESPONSIBILITY OF BUSINESS

Business depends on society for the needed inputs like money, men and skills. Business also depends on society for market where products may be sold to their buyers. Thus, business depends on society for existence, sustenance and encouragement. Dependence of business on society is so complete that as long as the latter wants the former, business has reason to exist. Once society ceases to have any use for business, it has no place and reason to live. Being so much dependent, business has definite responsibility towards society. Popularly called the social responsibility of business the subject has become an important topic for discussion in business and academic circles.

Social responsibility is understood as the obligation of decision markers to take actions which protect and improve the welfare of society as a whole along with their own interests. Every decision the businessmen takes and every action he contemplates have social implications. Be it deciding on diversification, expansion, opening of a new branch, closure of an existing branch or replacement of men by machines, society is affected in one way or the other. Even routine matters like overtime and night shifts, subcontracting, and laying off employees due to load – shedding have a social impact. Whether the issue is significant or not, the businessmen should keep his social obligation in mind before contemplating any action.

Social responsibility of business is not new to our country. In the olden days, whenever there was a famine, the leading businessmen of the area would literally throw open their godowns and their treasure chests to provide food and other assistance to the needy. The history of every region of this country is replete with stories of the magnificent manner in which businessmen rose to the occasion in times of calamity. Even in ordinary times, it was the businessmen who looked after the welfare of the destitute, the goshalas, wells and ponds wherever water was difficult to get, the pathashalas and so on. So to accept social responsibility is no more than rededicating ourselves to the cherished values of our ancestors in the field of business. Gandhiji reminded us of these values when he propounded the theory of trusteeship.

A way of Though

India's largest and internationally best known group of companies with a turnover of approximately four billion dollars and an employee strength of about 240,000 was launched by its founder, Jamsetji Tata, over a century ago with a textile mill in Central India.

The enterprises promoted by Tatas were born at a time when India was no more than geographical expressions, in need of all the basic and vital necessities of life.

The key nation-building activities that Tatas promoted called for a spirit of adventure, the taking of great risks and a commitment to build castles on the clouds of intension. Over the Years, not only did Tata enterprises develop and branch out into many diversified fields of commercial activity, but they came to represent a way of thought bringing the industrial revolution to a vest multilingual subcontinent, hitherto wedded exclusively to agricultural pursuits.

Started in 1907, Tata Steel, India's first integrated steel plant, and at one time the biggest in the then British Empire, came into being at a time when British experts laughed at the very idea of Indians wanting to produce steel to British specifications.

Nearly 40 years later, Tata steel promoted The Tata Engineering and Locomotive Company Limited initially to produce locomotives for the Indian Railways then diversifying to emerge as the country's largest and most modern commercial vehicle producer and consequently a major foreign exchange earner.

In 1939, Tata Chemicals, struggling hard for years, ultimately mastered the soda ash production technology which was until then a closely guarded secret of about six world giants.

Three years after Jamsetji Tata's death in 1904, saw one of his dreams came true, bringing hydro-electric power to Western India, making Bombay the first smoke free industrial city in the country. It was also in Bombay that Jamsetji Tata built another Taj Mahal, which today, some three quarters of a century later, is recognised as one of the finest hotels in the world.

To support and preserve the results of a growing green revolution, Tatas promoted Voltas, as leading enterprise in refrigeration and air-conditioning. The country's largest private sector Trading House, Tata Exports was set up in the early 1960s. Simultaneously, a series of diversification activities took place ranging from the manufacture and processing of tea to genetic engineering, from cosmetics to management consultancy services, from oil rigging to telecommunications.

Through a pioneering concept of trusteeship in management, the benefits of the profits of many of these companies are channeled back to the people through major philanthropic trusts with nearly 80 percent of the capital of the holding company, Tata Sons Limited being held by these Trusts. As a result, great national institutions have come into being in the areas of science, medicine, atomic energy and the performing arts.

Once upon a time, Indian cottons and muslins were sold in the markets of Babylon and Indian pepper was weighed against gold in the Forum at Rome. Today, after hundreds of years of stagnation, Indian manufactures are travelling back into the market places of the world on a bridge built by Tata enterprises.

Social Responsibility Models

There are two basic approaches to the concept of corporate social responsibility. Some theorists, focusing on the "micro" level of analysis, try to show individual companies how they can be more socially responsive. Other researchers concern themselves with the "macro" level of analysis, assuming that the government, not individual companies, should establish a country's social goals. Needless to say that it is the micro level of analysis which is significant.

Ackerman's Model : Micro-level theorist Robert Ackerman was among the earliest people to suggest that responsiveness, (he prefers to use the term responsiveness), should be the goal of corporate social endeavour. Ackerman described three phases through which companies commonly tend to pass in developing a response to social issues.

Ackerman's three stages of social responsibility

ORGANIZATIONAL LEVEL	PHASES OF ORGANIZATIONAL INVOLVMENT		
	Phase I	Phase II	Phase III
Chief Executive	Issue: Corporate obligation Action : Write and communicate policy Out come : Enriched purpose, increased awareness	Obtain knowledge Add staff specialists	Obtain organisational commitment. Change performance expectations.
Staff Specialists		Issue : Technical problem Action : Design data system and interpret environment. Outcome : Technical and informational groundwork	Provoke response from operating units. Apply data system to performance measurement
Division Management			Issue : Management problem Action: commit resources and modify procedures Outcome : Increased responsivcness

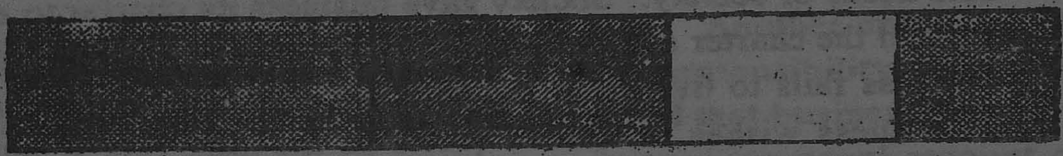
In phase 1. a corporation's top managers learn of an existing social problem. At this stage, no one asks the company to deal with it. The chief executive officers merely acknowledges the problem by making a written or oral statement of the company' s policy towards it.

In phase 2. the company hires staff specialists or engages outside consultants to study the problem and to suggest ways of dealing with it. Up to this point, the company has limited itself to declaring its intensions and formulating its plans.

In phase 3. is implementation. The company now integrates the policy into its ongoing operations. Unfortunately, implementation often comes slowly-and often not until the government or public opinion forces the company to act. By that time, the company has lost the initiative. Ackerman thus advices that managers should "act early in the life cycle of any social issue in order to enjoy the largest amount of managerial discretion over the outcome."

For example, it has recently been suggested that women who spend a great deal of time working at video display terminals, such as word processors or computer operators, stand a higher than average chance of having problem pregnancies. The research is preliminary tentative, and disputed by some investigators. Ackerman's point is that as this issue unfolds, as more actors and competing interests become involved in efforts to resolve it, managers could conceivably lose control over their ability to handle the issue at their own discretion. We can easily imagine several studies confirming these early indications and the resulting drama of congressional hearing, work stoppages, lawsuits, and bureaucratic regulations. Ackerman's model suggest developing options early in the life cycle of an issue. In this case, "enlightened" employees, encourage them to ask questions, and even seek transfers or retraining if they believe it is warranted. Being responsive may well be the only responsible course of action.

Carroll's Four Part Model : Archie B. Carroll has promulgated the four-part model, while discussing the nature of social responsibilty. The model (through the length of its bars) suggests that because a



Total Social Responsibilities

business firm a basically an economic entity, it primary responsibility is economic. It must produce the goods and/or services that society wants and must sell them at a profit. Legal responsibilities are also basic. Firms should operate within the law.

In the above model, ethical responsibilities refer to behaviour by the firm that is expected by society but not codified into law. Although these responsibilities are somewhat ill-defined in general, in specific situations they can be fairly clear. For instance, until the passage of the Foreign Corrupt Practices Act in 1977 it was not illegal for the U.S firms to bribe foreign officials. Nevertheless, when it became generally known that leading corporations were engaged in overseas bribery, public indignation led to the passage of a law forbidding this practice.

The category of discretionary responsibilities encompasses voluntary activities undertaken for the public good. Specific discretionary activities are not mandated by law nor demanded by public opinion. However, more and more frequently, businesses are expected t get involved in these types of activities.

Arguments for social Responsibility

There are many arguments in support of socially responsive actions. More important of them are explained below.

1. ***Changed Public Expectations of Business :*** One of the most potent arguments for social responsibility is that public expec-

tations from business have changed. It is reasoned that the institution of business exists only because it satisfies the valuable needs of society. Society gave business its charter to exist, and the charter can be amended or revoked at any time that business fails to live up to society's expectations. Therefore, if business wishes to remain viable in the long run, it must respond to society's needs and give society what it wants.

2. *Better Environment for Business :* Another argument favouring social responsibility is that it creates a better environment for business. This concept rationalizes that a better society produces environmental conditions more favourable for business community quality of life will as a result have a better community in which to conduct its business. Labour recruiting will be easier, and labour will be of a higher quality. Turnover and absenteeism will be reduced.

As a result of social improvements, crime will decrease with the consequences that less money will be spent to protect property, and less taxes have to be paid to support police forces. The arguments can be extended in all directions to show that better society produces a better environment for business.

3. *Public Image :* Another argument in favour of social responsibility is that it improves public image. Each individual firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets, and other benefits. A firm which seeks better public image should support social goals.

4. *Avoidance of Government Regulations :* Government is a massive institution with long arms. It seeks to regulate business in the public interest. Government regulation is costly and denies the much needed freedom in decision making. Before

government stretches its long arms, business should discharge it obligation to society.

5. ***Balance of Responsibility with Power :*** Another argument for social responsibility is that business responsibility should be more related to its power. It is reasoned that businessmen have vast amounts of social problems. In turn, an equal amount of social responsibility is required to match their social power. If each institution is tot perform its social role in an orderly relationship with other institutions, then responsibility must be accepted whenever there is power. Any other arrangement invites irresponsible behaviour.

6. ***Business has the Resources :*** Another argument for social responsibility is that business has a vast pool of resources in terms of men, talents, functional expertise and money. Probably, business is without peers in respect of the resources it possesses. With these resources at its command, business is in a better position to work for social goals.

7. ***Let Business Try :*** One interesting argument for business social responsibility is a sort of back-handed one. It is that many other institutions have failed in handling social problems, so why not turn to business. Many people are frustrated with the failure of other institutions, and in their frustration, they are turning to business.

8. ***Prevention is Better Than Cure :*** The last point is that prevention is better than cure. If business delays dealing with social problems now, it may find itself constantly occupied with putting out social fires so that is has no time to accomplish it goal of producing goods and services. Since these social problems must be dealt with at some time, it is actually more economical to deal with them before they develop into serious social break downs that consume most of management's time.

9. *Moral Responsibility* : It is said that the acceptance of corporate social responsibility is the morally correct position. This notion suggests that out modern industrial society faces many serious social problems brought on, to a large extent, by large corporations. The corporations therefore have a moral responsibility to help solve or ameliorate these problems. A corollary to this notion is that because business firms control so many of the resources in our economy, they should devote some of these resources to the overall betterment of society.

10. *Citizenship Argument* : Corporations are institutional members of society. If individual members of society have an obligation to improve society-to leave the world better than they found it-corporations also have this responsibility. After all, corporations unlike citizens, are created by society. Corporations are citizens, and citizens have civic duties and responsibilities.

11. *Duty of Gratitude* : Business units benefits from society. On the basis of the commonly accepted principle that one owes debts or gratitude towards those who benefit us, the corporation has certain debts that it owes to society.

Arguments Against Social Responsibility

Arguments against social responsive actions are equally strong. Some arguments are as follows:

1. *Profit Maximization* : The first and the most forceful argument disfavouring social responsibility is that business has profit maximization as its main objectives. In fact, the business is most socially responsible when it attends to its interests and leaves other activities to other institutions. Since business operates in a world of poverty and hunger, the economic efficiency of business is a matter of top priority and should be the

sole mission of business. Business's function is economic not social and economic values should be only criteria used to measure success. In this kind of system, managers are the agents of the stock holders, and all their decisions are controlled by their desire to maximize profits for the stockholders while reasonably complying with law and social custom.

2. *Society has to pay the Cost :* Another argument is that the costs of social responsibility will be passed on to the society and it is the society which must bear them. Can the society afford these additional costs?

3. *Lack of Social Skills :* Business managers are best at managing matters relating to business. They are not equally good at solving social problems. Their outlook is primarily economic and that their skill are the same. They really do not feel at home in social matters. If society is going to depend on someone to work with social problems, why choose group which is so poorly qualified? Does society really want economic and technical people meddling in social affairs? Will they broaden their outlook, and will their skills transfer? Can business really do the job? It is better equipped than government and other instititions?

This problem is, however sought to be overcome to a considerable extent. We have a number of fairly high caliber institutions, like the Xavier Institute of Social Sciences and Institute of Rural Management Anand (IRMA), which train students specifically for social work. Corporates like the Lalbhais, Mafatlals and Shroffs have already attempted to bring in management professionals into social responsibility area.

4. *Business has Enough Power :* Another argument is that business already has enough social power, therefore, society should not take any steps which give it more power. According to this

like for reasoning, business is one of the two or three most powerful institutions in society at the present time. Business influence is felt throughout society. It is felt in education in government, in the home, and in the market-place. It moulds many social values. The process of combining social activities with the established economic activities of business would give business an excessive concentration of power. Business is an institution which is considered to be not so good and giving more power to it is not advisable.

Social Overhead Cost : Cost on social responsibility is considered to be a social cost which will not immediately benefit the business. Why spend money on an object, the benefits of which will be realized only in the future? It is the heavy social overhead cost which is one of the reasons for the dismal performance of some of our government undertakings.

Lack of Accountability Another point of view is that the businessmen have no direct accountability to the people, therefore, it is unwise to give businessmen responsibility for areas where they are not accountable. Accountability should always go with responsibility, abd it is poor social control to allow any other kind of arrangement. Until the society can develop mechanisms which establish direct lines of social accountability from business to the public, business must stand clear of social activities and pursue only its goal of profit where it is directly accountable through the market system.

Lack of Broad Support : Another point is that business involvement in social goals lack support from all groups in society. If business does become socially involved, it will create so much friction among dissident parties that business cannot perform its social assignment. Although many persons desire business to become more socially involved, others oppose the idea.

There is lack of agreement among the general public, among intellectuals, in government and even among businessmen themselves.

8. *Friedman and Levitt's Views :* The most cogent criticism been voiced by the economist Milton Friedman. Friedman based his arguments on two principle contensions, one economic and one legal. From the economic perspective, he asserted that if managers spend corporate funds on projects not intended to maximize profits, the efficiency of the market mechanism will be undermined, and resources will be misallocated within the economy. On the legal side. Friedman contended that because managers are legal agents of the stockholders, their sole duty is to maximize the financial return to the stockholders. Hence, if they spend corporate funds for social purposes, they are essentially stealing form the stockholders. Moreover, Friedman suggested that if the stockholders want money spent on social causes, they are free to do so individually with their dividends.

Theodore Levitt argued against corporate social responsibility its fearing that business values might come to dominate society. He posited that business, as an institution, would become the twentieth-century equivalent of the medieval church – the all – embracing institution in society. He suggested that this would not be health for socieyt.

Barriers to Social Responsibility

Efforts to achieve greater social responsibility encounter practical problems at every level of the organisation. Awareness of the problems is helpful to take steps to overcome them.

The Individual Manger : The Individual manager is the person who is ultimately responsible for the social action programmes of any organisation. The manager can initiate, advocate and put programmes into effect. The manager can also balk, hinder, and prevent programmes from being planned or implemented. Almost all employees in business are employers. Their careers may be in jeopardy if they consistently advocate actions of which their superiors disapprove or if they make unprofitable trade offs. For this reason, most manager are cautious about proposing significant changes in their organisation's behaviour.

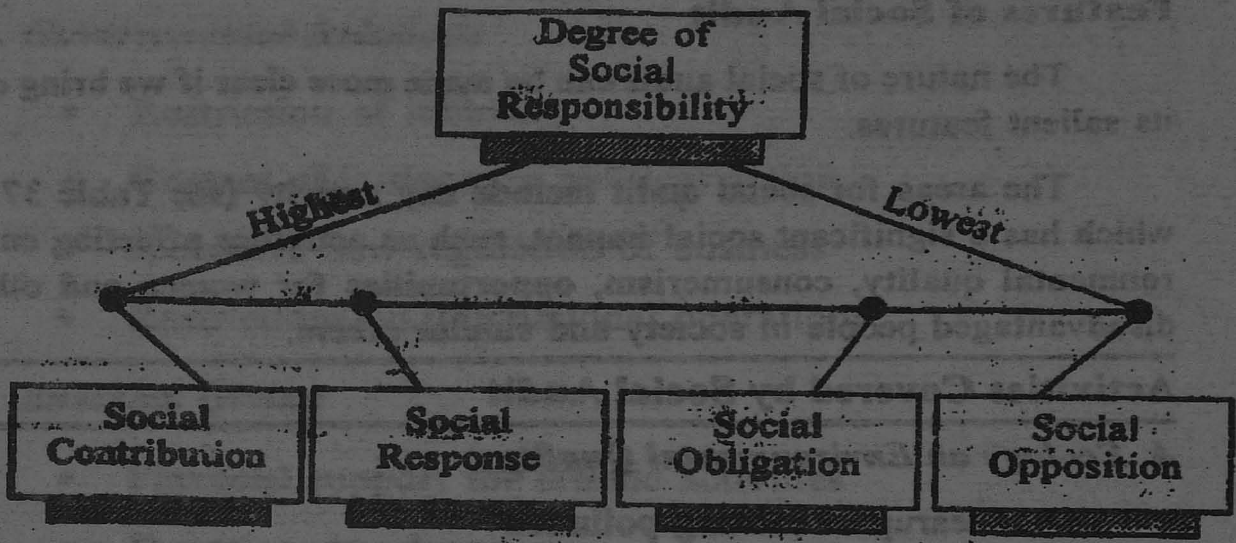
The Organisation : At the organisation's level the greatest barrier is the focus on profits. Social action projects must always be evaluated in terms of net cost. Shareholders want profits distributed in dividends or invested to expand production. Employees want higher salaries and better working conditions. Against these competing claims, social programmes may have little chance.

The Industry : There may not be support from competitors in the same industry for social action programme.

The Division : Like the organisation of which it is part, a division must try to maintain itself as a profit centre. Any social responsibility decision that reduce the level of profit might threaten the division's viability. Thus, most divisions are slow to initiate socially responsible programme until they receive clear instruction to do so from to management.

Social Responsibility Strategies

In view of the ongoing controversy regarding whether or not a business has social responsibility, it is not surprising to find a wide range of industry responses to the issue. Business responses to social responsibility tend to fall within four categories: (i) social opposition, (ii) social obligation, (iii) social response, (iv) social contribution. As illustrated in these positions fall along a continuum, ranging from low to high levels of socially responsible behaviour.



Approaches to Social Responsibility

(Source : Gene Burton and Manab Thakur, Management Totay, P.572)

SOCIAL AUDIT

In the previous two chapter the twin facets of social responsibility of business were discussed.

It is clear that a business unit has obligations to its employees, owners, buyers, government, environment, disadvantaged people and others. It goes to the credit of businessmen that they have understood their obligations and have been discharging them ably. The question now is how to assess the performance of a particular business unit with regard to its social responsibility? The answer is 'social audit'.

Nature of Social Audit

A social audit is systematic study and evaluation of an organisation's social performance, as distinguished from its economic performance. It is concerned with the possible influence on the social quality of life instead of the economic quality of life. Social audit leads to a report on the social performance of a business unit.

Features of Social Audit

The nature of social audit can be made more clear if we bring out its salient features.

The areas for social audit include any activity (see Table 37.1) which has a significant social impact, such as activities affecting environmental quality, consumerism, opportunities for women and other disadvantaged people in society and similar others.

Activities Covered by Social Audit

A. Ecology an Environmental Quality

- Clearup of existing pollution
- Design of processes to prevent pollution
- Aesthetic improvements
- Noise control
- Dispersion of Industry
- Control of land use
- Required recycling

B. Consumerism

- Truth in labeling, in advertising, and in all business activities
- Product warranty and service
- Control of harmful products

C. Community Needs

- Use of business expertise to solve community problems
- Reduction of role of business in community power structure
- Aid with health care facilities
- Aid with urban renewal

D. Governmental Relations

- Restriction of lobbying
- Control of business in political action
- Extensive new regulation of business
- Restrictions on international operations

E. Business Giving

- Financial support for artistic activities
- Donations to education.
- Financial support for assorted charities

F. Minorities and Disadvantaged Persons

- Training of hard-core unemployment
- Equal employment opportunities and quotas for minority employment
- Operation of programmes for alcoholics an drug addicts
- Employment of persons with persons records
- Building of plants and offices in minority areas
- Purchasing from minority businessmen
- Retraining of workers displaced by technology

G. Labour Relations

- Improvement of occupational health and safety Prohibition of "export of jobs" through operations in nations with low labour costs

* Provision of day-care centres for children of working mothers
* Expansion of employee rights
* Control of pensions, especially vesting of pension rights
* Impatience with authoritarian structures; demand for participation

H. Share holder Relations

* Opening of boards of directors to members of public representing various interest groups
* Prohibitions of operations in nations with "racist" or "colonial" governments
* Improvement of financial disclosure
* Disclosure of activities affecting the environment and social issu...

I. Economic Activities

* Control of conglomerates
* Break up of giant industry
* Restriction of patent use

(Source : Keith Davis & Blomstom, *Business and Society : Environment and Responsibility*, pp. 9-10)

The second feature about social audit is that it can determine only what an organisation is doing in social areas, not the amount of social good that results from these activities. It is a process audit rather than an audit for results.

Thirdly, social performance is difficult to audit because most of the results of social activities occur beyond the company's gate and the company has no means of securing data on the results. Even if data are available it is difficult to establish how many of them have occurred due to company's actions.

Finally, social audits use both qualitative and quantitative data. The pressures to use quantitative approach are strong because of its respectability and apparent objectivity. Quantitative data are precise and convincing, but in the area of social philosophy and human values it is misleading to report only in quantitative terms. They can communicates only a part of the total situation, a part of the whole truth. Both quantitative and qualitative data are essential. Normally a firm uses as much quantitative data as possible, and then supplements it with qualitative data.

Evelution of Social Audit

Social audit is relatively a new development. Theodore Kreps may be regarded as the founding father of the idea. He wrote a monograph on the measurement of social performance, in which he summarized his findings in 72 industries spanning over two decades (1919-38). He included among these measurements: (i) employment, (ii) production, (iii) consumer effort commanded (what have consumers been compelled to surrender in exchange for what they get?), (iv) consumer funds absorbed (what has happened to the steam of dollars which the industry has collected from the public and its consumers in the exchange for services rendered?); (v) pay rolls and (vi) dividends and interest.

Kreps indicated that this measurements did not constitute a comprehensive audit, for they gave no indication such vitally important facts as percentage of capacity operated, investment outlet provided, opportunity for new entrants, stability of operations, fullness of use of patents, modernization and the like.

The second stage in the development came when Howard Bowen conducted an independent appraisal every five years by a group of auditors, whose report was considered as an evaluation of a company's work. He suggested eight areas for appraisal; (1) price, (2) wages, (3) research and development, (4) advertising, (5) public relations, (6) human relations, (7) community relations and (8) employment stabilization.

Bowen's approach was more related to the modern version of social audit than what Kreps had suggested. However, Bowen's version failed to suggest specific parameters to conduct social audit.

It was Prakash S.Sethi who placed the concept of social audit, in 1970's in right perspective. Said he: "At the risk of overqualification, we might say that the purpose of social audit is to help break down the broad them 'social responsibility of business' into' identifiable components and to develop scales that can measure these components.

Social Audit in India

A sort of break through was achieved in 1979 when the Tata Iron & Steel Company (TISCO) appointed a committee to conduct the social audit. Since the event was historic it is desirable to detail the social audit conducted at TISCO.

The terms of reference of the social audit committee were:

"To examine and report whether and the extent to which the company has fulfilled the objectives contained in clause 3A of its

Articles of Association regarding its social and moral responsibilities to the consumers, employees, shareholders, society and the local community". The committee went about its task on the understanding that "companies", such as TISCO, have obligations to its workers and shareholders and to the community in which the company operates and to the large society, that these obligations arise from the company's own understanding of what it owes to society and that such an understanding is based on values and norms and that have been traditionally nurtured in India".

In preparing the audit report submitted in 1980, the committee presented its finding on the social performance of TISCO under different heads, e.g., the city [its common facilities, housing, health and conservancy, water supply and medical services]; the works and mines; pollutions; employer-employee relations; consumers; shareholders; community development and social welfare programmes; rural development programmes; obligations to society [small-pox eradication, flood relief etc.]

The committee reported the following inadequacies which may, in time, be attended to:

(a) "At the time of allocation of funds towards the various items of social welfare, the allocating authority should call for greater details of each head of demand and determine the estimated benefits thereform. This should be stated in the budget so as to be useful when the next yearly accounting and budgeting comes round. Merely stating heads of grants is not enough.

(b) "When the next annual budget is prepared, the previous year's performance in comparison to the expectations and details of expenditure should be closely scrutinized in order to enable the allocating authority to determine (i) whether the aid had reached the persons for whom it was meant, and (ii) whether the allocations among different items require any change.

(c) "A large appropriation towards education of children, particularly girls and adivasis, is of vital importance. Since a programme of rural uplift has now been undertaken, such education should be carried to the village folk within the area set apart by the company for its effort.

(d) "In allocating funds for social welfare, care should be taken to (i) foster self-reliance in the community, and (ii) give priority to the more critical felt needs of the community through a process of consultation.

(e) "The problem of pollution from the chimneys has assumed serious proportions and requires to be controlled early and, if possible, eliminated. Since the cost of pollution control is likely to be very heavy, even for company like TISCO, the effort may be spread over a number of years. In the meanwhile, units or locations where the illeffects of pollution are concentrated call for immediate measures of alleviation.

(f) "The dividends paid during the past few years appear to be some what meager to limit them, the company should make the necessary applications to government to be allowed to increase it.

Subject to the above inadequacies, the committee reported that the social performance of the company has been of high order and, in its magnitude, is perhaps unequalled India. The committee conceded that it was unable to accept the strict theory of taking account of social performance, but it made the observation for future guidance that "the company should make a start as early as possible to gauge for itself the benefits to be derived and which are actually derived from its expenditures on social welfare. The committee also suggested that whenever proposals for expenditures on social work are put up before the allocating committee, the heads of each scheme should be asked to specify what is the estimated benefit which it seeks to derive during the ensuring year from that expenditure. Details of the estimate must be given so that at the end of the year the allocating committee may be able judge whether the actual performance has been commensurate with the expenditure sanctioned, This would give a fair idea of the cost-benefit ration.

Stated with TISCO, the social audit has picked up. UTI, the premier financial institution, has also planned for a social audit. In the report for 1993-94, the chairman of UTI has declared that "to address the question as to what extent this unique organisation has been able to fulfill its responsibilities vis-à-vis its various publics and society at large, and independent social audit committee of five eminent citizens has been setup".

With the environmental audit being mandated, companies in the 17 notified industries have taken up social audit seriously.

Whether it was Shriance Foods and Fertiliser Industries (SFFI), JK Synthetics, Escorts, National Fertilisers Ltd (NFL), Steel Authority of India (SAIL) or the National Thermal Power Corp (NTPC), each was busy testing and monitoring its plant facilities, firming up its environment cells and scouting around for appropriate eco auditors who could do the job.

Organisation for Social Audit

Social audit can be made by internal auditors, outside consultants, or a combination of the two. The internal auditor has the advantage of familiarity with the business, but his assessment might be influenced by his loyalty to the company. A consultant has the advantage of an outsider's view but lacks familiarity with the company and he is likely to ignore significant data. A combination of the two is ideal for carrying on the audit of social performance.

Closely related issue is whether or not to make public full or part of social performance report. The philosophy of any system suggests that the public interest is best served by public reporting; however, the present state of the art with social audits is so imprecise that public disclosure might do more harm than good. Imprecise data and informed judgements are helpful for internal decision making. Further, there are so many differences of opinion that almost anyone could find reasons for criticizing a firm's performance, and dissident group could expand some detail far beyond its importance. The result could be that social conflict would increase and firms would withdraw from social programmes in order to avoid reporting on them, thus defeating the original purposes of social reporting. Bowen's original proposal was that a social audit should be made by *outside* consultants for *inside* use only, and that it should be made only every five years.

Audit Programme

The social audit is a new concept. As a result there are very few guidelines for making it, and there is no standard procedure to follow. Most companies are at the beginning of the learning curve with social audits. They are starting to experimental with them, but they only limited results. When companies do begin audit procedures, they tend to find that the process is more complex than originally contemplated. Everything is related to everything else. In all this confusion Tata Iron and Steel Company (TISCO) did succeed in having a social audit.

Benefits of Social Audit

The benefits of social audit are as follows :

1. Social audit enables the company to take close look at it self and understand how far the company has lived up to its social objectives.

2. Related to the first benefit is the fact that social audit encourages greater concern for social performance through out the organisation.

3. Social audit provides cost data for comparing effectiveness of the different types of programmes.

4. Social audit provides cost data on social programmes so that management can relate the date to budgets, available resources, company objectives, and projected benefits of programmes.

5. Social audit provides information for effective response to external claimants that make demand on the organisation. News reporters, welfare organisations, and variety of others want to know what a business is doing in areas of their special interest, and a business needs to respond as effectively as possible. The social audit shows a business where it is vulnerable to public pressure and where its strengths lie.

Integrating Environment and Strategic Management

Till no we have described the global, technological, political, economic. social cultural and natural factors in greater detail. Mere description of each segment is not enough. What is important is to understand how these forces would form an input for strategic management. This chapter is devoted to describe how macro environmental analysis is integrated with the strategic management. Framework for macro environmental analysis was presented in chapter 2. How the analysis is integrated with strategic management is described here.

Integration of Environmental Segments

Inputs from environmental analysis are considered at various levels of strategic management, particularly at the strategy formulation stage. Before describing how they are considered, it is advisable to state that there is need for integrating the global, technological, economic, cultural, political and natural factors themselves. Such integration among the segments of the macro environment provides a company with a holistic view of the macro environment.

Specifically analysis of each environmental segment reveals trends which lead to pattern and which in turn lead to issues (see Fig,2.1). Thus, we have,

Trends ⟶ Patterns ⟶ Issues

What is Strategic Management?

Strategic management as was stated in Chapter 2., is a set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of an organisation. Strategic management stresses the formulation and implementation of strategies. A strategy refers to large-scale, future-oriented plan for interacting with the competitive environment to optimize achievement of company's goals.

Benefits

The complexity and sophistication of business decision making requires strategic management. In particular, strategic management offers both financial as well as non-financial benefits to organisation. Firms expect and reap financial benefits if they adopt strategic management.

In addition to a healthy bottomline, strategic management contributes to behaviourally based effects on a company. Such behavioural effects that can be expected are.

1. Strategy formulation activities should enhance the problem prevention capabilities of the firm. As a consequence of encouraging and rewarding subordinate attention to planning considerations, managers are aided in their monitoring and forecasting responsibilities by workers who are alerted to the needs of strategic planning.

2. Group-based strategic decisions are most likely to reflect the best available alternatives. Better decisions are possible outcomes of the process for two reasons; First generating alternative strategies is facilitated by group interaction; Second, screening of options is improved because group members offer forecasts based of their specialised perspectives.

3. Employee motivation should improve as employees better appreciate the productivity- reward relationships inherent in every strategic plan. When employees or their representatives participate on strategy formulation process, a better understanding of the priorities and operations of the organisation's reward system is achieved, thus adding incentives for goal directed behaviour.

4. Gaps and overlaps in activities among diverse individuals and groups should be reduced as participation in strategy formulation leads to a clarification of role differentiation. The group meeting format, whish is characteristic of several stages of a strategy formulation process, promotes an understanding of the delineations of individual and subgroup responsibilities.

5. Resistance to change should be reduced. The required participation helps eliminate the uncertainty associated with change, which is at the root of most resistance. While participants may no more be pleased with their own choices than they would be with authoritarian decisions, their acceptance of new plans is more likely if employees are aware of the parameters that limit the available options.

Requisites of an Effective Strategy

The major assumptions relating to an effective strategy are as follows :

1. Strategy will be suitable only if it is environmental friendly and uses the least of non – renewable sources. Any strategy based on this assumption is more likely to succeed.

2. With the globalisation of business organisation needs to bring out more varieties of products and services to suit customer needs. This requires a flexible and cost effectively manufacturing distribution and sourcing strategies. Therefore, a sustainable strategy has to be flexible and cost effective,

3. With the lowering of technology barriers, product life cycles are crashing. therefore, being responsive to the global customers will help a firm outperform others. Therefore, strategies have to be necessarily more responsive with the least time lag.

4. In the dynamic global business situation, current organisation structures cannot offer the necessary flexibility and responsive-

ness to counter modern challenges. Therefore, strategies need to be evolved wherein radically different organisation structures, preferably smaller ones need to be created.

5. Strategies based on products and services of international standards and open architecture are more likely to succeed since in the coming years, the competition will not be between the products but between the standards. Examples are – DOS Vs UNIX operating system of computers; telecom protocol between AT & T ; ALCATEL and Siemens ; magnetic bullet trains of France, Germany and Japan, HDTVs of Sony Vs US manufactures etc. Standards are constantly redefining the industry position and hence the right assumption will lead to a more sustainable strategy.

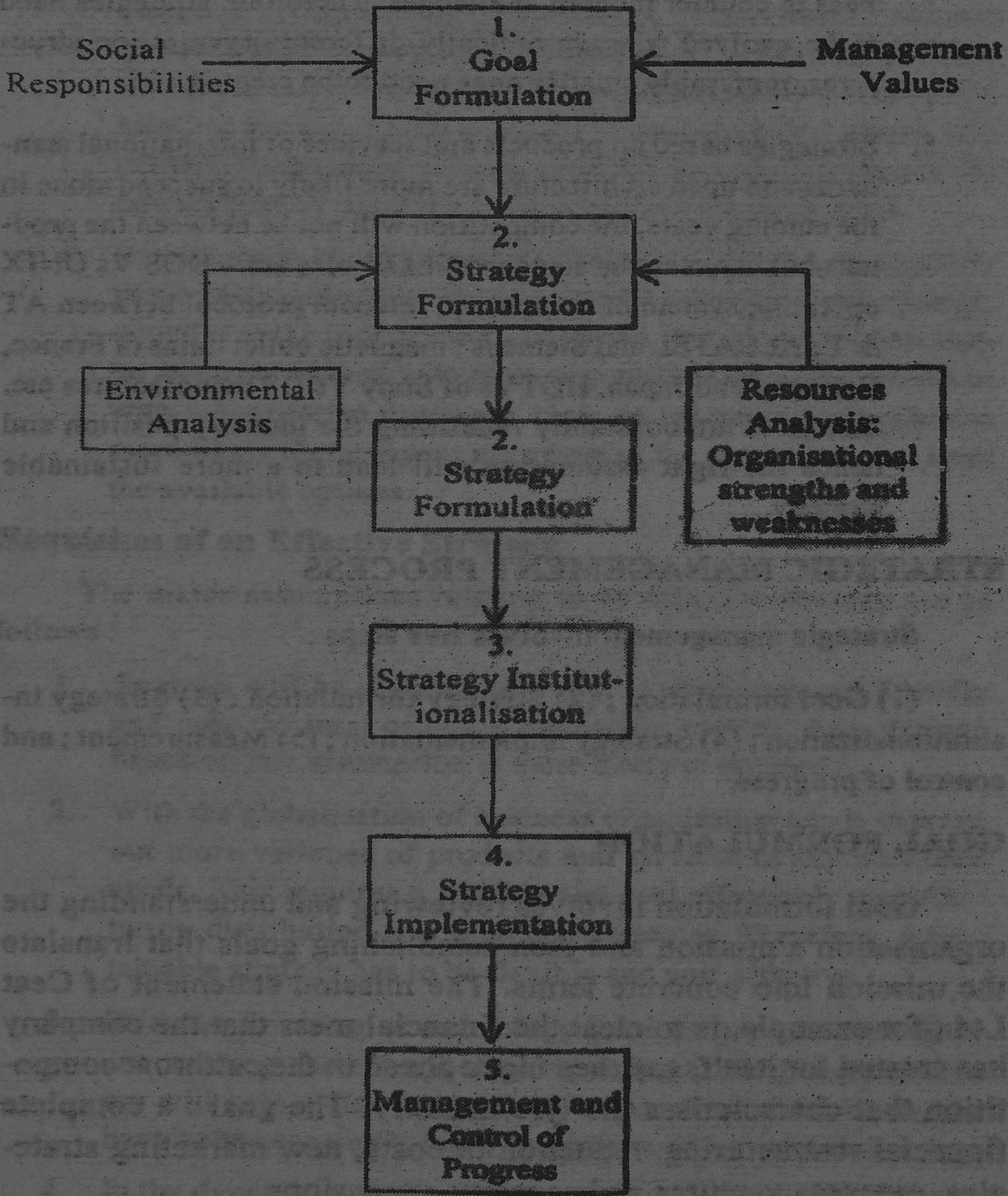
STRATEGIC MANAGEMENT PROCESS

Strategic management involves five steps :

(1) Goal formulation ; (2) Strategy formulation ; (3) Strategy institutionalization ; (4) Strategy implementation ; (5) Measurement ; and control of progress.

GOAL FORMULATION

Goal formulation involves reviewing and understanding the organisation's mission and then establishing goals that translate the mission into concrete terms. The mission statement of Ceat Ltd., for example, is to clear the financial mess that the company has created for itself, and then move ahead in the cutthroat competition that characterises the tyre industry. The goal : a complete financial restructuring, reduction in costs, new marketing strategies, overseas ventures and capacity expansions.



Steps in Strategic Management

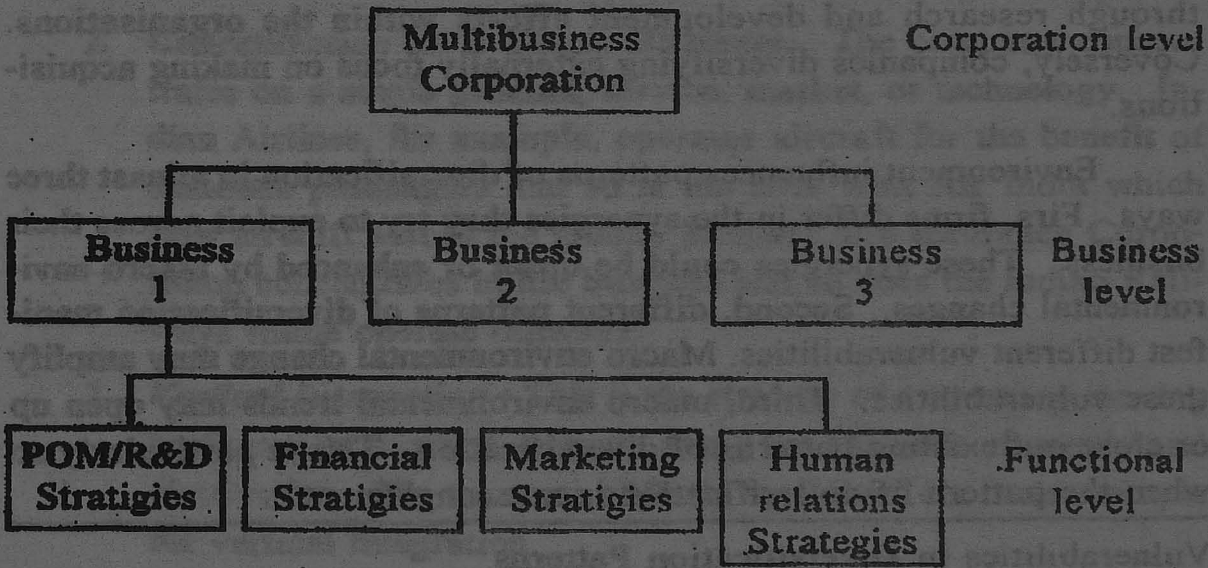
As indicates, the values managers hold will affect the kinds of goals they select. These values may be social or ethical, or they may involve practical matters such as the likely size of their organisation, the kinds of products or services to produce, or simply the way they prefer to operate. Similarly, social obligations will have their impact on the goals.

Strategy Formulation

Strategies are generally formulated at three levels: (i) Corporate level, (ii) Buisness-unit level and (iii) Functional level (see Fig.39.2)

Corporate Level Strategy

This strategy is formulated by top management to oversee the interest and operations of an organisation made of more then one line



Three Levels of strategy

of business. The major questions at this level are: What kinds of business should the company be engaged in? What are the goals and expectations for each business? How should resources be allocated to reach these goals?

In formulating corporate-level strategy, Peter Drucker suggest, corporations need to decide where they want to be in eight areas:

market standing, innovation, productivity, physical and financial resources, profitability, managerial performance and development, worker performance and attitudes, and public responsibility.

Environment Impact on Corporate Level Strategy

At the corporate level strategy, environmental impact on three key issues are significant: (i) patterns of diversification, (ii) port folio planning and (iii) risk return trade-offs.

Pattern of Diversification : In diversifying, there are two models a company can follow: internal and external. Firms choosing the internal model stress the development of new products and service through research and development efforts within the organisations. Coversely, companies diversifying externally focus on making acquisitions.

Environment influences patterns of diversification in atleast three ways. Firs, firms differ in the synergies they try to exploit across their business. These synergies could be upset or enhanced by macro environmental changes. Second, different patterns of diversification manifest different vulnerabilities. Macro environmental change may amplify these vulnerabilities. Third, macro environmental trends may open up or close out existing patterns of diversification. This is particularly so when the pattern of diversification is not conglomerate.

Vulnerabilities in Diversification Patterns

Patterns of diversification	*Vulnerability*
Horizontal diversification	All business share the general economic environment
Vertical integration	Markets
Technology related concentric diversification	Key technology synergy
Cengiomerate diversification	Society and general economy

(Source : Fahey and Narayanan, *Op.Cit*, p.197).

Port-Folio Planning : With regard to portfolio planning (the type of business a corporate entity must have), two strategic issues thc relevant. First, the composition of the firm's collection of business (or "portfolio) must be determined. This in volves, the question of whether the firm should follow a conglomerate, concentric, vertical, or mixed pattern of diversification (see box 39.1) It also raises the question of what businesses to add to the portfolio.

Ten Options for a Corporation

In deciding on a corporate strategy, a company has basically, ten options:

1. ***Concentration on a Single Business:*** The company concentrates on a single product, service, market, or technology. Indian Airlines, for example, operates aircraft for the benefit of domestic passengers and so is the case with Air India which files aircraft across the globle. Simliarl, life Insurance Corporation concentrates in life business and so does the Indian Railways which operate railways.

2. ***Vertical Integration :*** This is the strategy of a company moving backward or forward, or both, along the channels of supply and distribution. The takeover of Parle by Coca Cola is an example for vertical integration.

3. ***Concentric Diversification :*** Under this strategy, the company moves into new but related lines of business. There is a governing common thread that guides the company's acquisition and internal development policy. This thread may consist of technology, product similarly, or other valid reasons. The tack over of Tomco along with its subsidiaries by Levers is an example for concentric strategy. The subsidiaries are: Tate Vashishti Detergents (a joint venture with Maharastra Petro-

chemicals), Industrial Perfumes, International Fisheries, Kalyani Soap Industries (a joint venture with the West Bengal Government), and Tata Oil Clorox.

4. *Conglomerate Diversification :* This is unrelated diversification. Here the constraints on the company's strategy are merely whether a business meets the minimum standard of expected profitability. J.K. group of companies belong to this category.

5. *Joint Venture :* Joint venture is a capital sharing arrangement between an MNC and a local company (or even a foreign government) or another MNC. Each partner holds shares in the subsidiary and shares the profits in relation to its ownership-share. By following a joint venture route, MCNs can spread a given amount of investment across more locations and there by minimize risks.

6. *Retrenchment :* This is a common short-run strategy that some companies adopt during periods of poor economic performance, At the corporate level, it can assume two variations. The first involves stringent across-the-board cost cutting to improve efficiency. Ceat Ltd., for example, has resorted to cost cutting and financial restructuring to restore healthy bottomline. The second demands the selective pruning or revamping of the weakest product or division. Hiving off Tomco by Tatas to Levers is a case to the point.

7. *Divestiture:* This is another limited strategy that involves their selling off parts of a company to another firm or "spinning off" financially and managerially independent companies. Such a policy is generally followed to reverse past mistakes. Sale of oral hygiene business by Ciba-Geiby is an example for the first variation of divestiture. For second is the example of Eicher group which has six independent units. They are Eicher Tractors Ltd., Eicher Motors Ltd., Royal Enfield Motors Ltd., Eicher

International Ltd., Eicher Span Financial Services, and Eicher Consultancy Services.

8. ***Liquidation :*** This involves closing down the business for ever. Liquidation strategy is resorted to when all efforts to retrieve tc a sick company have failed to yield results. During 1993 along the BIFR recommended closure of an may as 262 sick companies.

9. ***Reorganisation Under BIFR Scheme :*** Sick companies are referred to the Board for Industrial of Financial Reconstruction (BIFR) under the provisions of the Sick Industrial Companies (Special Provisions) Act, 1985. The Board prepares a scheme of rehabilitation if a sick unit is retrievable. Otherwise the Board recommends its closure. During 1993 alone as may as 415 schemes of rehabilitation were prepared and implement by the Board.

10. ***Combination Strategies :*** The preceding Nine strategies are not mutually exclusive. They can be combined in almost any number of variation. Thus, conglomerates often shed their less profitable business. Single businessmen diversify and large companies set up joint ventures. In today's competitive environment many companies are pursing strategies that combine retrenchment and divestiture with concentric diversification.

The second key issue concerns how resources are to be allocated among the several businesses in the portfolio. An analytical framework called portfolio analysis has been developed to help corporate management address and structure the issue.

Prominent portfolio models available are the G.E.Model, BCG Model, Mckinsey Model and the one developed by Arthur D,Lttle, Inc. Although all these differ in detail, they all basically follow a similar methodology. They all require the identification of strategic business units (SBUs), the positioning of SBUs on a matrix, and the application of a particular resource strategy for each SBU depending on its placement on the matrix.

Macroenvironmental trends have important implications for portfolio planning. Typical portfolio planning focuses on competitive advantages within an existing industry, constrained by the internal financial resources of the firm.

Environmental analyses are also particularly important for planning potential future portfolios. The specific businesses to be targeted need to be considered in the light of macroenvironmental forecasts and prediction.

Risk-return Trade-Offs : Political, economic, technological, and demographic shifts influence the returns and risks of existing and planned portfolios.

* In a conglomerate firm, the accepted macro-environmental trends suggested a president level of inflation in the economy. One of the consequent considerations was that additional investments in any business unit should be justified not only by competitive position but also by returns in excess of the forecasted rate of inflation.

* In a technology-related firm, a technology study suggested obsolescence of some key technologies within the next decade. As a result, the firm is searching for methods of converting technology so as to retain competitive advantage in their existing markets.

It is important to consider environmental impacts on each of these characteristics of corporate-level strategy.

Business Level strategy

Each division prepares its own strategy mainly translating the general statements of direction and intent, generated at the corporate level into concrete, functional objectives and strategies for individual business divisions of SBUs. In essence, business-level strategic managers (comprising principally of business and corporate managers) must determine the basis on which a company can compete in the selected product-market area. While doing so, they strive to identify and secure the most profitable and promising market segment. The strengths of market segment determine continuous viability of the corporation.

One well known model of business-level strategy was developed by Michael E.Porter of Harward Business School. In Porter's view an organisation's ability to compete in a given market is determined by its technical and economic resources, as well as five environmental forces, each of which threatens the organisation's venture into a new market. The five forces are: threats to entry, bargaining power of consumers, the bargaining power of suppliers, the threat of substitute products and jockeying for position in a crowded market (Read Chapter 2 for elaboration of each of these factors).

Environmental Impact on Business-Unit Strategy

The impact of environmental analysis on business – unit Strategy must be assessed with regard to (1) business definition, (2) assumptions, and (3) general Strategic thrust.

In board terms, Strategy formulation at the business or corporate level includes a definition of the business and positioning of the business in an industry. Definition and positioning are inevitably affected by industry structure: macroenvironmental trends as they affect Industry structure, open up opportunities and threats for business strategy. Each of the three elements of business definitions can be affected by environmental change: What customers does business serve? What customer needs are satisfied? What technologies are employed to satisfy these consumer needs?

Some pivotal assumptions always underlie a firm's strategy for example, industry assumptions such as actions of suppliers, competitive responses, the likelihood of new entrants, or the market penetration of substitute products. The success of failure of strategy is often determined by the veracity of these assumption. Assumptions about the macro-environment, however, may also critically influence strategy success.

Finally, the general strategic thrust of the firm or its business units, such as share building or share maintaining, is built around assumptions about the industry. As we have noted, these assumptions are influenced by change in the environment. Environmental analysis often signals the need for change in strategic thrust by opening up pathways to gain market share or by rendering share maintaining strategies obsolete.

Functional Level Strategy

Functional level Strategy creates the framework for management of functions such as finance, research and development, and marketing – so that they support the business – level strategy. For example, if the business – unit Strategy calls for the development of a new product, the R & D department will create plans on how to develop that product (Box 39.2 shows the functional – level Strategy of Ceat Ltd.).

Ceat's Strategies For a Smooth Ride

* pay off all creditors by early 1996.
* Cut – down manufacturing and distribution costs.
* Plan a different approach to build Ceat's market share in truck tyres.
* Step up capacities in existing plant during the year.

* Tap the capital market up interest free money by mid – 1996.
* Set up new plant for manufacturing tyres or takeover an existing but sick tyre unit be end of 1996.
* Increase capacities at the SAT unit in 1997.
* Set-up base in Vietnam to manufacture and sell trucks and light truck tyres in the 1st phase, and car tyres in the next, by 1997.
* Use Sri Lanka as base to transport tyres and increase its market share in South India by 1997.

Functional Strategies are more detailed than organisational Strategies and have shorter time horizons. Their purposes in three fold: (1) to communicate short-term objectives, (2) to describe the actions needed to achieve short-term objectives, and (3) to create an environment that encourage their achievement. It is critical that lower level managers participate in the development of functional Strategies so that they will better understand what needs to be done and feel more committed to the Strategy.

Environmental Impact on Functional Level Strategy

Microenvironmental change has implications for the functional-level Strategies of an organisation, over and beyond the business Strategy. Any change in macro-environment shall necessitate changes in how various functional Strategies are performed. Traditionally, these functional changes are regarded as operating issues within the context of strategic management. Environmental changes offer opportunities for enhancing the operating capabilities of firms, as well as rendering some capabilities obsolete. Such enhancement of capabilities often accumulates over time and these capabilities may become distinctive competencies that firms can wield to their advantage.

Resource Analysis

Before formulating Strategies the organisations' resources must be analysed (see Fig.39.1). This analysis is necessary to identify the organisation's competitive advantages and disadvantages, its strength and weakness relative to its present and likely future competitors. The question is not "what do we do well or poorly?" but rather "what are we doing better or worse than anyone else?"

Institutionalizing the Strategy

Corporate level, business-level and functional level.Strategies provide important means of communicating what must be done to implement the overall Strategy. By translating long-term intensions into short-term guides to action, they make the Strategy operational. But the Strategy must also be institutionalized, must permeate, the very day-to-day life of the company if it is to be effectively implemented.

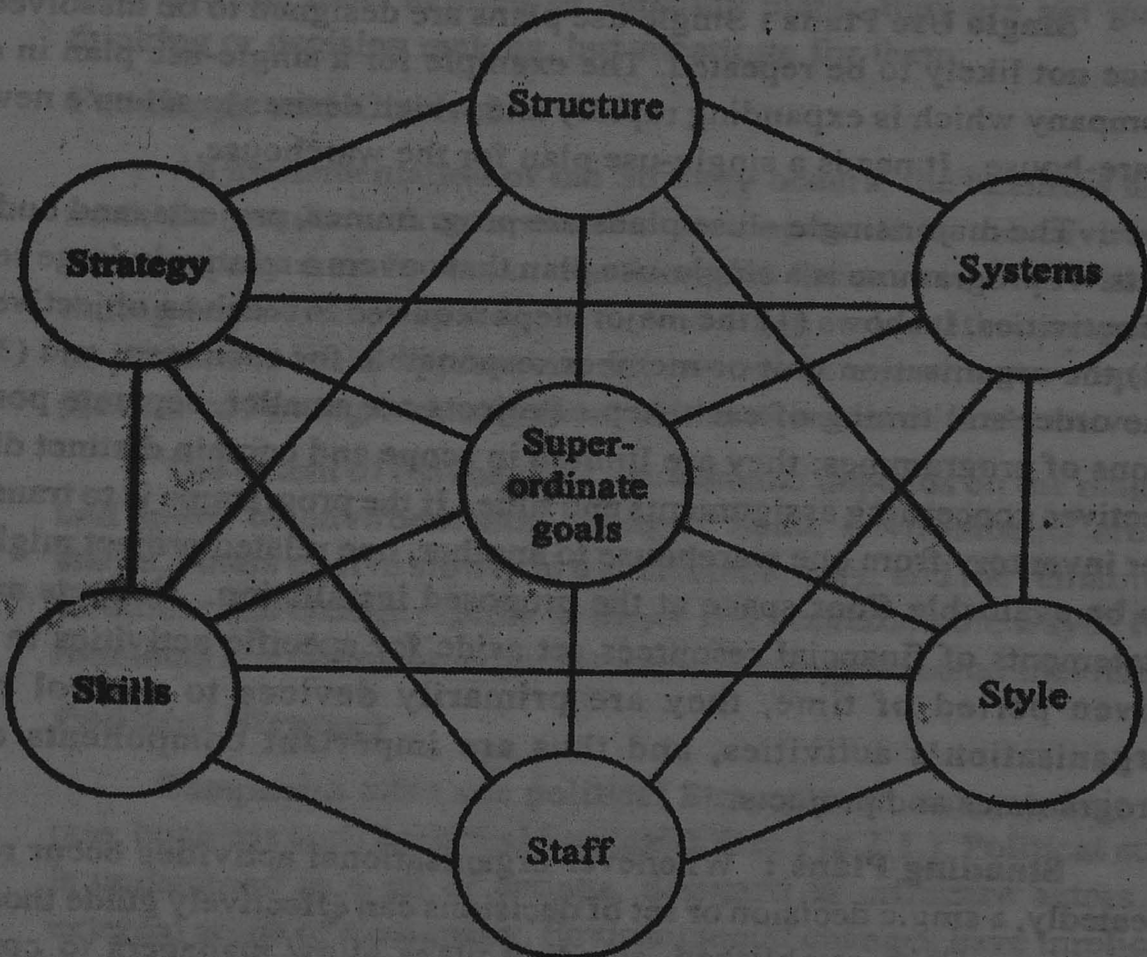
Three organisational elements provides the fundamental, long-term means for institutionalizing the firm's Strategy: (1) structure, (2) leadership and (3) culture. Successful implementation requires effective management and integration of these three elements to ensure that Strategy "takes hold" in the daily life of the firm.

Strategy Implementation

Formulating a Strategy is not enough. It must be implemented. Two things are relevant in this context. First, successful Strategy implementation depends in part on the organisation's structure. Second, the Strategy must be operationalised, or translated into specific policies, procedures, and rules that will guide planning and decision making by managers and employees.

Structure and Strategy : Effectiveness of Strategy depends in part on how well it is implemented. Strategy implementation in turn depends on how the organisation's activities are divided, organised and coordinated, in short on the structure of the organisation.

There exists close relationship between organisational effectiveness and structures as postulated by McKinsey & Co. in their famous Seven-S model.



The Seven-S Model

The firm of consultant found that neglecting any one of Seven key factors could lead to doomed Strategies. As the Fig.39.3 illustrates, each of these factors is equally important and interacts with all other factors. Any number of circumstances may dictate which of the factors will be the driving force in the execution of any particular Strategy.

Operationalising Strategy : A Strategy needs to be translated into the organisation's day-to-day opeprations. Operational plans fall into two general classes: single use plans and standing plans.

Single Use Plans : Single use plans are designed to be dissolved once not likely to be repeated. The example for a single-use plan in a company which is expanding rapidly and which desires to set up a new ware-house. It needs a single-use plan for the warehouse.

The major single – use plans are programmes, projects, and budgets. A programme is a single-use plan that covers a relatively large set of activities. It shows (1) the major steps required to reach an objective, (2) the organisation unit or member responsible for each step, and (3) the order and timing of each step. Projects are smaller, separate portions of programmes; they are limited in scope and contain distinct directives concerning assignments and time. If the programme is to transfer inventory from one warehouse to another, one related project might to be evaluable floor space at the proposed installation. Budgets are statements of financial resources set aside for specific activities in a given period of time, they are primarily devices to control an organisation's activities, and thus are important components of programmes and projects.

Standing Plans : Whenever organisational activities occur repeatedly, a single decision or set of decisions can effectively guide those activities. Once established, standing plans allow managers to conserve time because similar situations are handled in a predetermined, and consistent manner. For example, a bank manager can easily handle a loan request from depending on the criteria laid down for approvals.

Major types of standing plans are policies, procedures and rules. A policy is a general guideline for decision making. It sets up boundaries around decisions, telling managers which decisions can be made and which cannot. A procedure is a set of detailed guidelines to carry out a policy. It provides a detailed set of instructions for performing a sequence of actions that occurs often or regularly. Rules are statements that a specific action must or must not be taken in a given situation. They are the most explicit of standing plans: they are not guides to thinking or decision making, but substitute for them.

Feedback and Control

As implementation of the Strategy occurs, the business needs to track the results and monitor new developments in the environment. The company must be sure of one thing-that the environment will change during implementation stage too. And when it does, the company will be pressed to make appropriate adjustment in one or more steps in the process of Strategic management if it is to achieve its objectives.

The extent of the required adjustments depends on the magnitude and speed of environmental change. Some environments are fairly stable, others evolve slowly in a predictable way, and the remaining are turbulent and change rapidly in major and unpredictable ways. If environments are turbulent, adjustments in Strategy become inevitable.

Political Strategy

Companies often use political Strategies to support their corporate, business and functional Strategies (see Fig.2.1.). Political strategy is understood as a set of actions, designed to influence actors in the external arena of a company. Environmental changes have implications for political Strategy. These implications may be discussed at two levels: (1) stakeholders and (2) political Strategies.

The company's stakeholders are those groups who can directly or indirectly place demands on the organisation. Environmental change, however can affect the company's stakeholders and their demands and, thus. the organisation's requisite political Strategy-in atleast two ways. First, it can give rise to new stakeholders, who frequently place new types of demands on the company, can cause the demands of existing stake holders to change, or can increase the intensity of the existing demands. Second, differing degrees of connectedness exist among potential and current stakeholders. These often take the form of networks and coalitions which in turn will have their own impact on organisations.

Through its impact on stakeholders and their demands, environmental change affects the political tactics (i.e. actions and moves) used by companies. It influences the objectives (i.e. the focus of the tactics), the nature of the tactics, (i.e. what tactics are employed), the intent of the tactics and the timing of the tactics.

AN ILLUSTRATIVE CASE

We take the pollution control industry to illustrate how Strategy is formulated. The industry in our country is characterized by six to seven major participants. The major areas of pollution addressed to are: air water, solid waste and noise pollution. The model for Strategy formulation is presented in Fig.39.4.

Each of the forces may be analysed in terms of

Strength (relative magnitude)

Direction (for an against the industry)

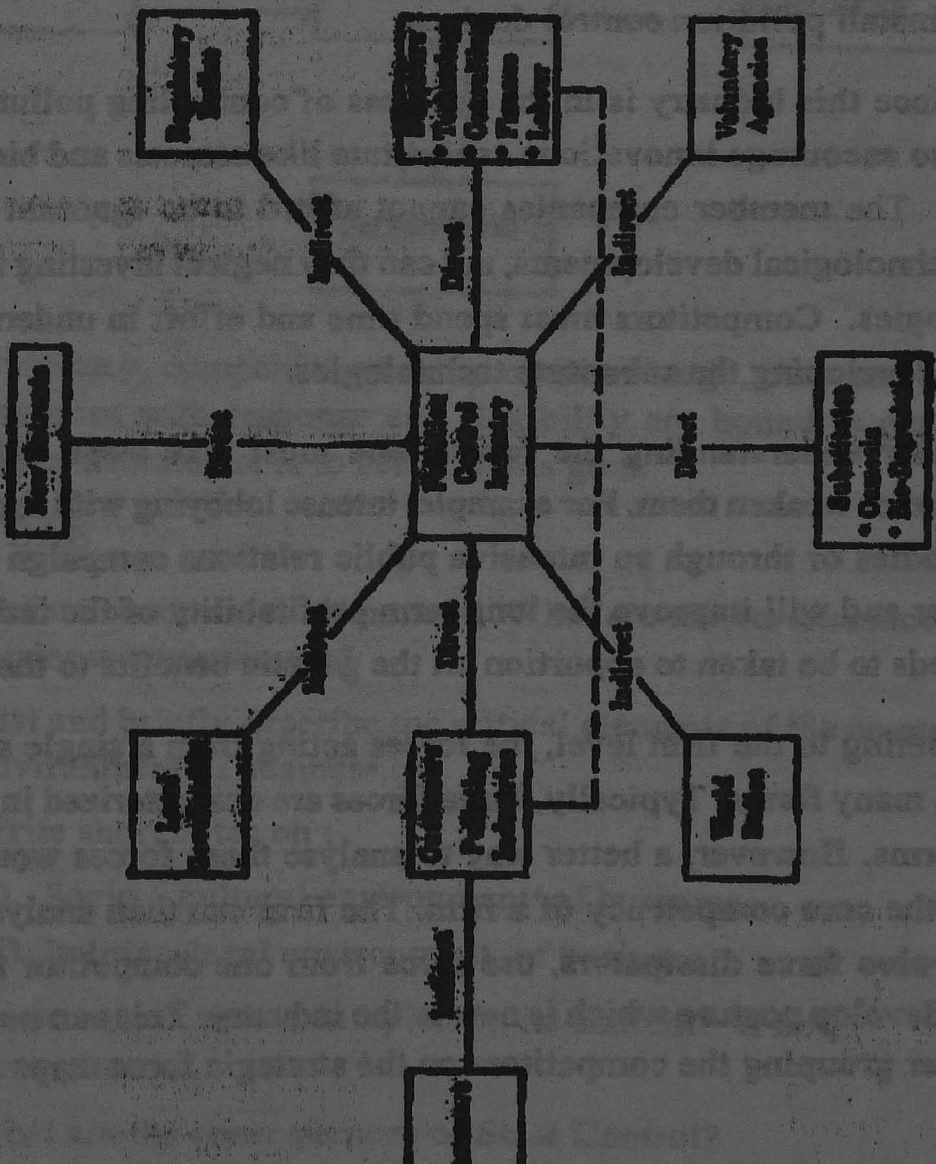
Action (acts directly or indirectly through intermediaries)

Time value (effective for a given period of time)

Source (originates from).

The strength varies across different forces. Some may be direct but weak (e.g. customers) and some may be indirect but strong (e.g. suppliers to customers). The direction indicates whether strengthening of the force helps the industry or not. For example, strengthening of the forces originating from regulatory bodies will help the industry, however, as the forces from substitutes increase, the industry will suffer in the short term. Thus, each, force needs to be analysed.

An indepth analysis of the forces can help the Strategist to evolve a suitable competitive Strategy for the industry. In Fig.39.4 customers (polluting industries) may not take any active interest in fitting

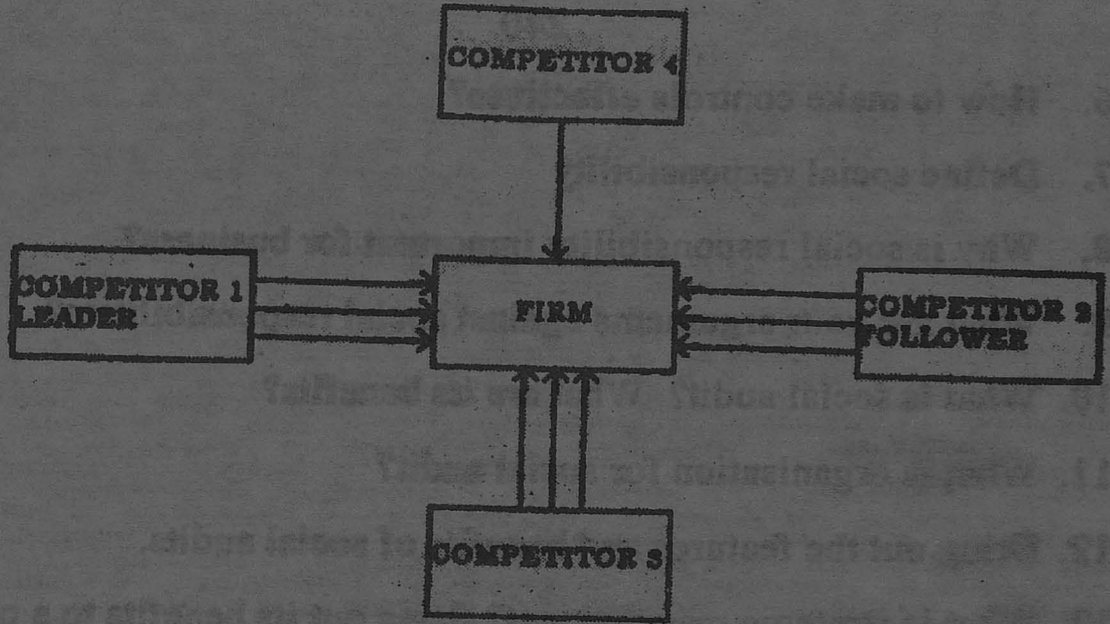


pollution control devices in their firms. The pollution control industry must take the lead. Help (direct and indirect) from regulatory bodies, voluntary agencies, world bodies and local government may be taken to create an awareness in the minds of consumers on the impact of environmental pollution. Pressure may thus be brought on polluting industries to install pollution control devices.

Since this industry is in the business of controlling pollution, it must also encourage innovations / substitute like osmosis and bio-generation. The member companies cannot afford to be ignorant about these technological developments, not can they neglect investing in new technologies. Competitors must spend time and effort in understanding and developing the substitute technologies.

After understanding the forces, one must take steps either to strengthen or weaken them. For example, intense lobbying with the regulatory bodies or through an intensive public relations campaign at the consumer end will improve the long term profitability of the industry. Care needs to be taken to apportion all the genetic benefits to the firm.

Coming to the firm level, the forces acting from a single source can have many forms. Typically, these forces are characterized in functional forms. However, a better way to analyse these forces would be identify the core competency of a firm. The firm can then analyse the force, evolve force dissipators, use force from one competitor to another or develop posture which is new to the industry. This can be identified after grouping the competitors on the strategic force map.



In summary, companies working on knowledge, time and better human resources with response and flexibility are bound to perform better. Aim of a strategist is to achieve this goal.

QUESTIONS

1. Define business environment. What are the various facets or business environment?
2. List and briefly describe the critical elements of the economic environment of business.
3. Write short notes on :
   (i) Socio – cultural environment of business
   (ii) Politico-legal environment of business
4. Do you think that is complete in its content? if not, strengthen it.
5. What are the consequences of State Control?

6. How to make controls effectives?

7. Define social responsibility

8. Why is social responsibility important for business?

9. What are your arguments against social responsibilities?

10. What is social audit? What are its benefits?

11. What is organisation for social audit?

12. Bring out the features and benefits of social audits.

13. What is strategic management? Bring out its benefits to a particular company.

14. How is strategy formulated and implemented?

15. How is environmental analysis considered in strategic management?

16. List the different types of single use plans and explain why each is useful?

17. What are standing plans? What are their uses?