Business Environment

Meaning

Business Environment is the ‘sum total’ of forces and factors that are external to the business and which influence the business in a variety of spheres. Production technology, financing means, personal systems. Marketing efforts and public relations activities of a business are all influenced by the environmental factors.

Definition

Davis Keith defines the environment of business as “the aggregate of all conditions, event and influences that surround and affect it.

Importance of the study of Business Environment

- Before analysing the various external environmental factors, let us consider the importance of the study of the business environment.
- The study of the business environment helps an organisation to develop its broad strategies and long-term policies.
- It enables an organisation to analyse its competitors’ strategies and thereby formulate effective counter strategies.
- Knowledge about the changing environment will keep the organisation dynamic in its approach.
- Such a study enables the organisation to foresee the impact of the socio-economic changes at the national and international level on its stability.
- Finally, as a result of the study, executives are able adjust to the prevailing conditions and thus influence and environment in order to make it congenial to business.

Factors Affecting Business Environment:

There are two types of Business Environment.

I. Internal Environment
II. External Environment

I.Internal Environment:

The main internal factors which influence business decisions are as follows:

a. Culture:

- The values, benefits and attitudes of the founders and top management of the company exercise a strong influence on what the company stands for, how it does things and what it considers important.

b. Mission and objectives:

- The business philosophy and purpose of a company guide its priorities, business strategies, and product market scope and development process.
- Ranbaxy's mission to become a research based international pharmaceutical company led it to enter foreign markets.

c. Top Management Structure:

- The composition of the board of directors, the degree of professionalization of management and the organisational structure of a company has important bearing on its business decisions.
- Sound management structure and styles facilitate timely decision making.

d. Power Structure:

- The internal power relationship between the board of directors and the chief executive is an important factor.
- The extent to which top management enjoys the support of shareholders and employees at different levels also has an important bearing on decision making and working of the company.

e. Company Image and Brand Equity:

- The image and brand equity of the company play a significant role in raising finance, forming alliances, choosing deals and suppliers, launching new products, entering foreign markets.

f. Human and other Resources:

- The competence, morale and motivation of employees play vital role in the success of the firm.
- Tata Steel could easily carryout a large scale modernisation and restructuring.

II. External Environment:

a. Micro Environment
b. Macro Environment

a. Micro Environment:

The micro environment comprises the forces close to the company that affect its ability to serve its customers. This includes the

- ✓ Suppliers
- ✓ Marketing intermediaries
- ✓ Customers
- ✓ Competitors
- ✓ Public

b. Macro Environment:

- Economic Environment
- Political Environment
- Legal Environment
- Technological Environment
- Global Environment

PRIVATISATION

Meaning

In the words of start M. Butler, privatisation is “the transfer of Government assets or functions to the private sector”.

D. R. Pendse defines the term privatisation as follows:

There are different ways to achieve privatisation different countries pursue different ways for achieving privatisation.

Privatisation mainly takes the following forms:

- **Cold Privatisation**
- **Managerial Privatisation**
- **Denationalisation**
- **Contracting Out**
- **Franchising**
- **Divestiture**
- **Leasing**
- **Liquidation**

1. Cold Privatisation:

In this case the PEs are required to relate their activities to market conditions. PEs are distanced from the Government, though the ownership continues to be with the Government.

2. Managerial Privatisation:

While the ownership of PEs remains with Government, the top executives and the Board of Directors are drawn from the private sector.

3. Denationalisation:

In this case, the ownership of a public enterprise is transferred to the private sector. A large number of PEs were denationalised in countries like Chile, Bangladesh and Pakistan.

4. Contracting Out:

Another form of privatisation is contraction out. Contracting out is common public works, defence and many specialised services. Contracts for road construction, bridge construction and maintenance are common in countries like India, Brazil and Kenya.

5. Franchising:

PEs may develop new technology in products/services, which are then franchised to private sector companies for more production, so that the PEs does not invest in additional manufacturing facilities.

6. Divestiture:

This is also known as privatisations of ownership. The PEs sell their equities to the public or private enterprises. In countries where are well developed capital markets, this from of privatisation is popular.

7. Leasing:

In this case, the ownership remains with the PEs. They lease out the assets, particularly idle and under-utilised ones, to the private sector.

8. Liquidation:

Liquidation is another important form of privatisation of PEs. Liquidation may be either formal or informal. Formal liquidation refers to the closure of an enterprise and the sale of its assets. In the case of informal liquidation, an enterprise retains its legal status even though some or all of its operations may be suspended.

Arguments in Favour of Privatisation

1. In this context, it is said that the privatisation process would result in fuller capacity utilisation.
2. Due to wrong decisions or indecisions by the government, PEs sometimes incur heavy losses. Therefore, privatisation would reduce the fiscal burden of the state by relieving it of the losses of the PEs.
3. The quality of services offered by the PEs is very pathetic. Privatisation would improve the quality of the services and the operational efficiency of the enterprises.
4. In India many big PEs suffer from labour and personnel problems. In some enterprises the employees have strong unions.
5. Corruption and malpractices are quite common in PEs in India. Privatisation may put an end to all these malpractices.

6. Political interference is very common in the decision making process of many PEs. There is a nexus between bureaucrats and making. It is argued that privatisation would eliminate political interference in purely economic and commercial decisions.

Another important criticism levelled against the public sector is that its rate of return on capital employed is very low. In this context. Privatisation would enable the government to mop up funds.

Arguments against Privatisation

1. Privatisation of PEs in India will go against the accepted goal of socialism. We cannot think of a socialistic economy without a predominant public sector.
2. If privatisation is accepted, the objective of achieving balanced regional development would be defeated.
3. Privatisation would become a stumbling block in achieving the goals of planned economic development. In India, the PEs has been conceived under the strategy of planned economic development. They are supposed to be an engine of growth and the prime vehicle to build an infrastructure and industrial base for self-reliance.
4. Privatised enterprises will be less willing to provide un-economic services. In India, certain PEs was set up with a view to taking over the sick units. As a social obligation, the government took over the uneconomic units with a view to averting unemployment in sick units.
5. Workers prefer the continuance of PEs, because they act as model employers. Privatisation will lead to the exploitation of workers.
6. Privatisation will lead to concentration of economic power. Concentration of economic power will lead the concentration of political power, which will affect in the long run, the economic and the political freedom of our country.
7. Privatisation of PEs may result in the exploitation of consumers. Privatised enterprises will operate according to market criteria, ignoring their social obligation. Hence, in a country like India, privatisation is not preferred since it is not beneficial to the consumers.
8. Many argue in favour of privatisation by citing the successful experience of Britain. One should note that what works in a developed economy not work in a developing economy. The commercial elements in their objectives have been prominent.

9. PEs has served as an instrument to check monopolies in basic services sectors and to ensure equal distribution of income and wealth. This cannot positively be opened to the private sector.

DISINVESTMENT

The withdrawal or reduction of an investment is known as disinvestment.

Definition of Disinvestment

At the very basic level, disinvestment can be explained as follows:

"Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money. As follows, disinvestment involves the conversion of money claims or securities into money or cash." Disinvestment can also be defined as the action of an organization (or government) selling or liquidating an asset or subsidiary. It is also referred to as 'divestment' or 'divestiture.' In most contexts, disinvestment typically refers to sale from the government, partly or fully, of a government-owned enterprise.

A company or a government organisation will typically disinvest an asset either as a strategic move for the company, or for raising resources to meet general/specific needs.

Objectives of Disinvestment

The new economic policy initiated in July 1991 clearly indicated that PSUs had shown a very negative rate of return on capital employed. Inefficient PSUs had become and were continuing to be a drag on the Government's resources turning to be more of liabilities to the Government than being assets. Many undertakings traditionally established as pillars of growth had become a burden on the economy. The national gross domestic product and gross national savings were also getting adversely affected by low returns from PSUs. About 10 to 15 % of the total gross domestic savings were getting reduced on account of low savings from PSUs. In relation to the capital employed, the levels of profits were too low. Of the various factors responsible for low profits in the PSUs, the following were identified as particularly important:

-Price policy of public sector undertakings

-Under–utilisation of capacity

-Problems related to planning and construction of projects

-Problems of labour, personnel and management

-Lack of autonomy

Hence, the need for the Government to get rid of these units and to concentrate on core activities was identified. The Government also took a view that it should move out of non-core businesses, especially the ones where the private sector had now entered in a significant way. Finally, disinvestment was also seen by the Government to raise funds for meeting general/specific needs. In this direction, the Government adopted the 'Disinvestment Policy'. This was identified as an active tool to reduce the burden of financing the PSUs.

SMALL – SCALE INDUSTRIES

Meaning:

Small- scale industrial undertaking is one in which the investment in fixed assets in plant and machinery, whether held on ownership terms or on lease or on hire purchase does not exceed Rs.3crores.

Problems of Small-Scale Industries

Small- scale industries are confronted with a number of problems. The important problems are discussed below.

- Financial Problems
- Problem of Raw Materials
- Problems of Marketing
- Technological Problems
- Managerial Problems

Financial Problems

Lack of finance is one of the major obstacles in the development of small- scale units. Since most of the SSI unit are either partnership firms or sole proprietary concerns their international sources are small.

The credit provided by the various institutional agencies such as State Financial Corporations, commercial banks, SIDBI etc., is inadequate to meet the requirement of the SSI units .It is reported that the total amount of loans granted to small-scale industries forms a very small part of the total loans to Indian industry.

Problem of Raw Materials

A vast majority of the small scale industries suffer for want of adequate supply of raw material at reasonable prices. The SSI units may either use local raw materials or imported raw materials. Whether the use of local raw material or imported raw materials the problem exist..

Problems of Marketing

In marketing their products, the small- scale units face many problems. These units generally do not have their own marketing organization. They do not have the reasons and expertise to market their products effectively.

Technological problems

The growth of SSI units is hampered by the obsolete and out dated technology which they use. Many SSI units are using out dated machineries and equipments .As a result their cost of production is high and quality is inferior when compared to the products of large scale units..

Managerial Problems

Lack of managerial expertise is another hurdle in the development of small scale industries. Many SSI units are set up by young entrepreneurs who have no previous experience. Consequently they borrow at high rate of interest and do not care for making economics in cost, particularly during the mutual stages. There is little scope for introducing the concept of professionalization of management in SSI units.

INDUSTRIAL SICKNESS

Meaning

The term 'Industrial Sickness' is used to refer to the phenomenon of industrial units losing their financial health and closing down causing loss of production. According to the Reserve Bank of India.

Under the Sick Industrial Companies Act 1985 a sick company is defined as "a company which has at the end of any financial year accumulated losses equal to or exceeding its net worth and has also suffered cash losses in that financial year and in the financial year immediately preceding it.

Net worth is defined as =Total liabilities (current liabilities + long term debt)

Distinction is made between actual sicknesses and incipient or potential sickness.

1. Actual Sickness:

a) Erosion of net worth by 50 per cent or more;

b) The unit being closed for a total period of six months and more during the last year and

c) Default in payment of loan installment.

2. Incipient sickness:

Capacity utilization of the unit is less than 50 per cent of the highest achieved during the preceding five years.

According to the Reserve Bank Of India, a small scale unit is considered sick, if it has:

a) Incurred cash loss in the previous accounting year, is likely to continue to incur cash loss in the current accounting year and its network is eroded to the extent of 50 per cent or more, and/or

b) Has defaulted on any interest payment for consecutive four quarters/instalments of principal for consecutive two quarters, with persistent irregularity in the operation of its cash credit limit.

Causes for Industrial Sickness

1. Internal causes: These relate mainly to the poor quality of management or mismanagement.

(a) An improper estimation of demand for the products to be sold. Normally, only industry wise demand estimates are made without ascertaining the particular factors which account for the specific demand for a particular unit.

(b) Wrong location of the industrial unit.

(c) An improper choice of technology.

(d) Unsuitability of product mix.

(e) Non-flexibility of plant and machinery.

(f) Defective capital structure mainly due to cost overruns.

(g) Inability to raise adequate funds to withstand operational losses in the critical stages.

(h) A growing shortage of working capital due to inadequate management of inventory and debtors.

(i) Poor financial and operational control.

(j) Excessive centralization and authoritarianism.

(k) Weak board of directors.

2. External causes: These may be further –classified into:

1. Industry-specific factors stagnation or recession in the industry,(e.g. ,textile industry),excess capacity, severe competition .strict quality and hygiene specifications prescribed

by coke and Pepsi for example, led to the sickness of several small firms supplying metal caps and mango pulp to these multinationals.

2. Government related factors- frequent changes In government policies, liberal imports, burden of excise duties and sales tax ,political interference(as in agro based industry),poor law and order situation(as in north east),unhelpful government agencies and so on.

3. Financial-institutions-related factors- delay in providing finance, inexpert assessment of the proposal, harsh treatment of the unit, inadequate working and /or long –term capital.

4. Other factors- erratic availability of raw materials and power, inadequate transport facilities and the like.

Symptoms or Signals of Industrial Sickness

The following symptoms indicate that an industrial unit is sick or going to be sick:

i. Continuous irregularity in loan repayments.

ii. Low capacity utilization.

iii. Shortage of working capital to meet current liabilities.

iv. Continuous decline in sales and profits.

v. Failure to pay statutory liabilities.

vi. Large and longer outstanding in the bills.

Vii. Non - Submission of data to banks and financial institutions.

viii. Rapid turnover of key personnel.

ix. Frequent breakdown of plant and machinery.

x. Rapid expansion and too much diversification within a short period.

xi. Diversion of funds for non – business use.

xii. Existence of a large number of law suits against the firm.

xiii. Financing capital expenditure out of working capital funds.

xiv. High rate of rejection of the firm’s products.

xv. Reduction in credit summations.

Remedies for Industrial Sickness:

- The Government of India has taken the following measures to prevent and
- correct sickness in Indian industry:

- Regulation and control of sick units under the Industries (Development and regulation) Act 1951.
- Takeover of sick units under the Sick Industrial Companies (special provisions) Act, 1985. The National Textiles Corporation (NTC) was established to manage the sick textile units taken over by the Government.
- Rehabilitation of sick units. The Industrial Investment Bank of India is assigned this responsibility.
- Merger of sick and weak unit’s healthy and strong units.

SOCIAL RESPONSIBILITIES OF BUSINESS

Meaning

Every business operates within a society. It uses the resources of the society and depends on the society for its functioning. This creates an obligation on the part of business to look after the welfare of society. So all the activities of the business should be such that they will not harm, rather they will protect and contribute to the interests of the society. Social responsibility of business refers to all such duties and obligations of business directed towards the welfare of society. These duties can be a part of the routine functions of carrying on business activity or they may be an additional function of carrying out welfare activity.

Arguments for Social Responsibility

(i) Justification for existence and growth: Business exists for providing goods and services to satisfy human needs. Though, profit motive is an important justification for undertaking business activity, it should be looked upon as an outcome of service to the people. In fact, the prosperity and growth of business is possible only through continuous service to society. Thus, assumption of social responsibility by business provides justifications for its existence and growth.

(ii) Long-term interest of the firm: A firm and its image stand to gain maximum profits in the long run when it has its highest goal as ‘service to society’. When increasing number of members of society — including workers, consumers, shareholders, government officials, feel that business enterprise is not serving its best interest; they will tend to withdraw their cooperation to the enterprise concerned. Therefore, it is in its own interest if a firm fulfills its social responsibility. The public image of any firm would also be improved when it supports social goals.

(iii) Avoidance of government regulation: From the point of view of a business, government regulations are undesirable because they limit freedom. Therefore, it is believed that businessmen can avoid the problem of government regulations by voluntarily assuming social responsibilities, which helps to reduce the need for new laws.

(iv) Maintenance of society: The argument here is that laws cannot be passed for all possible circumstances. People who feel that they are not getting their due from the business may resort to anti-social activities, not necessarily governed by law. This may harm the interest of business itself. Therefore, it is desirable that business enterprises should assume social responsibilities.

(v) Availability of resources with business: This argument holds that business institutions have valuable financial and human resources which can be effectively used for solving problems. For example, business has a pool of managerial talent and capital resources, supported by years of experience in organising business activities. It can help society to tackle its problems better, given the huge financial and human resources at its disposal.

(vi) Converting problems into opportunities: Related with the preceding argument is the argument that business with its glorious history of converting risky situations into profitable deals, can not only solves social problems but it can also make them effectively useful by accepting the challenge.

(vii) Better environment for doing business: If business is to operate in a society which is full of diverse and complicated problems, it may have little chance of success. Therefore, it is argued that the business system should do something to meet needs before it is confronted with a situation when its own survival is endangered due to enormous social illnesses. A society with fewer problems provides better environment for a firm to conduct its business.

(viii) Holding business responsible for social problems: It is argued that some of the social problems have either been created or perpetuated by business enterprises themselves. Environmental pollution, unsafe workplaces, corruption in public institutions, and discriminatory practices in employment are some of these problems. Therefore, it is the moral obligation of business to get involved in solving these problems, instead of merely expecting that other social agencies will deal with them on their own.

Arguments against Social Responsibility

Major arguments against social responsibility are:

(i) Violation of profit maximisation objective: According to this argument, business exists only for profit maximisation. Therefore, any talk of social responsibility is against this objective. In fact, business can best fulfil its social responsibility if it maximises profits through increased efficiency and reduced costs.

(ii) Burden on consumers: It is argued that social responsibilities like pollution control and environmental protection are very costly and often require huge financial investments. In such circumstances, businessmen are likely to simply shift this burden of social responsibility by charging higher prices from the consumers instead of bearing it themselves. Therefore, it is unfair to tax the consumers in the name of social responsibility.

(iii) Lack of social skills: All social problems cannot be solved the way business problems are solved. In fact, businessmen do not have the necessary understanding and training to solve social problems. Therefore, according to this argument, social problems should be solved by other specialised agencies.

(iv) Lack of broad public support: Here the argument is that the public in general does not like business involvement or interference in social programmes. Therefore, business cannot operate successfully because of lack of public confidence and cooperation in solving social problems.

SOCIAL AUDIT

Meaning

"Social Audit is a process in which, details of resource, both financial and non financial, used by public agencies for development initiatives are shared with the people, often through a public platforms. Social Audits allow people to enforce accountability and transparency, providing the ultimate users an opportunity to scrutinize development initiatives."

The major steps involved in Social Audit Process are:

- Framing structure of Social Audit Process
- Identification of Stakeholders and Starting a Dialouge process
- Focusing on important Acitivities & cross verification of said achievements
- Findings and Verification

Framing structure of Social Audit Process

Identification of the organisation or programme or activity should be done very wisely and reasons of selection should also be counted specifically to remove any confusion on the objectivity of audit itself. These few poits should be taken care of by social auditors:

Objective of the social audit

The objectives of social audit revolve around empowerment of the beneficiaries and directly affected stakeholders of the public sector programmes in matters of planning, implementation, delivery of services, appraisal, corruption and frauds, impact, etc. The social audit procedures provide a voice to the people to participate and be heard. Above all, social audit provides close to complete transparency to the entire gamut of programme management and renders the impact sustainable. It enables the people to view the decision making process and criteria adopted for various elements of the programme.

The objectives of social audit should be relevant to the strategy, realistic about what can be achieved and recognized by existing routine activity.

The key objectives of the social audit should be in this sequence:

- Need of the programme or activity
- Process of implementation of particular programmes / activity;
- Participatory Assessment of quality of services provided under programme or activity
- Participatory Assessment of the quality of the infrastructure created;
- Dialogue with the beneficiaries for their feedback regarding implementation;
- Fixing responsibilities for any mismanagement or irregularity;

Identification of Stakeholders and Starting a Dialogue process

To start a dialogue process, every stakeholder should be involved to have fruitful discussion and also logical conclusion. So the next important step of Social audit is indentifying the stakeholders and determining how often these stakeholders could be included in the 'dialogue' process. Every stakeholder will represent himself through their representatives. Selection of representatives should be very transparent and cover maximum stakeholder groups. Stakeholders are those whose interests are affected by an issue or those whose activities strongly affect the same, who possess information, resources and expertise needed for strategy formulation and implementation; and who control relevant implementation. The key stakeholders who can be involved include:

a. Programme / activity Beneficiaries

b. Elected Representatives of Gram Panchayat / Local Bodies

c. Government officials involved with the programme/ activity, if any

d. Civil Society Organisations (CSOs)

e. Media

f. National or State level Funding Agency

Understanding the relevance of Social Audit

Before starting any audit activity it is must to know correctly about organisation's history, public opinion and prevailing image of the organization. A social auditor has to gather background information. What survey was made before the social welfare programme was drawn up? What was the state of affairs when the programme was taken up? What assumptions were made and on what basis? What internal monitoring machinery and methodology was provided? Was any internal evaluation made? What are the other linked programmes which could affect the effectiveness of the programme to be audited? How are those programmes progressing? On all these questions, social auditor should gather the necessary information and literature before he ever sets out to do his audit. This will help in conducting the social audit process on ground.

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Focusing on important Acitivities & cross verification of said achievements

It is very important to discuss with all stakeholders and narrow down the list of activities which would be taken up for audit. Depending on the scope of the audit key issues need to be identified. Each issue should lead towards an answer on a particular piece of outputs or results. These issues are derived from the guidelines and design of the programme/scheme, involvement of stakeholders and society. This activity involves identifying important components of programme or schemes under which people interests are directly involved and implementing body should be told that they have to present physical and financial performance before social auditors and other stakeholders to be crosschecked during the social audit process. People will also be presenting their views and queries as per their understanding of the issue and knowledge of ground realities regarding programme/ schemes implementation.

Organising Public Meetings & Physical Verifiaction

The main purpose of public meeting is to obtain public testimony or comment. The key findings of the audit will be discussed in the public meeting and the concerned government officials will respond to the key issues raised in such a meeting. A public meeting for social audit is a special meeting for a specific purpose with no other matters addressed other than a particular issue of focus. Constitutional and statutory provisions place a severe restraint in many countries on the social auditor approaching the beneficiaries of a social welfare programme and making his own measurement of the impact of the programme. But where this direct method is available to him, he should work out in advance a detailed questionnaire and determine the analytical and statistical methods he will adopt to reach necessary conclusions.

CONSUMER RIGHTS & RESPONSIBILITIES

Meaning

Consumers are an integral part of the society. But the importance of consumer was only recognized in primal societies but with the advent of time Consumer became a victim of exploitation. With the evolution of unfair trade practices, the introduction of consumer rights also became necessary. The Consumer Rights and the Responsibilities are intertwined together. So the rights & responsibilities are the two faces of the same coin.

Consumer Rights

Right to Safety

The Consumer Protection Act defined right to safety in the section 6(a) as "the right to be protected against the marketing of goods and services, which are hazardous to life and property. The above explanation is for the legal context. In general consumer's right to safety includes all sort of protection against any type of good which is unsafe for the consumer's life.

Right to Be Informed

The right to be informed says that the consumer has the right to be informed about the quality, quantity, potency, purity, standard and price of the goods and services, as the case may be so as to protect the consumer against unfair trade practices should purchase that product or not. The ingredients of the product so packed are also properly disclosed on the packaging of the product. This will enable the consumer to act wisely and responsibly and also enables the consumer to desist from falling prey to high pressure selling techniques.

Right to Choose

The right to choose, as the name suggests, enables a consumer to choose the product of his own choice. This clearly indicates existence of a variety of goods available at competitive prices to the consumers. When a person is liberated to chose from a variety of goods in the market the consumer has the right to choose the product on various standards like price, quality, quantity etc.

Right to Be Heard

Now that the consumer has bought the product, his rights do not come to an end. The right which emerges after the purchase of goods is the right to be heard. This does not means that the consumer be heard buy the seller, rather this right means that he consumer's interest will be upheld in the various consumer forums. as they exist in the western world.

Right to Seek Redressal

The section 6(e) of the Consumer Protection Act 1986 says that the consumer has a right to seek redressal against the unfair trade practices or restrictive trade practices or unscrupulous exploitation of consumers. The malpractices related to trade are jeopardizing the lives of consumers. Thus this right has become the core solution to this problem.

Right to Consumer Education

The right of consumer education is the final right provided under the Consumer Protection Act 1986. The right makes sure that the consumers in the country have informational programs and materials which are easily accessible and would enable them to make purchasing decisions which are better than before. Consumer education might refer to formal education through college and school curriculums as well as consumer awareness campaigns being run by non-governmental and governmental agencies both.

Consumer Responsibilities

The responsibilities provided to consumers are as follows:

Responsibility to Be Aware

Awareness is an important aspect in consumer responsibilities. Awareness is concerned to the Matters which involve the various standards like Quality, Quantity, Purity, Price & Best before date of the product. In general terms, the consumer must be aware of all necessary standards of that product which he is going to buy.

Responsibility to Be Organized

This responsibility is all about the protection of the consumer's against seller's and manufacturers' unfair or unprofessional trade practices. This responsibility emphasizes on the creation of consumer organizations and consumer groups & also emphasizes that these consumer groups hold regular meeting and awareness programs from time to time.

Responsibility to Get the Transaction Documented

The act of Documentation of the whole transaction is a responsibility of the consumer. Documentation includes bills, cash memos, warranties, guarantees and the user manual of each and every product which the consumer purchases. Absence of such documents will render the consumer helpless because without such documents no forum will address the grievance of the consumer.

Responsibility to Address Grievance

The consumers are provided the right to seek redressal with a view that the consumers will exercise this right, thus there lies a responsibility with the consumer to address the grievance. If the consumer himself is not willing to address the grievance or raise voice against the exploitation, no statute or forum can redress and compensate the aggrieved consumer. This responsibility is as important as the right to seek redressal .

Responsibility to Be Cautious

The consumers are also supposed to act in a cautious manner. Every consumer should act like a reasonable person. The consumer should use his own rationale as to whether he is being exploited or not Checking of quality standard marks like ISI, BIS or AGMARK can also be held as cautious acts.

Responsibility towards Environment

The responsibility towards environment is at any cost is to be performed by the consumer. This responsibility constitutes acts of recycling, refusing to take plastic bags & encouraging the use of non toxic products among the consumers,. The consumers should act in the manner as to the resources of environment. In general terms, it includes all the acts which a consumer can perform on his behalf such as avoiding the use of products which emit radiation & use of products which are eco-friendly

FOREIGN DIRECT INVESTMENT

Meaning

A Foreign Direct Investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to new region. It is not usually used to describe a stock investment in a foreign company. Foreign direct investment (FDI) is substantial investment made by a company into a foreign concern.

The investment may involve acquiring a source of materials, expanding a company’s footprint, or developing a multination presence. As of 2020, the U.S. is second to china in attracting FDI

Definition:

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (Foreign Direct Investor or Parent Enterprise) in an enterprise resident in an economy other than that of the foreign direct investor.

Types of Foreign Direct Investment (FDI):

- Horizontal FDI arises when a firm duplicated its home country – based activities at the same value chain stage in a host country through FDI.
- Platform FDI from a source country into a destination country for the purpose of exporting to a third country.
- Vertical FDI takes place when a firm though FDI moves upstream or downstream in different value chains i.e., when firms perform value – adding activities stage by stage in a vertical fashion in a host country.
- **DETERMINANTS OF FDI:**
- The volume of FDI in a country depends on the following factors:
- **Natural Resources:**
- Availability of natural resources in the host country is a major determinant of FDI. Most foreign investors seek an adequate, reliable and economical source of minerals and other materials. FDI tends to flow in countries which are rich in resources but lack capital, technical skills and infrastructure required for the exploitation of natural resources. Though their relative importance has declined, the availability of natural resources still continues to be an important determinant of FDI.

National Markets:

- The Market size of a host country in absolute terms as well as in relation to the size and income of its population and market growth is another major determinant of FDI. Large markets can accommodate more firms and can helps firms to achieve economics of large scale operations. Market access has been the main motive for investment by American Companies in Europe and Asia.

Availability of Cheap Labour:

- The availability of low cost unskilled labour has been a major cause of FDI in countries like China and India. Low cost labour together with availability of cheap raw materials enable foreign investors to minimize cost of production and thereby increases profits.

Rate of Interest:

- Differences in the rate of interest prevailing in different countries stimulate foreign investment. Capital tends to move from a country with a low rate of interest to a country where it is higher. Foreign investment is also inspired by foreign exchange rates. Foreign capital is attracted to countries where the return on investment is higher.

Social – Economic Conditions:

- Size of the populations, infrastructure facilities and income level of a country influence direct foreign investment.

Political Situation:

- Political Stability, Legal Framework, Judicial System, Relations with Other Countries and Other Political factors influence movements of capital from one country to another.

Government Policies:

- Policy towards foreign investment, Foreign collaborations, foreign exchange control, Remittances and incentive offered to foreign investors exercise a significant influences of FDI in a country.

Factors Affecting the Trend in FDI Flows:

The Swings in FDI flows reflect changes in several factors. The main ones are business cycles, stock market sentiment and Merger and Amalgamation. These short – term factors work in tandem with longer – term factors, sometimes offsetting and at other times reinforcing them.

On the other hand, a stable and positive relationship between global FDI flows and the level and growth of world GDP, technological change, shrinking economic distance and new management methods favour international production. Their impact is, however, countered by cyclical fluctuations in income and growth. The decline in FDI in 2001 reflected a slowdown in the world economy. More than a dozen countries – including the world's three largest economies fell into recession.

On the supply side, FDI is affected by the availability of investible funds from corporate profits or loans, which is in turn affected by domestic economic conditions.

The relationship between GDP growth and FDI is not uniform across groups of economies. They go together in development but not in developing countries. One explanation for the different patterns of FDI flows is that business cycles spread much faster across developed countries than others.

The raise in global FDI flows in 2006 was partly driven by increasing corporate profits worldwide and resulting higher stock prices that raised the value of cross – border mergers and acquisitions also increased, especially in developing and transition economies, as a result of higher corporate profits, reinvested earnings have become an important component of inward FDI they accounted for an estimated 30 percent of total inflows worldwide in 2006 and for almost 50 percent in developing countries alone.

One of the important determinants of the FDI trend is the trend is cross - border Merger and Amalgamation. For example, the dramatic increases in cross – border Merger and Amalgamation led to record flows in 1999 and 2000. Cross – border Merger and Amalgamation made its contribution to the decline in the FDI too.

Significance of Foreign Direct Investment:

Foreign Capital and Technology can play a very important role in the socio – economic development of a nation. They have very significantly contributed to the development of the developed countries.

One of the ways by which foreign capital helps accelerate pace of economic growth is by facilitating essential imports required for carrying out development programmes, like capital goods, know how, raw materials and other inputs and even consumer goods. The machinery, know – how and other inputs needed may not be indigenously available. Further, the demand spurt created by large investment may necessitate of consumer goods. When the export earnings are insufficient to finance such vital imports, foreign capital could help reduce the foreign exchange gap.

Foreign exchange may also help increase a country's exports and reduce the import requirements if such investments take place in export – oriented and import – competing industries.

As long as foreign investment raises productivity, and this increase is not wholly appropriated by the investor, the greater product must be shared with others, and there must be some direct benefits to others, and there must be some direct benefits to others groups as mentioned below:

1. **Domestic Labour:**

   Domestic Labour may get higher real wages because of the increase in productivity. There might also be an expansion of the employment opportunities.
2. **Consumers:**

   If foreign investment is cost – reducing in a particular industry, consumers of the product may gain though lower product prices. If the investment is product – improving or product – innovating, consumer benefit from better quality products or new products.
3. **Government:**

   The increase in production and foreign trade resulting from foreign capital might increase the fiscal revenue of the government.

4. **External Economies:**

Foreign capital may bring in a number of indirect gains through the realization of external economies. For instance, if foreign investment is used for the development of infrastructure, this could stimulate domestic investment in industrial and other sectors.

In the endogenous growth framework, the sources of growth attributed to capital flows comprise the spill over's associated with foreign capital in the form of technology, skills, and introduction of new products as well as the positive externalities in terms of higher efficiency of domestic financial markets, improved resource allocation and efficient financial intermediation by domestic financial institutions.

Foreign investment has assisted and is assisting the economic growth of many countries. As a World Bank report points out, for the developing countries FDI has the following advantages over the official development assistance (ODA):

1. FDI shifts the burden of risk of an investment from domestic to foreign investors.
2. Repayments are linked to profitability of the underlying investment, whereas under debt financing the borrowed funds must be serviced regardless of the project costs.
3. Further, it has also been observed that FDI is the only capital inflow that has been strongly associated with higher GDP growth since 1970.

Disadvantages of foreign direct investment:

- **Hindrance of domestic investment**

Sometimes FDI can hinder domestic investment. Because of FDI, countries' local companies start losing interest to invest in their domestic products.

- **The risk from political changes**

Other countries' political movements can be changed constantly which could hamper the investors.

- **Negative exchange rates**

Foreign direct investments can sometimes affect exchange rates to the advantage of one country and the detriment of another.

- **Higher costs**

When investors invest in foreign counties, they might notice that it is more expensive than when goods are exported. Often times, more money is invested into machinery and intellectual property than in wages for local employees.

- **Economic non-viability**

Considering that foreign direct investments may be capital-intensive from the point of view of the investor, it can sometimes be very risky or economically non-viable.

- **Expropriation**

Constant political changes can lead to expropriation. In this case, those countries' governments will have control over investors' property and assets.

- **Modern-day economic colonialism**

Many third-world countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern-day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies' exploitation.

- **Poor performance**

Multinationals have been criticized for poor working conditions in foreign factories.

Short Answer Questions

1. What is Business Environment? Define it.

Business Environment is the 'sum total' of forces and factors that are external to the business and which influence the business in a variety of spheres. Production technology, financing means, personal systems. Marketing efforts and public relations activities of a business are all influenced by the environmental factors

Davis Keith defines the environment of business as “the aggregate of all conditions, event and influences that surround and affect it.

2. Construct any two significance of Business Environment.

- It enables an organisation to analyse its competitors’ strategies and thereby formulate effective counter strategies.
- Knowledge about the changing environment will keep the organisation dynamic in its approach.

3. What are the forces that comprised by Micro Environment?

The micro environment comprises the forces close to the company that affect its ability to serve its customers. This includes the

- ✓ Suppliers
- ✓ Marketing intermediaries
- ✓ Customers
- ✓ Competitors
- ✓ Public

4. Discuss the meaning of Political Environment.

Political environment includes the political system, the government policies and attitude towards the business community and the unionism. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the government also influences business and related activities to a great extent. It sends a signal of strength, confidence to various interest groups and investors. Further, ideology of the political party also influences the business organization and its operations.

5. State the advantages of Liberalization.

Increase in foreign direct investment, abolishing of licensing system in the country, reducing the monopoly of public sector, increase in the employment opportunities and reduction in rates of interest and tariffs.

6. Explain any five forms of Privatisation.

- Cold Privatisation
- Managerial Privatisation
- Denationalisation
- Contracting Out
- Franchising

7. What do you mean by Privatization?

In the words of start M. Butler, privatisation is "the transfer of Government assets or functions to the private sector".

D. R. Pendse defines the term privatisation as follows:

There are different ways to achieve privatisation different countries pursue different ways for achieving privatisation.

8. What do you mean by Disinvestment?

As follows, disinvestment involves the conversion of money claims or securities into money or cash" Disinvestment can also be defined as the action of an organization selling or liquidating an asset or subsidiary. It is also referred to as 'divestment' or 'divestiture.

9. Define Small Scale Industry?

Small scale industries (SSI) are those industries in which manufacturing, providing services, productions are done on a small scale or micro scale.

10. Explain any five remedial measures available for Industrial Sickness.

- ✓ The Government of India has taken the following measures to prevent and
- ✓ correct sickness in Indian industry:
- ✓ Regulation and control of sick units under the Industries (Development and regulation) Act 1951.
- ✓ Rehabilitation of sick units. The Industrial Investment Bank of India is assigned this responsibility.
- ✓ Merger of sick and weak unit's healthy and strong units.

11. What are the symptoms of Industrial Sickness?

    - Low capacity utilization.

- Continuous irregularity in loan repayments.
- Shortage of working capital to meet current liabilities.
- Continuous decline in sales and profits.
- Failure to pay statutory liabilities.

12. Define the term “Social Responsibilities of Business”

Social responsibility of business refers to all such duties and obligations of business directed towards the welfare of society. These duties can be a part of the routine functions of carrying on business activity or they may be an additional function of carrying out welfare activity.

13. What you mean by Social Audit.

“Social Audit is a process in which, details of resource, both financial and non financial, used by public agencies for development initiatives are shared with the people, often through a public platforms. Social Audits allow people to enforce accountability and transparency, providing the ultimate users an opportunity to scrutinize development initiatives.”

14. Explain the objectives of Consumer Protection Act 2019.

It establishes a Central Consumer Protection Authority or CCPA which is working toward promoting, protecting, and enforcing the rights of consumrs. It can conduct investigations into violations of consumer rights. It can recall goods or services that are deemed unsafe.

15. State any five Consumer Rights.

- Right to Safety
- Right to Be Informed
- Right to Choose
- Right to Be Heard
- Right to Consumer Education

16. What are the Consumer Responsibilities?

- Responsibility to Be Aware
- Responsibility to Be Organized
- Responsibility to Get the Transaction Documented

- Responsibility to Address Grievance
- Responsibility towards Environment

17. Explain the benefits of Foreign Direct Investment.
    - ✓ Increased Employment and Economic Growth.
    - ✓ Human Resource Development.
    - ✓ Provision of Finance and Technology.
    - ✓ Increase in Exports.
    - ✓ Improved Capital Flow.
18. State any five limitations of Foreign Direct Investment.

    - Hindrance of domestic investment
    - The risk from political changes
    - Negative exchange rates
    - Higher costs
    - Economic non-viability