# PREFACE

In the curricular structure introduced by this University for students of Bachelor Degree Programme, Post Graduate Programme, P.G. Diploma Course, Certificate Course and Diploma Course, the opportunity to pursue Honours course in any elective subject is equally available to all learners. Instead of being guided by any presumption about ability level, it would perhaps stand to reason if receptivity of a learner is judged in the course of the learning process. That would be entirely in keeping with the objectives of open education which does not belive in artificial differentiation.

To enable young men and women belonging to middle/lower middle income families in urban and far-flung areas to undertake the course, the university has launched the one year Diploma Course on Enterpreneurship Development and Small Business Management. The main objective of the course is to inculcate a desire for beginning a job provider rather than a job-seeker.

Keeping this in view, study materials of the Diploma level in different subjects are being prepared on the basis of a well laid-out syllabus. The course structure combines the best elements in the approved syllabi of Central and State Universities in respective subjects. It has been so designed as to be upgradable with the addition of new information as well as results of fresh thinking and analysis.

The accepted methodology of distance education has been followed in the preparation of these study materials. Co-operation in every form of experienced scholars in indispensable for a work of this kind. We, therefore, owe an enormous bebt of gratitude to everyone whose tireless efforts went into the writing, editing and devising of a proper lay-out of the materials. Practically speaking, their role amounts to an involvement in 'invisible teaching'. For, whoever makes use of these study materials would virtually derive the benefit of learning under their collective care without each being seen by the other.

The more a learner would seriously pursue these study materials the easier it will be for him or her to reach out to larger horizons of a subject. Care has also been taken to make the language lucid and presentation attractive so that they may be rated as quality self learning materials. If anything remains still obscure or difficult to follow, arrangements are there to come to terms with them through the counselling sessions regularly available at the network of study centres set up by the University.

Needless to add, a great deal of these efforts is still experimental—in fact, pioneering in certain areas. Naturally, there is every possibility of some lapse or deficiency here and there. However, these do admit of rectification and further improvement in due course. On the whole, therefore, these study materials are expected to evoke wider appreciation the more they receive serious attention of all concerned.

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# DIPLOMA COURSE ON ENTREPRENEURSHIP MANAGEMENT AND SMALL BUSINESS MANAGEMENT

## Paper - IV

General Management
And
Business Environment


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EDSBM - IV
General Management
and Business
Environment

# PAPER - IV

# Unit 1 ❑ General Management

**Structure**



## 1.0 Objectives

By the time you have studied this unit you should be able to :

- Explain the concept of management
- Describe the hierarchy of management in an organization

- Understand the different managerial functions
- Justify the role of communication in effective organizational functioning

## 1.1 Introduction

'The emergence of management as an essential, a distinct and leading social institution is a pivotal event in social history. Rarely, if ever, has a new basic institution. a new leading group emerged as fast, as has management since 1960s. Rarely in human history has a new institution proved indispensable so quickly, and even "less often has a new institution arrived with so little opposition, so little disturbance. so little controversy.' — Peter Drucker.

Management can be said to be the creation of an effective environment for the accomplishment of organisational goals. It is also referred to as a *process* of achieving organisational goals. The term process implies an orderly rather than a chaotic way of doing things. It also implies a series of related actions, not just an isolated activity. The primary task of managers is to make decisions. They are constantly making decisions that create endless ramifications in the lives of people, today and tomorrow. Management is an exercise in harmonising men, machines, materials and methods towards fulfillment of set objectives leading to human development, excellent performance, social benefit and global welfare. There are twin purposes of management process, namely, maximising productivity or profitability and maximising human welfare and satisfaction.

Management can be referred to as discipline having well defined concepts and principles which aids in managing the business organisation.

Management, as a subject is often referred to as both an art and a science. The term science refers to anybody of knowledge that has been systemised and formulated with reference to established and proved general laws. On the other hand, the term art is synonymous with skill when it pertains to the systematic application of knowledge. Managers frequently employ scientific approaches to problem solving: they measure, they analyse, they compare. Yet managers often contradict such measures, analysis to practice the art of good management. What ultimately matters for practising managers is not whether what they do is an art or science, but whether it results in the right decisions.

Managements is regarded as profession by many although it does not possess all the features of profession viz. existence of systematised body of knowledge and method of acquisition of knowledge existence of an association formulation of ethical codes and service motive. Management can be called as an emerging profession.

Managers are responsible for getting things done - usually through other people. The task of manager may be listed as :

- act on behalf of others, who are generaJly the owners of a company
- accountable to the owners/shareholders for decisions made by him
- set objectives for the business
- ensure that the business achieves these objectives
- make sure that the corporate values (the values that the organization wishes to follow) are maintained in dealings with other business, customers, employees and general public.

**Check your Progress I**

1. What does management seek to harmonise?
2. What are. the twin purposes of management process?
3. Whether management should be treated as an art or as sicence or a profession?

**Answers to check your Progress I**

I. Management is an exercise in harmonising men, machines, materials and methods towards fulfillment of organisational goals.

2. The twin purposes of management process are to maximise profitability and human welfare.

3. Management is a combination of art and science and is emerging as profession.

## 1.2 Schools of Management Thought

The-development of management theory has created £;~hools of management' thought. Each of these perspectives is based on differing assumptions about the nature of management.

### 1.2.1 Classical Management School

The management process school views management as the combination of planning, organising, directing, and controlling in the organisation. This school of thought reflects the Classical Management Theory, in which the principles of management were developed to aid in the practice of managerial functions.

One of the pioneer thinkers of this school, Frederick Winslow Taylor incorporated in U.S.A. Adam Smith's idea of specialisation into a comprehensive set of managementprinciples called Scientific management. He suggested four general principles of management:

- A science of management must replace ‘rule-of-thumb’ methods
- Workers should be carefully selected, trained and taught to do well defined tasks.
- Managers should cooperate with workers to ensure that scientific principles are being followed.
- Responsibilities should be divided almost equally between management and workers, but management should retain decision making responsibilities.

He also suggested certain techniques to implement scientific management, which are :

- Time and motion studies. Experts should determine how much time each work operation takes and what activities and tools are necessary to complete the job. This leads to standards for performing each job.
- Functional foremanship should be used instead of single foreman for multiple functions. Each first level supervisor should be responsible for workers who perform a common function.
- Every organisation should have a planning department to set objectives
- Successful task completion should lead to a large bonus.

Scientific management caused great debate and controversy. Many managers and workers resisted it as mechanistic and inhuman. Although most of Taylor’s ideas applied to factory workers, other classical management theorists expanded their recommendations to include all types of organisations. One of the most noteworttly among them was Henri Fayol, a French indiustrialist.

Fayol was the first management thinker to identify the five components of managerial activity, which still define the job of a manager. The functions proposed by him are

- Planning : Analysing the future of the organisation and extablishing courses of action.
- Organising : Structuring and arranging men and materials within the firm.
- Commanding : Leading and directing employees
- Coordinating : Unifying and harmonising efforts within the firm
- Controlling : Monitoring results to ensure organisational goals are met.

In his most significant work, *General and Industrial Management,* Fayol discussed his 14 principles of management, which are relevant even today. They are—

1. **Unity of Command**. Every subordinate receives orders from one superior only in order to achieve efficiency in work practice.
2. **Division of work.** Managerial and technical work are anmenable to specialisation that bring about efficiency in work and increase productivity.
3. **Unity of Direction.** Similar activities in an organisation should be grouped together under one manager to avoid repetitive wastes and bring about economy.
4. **Scalar chain.** A chain of authority extends from the top to the bottom of the organisation and should include every employee.
5. **Authority and responsibility—**There should be parity between these.
6. **Discipline—**A mark of respect to established norms.
7. **Subordination of individual to general interest—**common interest should be kept mind always.
8. **Remuneration—**fair remuneration to both employee and employers.
9. **Centralisation—**degree of centralisation or decentralisation may vary.
10. **Order—**Rightman in the right place.
11. **Equity—**Combination of justice and kindness.
12. **Stability tenure—**There should be fole security.
13. **Initiative**.
14. **Esput de corps—**union is strength.

### 1.2.2 Behaviourai School

In contrast to the Classical School instead of considering the functions performed, the Behavioural School views management as influenced by human hehaviour. According to this approach, effective management results from an understanding of human needs and recognises the importance of informal aspects of organisation, such as communication and work groups. The main activity of the manager being motivation and leading his subordinates, psychology and sociology are important in this context.

One of the pioneers of the behavioral school was Mary Parker Follet. She emphasised the importance of motivation in an organisation. She also stressed upon the need for the manager to coordinate and harrnonise group efforts, not force and coerce people into doing their jobs. This focus on group dynamics was instrumental in promoting subsequent attention to team work. Her contribution was sizeable but the most widely discussed aspect of the human relationship approach involved the views of Elton Mayo and his colleagues.

The Hawthorne studies conducted by Elton Mayo and his associates in the Hawthorne plant of the General Electric company, Chicago show the importance of informal, “human” elements within an organisation. Factors that are not formally specified by the management may be important in determining productivity and satisfaction.

### 1.2.3 Quantitative School

A third school of management thought employing a Quantitative Approach, views management as a system of processes. Underlying this approach is the belief that if decision making is a rational process, then models can be constructed to duplicate this process. It is assumed that inter relationships of the major variables can be quantified. However, quantitative approaches to management are limited in their utility. Neither operations research nor electronic data processing can take final decisions. They can merely suggest alternatives based on numerical data provided to the models. In other words, quantitative analysis can be valuable supplement to, rather than a substitute of management.

### 1.2.4 System School

The Systems Schools is a contingency approach to management, which. suggests that the application of certain managerial concepts depends on the situation - the environment, the technology, the people in the organisation and the task to be accomplished. In employing the systems view point, management theorists take a hol istic view of the problem than an analytical view. Systems theory does not do away with analytical theory, it supplements it. To understand the whole it is important to define and understand parts and their interrelationships. The systems approach is a philosophy that conceives of an enterprise as a system, ‘a set of objects with a given set of relationships between the objects and their attributes, connected or related to each other and to the environment in such a way as to form a whole.’ The systems view point emphasises the relationship between the organisation and the external environment. Managing this relationship requires the identification of the main inputs, process, output and feedback. The organisation is an open system, in which inputs drawn from the external environment are transformed by processes into outputs. The major inputs to .an organisation are people, materials, equipment and capital. These inputs are employed in ways that produce outputs, usually in the form of products and services. All three of these functions, input, process and output are coordinated by the management.

### 1.2.5 Contingency School

Interrelationship between the variables in a situation and the managerial actions devised.

**Check your progress II**

1. State the four principles of management propounded by F.W. Taylor.
2. What is time and motion studies?
3. Identify the five components of managerial activity proposed by Fayol.
4. Name the 14 principles of management given by Fayol.
5. Name the studies which laid the foundation of Behavioural School of Management Thought

**Answer to check your Progress II**

1. The 4 principles of management according to P.W. Taylor are
   a) Science of management must replace rule of thumb methods
   b) Workers should be carefully selected and trained
   c) Managers should cooperate with workers
   d) Responsibilities must be divided among workers and managers
2. Experts should determine time and-tools required to complete a given job and set standards for performing the same.
3. The 5 components of managerial activity suggested by Fayol are planning. Organising, Commanding, Controlling and Coordinating.
4. 14 principles as given in previous page.
5. The Hawthome Studies laid the foundation of Behavioural School of Management Thought.

## 1.3 Levels of Management

The organisational pyramid forms a vertical hierarchy of decision making. In most organisations there are three levels of management, top management, middle management and junior or first line management. Each level of manage~ent is an integral part of the chain of command and acts as a channel for transmitting authority to successive lower levels in the organisation. Power and authority may flow downward, while responsibility and accountability flows upward.

### 1.3.1 First line Managers

They supervise the workers who actually are engaged in the production of the goods or service. They actually allocate work to individual workers and oversee that it is accomplished within schedule.

### 1.3.2 Middle level Managers

They take directions from top level managers, in the form of strategies and policies and .give direction to first line managers, translate into specific programmes for implementation. Middle management analyse and prepare reports and present them to their superiors for decision making. At the same time they ensure that first line managers can carryon their task with necessary resources. They are usually specialised in a particular field or area. The chief job of coordination is the responsibility of middle level managers.

### 1.3.3 Top Managers

The top managers set the objectives and goals of the organisation. They carry the overall responsibility for establishing policies or strategies of the organisation. They are also. responsible for mobilising the resources that would be required in drawing up implementation programmes for the policies designed by them.

### Organisation Chart

Organisation chart is a graphic means of recording and depicting the formal organisation structure and the superior subordinate relationship. It's a blueprint of a company's key functions, positions and .lines of authority. It shows who supervises and controls.whom and how the various units are interrelated. It gives a visual idea about formal relationships by showing the main lines of authority. the main lines of communication and the flow of authority (downward) and accountability (upward), They are used during induction training in orienting a new employee about the organisation pattern. It defines the scope and limit of ajob. However misuse and wrong application of an organisation chart may introduce rigidity in an organisational interelationships.

### 1.3.4 Span of Control

The number of subordinates that one superior is able to control efficiently and effectively is his span of control. The optimum span of control therefore, varies among individuals and depends upon a number of situational factors. Span of control is influenced by :

- Ability of both the superior and the subordinate

- Relative ‘location of the superior in the management hierarchy - higher the position, lower the span.
- Faith of the superior in the subordinate.
- Degree of team work present.
- Nature or type of work.
- Amount of supervision required for the task.
- Degree of planning.
- Degree of deceulralisation.

At the higher levels in the hierarchy th manager is required to perform more of decision making tasks, hence the span of control is lower. Since such policy formulations require specialised personnel, too many subordinates are not really desirable. This is the reason behind a narrow span of control at the higher level of the organisation. On the other hand, a wider span of control may be reqired at the operational or middle levels of the organisation, where the implementation of the plans is the main activity. The pyramid structure of an organisation is naturally caused by a narrow span of control at the top and a wider span of control at lower levels of the organisation structure. However, an organisation may also choose to have a flat or a tall structure.

**A flat organisation** structure arises when each of the levels in the organisational hierarchy have a wide span of control. So there are fewer tiers in the organisation structure and the decision making pattern is decentralised. It has a short, simple and direct line of communication between the top and the bottom levels.

On the other hand a **tall organisation** structure is caused by a narrow span of control at each level of the organisation. Such an organisation is found to have multiple levels in the hierarchy. In such cases control and supervision is tight and there may arise problems arising out of redtapism and rigidity.

**Check your Progress III**

1. What are the levels of management?
2. What is an organisation chart?
3. What do you mean by span of control?
4. What are the factors affecting proper span of control?

**Answer to check your progres III**

1. In any.organisation, usualy, there are 3 levels of management, according to

the hierarchy of decision making, the top level, the middle level and further level.

2. Organisation chart is a visual description of the formal organisation structure.
3. The number of subordinates that one superior can effectively control is his span of control.
4. Factors affecting span of control mentioned above.

## 1.4 Functions of Management

Management is a social process involving coordination of human and material resources through the functions of planning, organising, leading or directing and controlling in order to accomplish stated objectives. Managing therefore includes four functions: planning, organising, leading or directing and controlling. These functions are interrelated into the managerial whole, because the organisation is a dynamic entity.These functions are common to all managerial jobs, irrespective of the type oforganisation, be it a business firm, government enterprises, educational or health services, military organisations, trade associations and so on.

### 1.4.1 Planning

Planning is the determination of how to achieve an objective - deciding what is to be done and how to do it. An organisation constantly tries to adapt to changes in environment, to take advantage of opportunities and to avoid threats from other competitors. Planning is a formalised and systematic effort of a company to establish basic purpose, objectives, policies and strategies of the organisation. It helps in evaluating our progress. The performance of an organisation is measured in terms of the goals set through the plans.

The process of planning consists of a number of sequential steps, namely,

- Definition of goals
- Identification of constraints and premises
- Development of alternative plans
- Evaluating the alternative courses of action
- Selection of best course of action

**➯ Strategic planning**

Strategic planning usually deals with programmes and policies that an organisation needs for achieving its long run goals. It is the process of deciding the mission, the vision, the values and objectives and the strategies or courses of action, Such planning for the future is done at the higher levels of management.

### ➪ Operational planning

Operational planning provides the details regarding how the strategic plan should be implemented. The operational planning of day to day affairs is carried out by middle level managers. Such tactical plans are intended to support the strategic plansforeach functional area of management. Operational plans may be standing plans or single use plans.

### ➪ Standing plan

A standing plan is a predetermined statement that helps the decision maker handle repetitive decisions. Although standing plans are subject to periodic review and possible revision, they have permanency in an organisation. The major types of standing plans are policies, procedures and rules.

Policies are guidelines for action and as such provide the parameters within which decisions are made. The presence of policies provides consistency in the action of managers in an organisation. However, policies guide actions, they do not dictate them.

Procedures indicate how policies are to be carried out.They prescribe the detailed manner in which an action is to be carried out. The essential purpose of procedures is tocontrol and consistent action.

Rules are a from of planning being a predetermined guide on how to act. It may be unrelated to any procedure and have no time constraint. Rules do not allow for any deviations.

A single use plan is the design of action to be taken for a particular situation. Each situation is considered unique and expected not to be repetitive in nature. The major types of single use plans are programmes, projects and budgets.

A programme identifies the major steps that must be taken to accomplish a goal, the people responsible for carrying out the various steps and the particular ordering of the steps. A project is a proposal of something that is to be done, which amy be a part of a programme. Project is more limited in scope.

Budget is a financial plan that deals with the future allocation of resources to different programmes over a given period of time. Budgeting is an essential planning tool. Although budgets are normally expressed in monetary terms, they can also be used to plan allocations of labour, materials, etc .

**Check your Progress IV**

1. What is planning?
2. What do you: mean by standing plans?
3. Give examples of single use l?lans

**Answers to check your progress IV**

1. Planning is a formalised and systematic effort to establish objectives, policies and strategies of an organisation.
2. Standing plan is a predetermined statement which helps the decision maker handle repetitive decisions.
3. "The important examples of single use plans are programmes, peoples and budgets.

### 1.4.2 Organisation

If planning is concerned with where to go, organisation is the vehicle used to get there. Since reaching the goal requires the effort of more than one person, someone has to organise, It is the task of the manager to. organise the work to achieve a coordinated effort.

Organisational structure is a management artifact. Such a structure is created in response to forces that exist within the organisation as well as within the environment. A formal organisation structure consists of a pattern of relationships that managers consciously plan and establish in response to their perceptions regarding goals and problems. Structure includes a hierarchy of authority, formal rules and policy guidelines. Formal organisation structures specify the areas of responsibility of each individual within an organisation. In every organisation there are different managerial levels expected to perform different tasks. At the first level the individuals are made responsible for the efficient operation of the production process. Giving orders or instructions to them, guiding them and coordinating their activities is the middle level of managers. At the top of every organisation is a group of individuals who are responsible for linking the organisation to its environment, articulating broad statements of vision and mission and determining strategic direction and plans for the organisation.

**➩ Delegation**

Delegation means to grant or transfer the authority to accomplish a certain assignment. It is simply, a matter of entrusting a part of the work to the subordinate by the superior and the creation of accountability. Accountability is the obligation to carry out responsibility. Along with authority comes rights and powers to be exercised by the subordinate. Thus from delegation of authority a sense of responsibility arises in the subordinate. The subordinate on the other hand, is answerable or accountable to the superior regarding accomplishment of the assigned task. Authority flows downward and responsibility flows upwards. In effective delegation all three, authority-responsibility and accountability are equally important. Steps—(1) Determination of expected result (2) Assignment of duties (3) Granting authority (4) Creation of accountability.

### ➩ Decentrallsatlon

Decentralisation occurs when senior management delegates authority for making decisions to lower level managers. An organisation is said to be decentralised when many important decisions are delegated to lower and middle level managers, even though those decisions may be subsequently reviewed by higher management. Decentralisation leads to increased motivation and morale. The autonomy granted to an indivual brings in him an increased sense of responsibility. It lends flexibility to an organisation and speeds up the decision making process. It is therefore, diffusion of responsibility for fulfilling specific task to subordinates.

In short, it may be considered that delegation is a process while decentralisation is the end result of that process. Delegation takes place between one superior and his subordinates, but decentraJisation is company wide policy. It is absolutely essential to delegate, whereas it is a company policy to decentralise or not.

### ➩ Line and Staff

Line organisation consists of direct vertical relationships connecting the positions at each level with those above and below it in the hierarchy. It is a simple form of internal organisation in which authority flows downwards and accountability flows upwards. A line function controls the principal work flow in an organisation. Line executives are responsible for the main activities of the organisation and for accomplishment of the basic objectives. They are operating executives enjoying power to take decisions, issue orders and instructions and implement plans and policies in their designated area. All ancillary activities are entrusted to staff personnel. Staff functions are advisory in nature. They have no direct responsibility for accomplishment of enterprise objectives. They only help the line managers to accomplish the primary objectives of the business. The nature of staff authority is purely advisory. Command is the prerogative of the line authority. The staff personnel are expected to provide technical or specialised advice and service to line personnel. In a line and staff organisation a situation of conflict may often arise. The root cause of such conflict is status.

### 1.4.3 Directing

While planning states what to do and organising states how to do it, directing gives the reason why the employees would want to do it. This function is also termed as leading or actuating. It is the only managerial function which deals with interpersonal relationships. Management is defined as the art of getting things done by other people. Managers must therefore direct the actions of subordinates. To direct or influence others, managers must master the different aspects of leadership, motivation and communication. Effectiveness in interpersonal skills is vital for the success of a manager.

### 1.4.4 Controlling

Controlling is making sure that the organisation goes where the manager plans it to. All control systems rely on information. To control something one needs to compare the present state of the system with its intended state. In other words, control is the evaluation and correction of deviations from the standard. The basic process of a control system is :

- Establishment of a standard
- Measurment of performance
- Evaluation against the standard.
- Correction of deviations from the standard . '

The major techniques used in control are.

- Budgeting
- Break Even analysis
- Inventory Control
- Ratio A.nalysis
- Responsibility Accounting
- Internal Audit

Leadership is the process of influencing the behaviour of others to work wilfully without force. Types of leadership—

(a) Autocratic—A manager centralises decision making power in himself.

(b) Participative—The manager decentralises the decission making process and emphasisess on participation of subordinates.

(c) Freerein—complete freedom to subordinates to take decision.

(d) Neurocratic—Followd in Japan

(e) Bureancratic—Insistence or rules—follwoed in government organisations.

The force which creates eagerness to work with indrecement and inspiration with the help of innate tendency of human being is called motivation. It inspires workers to do work spontaneously.

**Importance :** (1) High productivity and performance level (2) Less labour turnover and absentcism. Labour trunover can be controlled of the employer are motivated. (3) Smooth implementation of necessary changes.

**Factors :** (1) Financial benefits, security of job, passibility of promotion. These may be effective to motivate the employees at the lower level.

(2) Recognition of good work done by employees.

(3) Proper company policy and administration, sympathetic supervision.

(4) Scope of advancement, the nature of the work itself, need for achievement and self actualisation. These may be effective to motivate the employee at the top level.

The entire management process is an interactive one where the management is constantly adjusting their goals and resources, each being adjusted in the context of the other.

**Types of control**

Strategic—steps to adjust the strategy after continuous evoluation due to changes in planing premises, both internal and external.

Operational—Evaluating the performance of the organisation as a whole or different divisions, departments.

Feed forward—Evaluation of actual performance and taking corrective measures before a job is completed.

Feed back—Evaluation of actual performance and taking corrective action if there is deviation from standard performance.

Concurrent—Taking corrective action during the operation of a programme so that any major damage can be prevented.

**Check you Progress V**

1. What is a formal organisation structure?

2. What do you mean by decentralisation?
3. What is the main function of line management?
4. What is the necessity of leadership and motivation?
5. State 4 major techniques used in control.
6. What are the types of control?

**Answers to check your Progress V**

1. A formal organisation structure is conciously planned pattern of relationship aimed to achieve organisational goals.

2. Decentralisation is delegation of decision authority to lower level managers

3. Line managers control principal work flow in an organisation.

4. Wilful cooperation of employee improved performance.

5. The 4 major techniques used in control are :

a) Budgeting
b) Break Even Analysis
c) Inventory Control
d) Ratio An1ysis

6. Strategic, operational, feed forward, feedback, concurrent.

**1.4.5 Communicating**

Communication is the exchange of information between a sender and a receiver and the inference of meaning between organisational participants. Organisational communication may take many forms, namely :

- Inter personal communication between two individuals
- Inter group communications between a group in the organisation and individuals.
- Extra organisational communication between the company and any of the constituent groups in the environment of the firm, such as, stockholders, the government, client, suppliers and the general public.

Communication serves three basic purposes: to inform, to instruct or to motivate. It is necessary to inform individuals about company goals and plans, of the expected roles of each member and the success or failure of past efforts. Such managerial behaviour will therefore, regulate behaviour, provide information, coordinate efforts and influence attitudes and feelings.

**Communication Process**

Communication involves transmission of messages within individuals and groups. It is the process of encoding, sending and decoding.

The sequential arrangement in communication may be shown by diagram as below :

Sender → Message → Encoding → Channel → Receiver → Decoding → Message

↑ Feedback ↓

**The encoding process**

The sender must determine the essential meaning that he wishes to convey to the receiver. Specific ideas, points or feelings need to be indentified so that it can be incorporated into the message that is to be sent to the receiver. Terms, concepts, symbols and signals are selected to represent the sender's true meaning. The set of symbols and associated clues from the messages to be sent.

**The Decoding Process**

The receiver uses a variety of senses to detect and recognise messages. The receiver's perceptions are instantaneously communicated to the brain for analysis. Feedback in the form of a response by the receiver is needed to determine if the meaning has been successfully completed.

**➪ Communication barriers**

In reality many factors or conditions may distort communication. Intentional distortion, unconscious bias, random noise and various errors can create serious communicaiton barriers. Other significant communication barriers include mistrust between senders and receivers, encoding and decoding errors, selective perception of messages, conflicting signals in messages and impaired feedback.

Wheh senders do not trust receivers they will avoid coommunication and withold information. The sender may also intentionally distort critical portions of the message. A receiver who does not trust the sender may look for a 'hidden agenda' in the message. Besides such interpersonal problems, technical errors may also hinder effective communication. A myriad of symbols is needed to properly translate meanings into messages. Encoding errors are most likely to arise when the communication contains technical or specialised information, when a receiver evaluates a message he may also incorrectly decode it and miss the intended meaning. Language barriers and incompatible symbols lead to such errors. Value differences and personal prejudices can produce systematic perceptual distortions. The challenge is not to overcome communication bariers completely but to recognise when they occur. Managers must encourage feedback and develop methods of coping with the inevitability of breakdowns.

### ➩ Patterns of communication

Within an organisation many small grroup communication networks are common. The basic types are centralised and decentralised. In centralised structures communication requires to flow through a central person, as in the Wheel or the Y structures. Centralised networks tend to develop single leaders who have a great deal of power. The central person has access to more information and can exercise a significant influence ove all members of the group by controlling the flow of critical information. These networks are most useful when dealing with simple and routine tasks, lnformation about a routine task may be collected by one central individual and disseminated among others when needed. However, communications overload occurs more frequently in centralised networks, as the number of members in' the group increases, the flow of information overloads the central person's capacity to pocess such information.

In the decentralised structure such as the Star, or the Circle communication is allowed to flow freely between all members of a group. The open communication pattern in decentralised structures brings satisfaction among members of the .group. Such networks are more conducive to solving complex problems. In dccentralised pattern of communication work groups are in a position to alter their communication networks in response to changes in the type of task they have to complete. This type of communication network is usually found in organisations which are decentralised in structure.

Besides the centralised and decentralised pattern, it is important to observe the direction of the flow of information. Communication may be vertical or horizontal. Vertical communication may be upward or downward. Vertical communication involves two or more people at different levels in the organisation. Upward communication flows from subordinate to superior, generally in response to request for information from above. Downward communication from superior to subordinate consists of information on objectives, procedures and work related instruction. Horizontal or Jateral communication involves peers and coworkers. It is particularly important as it brings about coordination between individuals and work groups. The need for joint problem solving makes it imperative to foster horizontal communication.

There are a number of methods or media that can be used to communicate information in business. Some of them are :

- Written. The most common example of written communication is a letter, which is a flexible method and provides written record. It is usually used for communication outside the organization. It may also be used internally when a confidential written record is needed. Other types of written communication may be, memorandum, which is basically for short messages and internal communication; reports, which allow a large number of people to see complex facts and arguments; notice board, being the cheapest way to communicate infornnation to a large number of people and internal magazines, which are used mainly by large organizations.

- Face to face. Such communication takes place in group meetings, which may be formal or inforrmal. It allows new ideas to be generated and on the spot feedback. Though it encourages participation and cooperation, leadership is a problem.
- Oral. With the development of telephone and intercom such interaction is easier and time saving. However it is impersonal and may remain incomplete or be . misrepresented. The same media is used in public address systems where loud speakers are kept at strategic points.

**Check your progress VI**

1. What is the basic purpose of communication?
2. State the 2 steps in the prrocess of communication.
3. What are the main patterns of communication followed in a business? ‘

**Answers to check your Progress VI**

1. The 3 basic purposes of communication is to inform, instruct and motivate.
2. The steps in the process of communication are encoding and decoding.
3. The main patterns of communication followed in a business are :
   a) Wheel
   b) Chair
   c) Star
   d) Circle

## 1.5 Summary

Management can be said to be the creation of an effective environment for the accomplishment of organisational goals. It is also referred to as a *process* of achieving organisational goals. The development of management theory has created five schools of management thought. Each of these perspectives is based on differing assumptions about the nature of management. The organisational pyramid forms a vertical hierarchy of decision making. In most organisations there are three levels of management, top management, middle management and junior or first line management. Management is a social process involving coordination of human and material resources through the functions of planning, organising, leading or directing and controlling in order to accomplish stated objectives. Managing therefore includes four functions: planning. organising, leading or directing and controlling. In addition to this, an essential aspect of management is communication which is the exchange of information between a sender and a receiver and the inference of meaning between organisational participants.

## 1.6 Exercises

1. Why is management referred to as both science and art?
2. To what extent are the ideas of classical management theory relevant today
3. How does Behavioural School of Management view role of human behaviour in management activity?
4. What are the functions of middle level managers?
5. How is an organisation chart used in an organisation?
6. There is no ideal span of control - Discuss.
7. Distinguish between policies, procedures and rules.
8. Delegation results in decentralisation - Discuss.
9. What are the main causes of line and staff conflict?
10. Discuss in brief the main barriers to effective communication in an organisation.
11. Can management be treated as profession?
12. What is the main conclusion drawn in Hawthorne Experiments?
13. What are the factors influencing proper span of control?
14. What are the processes in delegation of authority?
15. State the necessity of motivation?
16. What are the various types of leadership?
17. Show communication process by a diagram.

# Unit 2 ❑ General Business Environment

**Structure**



## 2.0 Objectives

By the time you have studied this unit you should be able to :

- Understand the different aspect of environment of a business
- Evaluate the environment of the Indian business

## 2.1 Environment

The word environment does not merely refer to the natural or ecological environment. Instead it is a generic concept which embraces the totality of external environmental forces which may influence any aspect of the activity of an organisation. Environment refers to all external forces which have a bearing on a business. External factors or constraints are largely, if not totally, external and beyond the control of the business and their management. The business environment may offer a threat to a firm or may offer immense opportunities for potential market exploitation.

The relation between the enterprise and the environment is not uni-dimensional, simple or static. Organisations have tentacles of influence which help form and give shape to the business environment. Many organisations therefore profoundly shape their own environment and also that facing many other organisations. Each organisation forms part of a business environment of other organisations, as competitors, allies, suppliers, buyers and so forth. No organisation is so isolated that it has no influence on its own environment or that of others.

There are various factors that affect the business and its decisions, namely,

- State of competition. A new competitor entering the market in which a business operates may lead to reduction in the sales of an existing business.
- Labour market. The availability of low priced labour may influence locational decisions of a business.
- Economic condition of the nation. If people have more money to spend, this may encourage business to produce new products. If exchange rates are stable, a business will be more willing to trade on foreign markets.
- Government policy. If the interest rates are low, businesses will borrow more.
- Legislation. There might be laws affecting a particular product.
- Demography. The size, age and sex distribution of the population can affect demand for a product.
- Environmental factors. Increased consumer awareness had led many firms to reevaluate their impact on environment.
- Technology. The rate of change of technology may influence the type of goods produced.

Considering the above different aspects the day to day activity of an organisation includes interaction with the 'task environment', which includes, in a very narrow sense the relationship of an organisation with its customers, suppliers, trade unions and shareholders.

Although there are many factors influencing a business, but the most important among them are, political, economic, social and technological. Therefore, the environment can be viewed from a broader perspective through the PEST analysis. The simple acronym PEST (standing for Political, Economic. Social and Technological) serves as an *aide-memoire* when considering the array of environmental forces influencing "a business activity. In fact if the acronym is enlarged to LE PEST C (to include Legal, Ecological and Competitive) it encompasses most areas of concern in this field.

The concept of environment can be observed from different perspectives, namely

- Enacted environment. An organisation seeks to create its own environment out of the total external environment. The environment which the organisation itself creates is called the Enacted environment. Enactment implies that the organisation creates a relevant environment for itself by aggressively narrowing and scanning the external environment in which it operates. Effectively it creates the environment to which it reacts. It does not react to the whole environment.
- Domain environment is that part of the enacted environment which the organisation carves out for itself. The firm delineates its own territory out of the environment. This territory comprises of the range of products offered, population served services rendered.
- Task environment specifies the range of products to be offered, the technology to be employed and the strategies to be used to meet global competition. It needs constant surveillance.

### 2.1.1 Business and environment

The study of the business environment is important because it enables development of long term strategies needed for the business. On the other hand updated knowledge about the business environment keeps the business alert about the technological developments that are likely to affect the business. Socioeconomic changes at the national and international level also effect the environment of the business. Knowledge about the business environment helps business to remain dynamic and analyse competitor's strategies to formulate effective counter measures. Without a systematic environmental search diagnosis, the time pressure on the managerial job can lead to responses which are inadequately thought out and thus not properly geared to meet the challenges of the environment. It is accepted that not all future events can be anticipated, but an indepth and updated knowledge of the environment will enable a manager to foresee business situations from a better perspective. Firms which systematically analyse and diagnose the environment are more effective than firms which do not.

### 2.1.2 Internal and External Environment

Value systems, goals and objectives, management structure, relationship between the different resources they make a business forms its internal environment. This is an integral part of an organisation and epends on the personnel manning the organisation structure. The quality of human resources of a company depends largely on the skill, commitment and attitude of the employees. But this is to a large extent related to the activities of the managers who are responsible for the morale building activities of the team of workers. This forms the ethos of the internal business environment.

External environment of a business consists of institutions, organisations and forces operating outside the company. All these individually as well as collectively influence the activities of a business. Broadly, external environment of a business can be classified into micro and macro environment. Micro environment consists of such elements whose decisions and actions have a direct bearing on the company. The most prominent performers in the micro environment are the input suppliers and workers, market intermediaries and customers. Macro environment, on the other hand, comprises large societal and physical forces which affect the company as well as its micro environment. It refers to all those economic and non-economic factors which exercise their influence on the business activity in general. This macro environment can be further elaborated in the context of political, economic, social, technological, demographical environment.

## 2.2 The Political Environment

The influence of political environment on business is enormous. The political system prevailing in a country decides, promotes, fosters, encourages, shelter, directs and controls the business activities of that country. A political system which is stable, honest efficient and dynamic and which ensures political participation of the people, and assures personal security to the citizens, is a primary factor for economic development.

The two basic philosophies in existence all over the world today are, democracy and totalitarianism. In its pure sense democracy refers to a political arrangement in which supreme power is vested in people. To give it a workable shape the republican form of organisation is practiced, whereby the public is given the right to democratically elect their representative who run the nation. In totalitarianism also called authoritarianism, individual freedom is completely subordinated to the power of authority of the state. in such cases power to make decisions on behalf of the entire nation rests in the hands of a small group who are not constitutionally accountable to the people. Totalitarianism is of four types. (a) Theocratic—When religious leaders act as political leaders and france and enforce regulations based on religious beliefs. Alganisthan, Sheikdoms of Midde East are examples. (b) Secular—Political leaders are guided by military and bureaucratic power and military controls the Government and makes decisions. Example is Pakistan. (c) Right wing—Private ownership of property is endorsed by government and market forces are also allowed to play but political freedoms are not granted. Example is China. (d) Tribal—A political party represents the interests of a particular tribe monopoly power. Examples are Tanzania, Uganda etc. Between these two extremes which political, doctrine is ideal for the business environment has been an important question. Countries representing both the political philosophies have achieved economic prosperity at different points of time.

Political decisions, such as those on social policy, the control of pollution and support for technology have an impact on business decisions. The business is influenced by decisions taken on three geo-political scales, namely local, national and global. The changing international scene has enormous impact on the operating activities of many organisations. However relationship between business and politics is not a one-way street. Many multinational companies, for that matter, have considerable ability to influence political decision making processes. At the same time political changes are also likely to create opportunities or present threats to business enterprises. Since organisations operate in various countries, each with its own political climate, business decisions are often influenced by political and legal issues in the forefront of a country. For example, developing countries may be particularly attractive an sources of important natural resources and lower labour costs. Organisations also need to place high priority on peace and political stability while taking locational decisions concerning a business. A business may face a likely threat of nationalisation or the state may freeze assets of an organisation or seal its overseas contracts. Exchange controls may be imposed which can reduce the amount of money that an organisation can draw out of profit making overseas subsidiaries. Import barriers may be raised or lowered, making the products or services dealt with by an enterprise more or less competitive in a foreign market.

The political system adopted by a nation varies as a result of independent evolution. This has significant influence on the businesses operating in the public sector. Public sector businesses are funded by public money gathered through taxation and such enterprises are accountable to the government. Thus, the state has a pervasive and powerful influence, in its role as legislator and resource provider over public sector bodies. A multitude of other factors influence the level of government involvement in the economy and the scale of public expenditure. The political forces are themselves driven by powerful economic, social and technological changes. The other role that the government has to play is that of a customer through public spending on infrastructure, such as roads, railways, etc. Public expenditure supports a significant amount of economic activity. Though all business do not necessarily have to depend upon individual government decisions. Multinational corporations do not have to rely on their home country for business opportunities. The world is their stage. Another way in which government can support industry is through selective regional policy. Governments intervene to correct regional imbalances and unemployment differentials.

Governmental intervention assumes several forms, namely

- Formal control, which usually are born out of legislation.Eg. The Companies Act 1956.
- Informal controls are those which the businesses usually impose upon themselves out of need and custom.
- Coercive regulations are those which require performance of certain actions or refraining from some other actions in order to avoid penalty. Eg. Taxes or fine or imprisonment on nonpayment of excise duty, etc.
- Inducive control measures hold out a promise of reward for compliance with the desired line of action.
- Direct control is excercised when the government fixes the price of certain commodities.

### 2.2.1 The political administration

The political system under a democratic nation, like India comprises three vital institutions, legislature, executive and judiciary. Of the three the legislature is the most powerful political institution vested with powers of policy making, law making, budget approving, executive control and acting as a mirror of public opinion. The influence of legislature on business activity is considerable. It decides such vital aspects as the type of business activities that the country should have, who should own them. what should be their size of operations, what should happen to their earnings and other related factors.

The term executive or government refers to the centre of political authority having the power to govern those it serves. The constitution of India provides for a federal set up, whereby powers are divided between national and state governments. The business community has some important responsibilities towards the state namely. payment of taxes, participation in voluntary programmes to assist the government. take up government contracts, etc. At the same time, the government is responsible for providing a basic infrastructual support within which business can operate successfully. It is the responsibility of the government to enforce the laws and to provide a system of courts for the adjudication of differences between business firms, individuals and government agencies. The government also provides a system of money and credit by means of which transactions are affected. Government agencies provide a large amount of information which is of use to the business community. Small businesses play a specially beneficial role in economic development of a country. It is the duty of the government others provide for and protect. these small businesses. Government owned research establishrnents transfer their discoveries to the private industry in order to put them to commercial use.

The third political institution engaged in running of the nation is judiciary. The powers of the judiciary are of two types:

- The authority of the courts to settle legal disputes, which may be between employer and employee, employer and employer, employer and public, etc.
- The authority of the courts to rule on the constitutionality of legislation. In other words, the courts of justice protect the citizens from unlawful acts passed by the legislature and arbitrary acts done by the executive.

## 2.3 The Economic Environment

Economic environment refers to all those economic factors which have a bearing on the functioning of a business unit. Business depends upon the economic environment for all the needed inputs. It also depends on the economic environment to sell the finished goods. Due to its total involvement with the economic environment of a nation, business is aptly called one unit of the total economy.

The present economic condition, economic systems and the economic policies of the country in the which a business has its main operational base are important external factors that constitute the economic environment of a business.

### ➩ Economic Condition

The economic condition of a country depends upon whether the country is currently in its boom period or depression period. In the boom period of the cycle economic activity is buoyant and organisations find it much easier to sell their goods and services. At the same time pent up pressure may begin to appear which cause to drive up prices. At this stage the government may intervene to dampen economic activity. Conversely at the bottom of a cycle, economic activity is-subdued, there may be high levels of unemployment, less pressure on prices and the government may step in more directly to stimulate the level of economic activity.

### ➩ Economic System

The economic system operating in a country greatly influences the kind of environment the business organisations of that country are likely to face. The basic economic problem that determines the economic system under operation is the allocation of scarce resources among the almost limitless wants of consumers in society. Choices have to be made about what and how to produce and for whom goods and services are to be produced. In a command economy the questions of allocation are decided by the state. The state decides on the volume of production, the types of goods and services produced, the work allocation, the reward pattern, and many other aspects of life. In such cases the business environment is greatly influenced by the decisions of the state and the policies the government wishes to impose.

At the other end of the spectrum is the market economy, in which system the consumer is the king. Choices made by consumers affect the allocation of resources in the economy. Consumers aim to gain maximum utility, or satisfaction, from the goods and services they purchase and are therefore concerned about the price they have to pay. Their choice is ultimately expressed by the price they are willing to pay. In this economic system the business is at liberty to choose its own methods of production, keeping in mind the revenue cost trade off.

In between the two extremes lie the mixed economic system; where the state functions as a mediator between conflicting economic groups. The state may also attempt to guide the direction of the economy through the imposition of restrictions and grant of privileges to the concerned sector. The Indian economy is a mixed economy characterised by the co-existence of the private, public, joint and co-operative sectors. Such an economic system aims to harness and harmonise the resources and skill’s of both the private and public sectors for national development. The cooperative sector, operating on the spirit of democracy is encouraged to augment the resources of the common man and bring about their involvement in the process of development.

### ➩ Economic Policy

The economic policy followed by the state often plays a key role in shaping the environment in which the business operates. The important factors that affect a business, namely consumption and private investment are influenced by the monetary policy, where as the government expenditure is to a large extent influenced by fiscal policy. The government of a country and the Central Bank make use of various fiscal and monetary weapons to achieve stability and growth by influencing and regulating the behaviour of the various classes of spenders, savers, consumers and investors, In other words economic policies are important determinants of business prospects and investment decisions. They can encourage investment and production in priority sectors, influence choice of technology and investment patterns.

One of the important components of an economic environment is the industrial sector. Thus the industrial policy is an important document which sets the tone for implementation of regulatory and promotional activities of the government. The term industrial policy refers to the government's policy towards industries—their establishment, functioning, growth and management. The policy will indicate the respective areas of the large, medium and small sectors. It will also spell out the government's policy towards foreign capital, labour, tariff and other related aspects. Naturally the industrial development of a country will be shaped, guideed, fostered, regulated and controlled by its industrial policy. It is one of the most important document which indicates the-relationship between the government and the business. It is of particular use to planners, industrialists and administrators for promoting and regulating industries and deciding on priority sectors of investment.

The industrial policy of a country has no legal sanction and as such its violation can not be challenged in a court as is possible in the case of Fundamental Rights guaranteed by the Constitution. It has certain broad guidelines for the government's administrative action and deals with the qualitative aspects thereof. There are no physical targets to be fulfilled, no time span, no financial commitments as in case of an industrial plan; It is only a moral commitment on part of the government to implement the policy in word and spirit.

### 2.3.1 Economic planning in India

A mixed economy is necessarily a planned economy. It does not mean simply a controlled economy in which the government interferes in economic matters through fiscal and monetary measures, but it is an economy in which the government has clear and definite economic plan. The public sector will have to operate according to certain priorities and to realise specific social and economic goals. Naturally the public sector operates through plans, which does not leave the private sector untouched. The government is having economic planning since 1957 when the first five year plan was launched. The fifty plus years of planning in India has successfully tried to achieve long term objectives, namely,

- Increase production to the maximum possible level to reach higher national and per capita income.
- Achieve full employment
- Reduce inequalities of income and wealth
- Set up socialist society based on equality and justice and absence of exploitation.

### 2.3.2 Business environment in developed and developing countries

The economic conditions of a country; precisely, the nature of economy, the stage of development the economy is in, the available economic resources, the level-of income and the distribution of income and assets are among the very important determinants of business strategies. In a developing country, the low income of the people in general may be the reason for, the very low demand for goods and services. Usually demand for certain goods and services are directly proportional to income of the consumers. But a business on its own is unable to increase the income of the consumers. Hence it my have to reduce the price of such goods and services in order to increase sales. To bring about such price reduction, it may be necessary to reduce the cost of production, which is made possible by the development of a low cost goods or service to suit the needs of the consumers with low income levels. In such cases the enterprises operate in an environment where there isa constant pressure of being able to sell their goods or service and an improvement thereupon for a higher price is not encouraged.

In countries where investment and income are steadily and rapidly rising, business prospects are generally bright and further investments are encouraged. This is a more encouraging environment for any business enterprise. However in such cases competition is very high and the business is always operating on a knife edge competition.

## 2.4 The social and demographic environment

Every organisation operates in a dynamic and multifaceted social environment. A diverse array of social phenomena, namely, demography, health, education, legal system, gender issues, minorities, government and media individually and collectively both shape and are shaped by the society. However each of these societal force does not exert the same influence over all organisations. Organisations interact with the social community within a cultural context. Culture acts as a pervasive force influencing all organisations, whatever their nature of operations and sphere of operations.

Culture consists of, “the thought and behavioural patterns that members of a society learn through language and other form of symbolic interaction—their customs, habits, beliefs, values and common view points which bind them together as a social entity.’’ Culture refers to the collectively held values, beliefs and attitudes, assumptions and behaviour of a group. Characteristics of culture—(a) learned Acquired by learning or experience not inherited. (b) Shared—People as members of group share it. (c)Transgenerational—Passed on from one generation to the next. (d) Symbolic–Based on human capacity to symbolise to representation. (e) Adaptive—Human capacity to change or adapt. Though culture is nationally shared but it is not true that everyone in a particular culture thinks and acts in the same way. Individual differences are significant. Within a country subcultures exist based on other criteria like, social class, gender, age, religion and occupational group. As a consequence all enterprises operate within a complex, often multi-tiered cultural context.

National culture is the dominant culture within the political boundaries of a country. Formal education is usually taught and business is generally conducted in the language of the dominant culture.

Business culture guides everyday business transaction. What to wear to a meeting, when and how to use business cards, whether to shake hands or embrace—all are examples of business culture. It is a part of the total national culture.

Occupational culture are the norms, beliefs, and expected ways of behaving of people in the same occupational groups, regardless of which organisations they work for.

It is culture which generally determines the ethos of people. When people with different cultural backgrounds promote; own and manage organisations,the organisations themselves tend to acquire distinct cultures. This is termed as organisational culture. It distinguishes one organisation from the other, thereby conveying a sense of identity for members of each organisation. Culture is the social glue which helps the organisation together by providing appropriate standards for the behaviour of all the members of the organisation.

As business units go international, the need for understanding and appreciating cultural differences across various countries is essential. When people from different cultures converge in a workplace, management is required to manage diversity. Diversity when well managed can increase creativity and innovation in organisations as well as improve decision making by providing different perspectives on problems. On the other hand, mismanaged diversity may create high turnover, communication gaps and highteen inter personal conflicts.

Demography is the study of human population. Variations in the age-population structure defines the demographic pattern of a society. The demographic and social differences have profound influence on the enterprises operating within an economy. It would be shortsighted to think that demographic trends and issues are of little concern for some businesses. Demographic restructurring, ageing population in particular, has been found to significantly influence patterns of consumption, production, employment, savings, investment and innovation. Population structure, life expectancy, birth rates and migration patterns vary both from place to place and over time, creating a dynamic environment in which organisations operate.

## 2.5 Business Ethics

Ethics refers to the code of conduct that guides an individual in dealing with others. 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 standards governing the interrelationship between individuals. Ethical rules differ from legal rules, in the sense that ethics are not governed by public authority.

The way in which a business responds to issues such as sale of products which a society considers harmful may depend on its ethics. Ethics are values and beliefs which influence how individuals, groups and societies behave. A business is called ethical when it explicitly recognizes the importance of social responsibility and the need to consider the affects of its actions on shareholders of the company.

There are certain advantages for a business in behaving in an ethical way, namely,

- Increasing number of customers take into account a 'farmer's behaviour' when buying its products.
- Firms with an ethical policy are able to recruit well qualified and motivated staff, retain better staff as they approach a caring attitude towards employees.

**Importance of Ethics**

(1) Ethics corresponds to basic human needs. 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 effect the lives of thousand of employees.

(2) Values creates credibility with the public.

(3) Values give management credibility with employees.

(4) Values help better dicision making, decisions which are in the interest of public, their employees and the company's own longterm good.

(5) Ethics and profit go together. Value driven companies are sure to be successful in the long run, though in the short run, they may lose money.

(6) Law cannot protect society, ethics can. Ethics is important business the government law and lawers cannot do everything to protect society. An ethical aviented management takes measures to prevent pollution and protect workers, health even before being mandated by law.

## 2.6 Social responsibility of business

Business depends on society for the much need resource - men, as also money and market. Thus business depends on society for existence, sustenance and encouragement. Naturally business is indebted to society in more ways than one and hence must fulfill certain responsibilities towards it. Social responsibility is the obligation of business decision makers to take actions which protect and improve the welfare of society along with their own interests. Fulfillment of social responsibility is in turn a reward for the business itself. A better society provides environmental conditions more favourable for business operations. The firm which is most responsive to the improvement of community quality of life will as a result have a better community in which to conduct its business. Labour recruiting will be easier, turnover will be low and labour will be more committed. As a result of social improvements, crime will be lower and less resources will have to be utilised in protection of property. A socially committed business has a favourable public image. More specifically the business is responsible towards :

- Employees. Socially responsible businesses provide fair selection, scientific training, fair wages, comfortable working conditions, safety and health measures scope for advancement, participative management for their workers.
- Customers. Socially responsible businesses provide quality goods at reasonable prices, avoid creation of artificial scarcity, reveal truth in advertising and lables, keep up delivery schedules, provide prompt after sales service to its customers.
- Government. Socially responsible business abide by all legal requirements, pay correct taxes and act as a willing partner with the government in pursuit of public welfare.
- Owners. Socially responsible businesses provide fair and regular return on capital employed and consolidate financial position of the business.

However, performance of socially responsible actions are limited by cost, efficiency, relevance and scope.

Forces pressuring social responsiveness—

(1) Government Programmes—Compliance with various regulations to respect human rights and justice, pay fair wages, protect the environment, ensure safety and health of workers.

(2) Community interest—Helping to build disadvantaged sections, previding scholarship for poor but deserving students.

(3) Environmental factors—Compliance with the regulations of Environmental protection Act.

(4) Shareholders/Investors pressure

(5) Competitive advantages—

  (a) Availability of trained workers, high quality institutions, adequate physical infrastructure, transparent administrative processes.

  (b) Expansion of local market, appropriateness of product standards.

  (c) Establishment of related and supporting industries.

  (d) Context for strategy and rivalry policies that encourage investment, protect intellectual property, open local markets to trade, prevent formation of pools and cartds and reduce corruption make a location a more attractive place to do business.

## 2.7 The Technological Environment

Unlike political, economic and socio-political forces which are mostly beyond the influence and control of organisations managers have much more control over technological forces that govern the business environment. The adaptation of technology by a business enterprise may be affected by behaviour and attitudes of employees. Organisations which are unable to respond to technological shifts may eventually fail. The health of an economy is expressed in the amount of investment in technology. On the other hand, political decisions can have a strong bearing on government sponsored research and development and hence bear an impact on the level and quality of technology being used by businesses in an economy.

Technology is not the same as knowledge or innovaiton. Technology is the application of knowledge into some practical form, applied to commercial or industrial use. It has posed significant challenges to entrepreneurs for many years. Though it helps create industries, it can also be instrumental in the decline of many industries.

Though some technology is associated with harmful effects such as pollution and misuse of resources, but they are eventually sought to break the link between economic growth and pollution.

Technology can help to extend the lifetime of certain industries facing strong competition. It also contributes to economic development, through new sector growth, which may arise by virtue of competitive prices in world market. This could arise from technologies that make possible quick implementation of orders, consistent quality and cost reduction.

### 2.7.1 Technology and society

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 way or the other, changed by the developments in technology. New discoveries are converted into socially useful goods and services by businesses. Society depends on businesses to benefit from such new inventions, made commercially viable. The economic prosperity of a nation also depends on technological advancement. Technology has resulted in complexity, businesses are therefore under constant pressure of keeping the whole system working all the time.

Major changes in social life may result from a change in a technological process. An invention may destroy the economic basis of a city, displace thousands of workers; yet the same invention may result in the creation of a new city somewhere else and create more jobs than it originally destroyed. Besides uprooting population, technology directly changes the patterns of social life. An invention may open up new employment opportunities for women and radically change family lifestyles. Technological advancement tends to smoothe out social differences if strategically targeted at the potential work force. In developing countries status differences tend to develop as a result of technological advancement. Technology flows to developing countries mainly through multi national corporations. With vast resources at their command these MNCs and people associated with them create a class of their own. These employees are better paid than their home counterparts. Finally the way ordinary people cook, communicate, use media and work are also influenced by technology.

### 2.7.2 Technology and Economy

The most fundamental effect of technology is greater productivity in terms of both quality and quantity. As a result real wages tend to rise and prices tend to fall, which spreads the benefits of technology throughout the whole system. Research and development assumes considerable importance in businesses as technology advances Resource allocation to.

## 2.8 Ecological Environment

When a business produces & sales a product, its costs are known as private costs, eg, cost of raw materials, wages, etc. The private benefits to a business are its revenue from sales, including profits to owners. But a business also creates other costs. For example, the factory may dispose some of its wastes in a local river and pollute the environment. This is called a spill over effect of a business or externalities. So the costs to the whole society, social costs is made up of private cost of the business plus negative externalities (cost to the rest of the society). However, there may be positive externalities also, for example the employment that this factory generates in the area. When firms set prices for their products they usually include only the private costs of production. Prices, will not therefore reflect the cost of pollution, noise, etc. As a result of this firms may not be concerned about negative externalities as they do not have to pay for them. It is therefore important for a business manager to have a clear about the social costs and benefits that are an integral part of the business environment.

The concept of externalities describe the situation where an organisation has not fully internalised the costs; most polluting emissions are, therefore seen as negative externalities. As a consequence of any economic activity some negative externalities arise. The growth of business activity is often at the expense of the environment. The balance of power between business enterprises, particularly large multi nationals on one hand, and individuals and environment groups on the other, is grossly unequal. The government therefore needs to take action to control the potentially polluting activities of organisations. For the global economy to become ecologically sound principles. This philosophy affects corporations, their products, production systems and management principles and practices. The state, business and individuals all have a role to play in achieving sustainable society and the action of each *is* bound to affect the other.

During the last three decades the rush for industrial development has led to environmental degradation on a large scale accompanied by massive resource.

## 2.9 Indian Business Environment

The Indian economy is a mixed economy. It has acquired this form with the growth of a fairly large public sector after India gained independence from the British colonial rule. However, it has been observed that even before independence India had a strong public sector, with the railways as its most important component. At the time of independence, the backwardness in India's industrial structure was manifested in the absence of basic capital goods industries. Thereafter, economic planning has been an integral part of the Indian economy since 1951. These plans attempt to define as precisely as possible the government's agricultural, economic and industrial policies for the following five years.

Apart ftom the growth in quantitative terms, there have been significant changes in India's economic structure since independence. An important index of development is the steady decline in the importance of agriculture and allied activities in the economy in terms of their contribution to gross domestic product. The Indian economy is no longer a subsistence agrarian economy.

## 2.10 Summary

The word environment does not merely refer to the natural or ecological environment. Instead it is a generic concept which embraces the totality of external environmental forces which may influence any aspect of the activity of an organisation. The environment can be viewed from a broader perspective through the PEST analysis, which stands forg for Political. Economic, Social and Technological, currently enlarged to LE PEST C (to include Legal, Ecological and Competitive). The Indian economy is a mixed economy. Post independence economic planning has been an integral part of the Indian economy. These plans attempt to define as precisely as possible the government's agricultural, economic and industrial policies for the following five years. An important index of development is the steady decline in the importance of agriculture and allied activities in the economy in terms of their contribution to gross domestic product.

**Check your Progress**

1. What is the enlarged form of PEST?
2. How can you classify the external environment of a business?
3. What do you mean by demography?

**Answers to check your progress**

1. LE PEST, where LE stand for Legal and Environmental.
2. External environment of a business can be classified into micro, consisting of actions which have direct bearing on the business and macro, consisting of large societal and physical forces that affect the business.
3. Demography is a study of human populaton.

## 2.11 Exercises

I. Discuss the factors which constitute the economic environment of a business.

2. How do social and demographic changes affect a business.
3. How does technological environment influence modern day business?
4. What are the various types of totalitarianism?
5. What is National culture?
6. What is occupational culture?
7. What is the importance of business ethics?
8. What are the factors and forces which make businesses socially responsive?

# Unit 3 ❑ Co-operative Management

**Structure**



## 3.0 Objectives

By the time you have studied this unit you should be able to :

- Understand the philosophy behind cooperatives
- Need for cooperatives in developing economies like India
- Types of cooperatives serving society

## 3.1 Origin

The origin of co-operation is perhaps as old as civilisation, itself. As a movement, however, it is about two centuries old. It was the chaotic situation in the political and economic spheres of life in Europe which gave rise to co-operation as a movement. The first workable model society was founded by the Rochdale Pioneers, a group of 28 flannel weavers in England in the year 1844. The policies and organisation they adopted have become the principles of theoretical co-operation. Thus Rochdales became founders of a world wide self help movement, viz, the co-operative movement. Their success crossed the boundaries of England and the concept was adapted under every economic system in diversified economic fields and activities to eliminate exploitation.

Inspite of the diversity in their sources, principles governing co-operatives are known the world over as Rochdale Principles, namely

- Democratic Control
- Open Membership
- Limited Interest on Capital

- Patronage Dividend
- Cash Trading
- Political and Religious Neutrality
- Education

## 3.2 Philosophy

Co-operatives are established for serving the common needs of the people in the world. It is said to be an autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democraticaly controlled enterprise.

Co-operation is a form of organisation where members join together as human beings to satisfy their common economic; social and cultural needs. Co-operation was conceived in India as the answer of the small man to the moneylender - trader nexus and was seen as am instrument of self help among the poor segments of the population. The co-operatives are expected to attend more towards service and forward their mutual interests than seek profit. Under ideal conditions, co-operatives should work under no-profit-no-loss basis. In case profits are earned they are expected to be ploughed back into the business for the improvement in the quality of service. Other than the provision of economic services in terms of cheap availability of goods to the co-operative community; they are conceived as social organisations which educate the common people in economic management. They also spread a sense of togetherness among the members who form the co-operative and generate loyalty towards the cooperative body.

Democracy is the basic essence of co-operatives. In such organisations the general body is supreme and the committee of management is elected by them to look into the day to day affairs. Such democracy is the free will of the members, not externally imposed upon them. To be successful and effective, a co-operative must invest in the development of human resources, particularly its membership. Education of membership holds the key to the ultimate success of a co-operative. The purpose of member education is not to merely explain in values and principles of co-operatives but to make them realise that when practiced these values would contribute to their overall social and economic development.

## 3.3 History of cooperatives in India

During the British Rule in India, Nicholson a British Officer in India suggested ‘Find Raiffersen in India’, i.e. introduce Raiffersen model of German agricultural credit Cooperatives in India. As a follow-up of that recommendation, the first Cooperative Society Act of 1904 was enacted to enable formation of "agricultural credit cooperatives" in villages in India under Government sponsorship. With the enactment of 1904 Act, Cooperatives were to get a direct legal identity as every agriculturalCooperative was to be registered under that Act only. The 1904 Cooperative Societies Act, was repealed by 1912 Cooperative Societies Act which provided for formation–of Cooperative Societies other than credit.

In the post independence era, cooperation has been assigned a notable role in bringing socio economic changes through the process of democratic planning with the focus on assisting the weaker sections of society. The five year plans of India recognized cooperation as an indispensable instrument of planned economic action in democracy, combining initiative, mutual benefit and social purpose. The building up of the co-operative sector thus, was considered as an important part of the scheme for planned development and one of the central aims of national policy. A rapidly growing cooperative sector with special emphasis on needs of the farmer, worker and consumer is a vital factor for stability, expansion of employment opportunities and rapid economic development.

Based on the recommendation of the Mirdha Committee and the "Model Cooperative Societies Act" the Government of India enacted the Multi State Cooperative Societies Act, 2002 which provided for democratic and autonomous working of the Cooperatives. The Multi State Cooperative Societies Act, 2002 came into force with effect from August 19, 2002.

India, in the past few decades has witnessed substantial growth in the cooperative sector in the diverse areas of the economy. The country has the largest network of the cooperatives in the world. There are 5.04 lakhs cooperative societies in India now as against 1.81 lakhs in 1905-51. The total membership of the cooperatives increased from 1.55 crores in 1950-51 to 20.91 crores in 1999-2000. Today the cooperative societies cover 67 per cent of the rural households and almost 100 per cent villages in the country. The cooperative sector has made tremendous progress. The share of the cooperatives in fertilizer distribution is 31 per cent. The sugar produced in the, cooperative sector accounts for 56.8 per cent. The dairy cooperatives have given the place of pride to the country for being the number one country in the world in the mild production.

The role of cooperatives has acquired a new dimension in the changing scenario of globalization and liberalization of the economy. Internal and structural weaknesses of the cooperatives combined with lack of appropriate policy support have neutralized the positive impact. The cooperatives are be set with a number of institutional, financial and governance problems. There are also wide regional imbalances in the development of the cooperatives in the country.

## 3.4 Types of Co-operatives

Industrial cooperatives have played a crucial role in the process of industrialisation in India. The present economic position poses significant challenges before the government. Industrialisation is regionally imbalanced, required heavy investment both infrastructurally and otherwise. The entire burden of responsibility is too much for the state to handle. The public sector is concentrated on infrastructure and public utilities. The responsibility of basic industrial development therefore lies with the private sector, which would yield best results when organised into industrial cooperatives. The cooperative sector in India has mainly concentrated on activities of village industries, cottage industries, small scale and agro based industries. The artisans and villagers in agro based industries are deprived of the benefits of scale of production and competition. It is through these industrial cooperatives that artisans could hope to secure these advantages, which are otherwise denied to them. In a country like India, where capital is shy and rate of capital formation is low, there is wide spread illiteracy amoung artisans, the economy is plagued with poor enterprise and lack of organisational ability, the cooperative sector has emerged as a solution to many of these maladies.

Consumer cooperatives have gained immense useful popularity in different parts of the country. They have become the panacea for solving the various problems of the consumers and give them the much needed guidance and protection in matters of controlling prices, streamlining the distribution mechanism, prevention of adulteration, under weightment, sale of defective quality goods and a number of the malpractices indulgeds in by private traders and a variety of middlemen. With the first consumer cooperative, Triplicane Urban Cooperative Society set up in Madras in 1904, India has taken all the advantages of the consumer cooperative movement.

With the implementation of the new economic policy post 1990s, the Indian economy has been already oriented towards the market and steps are being taken to integrate the economy globally. The National Co-operative Union of India has been pleading with the government to recognise co-operatives as a separate sector.

### Cooperative Banking

One of the salient functions of cooperatives is its involvement in banking industries. These banks are constituted on co-operative principles of voluntary association, self-help and mutual aid, are share one vote and non-discrimination and equality of members. A cooperative bank may be regarded as a mutual society formed, composed of and governed by a group of persons for encouraging regular savings and grantings small loans on easy terms of interest and repayment. It provides financial assistance to the people with small means to protect them from the debt trap of the money lenders. These are basically concerned with the primary sector, i.e. agricultural sector and agro-based industries.

## Urban Coopeative Banks

The cooperative banking system in India consists of rural and urban cooperative banks. The importance for urban cooperative banking arises from the fact that joint stock banks are not interested in providing credit to the urban middle class because it is not feasible for joint stock banks in developing the business of small loans on account of high cost of advancing and recovering the same. Moreover as joint stock banks are not likely to have under ordinary circumstances full and intimate knowledge of the standing and resources of persons of moderate means, they will not extend loans on personal security under this condition the man with limited means in urban areas would be driven to money lenders or similar agencies to obtain loan at exorbitant rate of interest. The cooperative banks combine the merits of both the organised and unorganised banking institutions. Though commercial banks render similar services, they are not close to the barrowers. The members in cooperatives enjoy their benefits as a matter of right, being the owners of their organisation as well as their beneficiary.

An urban cooperative bank is primarily as cooperative society registered under the law relating to the cooperative societies as it revails in the state in which the society is established. Its organisation and functioning are governed by the cooperative societies Act applicable to the state and rules framed under the Act. All the details are laid down in the bye-laws which have to be framed at the tune of registration and approved by the Registrar of cooperative societies (RCS). Initially these banks were managed and governed by the state governments under the provision of their respective cooperative societies Act. Later, these were brought under the scope of the Banking Regulation Act, 1949, with effect from March 1, 1966. Consequently the RBI became the regulation and supervisory authority of UCBs for their banking related operation. Now VcBs are organised under dual control of Reserve Bank of India and the respective State Governments. UcBs with multi-state presence are also regulated by the Central Government and registered under the Multi-State Cooperative Societies Act.

An urban cooperative bank has a general body consisting of all its members, a Board of Directors elected periodically with a President, a Secretary and a Treasurer and usually an Executive Committee, which can meet of ten and look into the day-to-day affairs of the bank.

## Rural Cooperative Banks

These banks play an important role in providing institutional credit to the agricultural and rural sectors. The cooperative banks in India play an important role in catering to the banking needs of the rural population.

The Reserve Bank of India Act, 1934, has specific previsions relating to agricultural credit. Section 54 of the RBI Act specifically authorised the creation of an Agricultural credit department within the RBI to deal not only with the rural credit but also with the long term finance including refinance. Section 17 of the Act empowered it to provide agricultural credit through state cooperative banks or any other banks engaged in the business of agricultural credit.

After independence inspite of various efforts, the flow of credit to the agricultural sector failed to exhibit any appreciable improvement as the cooperatives lacked resources to meet the expected demand. To solve these problems, the Regional Rural Banks (RRBs) were set up in 1975. On July 12, 1982, National Bank for Agricultural and rural development (NABARD) was set up to improve the institutional credit for agriculture and rural development. NABARD took over the entire functions of the ARDC (Agricultural Refinance and Development Corporation); Agricultural Refinance Corporation set up by the RBI in 1963 to provide funds by way of refinance was renamed as the Argicultural Refinance and Development Corporation in 1975 to emphasise the developmental and promotional role.

Rural cooperatives are divided into 2 segments—(1) short term and (2) long term. The short term rural cooperatives provide cropand other working capital loans to farmers and rural artisans for short term purposes. These institution have a 3 tier structure—(a) At the apex of the system there is State Cooperative Bank (SCB) in each state. (b) At the middle or district level, there are District Central Cooperative Banks (DCCBs). (c) At the lowest or village level, there are Primary Agricultural Credit Societies (PACS). The smaller states and Union Territories have a 2 tier structure with ScBs directly meeting the credit requirements of PACs.

SCBs act as a link between RBI and DCCBs and PACS. The RBI presides credit to lower level cooperatives through the SCBs; now this is done by NABARD. The SCBs act as balancing centre for DCCB, because surplus funds of some DCCBs are made available to other needy DCCBs. ScBs exercise general control and supervision over DCCBs and PACS. DCCBs act as a link between the ScB and the PACS. PACS form the basic unit of the cooperative credit system in our country. These societies have posed challenge to the exploitative practices of the village money lenders. The Farmers and other small barrowers come in direct contact with there societies. The success of he cooperative credit movement depends largely on the strength of these village level societies.

The long term rural cooperatives provide medium and long term loans for making investments in agriculture, rural industries and housing. These cooperatives have 2 tier structure—(a) State cooperative Agriculture and Rural Development Banks (SCARDBs) which operate at the state level (b) Primary Cooperative Agriculture and Rural Development Bank (PCARDBs) which operate at the taluka/tehsil level.

**Check your Progress II**

1. Which place is famous for the origin of cooperatives movement?
2. State the major principles governing cooperative.
3. What are consumer cooperatives?

**Answers to Check your Progress II**

1. Rochdale Pioneers, a group of weavers are known as the originator of the cooperative movement.
2. The major principles governing cooperatives are (a) democratic control (b) Open membership (c) limited interest on capital (d) patronage dividend (e) cash trading (f) political and religious neutrality (g) education.
3. Consumer cooperatives are association of consumers of similar products formed with aim of solving the problems faced by consumers.

## 3.5 Summary

The origin of the co-operative movement is about two centuries old. It was the chaotic situation in the political and economic, spheres of life in Europe which gave rise to co-operation as a movement. The first workable model society was founded by the Rochdale Pioneers, a group of weavers. Democracy is the basic essence of cooperatives. In such organisations the general body is supreme and the committee of management is elected by them to look into the day to day affairs. Such democracy is the free will of the members, not externally imposed upon them. To be successful and effective, a co-operative must invest in the development of human resources, particularly its membership. The Multi State Cooperative Societies Act, 2002 came into force with effect from August 19, 2002. India, in the past few decades has witnessed substantial growth in the cooperative sector in the diverse areas of the economy. The country has the largest network of the cooperatives in the world.

## 3.6 Exercises

1. What is the basic philosophy behind cooperative organization?
2. What are (a) Industrial cooperatives (b) Consumer cooperatives?
3. List the fundamental principles governing cooperatives in the present day world.
4. Give an idea about cooperative banking in India.

# Unit 4 ❑ International Business Environment

Structure



## 4.0 Objectives

By the time you have studied this unit you should be able to :

- Understand the basic tenets of international environment of business
- International business in respect of foreign countries
- Evaluate India's position in world trade

## 4.1 Globalisation

Globalisation is not a twentieth century phenomenon. Globalisation of economic activity has been closely linked with the development and establishment of empires world wide through international trade since the-sixteenth century. By the late eighteenth century propelled by the Industrial Revolution, Britain had become the undisputed leader of world economic power. However, globalisation with the development and spread of multinational enterprises is fairly recent phenomenon. Along with the development of the multi national enterprises through direct investment abroad, the numerous international bragrements and institutions that were set up after World War II acted as further catalysts to the process of globalisation. During the course of this century, various laws and bodies have come into existence to regulate world trade, which constitute an important part of the environment in which multi national businesses conduct their world wide operations, Notable among the authorities, which significantly affect the current investment scenario is the World Trade Organisation.

Globalisation is a set of beliefs, working methods and economic, political and socio cultural reality in which previous assumptions are no longer valid. For developing countries it means integration with the world economy. In simple economic terms, globalization refers to the process which calls for the removal of the trade barriers—political, geographical and economic.

Globalisation involves removing restrictions on foreign trade and foreign ivestment so as to leverage the benefits of comparative advantage in terms of capital, technology and skilled labour. International business as a separate subject is also gaining importance day by day as trade between nations is taking place at a very fast pace. Ditts the relaxation in the exchange control regulations by many countries, capital flows, both foreign direct investment and foreign portfolio investment, are common as compared to yesteryears. Exchange rates also play a vital role in the transactions.

Globalisation of economy means integrating the economy with the global economy. This involves dismantting of high tariff walls, i.e., redution of import duties, thereby facilitating the transition from a protected economy to an open economy, removel of non tariff restrictions on trade such as exchange control, import licencing, and quotas, allowing foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI), permitting companies to raise capital abroad, and encouraging domestic companies, to grow beyond national boundaries. In the process of globalisation, national economins are integrated in several fundamental ways—through trade, finance, production, and a growing web of global treaties and institutions. Both foreign investment and international trade volume have grown rapidly of the last few years.

From the point of view of a business, a company which is involved in several manufacturing locations around the world and deals in several diversified industries, is said to be global in its operations. Such companies are termed Multi National Corporations (MNC) or Trans National Corporation (TNC). Examples of MNCs are IBM<GE, Ford, Shell, Sony, Unilever, etc.

The primary reasons which have led to this phenomenon called globalisation may be as follows:

- Raid shrinking of time and distance across the world due to development in transport, communication and electronic technology
- It acts as a strategy to overcome crisis in recession hit industries.
- The lure of the international market
- The search for political stability
- Proximity to raw material source, reduction in transportation costs
- Product Cycle Theory of Vernon, which says that companies that develop attractive new products sell them first in their home markets. Sooner or later, foreigners may learn about these products. At this stage, most companies would export the product or service rather than produce it abroad. But as foreign demand grows, the economics of foreign production changes. Eventually the foreign market becomes large enough to justify foreign investment.

## 4.2 Degrees of Internationalisation

Globalization does not take place overnight. It proceeds through several stages, which are:

1. First Degree. Companies at the first stage of globalisation have only passive dealings with foreign individuals and organizations. At this stage the business is engaged in executing overseas orders that may have come in without any serious marketing effort on the part of the seller. Third parties such as agents, banks and brokers act as middlemen for companies at this stage.

2. Second Degree. Companies at this stage deal directly with the overseas market. Though they do not have employees based abroad, home country employees regularly travel to their partner countries with which they carry on business.

3. Third Stage. The companies at this stage are not essentially domestic in

nature, the company is directly involved exporting and importing of goods and services.

4. Fourth Stage. MNC business have actually taken shape in this stage. They are in active and direct participation in the foreign market.

## 4.3 Globalisation in India

Globalisation in India is generally considered in view of integrating the economy of the country with the world economy. This, in turn implies opening up of 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 entry of multi national corporations to India; allowing Indian companies to enter into foreign collaboraitons and encourage them to set up joint ventures abroad. The seeds of this globalisation process was sown in the early 1980s. however the real thrust to the process was provided by the new economic policy introduced by the government of India in 1991 at the behest of the World Bank and International Monetary Fund.The basic components of this Structural Adjustment Programme taken up by India were:

- Stabilisation, which implies cutting down fiscal deficit and the rate of growth of money supply.
- Domestic liberalisation which consists of relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocations.
- External sector liberalisation or relaxing restrictions on international flow of goods, services, technology and capital.

**Check Your Progress I**

1. What do you mean by globalization?
2. How many stages are there in the process of Internationalisation?

**Answers to Check Your Progress I**

1. Globalisation is a set of beliefs, working methods and economic, political and socio cultural reality in which previous assumptions are no longer valid. For developing countries it means integration with the world economy. In simple economic terms, globalization refers to the process which calls for the removal of all trade barriers—political, geographical and economic.
2. There are four stages in the process of Internationalisation.

## 4.4 Foreign Trade of India

In the British period, the pattern of India's foreign trade was restricted to supply of food items and raw materials to industrialised countries and import of finished products for daily consumption. With the dawn of independence, the colonial pattern of trade had to be changed to suit the needs of a developing economy. In the early years of development therefore, imports far exceeded the exports. This turned the balance of trade heavily against the developing country, which in turn, necessitated the enlargement of exports. A developing economy is required to find new commodities and new markets in which it can sell its produce.

The structure of Indian exports is typical of a developing country. India has traditionally been an exporter of agricultural raw materials and allied produce. But the increase in population and growing domestic demand has caused a decline in exportable surplus of these commodities. Since 1960, under the impact of industrialisation, exports of non-traditional items have gained in importance. These items consist of engineering goods, handicrafts (including pearls, precious and semiprecious stones and jewellery), iron and steel, chemicals, ready made garments and fish. At present these goods constitute almost 50 per cent of India's export. On the other hand, export of traditional items like cotton fabrics and leather products are also increasing. The large expansion of export of engineering goods is partly the result of pick-up in demand in industrial countries and also from the middle East, which require Indian products for their infrastructural projects like roads, ports, telecommunication. etc. India is therefore in a position to take advantage of both favourable demand situation and attractive price situation in the international market. The boost to agriculture has lead to rice gaining" importance as an export product. Besides, fruit and vegetables and processed items also occupy significant position in our export list.

Exports from India may be broadly classified into four categories:

- Agriculture and allied products, which include coffee, tea, tobacco, cashew kernels,spices, sugar, raw cotton, rice, fish and its processed products, meat and its processed products, vegetable oils, fruits, vegetables and pulses.
- Ores and minerals, which include manganese, mica and iron ore.
- Manufactured goods, which include textiles, readymade garments, jute products, leather and footwear, handicrafts (pearls, precious and semi-precious stones and jewellery), engineering goods and iron and steel.
- Mineral fuels and lubricants,

The table below gives some idea about the exports that India can be proud of.

**Table: Classification or Indian Exports (1996-97)**

| Items | Rupees in crores |
|---|---|
| Agriculture and allied products | 25,040 |
| Ores and minerals | 3,185 |
| Manufactured goods | 88,528 |
| Petroleum products | 1,832 |
| Others | 232 |
| **Total** | 118,817 |

**Source:** Economic Survey 1997-98

However the details of the items of export may be studied with reference to the data contained in .the next table.

**Table : Annual Exports of Major Commodities (1996-97)**

| Items | Rupees in crores |
|---|---|
| Coffee | 1426 |
| Tea | 1037 |
| Fruits and vegetables | 828 |
| Cotton yarn and its products | 11082 |
| Leather products | 5609 |
| Iron ore | 1706 |
| Tobacco | 757 |
| Engineering goods | 12058 |
| Cashew Kernel | 1288 |
| Readymade garments | 13324 |
| Handicrafts | 20110 |
| Fish and processed products | 4008 |
| Rice | 3172 |

**Source:** Economic Survey 1997-98

In order to study the regional direction of India's foreign trade, it would be useful to consider each of the regions to which India exported its products. Before independence U.K. was the principal trading partner of India, accounting for 34 per cent of India's exports and 30 per cent of imports. But with time other countries of importance which have emerged as India's trading partners are U.S.A., Germany, Japan among others. This spatial or geographical diversification has helped India to go for diversification of industries along with specialisation in certain goods and secure new markets for her products. India has been diversifying her exports to match her imports. Even though U.K. continues to buy a large volume of goods from India, it has been relegated to the third position as regards exports from India, U.S.A. has become the biggest buyer of Indian goods. Likewise Germany and Japan along with U.S.A. and U.K. constitute the four main countries which absorb 43 per cent of India's exports. These are rich countries with high national and per capita income. They therefore provide excellent markets for India's traditional goods (like, cotton, jute and leather products) and non-traditional items (like, marine products, pearls and precious stones). The middle East countries also offer a good market for Indian exports. The share of Indian exports to South Africa and South America is fairly low. But these are countries with economically bright futures. and offer huge potential as markets for Indian products. India also has a great potential for increasing her foreign trade with Asian countries, because the Indian manufacturers are readily acceptable in these countries.

The table below gives some idea about the Indian exports to different countries of the world.

**Table: Direction of India's Foreign Trade (1996-97)**

| Region / Country | | Rupees in crores |
|---|---|---|
| European Union : | | France2,525 |
| | Belguim | 3,852 |
| | Germany | 6,227 |
| | UK | 7,208 |
| North America : | USA | 23,234 |
| | Canada | 1,235 |
| Australia | | 1,356 |
| Japan | | 7,068 |
| OPEC: | Iran | 689 |
| | Kuwait | 546 |
| | Saudi Arabia | 2,002 |
| | UAE | 5,208 |

| Region / Country | | Rupees in crores |
|---|---|---|
| Eastern Europe | | 3,144 |
| Asia : | South Korea | 1,776 |
| | Singapore | 3,421 |
| Africa | | 3,438 |
| South America | | 1,569 |
| Others | | |
| Total | | 118,817 |

**Source :** Economic Survey 1997-98

Countries such as Japan, China and India recognise the need to continue economic reforms, with an increased emphasis on achieving highergrowth rate. The financial services are gradually being liberalised while significant headway has already been made in liberalising telecommunications. Other services, such as shipping, roads, parts and air, are beginning to open up, but foreign participation remains relatively low, and significant administrative barriers remain. As per the decision made by WTO, India has already removed the quantitative restrictions (Restricted List, canalised List, etc.) on imports on 1.4.2001. Similarly, other countries have simplified foriegn investment regime and opened up a number of sectors to foreign direct investment. This happens in manufacturing where foreign participation of upto 51% or 74% can take place automatically in a number of sectors. Production in the food manufacturing sector has grown rapidly following increased foreign investment. 51% foreign equity participation is granted automatically and 100% is also allowed if approved by government authorities in care of automobile sector. This has acclerated high rate of foreign investment through joint ventures with local manufacturers. Since 1993 some policy changes have also included automatica permission for foreign equity participation in some mining activities. This also applies to oil exploration where the government seeks to reduce its dependence on imports and offers incentives such as take holidays.

In countries like India, China and Japan, an open economy has been created due to economic reforms in 1990's. The table below will give an idea about growth rates-industrial production, exports and imports percentage, India—

| Year | Exports (In us $, million) | Imports (In us $ million) |
|---|---|---|
| 1990-91 | 9.2 | 13.5 |
| 1991-92 | 1.5 | 19.4 |
| 1992-93 | 3.8 | 12.7 |
| 1993-94 | 20 | 6.5 |
| 1994-95 | 18.4 | 22.9 |
| 1995-96 | 20.8 | 28 |
| 1996-97 | 5.3 | 6.7 |
| 1997-98 | 4.6 | 6.0 |
| 1998-99 | 5.1 | 2.2 |
| 1999-2000 | 13.2 | 11.4 |
| 2000-2001 | 20.6 | 14.4 |
| 2001-2002 | 1.65 | 1.74 |
| 2002-2003 | 20.36 | 19.2 |
| 2003-2004 | 21.1 | 27.3 |
| 2004-2005 | 25.6 | 34.7 |

Source : Economic survey, various issues including issue of 2004-2005.

**Check your Progress II**

1. List the chief items that India exports?
2. List the main countries to which India exports its products.

**Answers to Check Your Progress II**

I. The chief items that Indian exports are:

| |
|---|
| Coffee |
| Tea |
| Fruits and vegetables |
| Cotton yarn and its products |

| |
|---|
| Leather products |
| Iron ore |
| Tobacco |
| Engineering goods |
| Cashew Kernel |
| Readymade garments |
| Handicrafts |
| Fish and processed products |
| Rice |

2. The main countries to which India exports its products are:

| | |
|---|---|
| European Union : | France |
| | Belguim |
| | Germany |
| | UK |
| North America : | USA |
| | Canada |
| Australia | |
| Japan | |
| OPEC : | Iran |
| | Kuwait |
| | Saudi Arabia |
| | UAE |
| Eastern Europe | |
| Asia : | South Korea |
| | Singapore |
| Africa | |
| South America | |

## 4.5 World Trade Organisation (WTO)

The WTO is a rules-based, member-driven organization-all decisions are made by the member governments, and the rules are the outcomes of negotiations among members. It is the only global agreement of development with rules of trade between nations. At its heart of the WTO agreements, negotiated and signed by bulk of the world's trading nations is the goal to help producers of goods and services, exporters, importers to conduct their business.

Established on January 1st. 1995 its headquarters are located at Geneva, Switzerland. It can be broadly said to have been created by the Uruguay Round of Negotiations (1986-94), sealed by the Marrakesh Declaration which affirmed that the WTO would 'strengthen the world economy and lead to more trade, investment employment and income growth through out the world'. With a membership of 161 countries (as on 4.7.2013) and Roberts Azevedo as the Director General it succeeded the General Agreement "on Tariffs and trade (GATT).

All WTO members may participate in all councils, committees, etc, except Appellate Body, Dispute Settlement panels, Textiles Monitoring Body, and plurilateral committees.

The Ministerial Conference is the WTO's top decision-making body and meets at least once every two years. The General Council is responsible for day-to-day decision-making and meets regularly, normally in Geneva.

The coherence of the WTO is cooperation between multilateral institutions on global economic policy-making. It continues the essence of GATT which prevailed before 1995: till the WTO came into being: The countries that had signed the General Agreement on Tariffs and Trade by the end of 1994 became members of the WTO when the WTO replaced GATT as the organization overseeing the multilateral trading system.

The different nations which form the WTO have signed an agreement recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development.

It has also been recognised further that there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.

Being desirous of contibuting to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations, the member countries have resolved, therefore, to develop an integrated, more viable and durable. multilateral trading system encopassing the General Agreement on Tariffs and Trade, the results of past trade liberalization efforts and all of the results of the Uruguay Round of Multilateral Trade Negotiations. The member nations are determined to preserve the basic principles and to further the objectives underlying this multilateral trading system. Thus the WTO has been established.

### 4.5.1 The Scope of WTO

1. The WTO shall provide the common institutional framework for the conduct of trade relations among its members in matters related to the agreements and associated legal instruments.
2. The agreements and associated legal instruments (referred to as "Multilateral Trade Agreements") are integral parts of this Agreement, binding on all members.
3. The agreements and associated legal instruments are also part of this Agreement for those members that have accepted them, and are binding on those members. The Plurilateral Trade Agreements do not create either obligations or rights for members that have not accepted them.

### 4.5.2 The functions of the WTO

- Administering and implementing the multilateral and plurilateral trade agreements which together make up the WTO.
- Acting as the forum for multilateral trade negotiations
- Seeking to resolve trade disputes
- Overseeing national trade policies
- Cooperating with other institutional institutions like the IMF in global economic policy making.

People have different views of the prospects and consequences of the WTO's ''multilateral'' trading system.

The criticisms against WTO are—

1. Policy is dictated by WTO.

2. WTO is far free trade at any cost.
3. Commercial interests take priority over development, environment, health and safety.
4. WTO debtroys jobs, worsens poverty.
5. Small countries are powerless in the WTO.

### 4.5.3 WTO Dispute Settlement

The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. A dispute arises when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO. Ultimate responsibility for settling disputes also lies with member governments, through the Dispute Settlement Body. Without a means of settling disputes, the rulesbased system would be worthless because the rules could not be enforced. The WTO's procedure underscores the rule of law, and. it makes the trading system more secure and predictable.

WTO members have agreed that if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally. That means abiding by the agreed procedures, and respecting judgements. Typically, a dispute arises when one country adopts a trade policy measure or takes some action that one or more fellow- WTO members considers to be breaking the WTO agreements. A third group of countries can declare that they have an interest in the case and enjoy some rights.

A procedure for settling disputes existed under the old GATT, but it had no fixed, timetables; rulings were easier to block, and many cases dragged on for a long time inconclusively. The Uruguay Round agreement introduced a more structured process with more clearly defined stages in the procedure. It introduced greater discipline for the length of time a case should take to be settled, with flexible deadlines set in various stages of the procedure. The agreement emphasizes that prompt settlement is essential if the WTO is to function effectively. It sets out in considerable detail the procedures and the timetable to be followed in resolving disputes. If a case runs its full course to a first ruling, it should not normally take more than about one year—15 months if the case is appeared. The agreed time limits are flexible, and if the case is considered urgent (e.g. if perishable goods are involved), then the case should take three months less.

The Uruguay Round agreement also made it impossible for the country losing a case to block the adoption of the ruling. Under the previous GATT procedure, rulings could only be adopted by consensus, meaning that a single objection could block the ruling. Now, rulings are automatically adopted unless there is a consensus to reject a ruling - any country wanting to block a ruling has to persuade all other WTO members (including its adversary in the case) to share its view.

Although much of the procedure does resemble a court or tribunal, the preferred solution is for the countries concerned to discuss their problems and settle the dispute by themselves. The first stage is therefore consultations between the governments concerned, and even when the case has progressed to other stages, consultation and mediation are still always possible.

Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise). The Dispute Settlement Body has the sole authority to establish “panels” of experts to consider the case, and to accept or reject the panels’ findings or the results of an appeal. It monitors the implementation of the ruling and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.

**First stage : consultation** (up to **60 days**). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO director-general to mediate or try to help in any other way.

**Second stage : the panel** (up to **45 days** for a panel to be appointed, plus **6 months** for the panel to conclude). If consultations fail, the complaining country can ask for a panel to be appointed. The country “in the dock” can block the creation of a panel once, but when the Dispute Settlement Body meets for a second time, the appointment can no longer be blocked (unless there is a consensus against appointing the panel).

Officially, the panel is helping the Dispute Settlement Body make ruling or recommendations. But because the panel’s report can only be rejected by consensus in the Dispute Settlement Body, its conclusions are difficult to overturn. The panel’s findings have to be based on the agreements cited.

The panel’s final report should normally be given to the parties to the dispute within six months. In cases of urgency, including those concerning perishable goods, the deadline is shortened to three months.

The agreement describes in detail how the panels are to work. The main stages are the following :

Before the first hearing—Each side in the dispute presents its case in writing to the panel. First hearing the case for the complaining country and defence—The complaining country (or countries), the responding country, and these that have announced they have an interest in the dispute, make their case at the panel’s first hearing.

Rebuttals—The countries involved submit written rebuttals and present oral arguments at the panel's second meeting.

Experts—If one side raises scientific or other technical matters, the panel may consult experts or appoint an expert review group to prepare an advisory report.

### 4.5.4 Dispute Settlement: Dumping

The WTO has made special provisions for settling issues related to dumping. Since dumping is one of the most contemporary problems faced by the developing countries, it is specially discussed here.

A product is to be considered as being dumped, under the following circumstances:

(1) When it is introduced into the commerce of another country at less than its normal value, or if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country. When there are no sales of the like product in the ordinary course of trade in the domestic market of the exporting country.

Member countries have to follow antidumping measures. Such members can be penalized on export if such dumped imports cause injury to a domestic industry in the territory of importing members. The WTO agreement provides for determining the injury caused to a domestic industry by the dumped product and the procedure to be followed in initiating and conducting anti dumping investigations. Rules on implementation and duration of anti dumping measures are also part of this agreement. In addition it clarifies the role of each dispute settlement panel in disputes relating to anti dumping actions taken by WTO members.

### 4.5.5 Differences between GATT and WTO

The WTO should not be thought to be an extension of GATT. The major differences between the two may be listed as follows :

- GATT was a set of rules, a multilateral agreement, with no institutional foundation. The WTO is a permanent institution.
- GATT was applied on a provisional basis, but WTO commitments are full and permanent.
- GATT rules applied to trade in merchandise goods. In addition WTO covers trade in services and trade related aspects of intellectual property.
- WTO dispute settlement is faster, more automatic and thus much less susceptible to blockage than GATT.

### 4.5.6 The Final Act

The major provisions of the Final Act (reportedly implemented by the WTO) relate to agriculture, health and welfare measures, TRIPS and GATS

➩ **Agriculture**

The agreement relating to agriculture is made up of several elements which seek to

- reform trade in agriculture.
- provide basis for market oriented policies.
- improve Eonom ic cooperation for importing and exporting countries alike.
- Domestic support—subsidies and other programmes, including those that raise of gurantee prices and farmers' income.
- Export subsidies and other methods used to make exports artificially competitive.

➩ **Health, welfare and safety**

The Agreement on the Application of sanitary and Phytosanitary Measures concerns the application of food safety, plant and animal health regulations. It recognizes the right of the government to take sanitary and phytosanitary measures but stipulates that they must be

- based on science
- applied only to the extent necessary to protect human, animal and plant life or health
- justifiable and not discriminate among members where identical or similar conditions prevail.

➩ **TRIPS**

The WTO agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) recognizes that tension in international trade relations has been growing because of

- widely varying standards in the protection and enforcement of intellectual property rights
- Lack of multilateral disciplines dealing with international trade in counterfeit goods. The WTO therefore aims to ensure applicability of basic GATT principles and relevant international Intellectual Property Agreements. There is provision for effective enforcement of those rights, multilateral dispute settlement and transitional arrangement.

## ➩ GATS

The General Agreement on Trade in Services (GATS)considers legally enforceable rules and disciplines to international trade in services.

The agreement covers three elements:

- A framework of general rules and disciplines,
- Special conditions relating to individual sectors, namely, movement of natural persons, financial services, telecommunications and air transport services and
- National schedules of market access commitments

Unlike in goods, GATS has a fourth special element : lists showing where countries are temporarily not applying the ''most favoured nation'' principle of non-discrimination. These commitments like tariff schedules under GATT—Are an integral part of the agreement. So are the temporary withdrawls of most favoured nation treatment.

**Scope GATS defines four–**

1. Services supplied from one country to another (e.g. international telephone calls), officially known as cross-border supply.
2. Consumers or firms making use of a service in another country (e.g. tourism), officially known as consumption abroad.
3. A foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country), officially terms as commercial presence.
4. Individuals trancelling from their own country to supply services in another (e.g. fashion models or consultants), officially known as presence of natural persons.

### 4.5.7 Implications for India

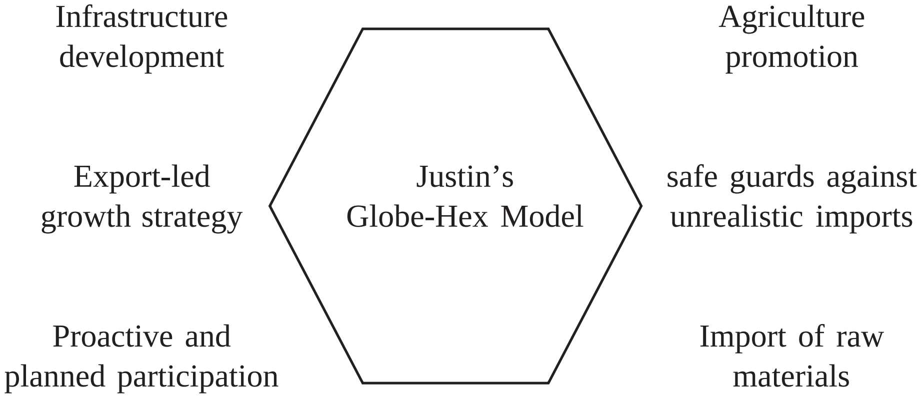
India was one of the founder members of WTO, one of the very few developing countries who are members even today.

The real importance of WTO for India lies in the fact that a dynamic export industry can play in the country's development. In terms of jets creation, skill development and technological evolution, it is essential to open up to the international arena.

It is only by forcing industries to sell outside the country and compete for export markets or allow international companies to sell in domestic market and make domestic producers compete with them, that home grown and based industries will have an incentive to evolve.

For decades, India has insulated itself with import substitution policies. It has resorted to State intervention in production and trade with all the attendant inefficiencies. It lagged behind countries like South Korea, Taiwan, Thailand and other Asian countries even though these countries started late in their liberalisation process. If India wants to stay in the new race, it can no longer afford to resist the markets opening or turn its back on WTO. A six-edged strategic framework called Justin Paul's Globe-Hex model can be implemented for succeeding in the era of globalisation.

JUSTIN'S 'GLOBE-HEX' MODEL : Strategies for success—




By being a member of WTO, India can benefit from the International Trade Centre which will help the country promote its exports. The centre provides free assistance to developing countries regarding information and advice on export markets, marketing techniques and assists in training of personnel required for these services.

With WTO membership, India has the advantage of having trade links with all other member countries without the need for bilateral agreement with every country it trades with.

However, there are many more arguments against India being a member of WTO. One school of thought opines that removal of trade barriers alone will not guarantee expansion in world trade. Some are also skeptical that WTO represents the interests of the developed countries.

**Check Your Progress III**

1. What is the purpose of forming the WTO?
2. What are the functions of WTO?

3. What are the criticisms against WTO?
4. What are the different stages in WTO disputes settlement?
5. Explain Justin Paul's six strategies for success in globalisation.

**Answers to Check Your Progress III**

1. The WTO is formed to provide the common institutional framework for the conduct of trade relations among its members in matters related to the agreements and associated legal instruments.
2. The functions of the WTO are

- Administering and implementing the multilateral and plurilateral trade aggrements which together make up the WTO.
- Acting as the forum form multilateral trade negotiations
- Seeking to resolve trade disputes
- Overseeing national trade policies
- Cooperating with other institutional institutions like the IMF in global economic policy making.

3. As stated in previous pages.
4. As stated in previous pages.
5. As stated in previous pages.

## 4.6 Social & Ethical Responsibility of International Business

The topic of multinational business social responsibility addresses the extent to which firms have the responsibility to consider the interests of society across national borders.

Markets are competitive and they move towards fulfilling societal needs as expressed by consumer demand. Firms that do not respond to consumer demands in terms of product, price, delivery, safety, environmental impact, through competition will be forced out of business. However, markets are not always competitive and market failures do occur.

Society grants existence to firms. Therefore, firms are in turn responsible to society as a whole. If market imperfections and government inabilities, leave societal needs unaddressed and unfulfilled, firms have the responsibility to address the legitimitate concerns of society, which has granted them the right to exist.

## 4.7 Industrial Trade Experience of China

From the late 1970s, the People's Republic of China was permeated with an emphasis on the significance of science and technology. Simultaneously it is worth recalling that China is one of the fastest growing economies of the world. That China is doing well is reflected in the fact that, as reported in the World Development Report (2000-2001) the percentage of people below the poverty line is only 6. The success of China is attributed more than its emphasis on science on technology to the market oriented reforms of the economy that has been taken up since 1978. The reformed State Owned Enterprises (SOE), the urban and rural collectives and the joint ventures play the major role in industry and trade in present day China. In agriculture, land is still owned by the state or the collectives and the peasant has the status of a tenant. China has introduced reform programme, largely without disturbing these institutions. As a part of this reform programme, the prices have largely been deregulated; the subsidies have been withdrawn. But even then, SOEs and the collectives are found to run efficiently. In a large number of cases they retain global competitiveness as well.

In the Chinese path of global reforms, industry was considered in 1980 when it became legal to set up small business. In the ealy 1980s, individual rural non-farm business engaged in petty non-industrial activity involving small capital started being set up. The major area of industrial activity had so far been the state or the collective enterprises, known technically in China as the Collectively Owned Enterprises and the State Owned Enterprises. Reforms added small private ventures only as one of the forms of industrial business.

However the major agent for industrial growth in present day China is not the SOE. A non-state, non-private formation known as the Collectively owned Enterprise is the major institutional set up that accounts for significant performance in the country's industrial sector. There are two types of collectives in China. The Urban Collectives and the Rural Collectives. In the group of urban collectives there are again two types of units, namely the large collective and the affiliated collective. In the group of rural collectives there are also two types, namely, township *(Xiang)* collective and village *(Cun)* collective. Almost 80 per cent of the collectives are in the rural area and the rest in the urban areas, 12 per cent had been the affiliate type and only 8 per cent had been large collectives.

There is a misconception that the private enterprises and the foreign owned companies played a very crucial role in the success of the Chinese programme of industrialisation. There are private enterprises in China. But then these are mostly small enterprises. Individual enterprises, many of which have just one person operation are the most common from of private enterprises in China. Such enterprises are found to exist, even in the services, construction and transportation sectors. Contribution of the individual owned enterprises in the industrial output of China had been as low as 5.8 per cent of the total industrial output of the country upto 1992. But the situation has changed substantially during 1992-96 when the contribution of the individual owned enterprises has increased to 15.5 per cent during this period.

Among the other categories of business organisations in China there are ‘wholly owned foreign firms’, ‘joint ventures’ and ‘domestic mixed ownership’ firms. A large number of the joint ventures are with Hongkong or Macao based firms. The domestic mixed ownership firms are those in which the COEs and the SOEs tie up with the local private ventures. China has been one of the largest recipients of foreign direct investment. Undoubtedly therefore, the share of ‘other enterprises’ in the total industrial output of China increased significantly during the recent years. However these ‘other enterprise’ including the foreign firms did in no way undermine COEs and the SOEs. In the mixed ownership type of firms of SOEs and the COEs tie up with the local private ventures which are weak and therefore the non-private firms maintain their leadership. Foreign investments are absorbed in joint ventures which involve the COEs and the SOEs. Such ventures are undertaken mainly to absorb foreign technology and management skill.

The Chinese invasion of Indian markets is on. Chinese goods have not only flooded the metros but here overflowed into the small towns as well.

Complaints from Indian industry with respect to China’s cheap products are of 3 kinds : Firstly, China is dumping products. This is what is now going to be investigated for some products by the Directorate General of Antidumping and Allied Duties. Secondly there is allegedy smuggling via Nepal and Myanmar, though it is difficult to see a destruction of swathes of Indians industry through such smuggling. A third route apparently taken by Chinese products is import into Nepal and re-export to India at low duties, making use of the concessional Indo-Nepal trade agreement.

The table showing comparison of Chinese and Indian prices (Free on Board)

| **Produtcs** | **Indian market price ($)** | **Chinese price ($)** |
|---|---|---|
| Electric Fans | 20.958 | 4.937 |
| Colour T.V.Set | 254.465 | 65.741 |
| Tyres | 29.912 | 8.883 |
| Primary cells and Batteries | 0.225 | 0.048 |

**Source :** Ministry of commerce, Government of India.

Most of the industries in India are affected by cheaper Chinese products. So it is necessary to know why Chinese goods are cheaper. In the last two decades, China has done extremely well in the economic front, highlighted by a good GDP growth.

The table showing some macro-economic comparisons between India and China (1999-2000)

| **Macro economic indicators** | **China** | **India** |
|---|---|---|
| GDP growth | 8% | 6.4% |
| Inflation | 1.5% | 3.4% |
| Export growth | 27.8% | 16.6% |
| Import growth | 35.8% | 14.7% |
| Trade Balance | $ 24.2 billion | $ 3.8 billion |
| Industrial growth | 11.4% | 6.5% |
| Agricultural growth | 2.2% | .7% |
| Services growth | 8.6% | 8% |
| Savings | 41% | 22.3% |
| Population | 1.3 billion | 1 billion |
| Per capital income (yearly) | $ 1,000 | $ 450 |
| Foreign Exechange Reserves | $ 165.6 billion | $ 42.7 billion |
| FDI Flow | $ 45 billion | $ 2.09 billion |

**Sources :** The Economist, August, 2002 and CMIE Monthly Review, April 2002.

China announced its ‘‘Open Door Policy’’ in 1978 at the 11th people’s congress and after that there has been a sequence of reforms in the first phase from 1978 to 1993 and in the second phase from 1994 to 2000. Its economic reforms startend with reforms in agriculture and rural development. The most important element of these reforms has been the decentralisation of Foreign Trade Authority, and hence the two most important factors, which have contributed to this are Foreign Direct Investment and exports. Several trans nationals have roots in China not just to tap the struck huge domestic market but also to leverge the benefits like cheap power, freedom to hire and fire, and virtually no bureaucratic interference with relatively low taxes, flexible labour laws, higher labour productivity, low price power, a world class infrasturcture, and little fear from strikes, China offers everything that Indian does not offer.

Thus there is a need to fear competition from China. But, what is even more important is to take on this competition head on. To begin with, it is important study the industry and policies in China closely and build market intelligence in its industry just like it does for Indian industry.

## 4.8 Summary.

Globalisation is a set of beliefs, working methods and economic, political and socio cultural reality which means integration with the world economy. It refers to the process which calls for the removal of all trade barries—political, geographical and economic. Globalisation in India implies opening up of 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 entry of multi national corporations to India; allowing Indian companies to enter into foreign collaborations and encourage them to set up joint ventures abroad.

## 4.9 Exercises

1. What are the primary reasons that lead to globalization?
2. In what way is WTO an improvement on GATT?
3. What provisions are laid down in the WTO that are binding on its member nations with special reference to dumping?
4. Give an overview of various economic reforms in China and Chinese invasion in Indian market.

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