VELS

INSTITUTE OF SCIENCE, TECHNOLOGY & ADVANCED STUDIES (VISTAS)
(Deemed to be University Estd. u/s 3 of the UGC Act, 1956)
PALLAVARAM - CHENNAI
INSTITUTION WITH UGC 12B STATUS

DCBBA-21

Business Environment

BBA
ODL MODE
[Semester Pattern]

School of Management Studies and Commerce
Centre for Distance and Online Education
Vels Institute of Science, Technology and Advanced Studies (VISTAS)
Pallavaram, Chennai - 600 117

Vels Institute of Science, Technology and Advanced Studies

Centre for Distance and Online Education

BBA- ODL Mode

(Semester Pattern)

DCBBA-21: Business Environment

(4 Credits)

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Printed at

FOREWORD

Dr.Ishari K Ganesh
Chancellor

Vels Institute of Science, Technology and Advanced Studies (VISTAS), Deemed-to-be University, was established in 2008 under section 3 of the Act of 1956 of the University Grants Commission(UGC), Government of India, New Delhi.

VISTAS has blossomed into a multi-disciplinary Institute offering more than 100 UG & PG Programmes, besides Doctoral Programmes, through 18 Schools and 46 Departments. All the Programmes have the approval of the relevant Statutory Regulating Authorities such as UGC, UGC-DEB, AICTE, PCI, BCI, NCTE and DGS.

Our University aims to provide innovative syllabi and industry-oriented courses, and hence, the revision of curricula is a continuous process. The revision is initiated based on the requirement and approved by the Board of Studies of the concerned Department/School. The courses are under Choice Based Credit Systems, which enables students to have adequate freedom to choose the subjects based on their interests.

I am pleased to inform you that VISTAS has been rendering its services to society to democratize the opportunities of higher education for those who are in need through Open and Distance Learning (ODL) mode.

VISTAS ODL Programmes offered have been approved by the University Grants Commission (UGC) – Distance Education Bureau (DEB), New Delhi.

The Curriculum and Syllabi have been approved by the Board of Studies, Academic Council, and the Executive Committee of the VISTAS, and they are designed to help provide employment opportunities to the students.

The ODL Programme [B.Com., BBA , B.A(Hons)-Economics and B.A(Hons)-English] Study Materials have been prepared in the Self Instructional Mode (SIM) format as per the UGC-DEB (ODL & OL) Regulations 2020. It is highly helpful to the students, faculties and other professionals. It gives me immense pleasure to bring out the ODL programme with the noble aim of enriching learners' knowledge. I extend my congratulations and appreciation to the Programme Coordinator and the entire team for bringing up the ODL Programme in an elegant manner.

At this juncture, I am glad to announce that the syllabus of this ODL Programme has been made available on our website, **www.vistascdoe.in**, for the benefit of the student community and other knowledge seekers. I hope that this Self Learning Materials (SLM) will be a supplement to the academic community and everyone.

CHANCELLOR

FOREWORD

Dr.S.Sriman Narayanan
Vice-Chancellor

My Dear Students!

Open and Distance Learning (ODL) of VISTAS gives you the flexibility to acquire a University degree without the need to visit the campus often. VISTAS-CDOE involves the creation of an educational experience of qualitative value for the learner that is best suited to the needs outside the classroom. My wholehearted congratulations and delightful greetings to all those who have availed themselves of the wonderful leveraged opportunity of pursuing higher education through this Open and Distance Learning Programme.

Across the World, pursuing higher education through Open and Distance Learning Systems is on the rise. In India, distance education constitutes a considerable portion of the total enrollment in higher education, and innovative approaches and programmes are needed to improve it further, comparable to Western countries where close to 50% of students are enrolled in higher education through ODL systems.

Recent advancements in information and communications technologies, as well as digital teaching and e-learning, provide an opportunity for non-traditional learners who are at a disadvantage in the Conventional System due to age, occupation, and social background to upgrade their skills.

VISTAS has a noble intent to take higher education closer to the oppressed, underprivileged women and the rural folk to whom higher education has remained a dream for a long time.

I assure you all that the Vels Institute of Science, Technology and Advanced Studies would extend all possible support to every registered student of this Deemed-to-be University to pursue her/his education without any constraints. We will facilitate an excellent ambience for your pleasant learning and satisfy your learning needs through our professionally designed curriculum, providing Open Educational Resources, continuous mentoring and assessments by faculty members through interactive counselling sessions.

VISTAS, Deemed- to- be University, brings to reality the dreams of the great poet of modern times, Mahakavi Bharathi, who envisioned that all our citizens be offered education so that the globe grows and advances forever.

I hope that you achieve all your dreams, aspirations, and goals by associating yourself with our ODL System for never-ending continuous learning.

With warm regards,

VICE-CHANCELLOR

Course Introduction

The **DCBBA-21: Business Environment** Course has been divided into five Blocks and consisting of 15 Units.

The **Block-1:** gives the **Introduction to Business Environment** and has been divided into three Units. Unit-1 describes the introduction to the business environment and various definitions given by eminent authors, Unit-2 gives you to nature and features and Unit-3 explains about the internal business environmental factors, external business environment factors, and government control over the business.

The **Block-2**: **Social Environment** has been divided into three Units. Unit-4 introduces to the concept of the meaning, internal, and external social environment, Unit-5 includes the concept of meaning, types of cultural heritage, and benefits of cultural heritage and the Unit-6 explains about the concept of meaning, factors influencing social responsibilities in business, Corporate Social Responsibility (CSR) and features of Corporate Social Responsibility.

The **Block-3: Political Environment** has been divided into two Units. Unit-7 explains about the definition, interpretation of political climate, political systems, and political ideologies and Unit-8 explains about the economic policies, Objectives of economic policies, Monetary and Fiscal Policies, it also explains about the New Industrial Policy and the implementation of the new industrial policy and the impact of Indian market.

The **Block-4: Economic Environment** has been divided into three Units. Unit-9 explains about the meaning and concepts, elements of the economic environment, and the Impact of the Economic Environment on Business and Economic Systems, Unit-10 explains about the Macroeconomic Parameters, Five Year Plan in India Planning Commission of India vs NITI Aayog. Unit-11 deals with the meaning, components of the Financial Environment, Financial System and Financial Services.

The **Block-5: Financial and Technical Environment** has divided into four Units. Unit- 12 gives the details about the Innovation and Technology, Types of Innovation, Leadership and Followership and the technology Management components and Managing Innovation and Commercialization, Unit-13 explains about the Role of Stock Exchanges in the Capital Market of India, Various Stock Exchanges in India, Securities and Exchange Board of India (SEBI), Role or Functions of SEBI equilibrium firms Industry under perfect competition.

Unit-14 describes about the Development Banks, Features of a Development Bank, Development Banking in India, and Functions of Development Banks in India and the Unit-15 explains about the meaning, factors affecting technology in the Business Environment, the importance of technology in business, and the choice of technology in the Business Environment.

DCBBA-21: Business Environment

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Block-1: Introduction

Block-1: Introduction to Business Environment has been divided in to three Units.

Unit-1: Introduction to Business Environment deals with Meaning of Business, Concept of Business, Definition of Business, Objectives of Business and Characteristics of Business.

Unit-2: Features of Business Environment explains about the Business Environment, Meaning, Definition of Business Environment, Nature of Business Environment, Significance of Business Environment, the Features of Business Environment and the Benefits of a Good Business Environment.

Unit-3: Factors Influencing Business Environment describes about the internal business environmental factors, External business environmental factors and Government Control over Business in India.

In all the units of Block -1 **Introduction to Business Environment**, the Check your progress, Glossary, Answers to Check your progress and Suggested Reading has been provided and the Learners are expected to attempt all the Check your progress as part of study.

Unit-1

Introduction to Business Environment

STRUCTURE

Overview

Objectives

1.1. Meaning of Business

1.2. Concept of Business

1.3. Definition of Business

1.4. Objectives of Business

1.5. Characteristics of Business

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

The nature of business refers to the fundamental activities and characteristics that define an organization and its operations. It encompasses the type of products or services the business provides, the industries in which it operates, and the legal and ownership structures that govern its operations.

Businesses can be categorized based on various factors such as size, ownership, industry, and legal structure. For example, a sole proprietorship is a business owned and operated by a single individual, while a corporation is a legal entity separate from its owners. In this unit the meaning, concept, definition, objectives and the characteristics of business has been explained.

Objectives

After completion of this unit, you will be able:

- To understand why businesses exist
- To understand the relationship between mission and objectives
- To examine common business objectives
- To understand why businesses set objectives
- To understand the measurement and importance of profit

1.1.Meaning of Business

The word business technically means a state of being busy. Every person is engaged in some kind of occupation. The primary aim of this entire person is to earn their livelihood while doing some work.

All creative human activities relating to the production of goods or services for satisfying human wants are known as business. It is also a gainful procedure through which individuals and groups exchange goods and services. Human activities may be categorized as economic and non-economic. Every day we come across the word 'business' or 'businessman' directly or indirectly. Business has become an essential part of the modern world.

Business is an economic activity, which is related to the continuous and regular production and distribution of goods and services for satisfying human wants. All of us need food, clothing, and shelter. We also have many other household requirements to be satisfied in our daily lives. We meet these requirements from the shopkeeper. The shopkeeper gets it from the wholesaler. The wholesaler gets from the manufacturers. The shopkeeper, the wholesaler, and the manufacturer are doing business and therefore they are called Businessmen.

Thus, the term business means continuous production and distribution of goods and services intending to earn profits under uncertain market conditions.

1.2.Concept of Business

The business has a wider meaning beyond goods, services, and profit. A business does not become a business without a customer. Therefore, any definition of business is complete only when it includes the customer in it. The customer determines what a business is. The revenue of the business comes from the customer when he pays for the goods or services of the business. No business can exist without a customer.

The existence of a business depends on its customers. Therefore, it can be said that the purpose of business is to create and retain customers. To fulfil this purpose a business enterprise should concentrate on two basic functions: (1) marketing and (2) innovation.

The first function of business is marketing, which is a specialized activity that covers the entire business. All activities in a business are balanced according to the needs of the market. Therefore, marketing includes identifying the needs of the customers, planning the product or service, and selling the goods at a price that satisfies the customer.

The second function of business in customer creation is innovation. Products available to customers are continuously improving due to technology.

Therefore, a business must strive for improving the quality of its product and reducing the price continuously to stay ahead of the competition.

Technology helps the business to innovate design, production, and marketing techniques. Investment in technology will ultimately reduce costs and bring in more profit. Innovation is possible in every aspect of the business. There can be innovation in distribution methods, advertising, selling, and every other area of business. Thus, business is not only restricted to dealing with goods and services but also creating customers, marketing, and innovation which are more important aspects of the business.

1.3.Definition of Business

The business may be defined as any economic activity that continuously involves the production or purchase of goods for sale, transfer or exchange of goods, or supply of services to earn profit.

Stephenson defines business as "The regular production or purchase and sale of goods undertaken to earn profit and acquire wealth through the satisfaction of human wants."

According to Dicksee, "Business refers to a form of activity conducted to earn profits for the benefit of those on whose behalf the activity is conducted."

Lewis Henry defines business as, "Human activity directed towards producing or acquiring wealth through buying and selling of goods."

1.4.Objectives of Business

Every business enterprise has certain objectives which regulate and generate its activities. Objectives are needed in every area where performance and results directly affect the survival and prosperity of a business. Various objectives of business may be classified into five broad categories as follows:

1. Economic Objectives
2. Social objectives
3. Human Objectives
4. National Objectives
5. Environmental Objectives

- **Economic Objectives:** These objectives focus on maximizing economic growth, increasing productivity, and improving the overall standard of living. This can be achieved through measures such as increasing investment, promoting innovation, and reducing unemployment.

- **Social Objectives:** These objectives aim to improve social welfare and promote equality. This can include measures such as reducing poverty, improving access to education and healthcare, and promoting social inclusion.
- **Human Objectives:** These objectives focus on promoting the well-being and development of individuals. This can include measures such as improving work-life balance, promoting personal growth and development, and ensuring fair and safe working conditions.
- **National Objectives:** These objectives aim to promote the interests and sovereignty of the nation as a whole. This can include measures such as promoting national security, protecting natural resources, and promoting cultural and linguistic diversity.
- **Environmental Objectives:** These objectives aim to promote sustainable development and protect the natural environment. This can include measures such as reducing carbon emissions, promoting renewable energy, and conserving natural resources.

1.5.Characteristics of Business

The following are the ten important characteristics of a business:

- Profit orientation: Businesses are typically profit-driven, seeking to generate revenue and earn a profit for the owners or shareholders.
- Exchange of goods and services: Businesses involve the exchange of goods or services in return for money or other goods and services.
- Legal entity: A business is a legally recognized entity that is separate from its owners or shareholders.
- Risk and uncertainty: Businesses operate in an environment of risk and uncertainty, where external factors such as competition, economic conditions, and government regulations can impact the success of the business.
- Organizational structure: Businesses have a hierarchical organizational structure, with clear lines of authority and responsibility.
- Human resources: Businesses rely on a workforce to operate, and often require employees with specialized skills and knowledge.
- Innovation: Businesses must be innovative and adaptable to keep up with changing market conditions and consumer demands.
- Social responsibility: Businesses have a responsibility to act ethically and contribute positively to the communities in which they operate.

- Scalability: Businesses should be able to scale their operations to accommodate growth in demand and achieve economies of scale.
- Continuity: Businesses should be designed for continuity, with processes in place to ensure ongoing operations in the event of unexpected events such as natural disasters or economic downturns.

Let Us Sum Up

In this unit you have learned about the following:

The nature of a business describes the type of business it is and what its overall goals are. It describes its legal structure, industry, products or services, and everything a business does to reach its goals. It depicts the business' problem and the main focus of the company's offerings.

Check Your Progress

1. The term ___________refers to the external and internal factors that affect a company's operations and performance.
2. ________include economic conditions, political and legal issues, social and cultural norms, technological advancements, and competition.
3. ___________refer to the company's organizational structure, resources, culture, and management practices.
4. Understanding the business environment is _______essential for companies to make informed decisions and develop effective.

Glossary

Business confidence: Reflection of optimism or pessimism about ongoing and future business prospects.

Centralization: All authority to take decisions are held by the senior manager(s)

Chain of command: The levels of management and the way authority is organized.

Economy: The nation, seen or considered in terms of its business activity.

External environmental Pressures: Factors or influences beyond the control of a business, e.g., government regulation, import controls.

Answers to Check Your Progress

1. Business Environment.
2. External Factors
3. Internal Factors
4. Strategies

Suggested Reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-2

Features of Business Environment

STRUCTURE

Overview

Objectives

2.1. Business Environment – Meaning

2.2. Definition of Business Environment

2.3. Nature of Business Environment

2.4. Significance of Business Environment

2.5. The Features of Business Environment

2.6. Benefits of a Good Business Environment

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

The business environment is the set of external factors and conditions that affect the operation and performance of businesses. Here are some of the key features of the business environment. Overall, the business environment is complex and dynamic, and businesses must be aware of these various factors to succeed in their operations. The nature of business refers to the fundamental activities and characteristics that define an organization and its operations. It encompasses the type of products or services the business provides, the industries in which it operates, and the legal and ownership structures that govern its operations.

In this unit, the Meaning, Definition, Nature, Significance, Features and the Benefits Business Environment has been clearly explained.

Objectives

After learning this module, students will be able:

- To understand the different environment in the business climate
- To know the minor and major factors affecting the business in various streams

- To know the different environment like, political, technological, and economic environment in the business
- To acquire in-depth knowledge about legal environment.

2.1. Business Environment – Meaning

The term environment has been derived from a French word “Environia” means to surround. It refers to both abiotic (physical or non-living) and biotic (living) environment. The word environment means surroundings, in which organisms live.

Environment and the organisms are two dynamic and complex components of nature. Environment regulates the life of the organisms including human beings. Human beings interact with the environment more vigorously than other living beings. Ordinarily, environment refers to the materials and forces that surround the living organism.

Environment is the sum total of conditions that surrounds us at a given point of time and space. It is comprised of the interacting systems of physical, biological and cultural elements which are interlinked both individually and collectively. It influences the growth and development of living forms.

In other words, environment refers to those surroundings that surrounds living beings from all sides and affect their lives in toto. It consists of atmosphere, hydrosphere, lithosphere and biosphere. Its chief components are soil, water, air, organisms, and solar energy. It has provided us all the resources for leading a comfortable life. No company can survive in market by ignoring the effects of environment. The efficient management analyses the environment and makes changes in organizational policies to integrate its activities with Business Environment.

The complete awareness and understanding of business environment are known as environment scanning. Environment scanning is conducted to find out the influence of different factors and persons on the business transactions. Environment scanning can be defined as a process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business.

2.2. Definition of Business Environment

The word ‘Business Environment’ has been defined by various authors as follows:

“Business Environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted.”

– Arthur M. Weimer

"Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions."

– William Gluck and Jauch

''Business environment is the aggregate of all conditions, events and influences that surround and affect it."

– Keith Davis

"The environment of business consists of all those external things to which it is exposed and by which it may be influenced directly or indirectly."

– Reinecke and Schoell.

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

– Wheeler

"Civilisations require challenges to survive. Thus, environment also contains hostilities and dangers that may be overcome by individuals and organisations."

– Arnold J. Toynbee

On the basis of the above definitions, it is very clear that the business environment is a mixture of complex, dynamic, and uncontrollable external factors within which a business is to be operated.

2.3. Nature of Business Environment:

The nature of Business Environment is simply and better explained by the following approaches:

(i) **System Approach:** In original, business is a system by which it produces goods and services for the satisfaction of wants, by using several inputs, such as, raw material, capital, labour etc. from the environment.

(ii) **Social Responsibility Approach:** In this approach business should fulfil its responsibility towards several categories of the society such as consumers, stockholders, employees, government etc.

(iii) **Creative Approach:** As per this approach, business gives shape to the environment by facing the challenges and availing the opportunities in time. The business brings about changes in the society by giving attention to the needs of the people.

2.4. Significance of Business Environment:

Business Environment refers to the “Sum total of conditions which surround man at a given point in space and time. In the past, the environment of man consisted of only the physical aspects of the planet Earth (air, water and land) and the biotic communities. But in due course of time and advancement of society, man extended his environment through his social, economic and political function.”

- Understanding the environment: A business must understand the external environment in which it operates to make informed decisions and anticipate changes. This includes understanding the competition, consumer trends, and regulatory landscape.
- Opportunities and threats: The business environment can provide opportunities for growth and expansion, such as emerging markets or new technologies. However, it can also pose threats to the business, such as economic downturns or changes in government regulations.
- Resource allocation: The business environment can impact the allocation of resources, such as capital and labour. For example, changes in market conditions may require a shift in production processes or a change in staffing levels.
- Risk management: Understanding the business environment can help a business manage risks and make informed decisions about investments and operations. For example, a business may need to consider the potential impact of natural disasters, political instability, or changes in consumer preferences.
- Innovation and adaptability: The business environment can also drive innovation and encourage businesses to be adaptable to changing conditions. For example, technological advancements can create new business opportunities or disrupt traditional business models.
- Stakeholder relationships: The business environment can impact relationships with stakeholders such as customers, employees, and investors. Understanding the environment can help businesses identify and respond to the needs and expectations of these stakeholders.

2.5. The Features of Business Environment:

The main features of business environment are:

1. **All the External Forces:** Business environment includes all the forces, institutions and factors which directly or indirectly affect the business organizations.

2. **Specific and General Forces:** Business environment includes specific forces such as investors, customers, competitors and suppliers. Non-human or general forces are social, legal, technological, political, etc. which affect the business indirectly.
3. **Inter-relation:** All the forces and factors of business environment are inter-related to each other. For example, with inclination of youth towards western culture, the demand for fast food is increasing.
4. **Uncertainty:** It is very difficult to predict the changes of business environment. For example, in IT, fashion industry etc. frequent and fast changes are taking place, as environment is changing very fast.
5. **Dynamic:** Business environment is highly flexible and keeps changing. It is not static or rigid. That is why it is essential to monitor and scan the business environment continuously.
6. **Complex:** It is very difficult to understand the impact of business environment on the companies. Although it is easy to scan the environment, but it is very difficult to know how these changes will influence business decisions. Sometime, changes may be minor, but it might have a large impact. For example, a change in government policy to increase the tax rate by 5% may affect the income of company by large amount.
7. **Relativity:** The impact of business environment may differ from company to company or country to country. For example, when consumer organization, Centre for Environmental Studies (CES) published the report of finding pesticides in cold drinks, resulted in decrease in sale of cold drinks, on the other hand it increased the sale of juice and other drinks.

2.6. Benefits of Good Business Environment:

A good business environment can provide numerous benefits to businesses, including:

- Economic growth: A stable and supportive business environment can promote economic growth, providing businesses with opportunities for expansion and job creation.
- Innovation: A favourable business environment can encourage innovation by providing businesses with access to resources such as capital, research and development facilities, and skilled workers.

- Improved competitiveness: A supportive business environment can enhance a business's competitiveness by providing access to critical resources and reducing barriers to entry.
- Greater market access: A favourable business environment can facilitate greater market access by reducing trade barriers, improving infrastructure, and encouraging investment.
- Enhanced corporate responsibility: A good business environment can encourage corporate responsibility by promoting ethical behavior, environmental sustainability, and social responsibility.
- Improved regulatory environment: A supportive business environment can provide a clear and stable regulatory environment, reducing uncertainty and enhancing investor confidence.
- Skilled workforce: A favourable business environment can provide businesses with access to a skilled workforce, reducing the cost and time associated with training and recruitment.
- Stronger stakeholder relationships: A supportive business environment can help businesses build strong relationships with stakeholders such as customers, employees, and investors, enhancing trust and loyalty.

Overall, a good business environment can provide numerous benefits to businesses, contributing to economic growth, innovation, competitiveness, corporate responsibility, regulatory certainty, and stakeholder relationships.

Let Us Sum Up

In this unit you have learned about the following:

Environment literally means the surroundings, external objects, influences or circumstances under which someone or something exists. The environment of any organization is the aggregate of all conditions, events and influences that surround and affect it.

The framework of business environment can be divided into three broad dimensions: Internal Environment, Macro Environment (External Environment), and Microenvironment (Relevant Environment, Competitive Environment). Internal environment is internal to the organization, and it is controllable. The important internal factors are as follows: culture and value system, human resource, mission and objectives, and nature and structure of management. External or Macro or General Environment consists of factors external to the industry that may have significant impact on the firm's strategies. It consists of six broad dimensions: demographic, socio-cultural, political/legal, technological, economic, and global.

Check your Progress

1. The economic environment is a subset of ___________environment.
2. India has changed a lot after the LPG policy was introduced in 1991. This shows that business environment is ____________
3. _______________ helps in the study of strategic positioning of the firm and help to assess the business environment also with respect to the competition.
4. In ____________ the lookout for information is in a more structured and systematic manner.
5. The period of ______________ five-year plan saw a significant growth in the transportation and communications expenditure.

Glossary

Business Environment: Aggregate of all conditions, events and influences that surround and affect Environment Scanning: Process by which organization monitors their relevant environment to identify opportunities and threats

ETOP: Environmental Technology Opportunities Portal

External Environment: Factors external to the industry having significant impact on the firm's strategies

Internal Environment: Internal to the organisation and can be controlled Macro Environment: Environment, which an organization faces in its specific arena

Answer to Check Your Progress

1. Business
2. Dynamic
3. Porter Five Forces Model
4. Monitoring
5. 7th

Suggested Reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-3

Factors Influencing Business Environment

STRUCTURE

Overview

Objectives

3.1. Internal business environmental factors

3.2. External business environmental factors

3.3. Government Control over Business in India

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

The nature of business refers to the fundamental activities and characteristics that define an organization and its operations. It encompasses the type of products or services the business provides, the industries in which it operates, and the legal and ownership structures that govern its operations. The business environment is the set of external factors and conditions that affect the operation and performance of businesses. Here are some of the key features of the business environment: the business environment is complex and dynamic, and businesses must be aware of these various factors to succeed in their operations.

In this unit, the Internal Business environmental factors, External business environmental factors and the Government Control over Business in India has been explained.

Objectives

After learning this module, students will be able to:

- Assess the theoretical framework of business environment
- Discuss the recent developments in political, economic and financial environment
- Explain the techniques of scanning the environment
- Conduct a SWOT analysis of the Indian economy

Businesses are also influenced by the environment that they are in and all the situational factors that determine circumstances from day to day. It is because of this, that businesses need to keep a check and constantly analyze the environment within which they run their trade and within which the market lays. Business environment is the sum total of all external and internal factors that influence a business. You should keep in mind that external factors and internal factors can influence each other and work together to affect a business.

The different environmental factors that affect the business can be broadly categorized as

A) Internal environmental factors

B) External environmental factors

3.1. Internal Business Environmental Factors

Internal environment includes all those factors which influence business, and which are present within the business itself. These factors are usually under the control of business. The study of internal factors is really important for the study of internal environment.

These factors are:

1. Objectives of Business
2. Policies of Business
3. Production Capacity
4. Production Methods
5. Management Information System
6. Participation in Management
7. Composition of Board of Directors
8. Managerial Attitude
9. Organisational Structure
10. Features of Human Resource

- **Objectives of Business**: The objectives of a business refer to the specific goals that the organization seeks to achieve. These objectives can vary depending on the nature of the business, but can include increasing profitability, expanding market share, improving customer satisfaction, or achieving a specific social or environmental goal.
- **Policies of Business**: Business policies are guidelines that determine how the organization operates and makes decisions. These policies can include rules and procedures for hiring and firing employees, pricing

products or services, managing finances, and setting performance standards.

- **Production Capacity:** Production capacity refers to the maximum amount of goods or services that a business can produce within a given period of time. This is influenced by the organization's available resources, such as labour, equipment, and raw materials.
- **Production Methods:** Production methods refer to the processes that a business uses to produce its goods or services. These methods can include traditional manufacturing processes, automated assembly lines, or digital production methods.
- **Management Information System:** A Management Information System (MIS) refers to the tools and systems that a business uses to collect, process, and analyse information about its operations. This can include software programs for managing inventory, customer data, and financial transactions.
- **Participation in Management**: Participation in management refers to the degree to which employees are involved in decision-making processes within the organization. This can include opportunities for employees to provide feedback, make suggestions, or even participate in governance structures.
- **Composition of Board of Directors**: The Board of Directors is a group of individuals who are responsible for overseeing the management of the organization. The composition of the Board can influence the strategic direction of the organization, as well as its policies and practices.
- **Managerial Attitude**: Managerial attitude refers to the beliefs and values of the organization's leadership, which can influence the culture and behavior of the organization. This can include attitudes towards innovation, risk-taking, and employee empowerment.
- **Organisational Structure**: Organisational structure refers to the way in which the organization is organized, including its hierarchy, departments, and reporting structures. This can influence how work is delegated and how decisions are made.
- **Features of Human Resource**: The features of human resources refer to the characteristics of the organization's workforce, including their skills, education, experience, and attitudes. These can influence the organization's productivity, culture, and ability to achieve its objectives.

3.2. External Business Environmental Factors

External environmental factors are classified as

1. Micro environmental factors and
2. Macro environmental factors

1. Micro Environmental Factors

The micro Environment of the organisation consists of those elements which are controllable by the management. Normally, the micro environment does not affect all the companies in an industry in the same way, because the size, capacity, capability, and strategies are different. For example, the raw material suppliers are giving more concessions to large sized companies. However, they may not give the same concessions to small companies.

Like the same, the competitors do not mind about the rival company if it is compared to the small, but they will be very much conscious if the rival firm is large. Sometimes micro environment of the various firms in an industry is almost the same. In such a case, response of these firms to their micro environment may differ as each firm will attempt to achieve a higher success level. The general micro environment factors are discussed below.

Most important factors of micro environment of business are as follows:

1. Competitors
2. Customers
3. Suppliers
4. Public
5. Marketing intermediaries
6. Workers and their union

- **Competitors:** Competitors refer to other businesses that offer similar products or services to the same target market. Businesses need to be aware of their competitors' strengths and weaknesses, pricing strategies, and marketing tactics to remain competitive in the market. They also need to analyze their competitors' products and services to ensure their own offerings stand out.
- **Customers:** Customers are the primary reason for any business to exist. Understanding the needs, wants, preferences, and expectations of customers is crucial for the success of a business. A business needs to identify its target market and create products or services that meet their needs. It also needs to develop effective marketing strategies to attract and retain customers.

- **Suppliers:** Suppliers provide the raw materials or resources needed to produce goods or services. Businesses need to maintain good relationships with their suppliers to ensure a steady supply of high-quality materials at reasonable prices. Any disruptions or delays in the supply chain can negatively impact the business.
- **Public:** The public refers to the general population and their perceptions of the business. Businesses need to maintain a positive public image to attract customers and investors. They need to engage in social responsibility activities and maintain ethical business practices to build a good reputation.
- **Marketing intermediaries**: Marketing intermediaries include intermediaries such as wholesalers, retailers, and distributors who help the business reach its target market. Businesses need to maintain good relationships with these intermediaries to ensure their products or services reach their intended audience.
- **Workers and their union**: Workers are the backbone of any business, and their well-being and satisfaction are essential for the success of the business. Businesses need to provide a safe and healthy work environment, fair compensation, and opportunities for growth and development. The business also needs to maintain good relationships with the union that represents its workers to ensure smooth labour relations.

2. Macro Environmental Factors:

Macro environment refers to those factors which are external forces in the company's activities and do not concern the immediate environment. Macro environment are the forces which indirectly affect company's operation and working condition. These factors are uncontrollable, and the company is powerless and incapable of exercising any control over them.

Macro environment can be classified into economic environment and non-economic environment. Since the business is basically an economic activity, economic environment of business both national and international gets importance.

Most important factors of macro environment of business are as follows:

1. Economical Environment
2. Social Environment
3. Political Environment
4. Legal Environment

5. Technological Environment
6. International Environment

- **Economic Environment:** The economic environment refers to the conditions of the economy that can affect business operations. It includes factors such as the level of economic development, the state of economic growth, inflation rates, exchange rates, interest rates, and consumer spending patterns. Businesses need to understand these factors to make informed decisions about investments, pricing strategies, and resource allocation.

  For example, during a period of high inflation rates, businesses may need to adjust their prices frequently to remain competitive, while during an economic recession, businesses may need to focus on cost-cutting measures to remain profitable.

- **Social Environment:** The social environment refers to the cultural and social factors that can impact a business. This includes demographics, social values, lifestyle trends, and consumer behavior. Businesses need to understand these factors to tailor their products and services to meet the needs and preferences of their target market.

  For example, businesses that offer products or services aimed at younger consumers need to understand their preferences and lifestyles to create marketing campaigns that resonate with them.

- **Political Environment**: The political environment refers to the laws, regulations, and policies that can affect a business's operations. This includes tax policies, labor laws, environmental regulations, and government trade policies. Businesses need to understand the political environment to comply with regulations and anticipate changes that could impact their operations.

  For example, changes in government tax policies can significantly impact a business's bottom line, while changes in labour laws can impact the cost of hiring and managing employees.

- **Legal Environment**: The legal environment refers to the laws and regulations that govern business operations. This includes intellectual property laws, contract laws, and consumer protection laws. Businesses need to comply with these laws and regulations to avoid legal issues and maintain their reputation.

  For example, businesses need to protect their intellectual property to prevent competitors from copying their products or services, while

consumer protection laws ensure that businesses treat their customers fairly.

- **Technological Environment**: The technological environment refers to advancements in technology and innovation that can impact businesses. This includes the internet, artificial intelligence, automation, and other technological developments. Businesses need to stay up-to-date with technological advancements to remain competitive and improve efficiency.

  For example, businesses that use automation technology can streamline their operations and improve productivity, while those that use social media platforms can improve their marketing and customer engagement efforts.

- **International Environment:** The international environment refers to the economic, political, and legal factors that can impact businesses operating in global markets. This includes cross-border trade, regulations, and cultural differences. Businesses need to understand the international environment to navigate global operations effectively.

  For example, businesses need to understand the regulations and customs of different countries to expand their operations globally, while changes in exchange rates can impact the cost of doing business across borders.

3.3. Government Control over Business in India

The government controls over business are as follows:

- **Economic Planning:** Planning in India started in the year 1951. The economic planning aims to regulate the investment activity by private enterprises and improve the government activities towards underdeveloped areas. A significant aspect of Indian Planning is to achieve social justice.
- **Industrial Policy:** Industrial policy of Government of India guides the state attitudes towards industrial development, and it lays down priorities regarding the relative roles of public and private sectors, large, small and cottage industries. The salient feature of industrial policy is mainly to improve the Industries in India.
- **Industrial Licensing:** Industrial licensing is a major device through which industrial policy of the government implemented. The licensing system designed to ensure proper utilization of the country’s resources, balanced regional development and overall economic development.

- **Labour Laws:** Labour laws help to regulate the employer-employee relations, working and living conditions of workers, wages, bonus, labour welfare, social security etc. The labour laws include the Factories Act, the Minimum Wages Act, Workmen's Compensation Act, The Payment of Wages Act, the Payment of Bonus Act, Trade Unions Act, Industrial Disputes Act, Employees State Insurance Act, Payment of Gratuity Act etc.
- **Regulation of Foreign Trade:** The regulation of business activities like import and exports, foreign exchange and etc., through Imports and Exports (Control) Act, COFEPOSA, and FEMA. The Imports and Experts (Control) Act, 1947 amended from time to time empowers the government to prohibit or control imports and exports in the public interest. The government itself directly participates in the import and exports business through its agency like the State Trading Corporation of India (STC), the Minerals and Metals Trading Corporation of India (MMTC).

These agencies have been set up by the government by doing import and export business in specified areas. The main objective of Foreign Exchange Management Act (FEMA) is the conservation of the foreign exchange resources of the country and the proper utilization thereof in the interest of the economic development of the country.

Let Us Sum Up

In this unit you have learned about the following:

The framework of business environment can be divided into three broad dimensions: Internal Environment, Macro Environment (External Environment), and Micro Environment (Relevant Environment, Competitive Environment). Internal environment is internal to the organization, and it is controllable. The important internal factors are as follows: culture and value system, Human resource, mission and objectives, and nature and structure of management. External or Macro or General Environment consists of factors external to the industry that may have significant impact on the firm's strategies. It consists of six broad dimensions: Demographic, Socio-cultural, political/legal, technological, economic and global.

Check your Progress

1 The period of ___________ five-year plan saw a significant growth in the transportation and communications expenditure.

2 In ___________ the lookout for information is in a more structured and systematic manner.

3 ___________ helps in study of strategic positioning of the firm and help to assess the business environment also with respect to the competition.

4 India has changed a lot after the LPG policy was introduced in 1991. This shows that business environment is ___________

5 The economic environment is a subset of ___________ environment.

Answer to Check your Progress:

1. 7th
2. Monitoring
3. Porter Five Forces Model
4. Dynamic
5. Business

Glossary

Environment Scanning: Process by which organization monitors their relevant environment to identify opportunities and threats

Internal Environment: Internal to the organisation and can be controlled

Macro Environment: Environment, which an organization faces in its specific arena

Regular Scanning: Studies done on a regular schedule

Suggested Reading

1. Saleem Sheikh, Business Environment, Pearson Education, New Delhi
2. Vivek Mittal, Business Environment, Excel Books, New Delhi
3. Pandey GN, Environment Management, Vikas Publishing, New Delhi
4. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi

Block-2: Introduction

Block-2: Social and Cultural Environment has been divided in to three Units. **Unit-4: Social Environment** discuss with Social Environment – Meaning, Internal and External Social Environment, Types of Social Organizations, Demographic Environment, Social attitude, Joint Family System in India and Characteristics of joint family system in India.

Unit-5: Cultural Environment describes about the Cultural Heritage – Meaning, Types of Cultural Heritage, Benefits of cultural heritage, The Caste System in India, Origins of the Caste System, The Caste System during Classical Indian History, The British Raj and Caste, Caste Relations in Independent India, Difference Between Indian Culture and Western Culture and Impact of foreign culture on India.

Unit-6: Social Responsibility of Business deals with Social Responsibility-Meaning, Factors influencing social responsibilities on business, Corporate Social Responsibility (CSR), Features of Corporate Social Responsibility and Benefits of Corporate Social Responsibility

In all the units of Block -2 **Social and Cultural Environment**, the Check your progress, Glossary, Answers to Check your progress and Suggested Reading has been provided and the Learners are expected to attempt all the Check your progress as part of study.

Unit-4

Social Environment

STRUCTURE

Overview

Objectives

4.1. Social Environment – Meaning

4.2. Internal and External Social Environment

4.3. Types of Social Organizations

4.4. Demographic Environment

4.5. Social attitude

4.6. Joint Family System in India

4.7. Characteristics of joint family system in India

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

The social environment consists of the sum of a society's beliefs, customs, practices and behaviors. It is, to a large extent, an artificial construct that can be contrasted with the natural environment in which we live. This social environment is created by a society-at-large in which a business functions can be referred to as its external social environment. If a business operates in a multicultural society, then the social external social environment is even more complicated because the environment will consist of diverse sub-populations with their own unique values, beliefs, and customs.

In this unit, the Meaning, Internal and External and Types of Social Environment, Social attitude Joint Family System in India and the Characteristics of joint family system in India has been clearly explained.

Objectives

After learning this module, students will be able to understand:

- Nature of Internal and external social environment
- Types of social organization
- Types of linguistic and religious groups

- Evils of linguistics systems in India and the remedial measures to eradicate them.

4.1. Social Environment – Meaning

The social environment consists of the sum total of a society's beliefs, customs, practices, and behaviours. It is, to a large extent, an artificial construct that can be contrasted with the natural environment in which we live.

Every society constructs its own social environment. Some of the customs, beliefs, practices, and behaviours are similar across cultures, and some are not. For example, an American traveling to Britain will find many familiar practices but not so much if traveling to China.

This social environment created by a society-at-large in which a business functions can be referred to as its external social environment. If a business operates in a multicultural society, then the social external social environment is even more complicated because the environment will consist of diverse sub-populations with their own unique values, beliefs, and customs.

A business also has its own social environment. We can refer to this as its internal social environment, which is simply the customs, beliefs, practices, and behaviours within the confines of the business. A business has much more control over its internal social environment than it does with its external social environment.

4.2. Internal and External Social Environment

A business must be keenly aware of the society's social preferences regarding its needs and wants. These preferences and needs and wants will be influenced by

(i) Internal social environments

(ii) External social environments

The social environment of a business consists of various factors that influence the behavior, beliefs, and attitudes of individuals and groups within and outside the organization. These factors can be broadly classified into two categories: internal social environments and external social environments.

Internal Social Environments: The internal social environment refers to the social factors that exist within the organization. This includes the company culture, management style, employee behavior, and relationships between employees. It also includes the formal and informal communication systems within the organization.

Example: A company with a strong culture of collaboration and teamwork may foster an environment of open communication and encourage employees to

work together on projects. This can lead to a more productive and positive work environment, where employees feel valued and motivated to contribute to the company's success.

External Social Environments: The external social environment refers to the social factors that exist outside the organization, but still have an impact on the business. This includes factors such as consumer behavior, market trends, social values, and cultural norms.

Example: A business that operates in a society that values environmental sustainability may need to adjust its operations to align with these values. This could involve implementing eco-friendly practices, using sustainable materials in products, or partnering with environmental organizations to promote awareness of environmental issues.

It is important for businesses to understand both their internal and external social environments, as these factors can greatly impact their success. By creating a positive internal social environment and adapting to changes in the external social environment, businesses can increase their competitiveness and achieve long-term success.

4.3. Types of Social Organizations

Social organizations or institutions arise out of social needs and situations of members. These organizations are the means through which individuals adjust their behaviour to environmental conditions.

Lapiere says that "social organization consists of all the ways by which men live and work together, more especially of all the programmed, ordered and coordinated relations of the members of the society." Social organisations at different levels organize and give expression to collective behaviour. They coordinate and crystallize numerous interests of individuals and groups.

Social organisations are of two broad types, namely, those which grow out of kinship and those that result from the free and voluntary associations of members. A brief analysis of a few such organizations is given below:

1. Family:

It is the earliest and the most universal of all social institutions. It is also the most natural, simplest, and permanent form of social organization. In society, individuals are primarily organized into separate families and households.

Family is generally composed of husband, wife, and their children. It may be defined as a group of persons, united either by the ties of marriage or blood relationship, having a common household, a common tradition or culture.

The form and features of family may be different from place to place and country to country but family as a social group exists everywhere. It may rightly be described as the keystone of the social arch. It performs a variety of functions like biological, emotional, economic, educational and cultural.

2. Clan:

The members of a clan are supposed to be the descendants of common ancestors. They usually bear common surname. They are usually found among primitive people and members act through the guidance of a chieftain.

They are associated through common social, religious and cultural ceremonies. Members practice exogamy: they do not marry a person belonging to the same clan. All members worship a totem or a symbolic object like cow, bull, bird etc.

3. Tribe:

A tribe is a wider social organization than clan and has been defined as "a social group of a simple kind, and members of which speak a common dialect, have a common government and act together for such common purpose as welfare." Tribe is usually formed after a stronger clan subordinates a weaker one.

Tribe has a government with a tribal chief as its head. It is organized for military purposes and has a common dialect and language. Though devoid of blood relationship, a tribe maintains solidarity among its members.

4. Community:

One way of organizing individuals on secular lines is through formation of communities and associations. A community is defined as "the total organisation of social life within a limited area." A community is a self-sufficient group based on common life. The area of a community may range from narrow to very broad (even global) limits.

5. Association:

MacIver defines, "An association as a group organized for the pursuit of an interest or group of interests in common." Associations may be of various types including kinship, religious, cultural, recreational, philanthropic, vocational, political groups.

4.4. Demographic Environment

Demographic environment refers to the study of human populations in terms of size, growth, density, age, gender, occupation, and other statistical characteristics. It is one of the important components of the external macro-environment that affects businesses and organizations.

The demographic environment includes factors such as population size, distribution, and density, which determine the potential customer base for businesses. It also includes factors such as age, gender, income levels, education, and occupation, which influence consumer behavior and purchasing patterns. Additionally, demographic changes such as aging populations, shifts in gender ratios, and changes in family structure can impact businesses in various ways.

For businesses, understanding the demographic environment is crucial in making strategic decisions related to product development, marketing, and expansion. For instance, an aging population may lead to an increased demand for healthcare products and services, while changes in family structure may lead to changes in household spending patterns.

Moreover, changes in the demographic environment can also create opportunities for businesses to innovate and create new products and services that cater to emerging consumer needs. For instance, the growth of the millennial generation has led to a demand for products and services that cater to their unique values and lifestyle choices.

Overall, the demographic environment is an important aspect of the external macro-environment that businesses need to consider when making strategic decisions. By analyzing demographic trends and patterns, businesses can identify potential opportunities and threats, and adjust their strategies accordingly to stay competitive in the marketplace.

Advantages of the Demographic Environment

The demographic environment has several advantages for businesses and commerce. Here are some of the key advantages:

Targeted marketing: The demographic environment helps businesses to identify and target specific groups of customers based on their age, gender, income levels, education, and other statistical characteristics. This helps businesses to create targeted marketing campaigns and develop products and services that cater to the specific needs and preferences of their target audience.

New product development: The demographic environment can also help businesses to identify new product and service opportunities. By analyzing demographic trends and patterns, businesses can identify emerging consumer needs and develop new products and services to meet those needs.

Expansion opportunities: The demographic environment can also help businesses to identify potential expansion opportunities. For instance, businesses can identify regions or countries with growing populations or rising incomes, and expand their operations in those areas.

Workforce planning: The demographic environment can also help businesses to plan their workforce needs. By analyzing demographic trends, businesses can identify potential labour shortages or surpluses, and plan their recruitment and retention strategies accordingly.

Risk management: The demographic environment can also help businesses to manage risk. For instance, businesses can identify potential demographic shifts that may impact their operations and develop contingency plans to mitigate those risks.

Overall, the demographic environment provides businesses with valuable insights into consumer behavior, market trends, and emerging opportunities. By leveraging these insights, businesses can create targeted marketing campaigns, develop new products and services, and identify potential expansion opportunities, thereby staying competitive in the marketplace.

Disadvantages of the Demographic Environment

While the demographic environment provides several advantages to businesses and commerce, there are also some disadvantages that businesses need to be aware of. Here are some of the key disadvantages:

- **Limited view:** The demographic environment provides a limited view of consumers and the market. Demographic factors alone may not be enough to fully understand consumer behavior or market trends.
- **Generalization:** The demographic environment often relies on generalizations about consumer behavior and preferences. This can lead to stereotyping and may not accurately reflect the diversity of consumers.
- **Rapid changes:** Demographic trends can change rapidly, and businesses may not be able to keep up with these changes. This can lead to missed opportunities or ineffective marketing campaigns.
- **Costly research:** Conducting research to understand the demographic environment can be costly and time-consuming. Small businesses may not have the resources to conduct comprehensive research.
- **Inaccuracy:** The demographic environment is based on statistical data that may not always be accurate. Data can be affected by factors such as sampling bias or inaccurate reporting.
- **Legal issues**: Demographic information is subject to privacy laws, and businesses need to ensure that they are collecting and using data in compliance with these laws.

Overall, while the demographic environment provides valuable insights to businesses, it is important to recognize its limitations and potential disadvantages. Businesses need to be aware of these limitations and use a variety of tools and approaches to fully understand their customers and the market.

4.5. Social attitude

The emotional component is the feeling experienced on the evaluation of a particular entity. The cognitive aspect implies thoughts and beliefs adopted towards the subject, while the behavioural component is the conduct that results from a social attitude. An individual with an explicit attitude is aware of it and how it dictates his behaviour and beliefs. On the other hand, a person may not be conscious of his implicit attitude, although it still may influence his beliefs and behaviour.

People pick social attitudes from personal experiences or observations. Likewise, social roles and norms can dictate formation of attitudes. Social roles determine the behaviour an individual occupying a particular position or context in the society is expected to demonstrate, while social norms define the conduct that’s acceptable to the society.

However, social attitude does not always lead to specific behaviour. For example, someone may favour policies of a specific politician but fail to turn out to vote. Attitudes can be dropped the same way they’re learned.

4.6. Joint Family System in India

The joint family system is a traditional family structure that has been prevalent in India for centuries. In this system, several generations of a family live together under one roof, sharing a common kitchen and living space.

The joint family system typically includes grandparents, parents, and their children, along with any unmarried siblings or extended family members. Each member has a specific role and responsibility within the family unit, with the eldest male typically serving as the head of the household and making important decisions for the family.

There are several benefits to the joint family system in India. For one, it promotes a sense of togetherness and mutual support among family members. In times of crisis or hardship, family members can rely on each other for emotional and financial support. Additionally, the joint family system allows for the passing down of cultural traditions and values from one generation to the next.

However, the joint family system also has its challenges. For example, living in close quarters with extended family members can lead to conflicts and

disagreements, particularly over issues such as finances, property, and personal relationships. Additionally, the joint family system can be restrictive for younger members, as they may have limited autonomy and may be expected to conform to traditional gender roles and expectations.

In recent years, the joint family system in India has become less common, as more people have begun to move away from their ancestral homes in search of education and employment opportunities. However, it remains an important part of Indian culture and continues to be practiced by many families across the country.

4.7. Characteristics of joint family system in India

The joint family system is a traditional family structure that has been prevalent in India for centuries. Here are some of the key characteristics of the joint family system in India:

- Shared living space: In the joint family system, several generations of a family live together under one roof, sharing a common kitchen and living space.
- Hierarchical structure: The joint family system typically includes grandparents, parents, and their children, along with any unmarried siblings or extended family members. The eldest male member of the family usually serves as the head of the household and makes important decisions for the family.
- **Division of labour:** Each member has a specific role and responsibility within the family unit, with different family members contributing to different household tasks and chores.
- **Interdependence:** Family members in the joint family system rely on each other for emotional and financial support, and work together to achieve common goals.
- **Tradition and culture:** The joint family system promotes the passing down of cultural traditions and values from one generation to the next.
- **Mutual respect:** Family members in the joint family system are expected to show respect towards one another, particularly towards elders and authority figures.
- **Challenges**: Living in close quarters with extended family members can lead to conflicts and disagreements, particularly over issues such as finances, property, and personal relationships. Additionally, the joint family system can be restrictive for younger members, as they may have

limited autonomy and may be expected to conform to traditional gender roles and expectations.

Despite the challenges, the joint family system remains an important part of Indian culture and continues to be practiced by many families across the country.

Check your Progress

1. Business environment constitutes of the factors which ______.
2. After studying the business environment, a manager can quickly identify business _______.
3. _______________ does not belong to the features of the business environment.
4. Business environment is related to local conditions. Because of this business environment happens to _______.
5. These forces are present outside the business environment______.

Let Us Sum Up

In this unit you have learned about the following:

Social environment depends on the social constructs (generally accepted ideas and characteristics) of the target society. It is made up of factors such as beliefs, traditions, ethnicity, occupation, disposable income, consumption trends, and gender of consumers and the general public. Positive social environments promote acceptance, kindness, forgiveness and opportunities to make mistakes without consequences. These gentle learning environments can be incredibly important for diverse students.

Glossary

Environment Scanning: Process by which organization monitors their relevant environment to identify opportunities and threats

Internal Environment: Internal to the organisation and can be controlled

Macro Environment: Environment, which an organization faces in its specific arena

Regular Scanning: Studies done on a regular schedule

Answers to Check your Progress

1. The business has no control
2. Opportunity

3. Totality of internal factors.
4. Different in different countries
5. Specific

Suggested reading

1. Quoted in Peter Worsley ed., The New Modern Sociology Readings (1991) p. 17.
2. P. Hamilton ed., Emile Durkheim: Critical Assessments, Vol I (1990) p. 385-6.
3. Emile Durkheim, The Elementary Forms of the Religious Life (1971) p. 227.
4. John O'Neill, Sociology as a Skin Trade (1972) p. 174-5.

Unit-5

Cultural Environment

STRUCTURE

Overview

Objectives

5.1. Cultural Heritage – Meaning

5.2. Types of Cultural Heritage

5.3. Benefits of cultural heritage

5.4. The Caste System in India

5.5. Origins of the Caste System

5.6. The Caste System during Classical Indian History

5.7. The British Raj and Caste:

5.8. Caste Relations in Independent India

5.9. Difference between Indian Culture and Western Culture

5.10. Impact of foreign culture on India

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

Cultural heritage comprises the sources and evidence of human history and culture regardless of origin, development and level of preservation (tangible/material heritage), and the cultural assets associated with this (intangible/non-material heritage). Because of their cultural, scientific and general human values, it is in the state's interest to protect and preserve cultural heritage.

The basic cultural function of cultural heritage is its direct incorporation into space and active life within it, chiefly in the area of education, the transfer of knowledge and experience from past periods of history, and the strengthening of national originality and cultural authenticity.

In this unit, the Meaning and Types of Cultural Heritage, the Benefits of cultural heritage, the Caste System in India, the Origins of the Caste System, the Caste System during Classical Indian History, the British Raj and Caste, the Caste Relations in Independent India, the Difference between Indian Culture and

Western Culture and Impact of foreign culture on India has been clearly explained.

Objectives

After learning this module, students will be able to understand:

- Types of cultural heritage
- Benefits of cultural heritage
- Origin of caste system in India
- Various types of Indian communities
- Difference between Indian and foreign culture
- Impact of foreign culture in India

5.1. Cultural Heritage – Meaning

Cultural heritage comprises the sources and evidence of human history and culture regardless of origin, development and level of preservation (tangible/material heritage), and the cultural assets associated with this (intangible/non-material heritage). Because of their cultural, scientific and general human values, it is in the state's interest to protect and preserve cultural heritage.

The basic cultural function of cultural heritage is its direct incorporation into space and active life within it, chiefly in the area of education, the transfer of knowledge and experience from past periods of history, and the strengthening of national originality and cultural authenticity.

5.2. Types of Cultural Heritage

1. Tangible (material) heritage

Tangible (material) heritage is made up of individual buildings, groups of buildings, areas, objects and collections of objects.

2. Built heritage

It comprises buildings (including their associated facilities), decorative elements, equipment and attached land, other built elements, settlements and parts thereof, and spatial arrangements (even if they are formed from natural elements). We can classify built heritage as follows:

(i) **Buildings (units):** all buildings or built components that have an expressly historical, archaeological, artistic, scientific, social or technical importance;

(ii) **In groups of buildings:** uniform groups of urban or rural buildings that that have an expressly historical, archaeological, artistic, scientific, social or technical importance and are sufficiently interlinked that they comprise spatially definable units;

(iii) **Areas:** joint creations of man and nature, i.e., areas that are partly built and sufficiently recognisable and uniform that they are spatially definable, and have a special historical, archaeological, artistic, scientific, social or technical importance.

3. Archaeological heritage

It comprises all relics, objects and human traces from past periods of history on the surface, in the earth and in water whose preservation and study contributes to the uncovering of the historical development of mankind and his links to the natural environment and for which archaeological research is the main source of information.

4. Cultural heritage landscapes

They are special distinct areas of land as recognised by people and whose characteristics and spatial layout are the result of the operation and mutual influence of natural and human factors. The terms 'integral heritage' and 'area of national identity' are two terms with a wider meaning.

5. Integral heritage

It is formed by units of the human environment or nature in which elements of natural and cultural heritage are intertwined and whose value is increased by the fact that both forms of heritage are genetically, functionally or substantively linked and dependent on each other.

5.3. Benefits of cultural heritage

Not everyone feels a connection with their cultural heritage, but many people do. What is it about cultural heritage that draws these people to it? Some may think traditions are archaic and no longer relevant, and that they are unnecessary during these modern times. Perhaps for some, they aren't; but for others, exploring cultural heritage offers a robust variety of benefits.

- **Connection to social values, beliefs, religions and customs:** Culture can give people a connection to certain social values, beliefs, religions and customs. It allows them to identify with others of similar mindsets and backgrounds.
- **Sense of unity and belonging within a group:** Cultural heritage can provide an automatic sense of unity and belonging within a group and

allows us to better understand previous generations and the history of where we come from.

- **Preserving cultural heritage as communal support:** Another benefit that comes from preserving cultural heritage as a whole is the communal support. Those that identify strongly with a certain heritage are often more likely to help out others in that same community.

5.4. The Caste System in India

The origins of the caste system in India and Nepal are shrouded, but it seems to have originated more than two thousand years ago. Under this system, which is associated with Hinduism, people were categorized by their occupations.

Although the early Vedic sources name four primary castes, in fact there were thousands of castes, sub-castes and communities within Indian society. These Jati were the basis of both social status and occupation.

Castes or sub-castes besides the four mentioned in the Bhagavad Gita include such groups as the Bhumihar or landowners, Kayastha or scribes, and the Rajput, who are a northern sector of the Kshatriya or warrior caste. Some castes arose from very specific occupations, such as the Garudi - snake charmers- or the Sonjhari, who collected gold from river beds. Some people were born outside of (and below) the caste system. They were called "untouchables."

5.5. Origins of the Caste System

Early written evidence about the caste system appears in the Vedas, Sanskrit-language texts from as early as 1500 BC, which form the basis of Hindu scripture. The Rigveda, from 1700-1100 BCE, rarely mentions caste distinctions, and indicates that social mobility was common.

The Bhagavad Gita, however, from c. 200 BCE-200 CE, emphasizes the importance of caste. In addition, the "Laws of Manu" or Manusmriti from the same era defines the rights and duties of the four different castes or varnas. Thus, it seems that the Hindu caste system began to solidify sometime between 1000 and 200 BC.

5.6. The Caste System during Classical Indian History

The caste system was not absolute during much of Indian history. For example, the renowned Gupta Dynasty, which ruled from 320 to 550 CE, were from the Vaishya caste rather than the Kshatriya. Many later rulers also were from different castes, such as the Madurai Nayaks (r. 1559-1739) who were Balijas (traders).

From the 12th century onwards, much of India was ruled by Muslims. These rulers reduced the power of the Hindu priestly caste, the Brahmins. The traditional Hindu rulers and warriors, or Kshatriyas, nearly ceased to exist in north and central India. The Vaishya and Shudra castes also virtually melded together.

Although the Muslim rulers' faith had a strong impact on the Hindu upper castes in the centres of power, anti-Muslim feeling in rural areas actually strengthened the caste system. Hindu villagers reconfirmed their identity through caste affiliation.

Nonetheless, during the six centuries of Islamic domination (c. 1150-1750), the caste system evolved considerably. For example, Brahmins began to rely on farming for their income, since the Muslim kings did not give rich gifts to Hindu temples. This practice was considered justified so long as Shudras did the actual physical labour.

5.7. The British Raj and Caste

When the British Raj began to take power in India in 1757, they exploited the caste system as a means of social control. The British allied themselves with the Brahmin caste, restoring some of its privileges that had been repealed by the Muslim rulers. However, many Indian customs concerning the lower castes seemed discriminatory to the British, and were outlawed.

During the 1930s and 40s, the British government made laws to protect the "Scheduled castes" - untouchables and low-caste people. Within Indian society in the 19th and early 20th centuries there was a move towards the abolition of untouchability, as well. In 1928, the first temple welcomed untouchables or Dalits ("the crushed ones") to worship with its upper-caste members. Mohandas Gandhi advocated emancipation for the Dalits, too, coining the term harijan or "Children of God" to describe them.

5.8. Caste Relations in Independent India

The Republic of India became independent on August 15, 1947. India's new government instituted laws to protect the "Scheduled castes and tribes" - including both the untouchables and groups who live traditional life-styles. These laws include quota systems to ensure access to education and to government posts. Over the past sixty years, therefore, in some ways a person's caste has become more of a political category than a social or religious one.

- **Caste among Non-Hindus:** Curiously, non-Hindu populations in India sometimes organized themselves into castes as well. After the introduction of Islam on the subcontinent, for example, Muslims were

divided into classes such as the Sayed, Sheikh, Mughal, Pathan, and Qureshi. These castes are drawn from several sources - the Mughal and Pathan are ethnic groups, roughly speaking, while the Qureshi name comes from the Prophet Muhammad's clan in Mecca. Small numbers of Indians were Christian from c. 50 onward, but Christianity expanded after the Portuguese arrived in the 16th century. However, many Christian Indians still observed caste distinctions.

- **Indian Communities:** Indian communities refer to that structured and integrated group of people, belonging to a certain religion and believing in one single united cause, who establish amongst themselves a clustered bunch to discuss various issues on a general panel.

  The term, rather the coinage Indian communities perhaps cannot be credited to any single individual. In fact, ancient history in India does lend considerable and credible information regarding primeval communities, or organisations that had cropped up since the times of pre- Christian era.

  Indeed, since the eras of Indus Valley Civilization and Harappa, the concept of organising communities had been well assimilated within both uneducated and educated classes. Indus Valley is known to contain both uneducated and educated society, with Indian history also informing that it was this very civilisation itself that perhaps had first traced lines of illustrious lineage and something now referred to as sophistication. Religious, economic, administrational, even, societal classed communities had existed during ancient Indian evolvement.

- **Indian Communities under Hinduism:** Caste system and class consciousness was one such idealistic concept that had driven these ancient Indian communities to behave the way they did. The gigantic awareness of belonging to a higher caste or higher religious order paved way for first ever establishment of Hindu religious community, divided into Brahmins, Kshatriyas, Vaishyas and Shudras.

  These four cardinal Hindu caste systems were further sub-divided into their own specific community, a concept that is very much retained in present-day Indian society. It is also known that an omnipresent and unseen demarcation line had existed amongst these ancient Indian communities, with none daring to cross that thin red line.

  Hinduism had hugely dominated in ancient Indian religious systems, with the Mauryans, Guptas, Palas, Cholas, Kushanas, Vijayanagaras, Satavahanas, Pratiharas, Chaluky as, even Marathas (in much later times) assorting to significant establishment of communities,

information from which are still being deduced by historians and researchers.

- **Indian Communities under Islam:** Islamic invasion and subsequent extensive Muslim rule in India, wholly changed and metamorphosed the concept of communities in India. The Khiljis, Tughlaqs, Lodis and finally the Mughals had entirely altered the graph of Islamic communities in India, with an overwhelming mass of the erstwhile populace joining in the various causes to form organisational communities. Discussions and forums within these groups ranged from an assorted bunch of views, like religion, governance, conditions of society, economy, monetary involvements, literature and foreign trading. It is also an acknowledged fact that legendary luminaries had indeed been shot to recognition and admiration from the masses, never for once denoting the class consciousness, a breakaway and distinct facet different from erstwhile Hindu communities. Emperors, army generals and high-profile men had contributed whole-heartedly and honestly to each meticulous cause to make these Indian communities as well grounded as mountainous rocks.

- **Indian Communities under Christianity:** With passage of time and advancement in Indian ruling and sovereign administration, arrived the concept of Christian communities in India, ushered in by the Dutch, Portuguese, French and British, uniquely accompanied by the former Jewish and Armenian settlers in the country. Till this period of time Christianity and Christians were not a thing much heard of in India, with Hindus and Muslims dominating the entire topography.

  However, with the very overpowering European encroachments, Indian population took on a dramatic turn, with communities within India looking towards rather modernistic domains in daily life, leaving aside religious dogmatism. The historic and long-drawn British Empire and its western outlook stood in vast difference with eastern phenomena, paving way for establishing innovative communities based upon creed and caste that were divided upon religious basics. For instance, Hindu communities went regional into Punjab, Madras, Andhra Pradesh or Kashmir.

- **Contemporary Indian communities:** Contemporary and present times stay witness to and believe in much more an amalgamation of various communities in India put together, with globalisation aiding in several occasions. The concept of Indian communities has become much more panoptic and international in conscience, almost lapping up everything coming to its way.

Matrimonial alliance amongst the aboriginal Indian communities is another striking factor that is assisting in betterment of Indian citizens. Yet, some specific and historic communities that have gained prominence over these years comprise: Armenian Community, Jewish Community, Khatri Community, Maratha Community, Jat Sikh Community etc.

5.9. Difference between Indian Culture and Western Culture

Indian culture and Western culture are different in many ways. Here are some of the major differences:

- **Family Structure:** Indian culture places a lot of emphasis on family and extended family structures, with multi-generational families living together. Western culture tends to place more emphasis on individualism and independence.
- **Religious Beliefs:** Indian culture has a rich spiritual and religious tradition, with Hinduism, Buddhism, Jainism, and Sikhism being major religions. Western culture, on the other hand, has its roots in Christianity and has a more secular outlook.
- **Social Customs:** Indian culture places a strong emphasis on social hierarchy and respect for elders, with customs such as touching the feet of elders as a sign of respect. Western culture, on the other hand, values individualism and personal freedom, with less emphasis on social hierarchy.
- **Food:** Indian cuisine is characterized by its rich and varied flavours and spices, with vegetarianism being common in many parts of the country. Western cuisine tends to be more simple and bland in comparison, with meat being a common staple.
- **Clothing:** Indian culture has a diverse range of traditional clothing, such as sarees, salwar kameez, and dhotis, while Western culture tends to have more standardized clothing styles such as jeans and t-shirts.
- **Attitude towards Time:** In Indian culture, time is viewed as cyclical and flexible, with events starting and ending when they are supposed to, rather than adhering to strict schedules. Western culture places a greater emphasis on punctuality and adhering to schedules.

In conclusion, Indian culture and Western culture have significant differences in their values, beliefs, customs, and practices. However, both cultures have their unique strengths and beauty, and it is important to appreciate and respect cultural diversity.

5.10. Impact of foreign culture on India

Foreign culture has had a significant impact on India, especially in recent times. Here are some of the major ways in which foreign culture has influenced India:

- **Food:** The influence of foreign cuisine is seen in the growing popularity of fast food chains and the increasing consumption of processed and packaged food. This has resulted in a shift away from traditional Indian cuisine and eating habits.
- **Fashion:** Foreign fashion trends have influenced Indian clothing styles, with Western clothing becoming more popular, especially among the younger generation. This has led to a decline in the popularity of traditional Indian clothing styles.
- **Technology:** With the increasing influence of foreign culture, technology has also played a significant role in shaping Indian society. Smartphones, social media, and other digital platforms have become an integral part of modern Indian life.
- **Language:** English has become a dominant language in India, with more and more people using it in their daily lives. This has led to a decline in the usage of traditional Indian languages.
- **Entertainment:** The influence of foreign culture is also seen in Indian entertainment, with Hollywood movies, Western music, and TV shows gaining popularity among the Indian audience.
- **Lifestyle:** The changing social and cultural landscape in India has led to a shift in lifestyle choices, with people adopting more Westernized habits such as clubbing, drinking, and partying.

In conclusion, foreign culture has had a significant impact on India, shaping its society, economy, and way of life. While there are many positives to this influence, it is also important to preserve and protect India's rich cultural heritage and traditions.

Let Us Sum Up

In this unit you have learned about the following:

The basic cultural function of cultural heritage is its direct incorporation into space and active life within it, chiefly in the area of education, the transfer of knowledge and experience from past periods of history, and the strengthening of national originality and cultural authenticity.

Check your Progress

1. The cultural environment includes ______________
2. Internal environment of an organization includes ________
3. Environment includes _________________
4. Business environment includes ______________________

Glossary

Culture: An integrated pattern of human behaviour that includes thoughts, communications, languages, practices, beliefs, values, customs, courtesies, rituals,

Culturally Appropriate: Exhibiting sensitivity to cultural differences and similarities and demonstrating effectiveness in translating that sensitivity to action through organizational mission statements, communication strategies, and services to diverse cultures.

Cultural Diversity: Differences in race, ethnicity, nationality, religion, gender, sexual identity, socioeconomic status, physical ability, language, beliefs, values, behaviour patterns, or customs among various groups within a community, organization, or nation.

Cultural humility: is a lifelong process of self-reflection and self-critique. Cultural humility does not require mastery of lists of "different" or peculiar beliefs and behaviours supposedly pertaining to different cultures, rather it encourages to develop a respectful attitude toward diverse points of view.

Cultural Awareness: Recognition of the nuances of one's own and other cultures.

Answers to check your progress

1. Religion
2. Stakeholders
3. Totality of internal and external factors.
4. Micro and macro.

Suggested reading

1. Franke, R.H., Hofstede, G. and Bond M.H. "Cultural Roots of Economic Performance: A research note". Strategic Management Journal Vol. 12, Sum. 1991, pp 165-173.
2. Hall, E.T. "Beyond Culture". Anchor Press/Doubleday, 1976.
3. Keegan, W.J. "Global Marketing Management", 4th ed. Prentice Hall International Edition, 1989.
4. Lee, J.A. "Cultural Analysis in Overseas Operations". Harvard Business Review, Mar-Apr 1966, pp 106-114.
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Unit-6

Social Responsibility of Business

STRUCTURE

Overview

Objectives

6.1. Social Responsibility- Meaning

6.2. Factors influencing social responsibilities on business

6.3. Corporate Social Responsibility (CSR)

6.4. Features of Corporate Social Responsibility

6.5. Benefits of Corporate Social Responsibility

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

Social responsibility is an ethical framework which suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large.

Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystems.

A trade-off may exist between economic development, in the material sense, and the welfare of society and environment, though this has been challenged by many reports over the past decade.

In this unit, Social Responsibility- Meaning, Factors influencing social responsibilities on business, Corporate Social Responsibility (CSR), Features of Corporate Social Responsibility and the Benefits of Corporate Social Responsibility has been clearly explained.

Objectives

After learning this module, students will be able to understand:

- Meaning of social responsibilities
- Factors influencing social responsibilities in business
- Corporate social responsibilities in India

6.1. Social Responsibility- Meaning

Social responsibility is an ethical framework which suggests that an entity, be it an organization or individual, has an obligation to act for the benefit of society at large. Social responsibility is a duty every individual has to perform so as to maintain a balance between the economy and the ecosystems. A trade-off may exist between economic development, in the material sense, and the welfare of the society and environment, though this has been challenged by many reports over the past decade.

Social responsibility means sustaining the equilibrium between the two. It pertains not only to business organizations but also to everyone who's any action impacts the environment. This responsibility can be passive, by avoiding engaging in socially harmful acts, or active, by performing activities that directly advance social goals.

According to some experts, most rules and regulations are formed due to public outcry, which threatens profit maximization and therefore the well-being of the shareholder and that if there is not outcry there often will be limited regulation.

Some critics argue that Corporate Social Responsibility (CSR) distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing, or "green washing"; others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful corporations though there is no systematic evidence to support these criticisms.

A significant number of studies have shown no negative influence on shareholder results from CSR but rather a slightly negative correlation with improved shareholder returns. Some studies have shown strongly positive correlations between a CSR-type commitment to sustainability and company performance in the long-term.

6.2. Factors influencing social responsibilities on business

There are several factors that influence social responsibilities on business, including:

- **Legal requirements:** Laws and regulations established by the government or other authorities can influence social responsibilities on businesses. For example, a company may be required to comply with environmental protection laws, labour laws, or consumer protection regulations.
- **Economic considerations:** The economic climate and market conditions can also influence social responsibilities on businesses. Companies may need to consider the impact of their actions on the local community, stakeholders, and the broader economy.

- **Public opinion:** The expectations and demands of consumers, employees, shareholders, and other stakeholders can influence social responsibilities on businesses. For example, if there is public concern about a company's environmental practices or labour standards, it may be necessary for the company to address these concerns.
- **Ethical considerations:** Businesses may have ethical obligations to consider the impact of their actions on society, the environment, and future generations. Ethical considerations can also influence social responsibilities on businesses, such as concerns about human rights or animal welfare.
- **Corporate culture:** The culture of a company can also influence social responsibilities. Companies that prioritize social responsibility in their values and mission statements are more likely to incorporate social responsibility into their business practices.
- **International standards:** International organizations and agreements such as the United Nations Global Compact, the Organisation for Economic Co-operation and Development (OECD), and the International Labour Organization (ILO) can also influence social responsibilities on businesses. These organizations establish global standards for business practices and encourage companies to adopt socially responsible practices.

In conclusion, social responsibilities on businesses can be influenced by a range of factors, including legal requirements, economic considerations, public opinion, ethical considerations, corporate culture, and international standards. By considering these factors, businesses can play a positive role in society and contribute to sustainable development.

6.3. Corporate Social Responsibility (CSR)

Corporate social responsibility or CSR has been defined by Lord Holme and Richard Watts in the World Business Council for Sustainable Development's publication "Making Good Business Sense" as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

CSR is one of the newest management strategies where companies try to create a positive impact on society while doing business. Evidence suggests that CSR taken on voluntarily by companies will be much more effective than CSR mandated by governments. There is no clear- cut definition of what CSR comprises. Every company has different CSR objectives though the main motive is the same. All companies have a two-point agenda—to improve

qualitatively (the management of people and processes) and quantitatively (the impact on society). The second is as important as the first and stake holders of every company are increasingly taking an interest in "the outer circle"-the activities of the company and how these are impacting the environment and society.

Corporate Social Responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are environmental protection and the wellbeing of employees, the community and civil society in general, both now and in the future.

The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival and profitability are being swept away.

6.4. Features of Corporate Social Responsibility

Corporate social responsibility (CSR) is a concept that refers to the voluntary actions that businesses take to address social, environmental, and ethical issues in their operations and interactions with stakeholders. The following are some features of corporate social responsibility:

- **Voluntary actions:** CSR is not mandated by law, but is a voluntary action taken by businesses to contribute to sustainable development.
- **Stakeholder orientation:** CSR involves a focus on stakeholders, including customers, employees, suppliers, communities, and the environment.
- **Integration into business strategy:** CSR should be integrated into a company's core business strategy and values, rather than being an isolated initiative.
- **Accountability and transparency:** CSR requires businesses to be accountable for their actions and transparent in their reporting of social and environmental performance.
- **Positive impact:** CSR initiatives should have a positive impact on society and the environment, and should contribute to the achievement of sustainable development goals.
- **Continuous improvement:** CSR is an ongoing process of continuous improvement, rather than a one-time initiative.
- **Ethical conduct:** CSR requires businesses to act ethically and responsibly in their interactions with stakeholders and society at large.

In conclusion, CSR is a voluntary action taken by businesses to contribute to sustainable development, with a focus on stakeholders, integration into business strategy, accountability and transparency, positive impact, continuous improvement, and ethical conduct. By incorporating CSR into their operations, businesses can create long-term value for society and contribute to a more sustainable future.

6.5. Benefits of Corporate Social Responsibility

Some of the positive outcomes that can arise when businesses adopt a policy of social responsibility include:

1. **Company benefits:**
    - Improved financial performance.
    - Lower operating costs.
    - Enhanced brand image and reputation.
    - Increased sales and customer loyalty.
    - Greater productivity and quality.
    - More ability to attract and retain employees.
    - Reduced regulatory oversight.
    - Access to capital.
    - Workforce diversity.
    - Product safety and decreased liability.
2. **Benefits to the community and the general public:**
    - Charitable contributions.
    - Employee volunteer programmes.
    - Corporate involvement in community education, employment and homelessness programmes.
    - Product safety and quality.
3. **Environmental benefits:**
    - Greater material recyclability.
    - Better product durability and functionality.
    - Greater use of renewable resources.
    - Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome. A key challenge facing business is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies. Transparency and dialogue can help to make a business appear more trustworthy and push up the standards of other organizations at the same time.

Let Us Sum Up

In this unit you have learned about the following:

Corporate social responsibility or CSR has been defined by Lord Holme and Richard Watts in the World Business Council for Sustainable Development's publication "Making Good Business Sense" as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

Check your Progress

1. What is meant by the phrase CSR_____________.
2. ________ focus on maximizing profits while obeying laws.
3. The ________ dimension of social responsibility refers to a business's societal contribution of time, money, and other resources.
4. The corporate governance structure of a company reflects the individual companies__________

Glossary

Corporate social Responsibility: A business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.

Culturally Appropriate: Exhibiting sensitivity to cultural differences and similarities and demonstrating effectiveness in translating that sensitivity to action through organizational mission statements, communication strategies, and services to diverse cultures.

Answer to Check Your Progress

1. Corporate Social Responsibility,
2. Legal CSR,
3. Cultural and economic system,
4. Philanthropic

Suggested reading

1. Bachrach P and Baratz M (1974) Decisions and non-decisions: an analytical framework; American Political Science Review 57, 532-542 Emery F E & Thorsrud E (1963).
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4. Ann Arbour Michigan Handy C 1983 Understanding Organizations Harmondswoeth Penguin Hardy C (1994); Managing Strategic Action; London; Sage.

Block-3: Introduction

Block-3: Political Environment has been divided in to two Units.

Unit-7: Political Environment – Meaning and Concepts explains about the Political Environmental- Definition, Interpretation for political climate, Political Systems, Political Ideologies and the Impact of Political environment on Business.

Unit-8: Economic Policy and Industrial Policy deals with Economic policies, Objective of Economic Policies, Monetary Policy, Fiscal Policy, Entities Involved in Economic Policy Implementation, Challenges in Economic Policies, Evaluation of Economic Policies, New Industrial Policy, Objectives of New Industrial Policy, Implementation of the New Industrial Policy, Impact on Indian Market and the Benefits of New Industrial Policy.

In all the units of Block -3 **Political Environment**, the Check your progress, Glossary, Answers to Check your progress and Suggested Reading has been provided and the Learners are expected to attempt all the Check your progress as part of study.

Unit-7

Political Environment – Meaning and Concepts

STRUCTURE

Overview

Objectives

7.1. Political Environmental- Definition

7.2. Interpretation for political climate

7.3. Political Systems

7.4. Political Ideologies

7.5. Impact of Political environment on Business

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

The political environment refers to the set of factors and conditions that shape the political landscape of a particular country or region.

These factors may include political institutions, political ideologies, political parties, interest groups, and public opinion.

The political environment of a country or region can have a significant impact on its governance, policies, and social and economic development.

In this unit, the Definition of Political Environmental, the Interpretation for political climate, the Political Systems, the Political Ideologies and the Impact of Political environment on Business has been explained.

Objectives

After learning this module, students will be able to understand:

- Meaning of social responsibilities
- Factors influencing social responsibilities in business
- Corporate social responsibilities in India

7.1. Political Environmental- Definition

Government actions affects the operations of a company or business. These actions may be on local, regional, national, or international level. Business owners and managers pay close attention to the political environment to gauge how government actions will affect their company.

The political environment is one of the less predictable elements in an organisation's business environment. The fact that democratic governments have to seek re-election every few years has contributed towards a cyclical political environment. Inter-linkages in politics occur in many ways, for example:

- Political decisions inevitably affect the economic environment.
- Political decisions also influence the social and cultural environment of a country.
- Politicians can influence the pace at which new technologies appear and are adopted. The political environment in its widest sense includes the effects of pressure groups who seek to change government policies.

Political Climate

Political climate can be manipulated by social activism and mass public opinion. The way people feel about and perceive the social and political environment creates the dynamic of a political climate. The organic nature of political climate means that at any time public sentiment can impose a change in what’s valued by society.

Variables that can work independently or in concert include the actions of political decision-makers, societal events, and social change movements. Interpretation of political climate is subjective but as a whole, can create a mechanism for governmental action and new social constructs.

7.2. Interpretation for political climate

1. Public Opinion

Public opinion helps to define a political climate, especially in a democratic society. Politicians often base decision-making and legislative strategy on the feelings and thoughts of their constituents. They will even use surveys to gather information about what will influence election results. The media is a common vehicle for public opinion. For example, a demonstration about a political issue may be televised and consequently impact public perception. In turn, a groundswell of support may spark the development of new laws or action by a governmental official.

2. Organizational Infrastructure

Political climate is often shaped by the organizational operating structure. Decision- making by leaders about specific issues sets the tone for what is valued. Popular political leaders wield more power and usually have more support to get things done. Similarly, the financial health of government influences the political climate. For example, in a time of serious budgetary constraints, approval to spend money on new initiatives is likely to be more challenging. Understanding the way an organization operates sheds insight on leaders who may be allies on a particular issue or obstacles to making organizational change.

3. Significant Events

Societal events tell the story of a political climate. The way people behave indicates their feelings, mood or comfort-level in an organization or community. For example, if a same-sex couples feels comfortable being open about their relationship, the political climate might be considered liberal or open. The media helps to shape the climate, simply by sharing stories about social change or community issues. The news about public reaction to a political issue makes a statement about societal environment and can influence the feelings and thoughts of those who are uninvolved.

4. Social Change Movement

Social change initiatives may serve as a barometer of political climate or even shape it. Public sentiment about an issue can be a deciding factor in the importance of the issue. For example, a topic that goes viral on the Internet or results in a massive demonstration may result in attention from local, state or even national politicians. A group invested in a particular issue needs public support to make broad-based change. The change itself may swing political climate by instilling new public expectations or garnering mass support.

7.3. Political Systems

When we speak of political systems, it's difficult to determine what the most common types are. After all, many political systems are similar, or have similar roots. Many countries actually have republics of some kind — variants of democracy. As you study political science, it can be helpful to understand some of the most common types of political systems from around the world.

Understanding different political systems is important. Each political system has its advantages and disadvantages. It is worth considering the merits of other political systems, and perhaps incorporating some of the ideas into your own system. Some of the five more common political systems around the world include:

1. Democracy
2. Republic
3. Monarchy
4. Communism
5. Dictatorship

Here are some overviews of these five fairly recognizable political systems:

- **Democracy:** A political system in which citizens have the power to participate directly or indirectly in the decision-making process of government.
- **Republic**: A political system in which power is held by representatives elected by citizens and who are responsible to those citizens.
- **Monarchy:** A political system in which a single ruler, such as a king or queen, holds power and passes it down through a family line.
- **Communism:** A political system in which the government owns and controls all resources and means of production, and there is no private property. The goal is to create a classless society in which everyone has equal access to resources and services.
- **Dictatorship:** A political system in which power is held by a single individual who has complete control over the government and the people. This person may have gained power through force or through election, but once in power, they do not share it with others.

It's important to note that these political systems can take on many different forms and variations, and there are often debates about how to define and classify them. Additionally, some countries may have mixed political systems that incorporate elements of multiple systems.

7.4. Political Ideologies

Over the millennia, political philosophers have expounded on a variety of political ideologies, or ways governments and societies can be organized. Today, scholars generally talk about five major political ideologies:

1. Anarchism
2. Absolutism
3. Liberalism
4. Conservatism
5. Socialism

- **Anarchism**: A political ideology that advocates for the abolition of all forms of government and hierarchical power structures, such as corporations and banks. Anarchists believe that people should be able to freely associate with one another and make decisions collectively, without any external force or authority. They often promote direct action and civil disobedience as a means of achieving their goals.
- **Absolutism:** A political ideology that advocates for the absolute power of a single ruler, who has complete control over the government and the people. Absolutists believe that the ruler's power comes from divine right or some other form of inherent superiority, and that this power should be unchecked by any other institution or individual.
- **Liberalism:** A political ideology that emphasizes individual freedoms and rights, as well as free market capitalism and limited government intervention in the economy. Liberals believe that the role of government should be to protect individual rights and promote equality of opportunity, while leaving the rest to the free market. They often support democracy and the rule of law.
- **Conservatism:** A political ideology that emphasizes tradition, order, and stability, as well as a limited role for government in the economy. Conservatives believe that society is best served by preserving existing institutions and norms, rather than changing them, and that the government should promote moral and religious values. They often support a free market economy and a strong national defense.
- **Socialism:** A political ideology that advocates for the collective ownership and control of the means of production and distribution of goods and services, with the goal of creating a more equal society. Socialists believe that private property and the profit motive lead to inequality and exploitation, and that the government should play a strong role in regulating the economy and promoting social welfare. They often support democratic institutions and worker self-management.

It's worth noting that there are many variations and subcategories within each of these political ideologies, and that different individuals and groups may interpret and apply these ideologies in different ways. Additionally, many countries have mixed political systems that incorporate elements of multiple ideologies.

7.5. Impact of Political environment on Business

There are many external environmental factors that can affect your business. It is common for managers to assess each of these factors closely. The aim is always to take better decisions for the firm’s progress. Some common factors

are political, economic, social and technological (known as PEST analysis). Companies also study environmental, legal, ethical, and demographical factors.

The political factors affecting business are often given a lot of importance. Several aspects of government policy can affect business. All firms must follow the law. Managers must find how upcoming legislations can affect their activities.

There are 4 main effects of these political factors on business organizations. They are:

a) Impact on economy
b) Changes in regulation
c) Political stability
d) Mitigation of risk

A) Impact on Economy

The political situation of a country affects its economic setting. The economic environment affects the business performance.

For example, there are major differences in Democratic and Republican policies in the US. This influences factors like taxes and government spending, which ultimately affect the economy. A greater level of government spending often stimulates the economy.

B) Changes in Regulation

Governments could alter their rules and regulations. This could in turn have an effect on a business. After the accounting scandals of the early 21st century, the US Securities and Exchange Commission became more attentive on corporate compliance. The government introduced the Sarbanes-Oxley compliance regulations of 2002. This was a reaction to the social environment. The social environment urged a change to make public companies more liable.

C) Political Stability

Lack of political stability in a country effects business operation. This is especially true for the companies which operate internationally. For example, an aggressive takeover could overthrow a government. This could lead to riots, looting and general disorder in the environment. These disrupt business operations. Sri Lanka was in a similar state during a civil war. Egypt and Syria faced disturbances too.

D) Mitigation of Risk

Buying political risk insurance is a way to manage political risk. Companies that have international operations use such insurance to reduce their risk exposure.

There are some indices that give an idea of the risk exposure in certain countries. The index of economic freedom is a good example. It ranks countries based on how politics impact business decisions there.

7.6. Lobbying and Political Influence

7.6.1. Role of Lobbying in Political Decision-Making:

Lobbying plays a significant role in shaping political decision-making processes at various levels of government. It involves efforts by individuals, organizations, or interest groups to influence policymakers, legislators, and government officials to support specific policies, legislation, or regulations that align with their interests or objectives. Here's how lobbying influences political decision-making:

a. Access to Decision-Makers: Lobbyists often have access to policymakers and government officials, allowing them to communicate their perspectives, concerns, and priorities directly. This access enables lobbyists to provide information, expertise, and arguments to influence decision-makers' opinions and decisions.

b. Advocacy and Persuasion: Lobbyists employ various advocacy techniques to persuade policymakers to support their positions. This may include presenting research, data, and case studies to demonstrate the potential benefits or consequences of proposed policies. Lobbyists may also leverage relationships, networks, and alliances to build support for their cause.

c. Campaign Contributions: Lobbying efforts sometimes involve providing financial support to political campaigns or candidates who share similar policy objectives. Campaign contributions can influence lawmakers' decisions by fostering goodwill, loyalty, or indebtedness towards supportive interest groups.

d. Drafting Legislation and Regulations: Lobbyists often collaborate with policymakers and legislative staff to draft or amend legislation and regulations that reflect their interests or address specific concerns. This direct involvement in the legislative process allows lobbyists to shape policy outcomes in favor of their clients or constituents.

e. Public Relations and Grassroots Mobilization: Lobbying campaigns may involve public relations efforts to build public awareness, support, or opposition to specific policy issues. Lobbyists may organize grassroots mobilization campaigns, petitions, rallies, or media campaigns to influence public opinion and pressure policymakers to act in accordance with their interests.

Overall, lobbying serves as a mechanism for stakeholders to participate in the policymaking process, advocate for their interests, and influence the

development and implementation of laws and regulations that impact their industries, communities, or causes.

7.6.2. Strategies for Engaging in Political Advocacy:

Effective political advocacy requires strategic planning, communication, and engagement to maximize influence and achieve desired outcomes. Here are key strategies for engaging in political advocacy:

a. Research and Analysis: Conduct thorough research and analysis to understand the policy landscape, relevant stakeholders, decision-makers' positions, and potential allies or opponents. Identify key issues, trends, and opportunities for advocacy.

b. Coalition Building: Collaborate with like-minded organizations, businesses, community groups, and individuals to form coalitions or alliances with shared policy goals. Strength in numbers enhances advocacy efforts and amplifies voices to policymakers.

c. Message Development: Craft clear, concise, and compelling messages that resonate with policymakers, stakeholders, and the public. Tailor messages to highlight the importance of the issue, its potential impact, and the benefits of proposed solutions.

d. Relationship Building: Cultivate relationships with policymakers, legislative staff, government officials, and other influential stakeholders. Establish trust, credibility, and rapport through ongoing communication, meetings, and engagement opportunities.

e. Advocacy Tactics: Deploy a mix of advocacy tactics and channels, including direct lobbying, grassroots mobilization, media outreach, public education campaigns, social media advocacy, and strategic partnerships. Adapt tactics based on the policy context, target audience, and campaign objectives.

f. Legislative and Regulatory Engagement: Engage proactively in the legislative and regulatory process by monitoring developments, attending hearings, submitting written comments, and testifying before legislative committees or regulatory agencies. Provide input, feedback, and expertise to shape policy outcomes.

g. Evaluation and Adaptation: Continuously evaluate advocacy efforts, monitor progress, and adapt strategies based on feedback, results, and changing circumstances. Measure impact, celebrate successes, learn from setbacks, and refine approaches for future advocacy campaigns.

By employing these strategies, advocates can effectively navigate the complexities of political advocacy, build support for their priorities, and influence decision-making processes to advance their policy objectives.

7.6.3. Ethical Considerations and Transparency:

Ethical considerations and transparency are essential principles in lobbying and political advocacy to maintain public trust, integrity, and accountability. Here's how to ensure ethical conduct and transparency in lobbying activities:

a. Disclosure and Registration: Lobbyists should adhere to legal requirements for registration, disclosure, and reporting of lobbying activities, expenditures, and relationships with policymakers. Transparency in lobbying disclosures fosters accountability and public awareness of lobbying interests and activities.

b. Avoiding Conflicts of Interest: Lobbyists should avoid conflicts of interest and adhere to ethical standards that prioritize the public interest over personal or organizational gain. Disclose any potential conflicts of interest and take steps to mitigate their impact on advocacy efforts.

c. Honesty and Integrity: Conduct lobbying activities with honesty, integrity, and professionalism. Provide accurate information, avoid misleading or deceptive practices, and uphold ethical standards in all interactions with policymakers, stakeholders, and the public.

d. Respect for Democratic Processes: Respect democratic processes, institutions, and the rule of law in advocating for policy objectives. Engage in constructive dialogue, collaboration, and compromise to advance shared interests and achieve mutually beneficial outcomes.

e. Transparency in Funding and Influence: Disclose sources of funding, financial support, and contributions to lobbying efforts. Be transparent about the interests, motivations, and stakeholders involved in advocacy campaigns to maintain credibility and accountability.

f. Adherence to Codes of Conduct: Comply with ethical codes of conduct, guidelines, and best practices established by professional associations, industry groups, or regulatory bodies governing lobbying activities. Uphold principles of transparency, accountability, and integrity in all aspects of lobbying practice.

By embracing ethical considerations and transparency in lobbying activities, advocates can uphold public trust, promote responsible advocacy practices, and contribute to a more transparent and accountable policymaking process.

7.7. Political Corruption and Bribery

7.7.1. Definition and Forms of Political Corruption:

Political corruption refers to the abuse of public power or position by government officials, politicians, or individuals in authority for personal gain or to advance private interests. It undermines the principles of transparency, accountability, and fairness in governance, erodes public trust, and distorts

democratic processes. Political corruption can manifest in various forms, including:

a. Bribery: Bribery involves offering, giving, soliciting, or accepting something of value (such as money, gifts, favors, or services) to influence the actions, decisions, or behavior of public officials or politicians. For example, a company may bribe government officials to secure contracts, permits, licenses, or favorable regulatory treatment.

b. Extortion: Extortion occurs when public officials abuse their authority to unlawfully obtain money, assets, or benefits from individuals or businesses through coercion, threats, intimidation, or blackmail. For instance, a government official may demand bribes in exchange for issuing permits or licenses, threatening adverse consequences for non-compliance.

c. Nepotism and Cronyism: Nepotism involves favoritism shown to relatives or friends by appointing them to positions of power or influence, regardless of their qualifications or merit. Cronyism refers to the practice of granting favors, contracts, or benefits to close associates or supporters, often in exchange for loyalty or political support.

d. Embezzlement and Misappropriation: Embezzlement entails the misappropriation or theft of public funds, resources, or assets by government officials for personal enrichment or illicit purposes. This can occur through fraudulent schemes, kickbacks, or diversion of public funds into private accounts or investments.

e. Patronage and Clientelism: Patronage involves the exchange of political support, favors, or benefits for electoral votes, campaign contributions, or allegiance to a political party or leader. Clientelism refers to the distribution of resources, services, or privileges to loyal supporters or constituents in exchange for political loyalty or support.

These forms of political corruption undermine the rule of law, distort market competition, stifle economic development, and perpetuate inequalities within society.

7.7.2. Impact on Business Integrity and Fair Competition:

Political corruption and bribery have significant implications for business integrity, fair competition, and the overall business environment. Here's how these practices affect businesses:

a. Distorted Market Dynamics: Political corruption creates an uneven playing field by giving unfair advantages to companies or individuals with political connections or resources to engage in corrupt practices. This distorts market

competition, hinders entry by new competitors, and undermines fair market principles.

b. Erosion of Business Ethics: Corruption fosters a culture of unethical behavior and undermines business integrity by normalizing practices such as bribery, kickbacks, and influence peddling. This erodes trust between business partners, investors, and customers, damaging corporate reputations and long-term viability.

c. Increased Business Risks: Companies engaging in corrupt practices face legal, financial, and reputational risks, including fines, penalties, legal proceedings, and damage to brand reputation. Bribery and corruption investigations by regulatory authorities or law enforcement agencies can disrupt business operations and lead to substantial losses.

d. Negative Impact on Investment Climate: Political corruption deters foreign and domestic investment by creating uncertainty, instability, and perceived risks for businesses. Investors may be reluctant to commit capital to countries or regions plagued by corruption due to concerns about regulatory compliance, contract enforcement, and property rights protection.

e. Undermined Rule of Law: Political corruption weakens institutions, undermines the rule of law, and fosters a culture of impunity, where powerful individuals or entities evade accountability for their actions. This undermines governance, erodes public trust in institutions, and exacerbates social inequalities.

Examples:

- The "Watergate" scandal in the United States involved political corruption at the highest levels of government, including bribery, illegal surveillance, and obstruction of justice, leading to the resignation of President Richard Nixon in 1974.
- The "1MDB scandal" in Malaysia exposed widespread corruption and embezzlement involving government officials and business executives, resulting in billions of dollars being siphoned from a state investment fund for personal gain.

7.7.3. Anti-Corruption Measures and Compliance:

To address political corruption and bribery, governments, businesses, and civil society organizations must implement robust anti-corruption measures and compliance mechanisms. Here are key strategies:

a. Legal Frameworks and Enforcement: Governments should enact comprehensive anti-corruption laws, regulations, and enforcement mechanisms to criminalize bribery, extortion, embezzlement, and other corrupt practices.

Strengthening judicial independence, law enforcement agencies, and anti-corruption institutions is crucial for effective enforcement.

b. Transparency and Accountability: Promote transparency in government decision-making processes, public procurement, and financial transactions to prevent corruption and enhance accountability. Implement measures such as asset disclosure requirements, public access to information, and whistleblower protection to expose and deter corrupt practices.

c. Anti-Corruption Policies and Procedures: Businesses should establish robust anti-corruption policies, codes of conduct, and compliance programs to prevent bribery, extortion, and other corrupt activities within their organizations. Conduct risk assessments, due diligence, and internal controls to detect and prevent corruption-related risks in business operations and transactions.

d. Due Diligence and Third-Party Monitoring: Implement due diligence procedures to assess the integrity and reputation of business partners, suppliers, agents, and intermediaries to mitigate corruption risks. Establish monitoring mechanisms and oversight mechanisms to ensure compliance with anti-corruption policies and ethical standards.

e. Training and Awareness: Provide training and awareness programs for employees, managers, and business partners to educate them about anti-corruption laws, ethical standards, and compliance obligations. Promote a culture of integrity, accountability, and ethical conduct throughout the organization.

f. Collaboration and Collective Action: Foster collaboration among government agencies, businesses, civil society organizations, and international stakeholders to combat corruption through collective action initiatives, public-private partnerships, and multi-stakeholder platforms. Share best practices, resources, and information to enhance anti-corruption efforts globally.

g. Whistleblower Protection: Establish mechanisms to encourage and protect whistleblowers who report corruption, fraud, or misconduct in the workplace or public sector. Ensure confidentiality, non-retaliation, and legal protections for whistleblowers to facilitate the disclosure of corrupt practices and support investigations.

Examples:

- The United Nations Convention against Corruption (UNCAC) is a global framework that promotes international cooperation and best practices in preventing and combating corruption, with over 180 signatory countries.
- The U.S. Foreign Corrupt Practices Act (FCPA) prohibits bribery of foreign officials and requires companies listed on U.S. stock exchanges

to maintain accurate books and records and implement internal controls to prevent corruption.

By implementing these anti-corruption measures and compliance mechanisms, governments and businesses can strengthen governance, promote transparency and integrity, and mitigate the risks and impacts of political corruption and bribery on society and the economy.

Let Us Sum Up

In this unit you have learned about the following:

Corporate social responsibility or CSR has been defined by Lord Holme and Richard Watts in the World Business Council for Sustainable Development's publication "Making Good Business Sense" as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

Check your Progress

1. A government's policy on taxes and spending is known as its ________.
2. The political ideology that supports limited government and individual rights is known as ________.
3. The political spectrum ranges from ________ to ________.
4. A system of government in which power is held by a small group of people is known as a ________.
5. The process by which the Supreme Court determines the constitutionality of a law or government action is called ________.

Glossary

Cultural Diversity: Differences in race, ethnicity, nationality, religion, gender, sexual identity, socioeconomic status, physical ability, language, beliefs, values, behaviour patterns, or customs among various groups within a community, organization, or nation.

Cultural humility: is a lifelong process of self-reflection and self-critique. Cultural humility does not require mastery of lists of "different" or peculiar beliefs and behaviours supposedly pertaining to different cultures, rather it encourages to develop a respectful attitude toward diverse points of view.

Answer to Check your Progress

1. Fiscal Policy
2. Libertarianism
3. Left, right
4. Oligarchy
5. Judicial review

Suggested reading

1. Bachrach P and Baratz M (1974) Decisions and non-decisions: an analytical framework; American Political Science Review 57, 532-542 Emery F E & Thorsrud E (1963).
2. Form and content in industrial democracy; London; Tavistock Etzioni A & Etzioni E (1964) Social Change: sources patterns and sequences.
3. London; Basic Books French J and Raven B (1959). The bases of social power; in D Cartwright (ed), Studies in Social Power, Institute of Social Power.
4. Ann Arbour Michigan Handy C 1983 Understanding Organizations Harmondswoeth Penguin Hardy C (1994); Managing Strategic Action; London; Sage.

Unit-8

Economic Policy and Industrial Policy

STRUCTURE

Overview

Objectives

8.1. Economic policies

8.2. Objective of Economic Policies

8.3. Monetary Policy

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8.5. Entities Involved in Economic Policy Implementation

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8.12. Benefits of New Industrial Policy

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

Economic policy refers to a broad range of policies that governments can use to influence the performance of their economies. Economic policies can include monetary policy, which involves the management of interest rates and the money supply to control inflation and promote economic growth, and fiscal policy, which involves the use of government spending and taxation to promote economic growth and stability.

Industrial policy, on the other hand, refers to a set of policies that are aimed specifically at promoting the development of particular industries or sectors of the economy. Industrial policies can include measures such as subsidies, tax incentives, and regulations designed to promote investment in specific industries, promote innovation, or support the development of strategic industries.

In this unit, the concept of Economic policies, Objective of Economic Policies, Monetary Policy, Fiscal Policy, Entities Involved in Economic Policy Implementation, Challenges in Economic Policies, Evaluation of Economic Policies, New Industrial Policy, Objectives of New Industrial Policy, Implementation of the New Industrial Policy, Impact on Indian Market and Benefits of New Industrial Policy has been explained.

Objectives

- Understanding the concepts and principles of macroeconomic policy and how they relate to economic growth, stability, and development.
- Understanding the role of fiscal and monetary policy in managing inflation, unemployment, and economic growth.
- Understanding the basics of international trade and how economic policies can impact international trade flows and competitiveness.
- Understanding the key drivers of industrial policy and how they relate to economic development, innovation, and competitiveness.
- Understanding the various instruments and tools of industrial policy, such as subsidies, tax incentives, and regulations, and how they can be used to support the development of specific industries or sectors of the economy.

8.1. Economic policies

Economic policies are a set of measures implemented by governments, central banks, and other institutions to influence economic activity and achieve specific economic goals. There are various types of economic policies that are commonly used, including:

- **Fiscal policy:** This involves the use of government spending and taxation to influence the level of economic activity in a country. The aim is to achieve macroeconomic objectives such as economic growth, low unemployment, and price stability. Governments can increase public spending or reduce taxes to stimulate demand and economic growth, or decrease spending or increase taxes to cool the economy and control inflation.
- **Monetary policy:** This involves the use of interest rates, reserve requirements, and other tools by a central bank to influence the money supply and manage inflation. Central banks can increase interest rates to cool the economy and reduce inflation, or decrease interest rates to stimulate demand and boost economic growth.

- **Trade policy:** This involves the use of measures such as tariffs, subsidies, and quotas to influence the flow of goods and services between countries. Governments can implement trade policies to protect domestic industries, promote exports, or reduce the trade deficit.
- **Industrial policy:** This involves the use of measures to support specific industries or sectors of the economy. Governments can provide subsidies, tax breaks, or other incentives to encourage investment and innovation in key industries.

Overall, economic policies play an important role in shaping the economic landscape of a country and can have significant impacts on individuals, businesses, and society as a whole.

8.2. Objective of Economic Policies

The objectives of economic policies can vary depending on the specific goals of the government, central bank, or other institutions implementing them. However, some common objectives of economic policies include:

- **Promoting economic growth:** Economic policies are often implemented to stimulate economic activity and promote growth in GDP. This can be achieved through measures such as increasing public spending, lowering taxes, or reducing regulatory burdens.
- **Maintaining price stability:** One of the primary objectives of economic policies is to maintain price stability by controlling inflation. This can be achieved through monetary policy measures such as adjusting interest rates, or fiscal policy measures such as reducing government spending.
- **Reducing unemployment:** Economic policies can be designed to reduce unemployment by stimulating demand and promoting job creation. This can be achieved through measures such as increasing public spending on infrastructure or providing tax incentives to businesses to hire new workers.
- **Ensuring income equality:** Some economic policies may be designed to address income inequality by redistributing wealth or providing social welfare programs to support vulnerable populations.
- **Promoting international trade:** Economic policies may be designed to promote international trade and investment, which can stimulate economic growth and create new job opportunities.

Overall, the objective of economic policies is to manage the economy and achieve specific economic goals in a way that promotes the well-being of society as a whole.

8.3. Monetary Policy

Monetary policy is a tool used by central banks to manage the money supply, interest rates, and other financial conditions in an economy with the aim of achieving specific macroeconomic goals. The main objectives of monetary policy typically include maintaining price stability, promoting economic growth, and ensuring financial stability.

The tools used to implement monetary policy can include:

- **Interest rates:** Central banks can influence the level of interest rates in the economy through various tools such as the discount rate, the federal funds rate, and the open market operations. By adjusting interest rates, central banks can influence the cost of borrowing and the availability of credit, thereby affecting economic activity and inflation.
- **Reserve requirements:** Central banks can also require commercial banks to hold a minimum amount of reserves, which limits the amount of money they can lend out. By adjusting reserve requirements, central banks can influence the money supply and the level of economic activity.
- **Quantitative easing:** In times of economic crisis or recession, central banks may use a policy known as quantitative easing to inject money into the economy by buying government bonds or other assets. This can help stimulate economic activity and encourage lending.
- **Forward guidance:** Central banks can also use forward guidance to influence market expectations about future monetary policy decisions. By providing guidance on the future path of interest rates, central banks can influence market behavior and promote economic stability.

Overall, monetary policy plays a crucial role in managing the economy and achieving macroeconomic goals such as price stability, economic growth, and financial stability. However, the effectiveness of monetary policy can depend on a range of factors such as the structure of the economy, global economic conditions, and political factors.

8.4. Fiscal Policy

Fiscal policy refers to the use of government spending, taxation, and borrowing to influence the economy.

The primary objective of fiscal policy is to achieve specific macroeconomic goals such as promoting economic growth, controlling inflation, and reducing unemployment.

The tools used to implement fiscal policy can include:

- **Government spending:** The government can increase or decrease its spending on various programs and services to influence economic activity. For example, during a recession, the government may increase spending on infrastructure projects to stimulate economic growth.
- **Taxation:** The government can adjust tax rates or implement tax incentives to influence consumer spending and business activity. For example, lowering tax rates can increase disposable income and stimulate spending.
- **Transfer payments:** The government can also use transfer payments, such as social welfare programs and unemployment benefits, to support vulnerable populations and promote economic stability.
- **Borrowing:** The government can borrow money through the issuance of bonds to finance its spending programs. This can lead to increased government debt, which can have long-term implications for the economy.

Overall, fiscal policy can be a powerful tool for promoting economic growth, controlling inflation, and reducing unemployment.

However, the effectiveness of fiscal policy can depend on a range of factors such as the structure of the economy, global economic conditions, and political factors.

Additionally, fiscal policy decisions can have long-term implications for the economy, so careful consideration is necessary to ensure that policies are sustainable and effective over the long term.

8.5. Entities Involved In Economic Policy Implementation

There are several entities involved in the implementation of economic policies, including:

- **Government:** Governments are the primary entities responsible for the formulation and implementation of economic policies. Governments can use fiscal policies such as taxation and government spending to influence the economy, as well as regulatory policies to ensure fair and safe market conditions.
- **Central banks:** Central banks are responsible for implementing monetary policies, such as adjusting interest rates, to influence the money supply, inflation, and economic growth. Central banks can also act as a lender of last resort to ensure financial stability during times of crisis.

- **International organizations:** International organizations such as the World Bank, the International Monetary Fund (IMF), and the World Trade Organization (WTO) play a role in global economic policy. These organizations can provide loans, advice, and support to countries in need, as well as promote international trade and economic cooperation.
- **Private sector:** The private sector, including businesses, corporations, and financial institutions, can also influence economic policy through their actions and investments. Private sector entities can advocate for policies that benefit their industries and can invest in areas that align with their economic interests.
- **Civil society**: Civil society organizations, such as non-governmental organizations (NGOs) and labour unions, can also play a role in economic policy implementation. These organizations can advocate for policies that benefit vulnerable populations, promote social justice, and ensure environmental sustainability.

Overall, the implementation of economic policies involves a range of entities with different roles and interests.

Effective economic policy implementation requires collaboration and coordination between these entities to achieve macroeconomic objectives and promote sustainable economic growth.

8.6. Challenges in Economic Policies

There are several challenges associated with the formulation and implementation of economic policies, including:

- **Complexity:** Economic systems are complex and dynamic, making it difficult to predict the outcomes of policy interventions. There are also numerous interrelated variables to consider, such as inflation, employment, and international trade, which can make it difficult to design effective policies.
- **Political pressure:** Economic policies are often subject to political pressures and agendas, which can lead to policies that are not in the best interest of the economy as a whole. For example, politicians may be more concerned with winning elections than promoting long-term economic growth.
- **Limited resources:** Governments may have limited resources available to implement economic policies, especially in developing countries or during times of economic crisis. This can limit the effectiveness of policies and make it difficult to achieve macroeconomic objectives.

- **Resistance to change:** Economic policies often require changes in behavior from various stakeholders, such as businesses and consumers. Resistance to change can make it difficult to implement policies effectively.
- **Unforeseen consequences:** Economic policies can have unintended consequences, such as inflation, changes in employment patterns, or negative impacts on the environment. These consequences can sometimes be difficult to predict and manage.
- **Global economic interdependence:** Economic policies in one country can have spill over effects on other countries, especially in an era of global economic interdependence. This can make it difficult to design policies that are effective in achieving macroeconomic objectives while minimizing negative externalities.

Overall, economic policy implementation is a complex and challenging process that requires careful consideration of numerous factors. Effective economic policies require a combination of political will, technical expertise, and stakeholder engagement to achieve macroeconomic objectives and promote sustainable economic growth.

8.7. Evaluation of Economic Policies

Evaluation of economic policies is an essential process that helps policymakers and other stakeholders determine the effectiveness of economic policies. Here are some key factors to consider when evaluating economic policies:

- **Goals:** The first step in evaluating economic policies is to determine the goals of the policy. This could include goals such as promoting economic growth, reducing unemployment, controlling inflation, or reducing income inequality.
- **Metrics:** Once the goals have been established, metrics must be identified to measure the policy's effectiveness. For example, economic growth can be measured using GDP or per capita income, while unemployment can be measured using the unemployment rate.
- **Timing:** Economic policies can take time to produce results, and it is essential to evaluate policies over an appropriate time frame. Short-term policies may produce immediate results, while long-term policies may require several years to achieve the desired outcome.
- **External factors:** External factors such as global economic conditions, technological changes, and natural disasters can all impact the effectiveness of economic policies. It is important to consider these external factors when evaluating policies to determine their true impact.

- **Cost-benefit analysis:** A cost-benefit analysis can help determine if the benefits of the policy outweigh the costs. This analysis considers the economic and social costs of the policy and compares them to the benefits.
- **Stakeholder perspectives:** Finally, it is essential to consider the perspectives of all stakeholders, including businesses, workers, and consumers. Stakeholder feedback can provide insight into the effectiveness of policies and highlight areas where improvements can be made.

Overall, evaluating economic policies is a crucial process that helps policymakers determine the effectiveness of their policies and make informed decisions about future policies. A comprehensive evaluation process considers multiple factors and involves input from a range of stakeholders to ensure that policies are effective, efficient, and sustainable over the long term.

8.8. New Industrial Policy:

The New Industrial Policy of 1991 was a set of economic reforms introduced by the Government of India under the leadership of Prime Minister P.V. Narasimha Rao and his Finance Minister Dr. Manmohan Singh. The policy aimed at transforming India's economic system from a closed, centrally planned economy to an open, market-oriented economy.

The key features of the New Industrial Policy included:

- **Liberalization:** The policy liberalized many sectors of the Indian economy by reducing government regulations, opening up the economy to foreign investment, and allowing private enterprises to operate in many industries.
- **Privatization:** The policy aimed at privatizing many public sector enterprises that were deemed non-essential or were performing poorly. This was done to improve the efficiency and competitiveness of these enterprises.
- **Deregulation:** The policy aimed at reducing government control over businesses, removing bureaucratic red tape, and simplifying procedures for starting and operating businesses.
- **Encouraging Foreign Investment:** The policy aimed at attracting foreign investment by offering incentives and removing restrictions on foreign ownership and repatriation of profits.
- **Promotion of Competition:** The policy aimed at promoting competition by allowing new players to enter the market, and by introducing measures to prevent monopolies.

The New Industrial Policy of 1991 was a significant turning point in the Indian economy, and it laid the foundation for India's economic growth and development over the following decades. The policy opened up the Indian economy to the world, and India has since become one of the fastest-growing economies in the world.

8.9. Objectives of new Industrial Policy

The New Industrial Policy of 1991 had several objectives, including:

- **Economic liberalization:** The policy aimed to liberalize the Indian economy and reduce the government's control over it. This was done to encourage private enterprise, foreign investment, and competition, which were seen as crucial for the growth and development of the Indian economy.
- **Industrial growth:** The policy aimed to promote industrial growth by encouraging the growth of private sector industries, reducing bureaucratic red tape, and simplifying procedures for starting and operating businesses.
- **Increased efficiency and competitiveness:** The policy aimed to increase the efficiency and competitiveness of Indian industries by promoting competition, privatizing non-essential or poorly performing public sector enterprises, and introducing measures to prevent monopolies.
- **Export promotion:** The policy aimed to promote exports by removing barriers to trade, encouraging foreign investment in export-oriented industries, and providing incentives for export promotion.
- **Employment generation:** The policy aimed to generate employment opportunities by promoting industrial growth, particularly in labour-intensive industries, and by encouraging the growth of small and medium-sized enterprises.

Overall, the objectives of the New Industrial Policy of 1991 were to create a more open and competitive business environment in India, to promote industrial growth and export competitiveness, and to generate employment opportunities for the country's growing population.

8.10. Implementation of the new Industrial Policy

The implementation of the New Industrial Policy of 1991 involved several measures, including:

- **Liberalization:** The policy involved the liberalization of many sectors of the Indian economy, including reducing import tariffs, opening up sectors

to foreign investment, and allowing private enterprises to operate in many industries.

- **Deregulation:** The policy aimed at reducing government control over businesses by removing bureaucratic red tape, simplifying procedures for starting and operating businesses, and reducing the need for government approvals.
- **Privatization:** The policy involved the privatization of many public sector enterprises that were deemed non-essential or were performing poorly. This was done to improve their efficiency and competitiveness.
- **Encouraging foreign investment:** The policy aimed at attracting foreign investment by offering incentives, simplifying procedures for foreign investment, and removing restrictions on foreign ownership and repatriation of profits.
- **Promotion of competition:** The policy aimed at promoting competition by allowing new players to enter the market, and by introducing measures to prevent monopolies.

The implementation of the New Industrial Policy of 1991 involved a gradual transition towards a more open and competitive business environment in India. It involved the gradual removal of restrictions on trade and investment, and the gradual reduction of government control over the economy. The policy was implemented over several years, with some of its measures taking effect immediately, while others were implemented gradually over time. Overall, the implementation of the New Industrial Policy of 1991 marked a significant shift in India's economic policies, and laid the foundation for India's economic growth and development over the following decades.

8.11. Impact on Indian Market

The New Industrial Policy of 1991 had a significant impact on the Indian market. Some of the major impacts are as follows:

- **Increased competition:** The policy aimed to promote competition by allowing new players to enter the market and by removing barriers to entry. This led to increased competition in many sectors, which resulted in improved product quality, lower prices, and better customer service.
- **Increased foreign investment:** The policy aimed to attract foreign investment by offering incentives and removing restrictions on foreign ownership and repatriation of profits. This led to a significant increase in foreign investment, which helped to modernize Indian industries and create employment opportunities.

- **Privatization of public sector enterprises:** The policy aimed to privatize non-essential or poorly performing public sector enterprises, which helped to improve their efficiency and competitiveness.
- **Growth of small and medium-sized enterprises:** The policy aimed to encourage the growth of small and medium-sized enterprises, which helped to create employment opportunities and stimulate economic growth.
- **Economic growth:** The policy laid the foundation for India's economic growth and development over the following decades. India's GDP growth rate increased significantly, and the country became one of the fastest-growing economies in the world.
- **Integration with the global economy:** The policy aimed to integrate India with the global economy by opening up the economy to foreign investment and trade. This led to increased exports, improved access to global markets, and greater economic integration with the rest of the world.

Overall, the New Industrial Policy of 1991 had a profound impact on the Indian market, and it laid the foundation for India's economic growth and development over the following decades. The policy helped to create a more open and competitive business environment in India, which led to increased foreign investment, improved product quality, and lower prices for consumers.

8.12. Benefits of New Industrial Policy

The New Industrial Policy of 1991 brought several benefits to India, including:

- **Economic growth:** The policy laid the foundation for India's economic growth and development over the following decades. India's GDP growth rate increased significantly, and the country became one of the fastest-growing economies in the world.
- **Increased foreign investment:** The policy aimed to attract foreign investment by offering incentives and removing restrictions on foreign ownership and repatriation of profits. This led to a significant increase in foreign investment, which helped to modernize Indian industries and create employment opportunities.
- **Improved competitiveness:** The policy aimed to increase the efficiency and competitiveness of Indian industries by promoting competition, privatizing non-essential or poorly performing public sector enterprises, and introducing measures to prevent monopolies. This led to improved competitiveness of Indian industries, which helped to boost exports and create employment opportunities.

- **Modernization of industries:** The policy aimed to promote industrial growth by encouraging the growth of private sector industries, reducing bureaucratic red tape, and simplifying procedures for starting and operating businesses. This helped to modernize Indian industries, which helped to improve their efficiency and competitiveness.
- **Job creation:** The policy aimed to generate employment opportunities by promoting industrial growth, particularly in labour-intensive industries, and by encouraging the growth of small and medium-sized enterprises. This helped to create employment opportunities for the country's growing population.
- **Integration with the global economy:** The policy aimed to integrate India with the global economy by opening up the economy to foreign investment and trade. This led to increased exports, improved access to global markets, and greater economic integration with the rest of the world.

Overall, the New Industrial Policy of 1991 brought several benefits to India, including economic growth, increased foreign investment, improved competitiveness of Indian industries, modernization of industries, job creation, and integration with the global economy. The policy helped to create a more open and competitive business environment in India, which has helped to boost economic growth and development in the country over the following decades.

Let Us Sum Up

In this unit you have learned about the following:

Economic policy and industrial policy are two important areas of government intervention in the economy. Economic policy is a set of government policies and actions designed to promote economic growth, stability, and development.

It includes both monetary policy, which focuses on managing the money supply and interest rates, and fiscal policy, which focuses on managing government spending and taxation to stabilize the economy. Industrial policy, on the other hand, is a set of government policies and actions designed to support the development of specific industries or sectors of the economy. It may include measures such as subsidies, tax incentives, and regulations to encourage investment, innovation, and growth.

Both economic policy and industrial policy are important tools for governments to achieve their economic goals, but they can also be controversial and subject to debate. Some argue that government intervention in the economy can be justified if it leads to greater efficiency, innovation, and economic growth, while others argue that markets are efficient and that government intervention is generally counterproductive.

Check your Progress

1. ____________ is a set of government policies and actions designed to promote economic growth, stability, and development.
2. ____________ is a set of government policies and actions designed to support the development of specific industries or sectors of the economy.
3. The ____________ is a key instrument of monetary policy used by central banks to manage the money supply and interest rates.
4. The ____________ is a key instrument of fiscal policy used by governments to manage aggregate demand and stabilize the economy.
5. ____________ is an economic theory that argues that government intervention in the economy can be justified if it leads to greater efficiency, innovation, and economic growth.

Glossary

Economic Policy: A set of government policies and actions designed to promote economic growth, stability, and development.

Monetary Policy: The use of interest rates, money supply, and other monetary tools by a central bank to manage the economy.

Fiscal Policy: The use of government spending, taxation, and other fiscal tools to manage the economy.

Industrial Policy: A set of government policies and actions designed to support the development of specific industries or sectors of the economy.

Open Market Operations: The buying and selling of government securities by a central bank to influence the money supply and interest rates.

Inflation: A sustained increase in the overall level of prices in the economy.

Gross Domestic Product (GDP): The total value of goods and services produced by an economy in a given period of time.

Answers to Check your progress:

1. Economic Policy
2. Industrial Policy
3. Open Market Operations
4. Fiscal Deficit
5. Industrial Policy

Suggested Reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi
4. Vivek Mittal, Business Environment, Excel Books, New Delhi

Block-4: Introduction

Block-4: Economic Environment has been divided in to three Units.

Unit-9 - Meaning and Concepts of Economic Environment deals with the Economic Environment - Meaning and Concept, Elements of economic environment, Impact of Economic Environment on Business, Economic Systems, Mixed Economy and Planned Economy.

Unit-10: Macroeconomic Parameters and Five Year Plan explains about the Macroeconomic Parameters, Five Year Plan in India, Planning Commission of India Vs NITI Aayog and the First Five-Year Plan (1951 To 1956).

Unit-11: Financial Environment, Systems and Services - Financial Environment- Meaning, Components of Financial Environment, Financial System and the Financial Services.

In all the units of Block -4 **Economic Environment**, the Check your progress, Glossary, Answers to Check your progress and Suggested Reading has been provided and the Learners are expected to attempt all the Check your progress as part of study.

Unit-9

Meaning and Concepts of Economic Environment

STRUCTURE

Overview

Objectives

9.1. Economic Environment - Meaning and Concept

9.2. Elements of economic environment

9.3. Impact of Economic Environment on Business

9.4. Economic Systems

9.5. Mixed Economy and Planned Economy

9.6. Economic Indicators and Metrics

9.7. Global Economic Interdependence

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

The term economic environment refers to all the external economic factors that influence the buying habits of consumers and businesses and therefore affect the performance of a company. These factors are often beyond a company's control and may be either large-scale (macro) or small-scale (micro). You can divide the economic environment into the microeconomic environment, which affects business decision making - such as individual actions of firms and consumers - and the macroeconomic environment, which affects an entire economy and all its participants.

In this unit, the Meaning and Concept of Economic Environment, Elements of economic environment, Impact of Economic Environment on Business, Economic Systems and the Mixed Economy and Planned Economy has been clearly explained

Objectives

After learning this module, students will be able to understand:

- Meaning of economic environment and its definition
- Elements of economic environment

- Impact of economic environment on business
- Types of economic systems

9.1. Economic Environment - Meaning and Concept

A qualitative evaluation of several key economic factors is undertaken in order to predict the success of a business venture or to evaluate the amount of risk involved in economic activities in general. The economic environment may include factors such as unemployment percentages, consumer confidence measurements, and the values of market indexes.

So far as the economic environment is concerned, it is affected by the total or overall economic system of the economy, i.e., whether capitalist or social system. Country's system of economic planning and control, such as Government's fiscal or monetary systems, commercial and industrial policies of the Government, commercial and industrial laws, of the country are all important elements of the economic environment. Every such element affects the functioning of the business.

The economic environment consists of external factors in a business' market and the broader economy that can influence a business. You can divide the economic environment into the microeconomic environment, which affects business decision making - such as individual actions of firms and consumers - and the macroeconomic environment, which affects an entire economy and all of its participants. Many economic factors act as external constraints on your business, which means that you have little, if any, control over them. Let's take a look at both of these broad factors in more detail.

Macroeconomic influences are broad economic factors that either directly or indirectly affect the entire economy and all of its participants, including your business. These factors include such things as:

- Interest rates
- Taxes
- Inflation
- Currency exchange rates
- Consumer discretionary income
- Savings rates
- Consumer confidence levels
- Unemployment rate
- Recession
- Depression

Microeconomic factors influence how your business will make decisions. Unlike macroeconomic factors, these factors are far less broad in scope and do not necessarily affect the entire economy as a whole. Microeconomic factors influencing a business include:

- Market size
- Demand
- Supply
- Competitors
- Suppliers
- Distribution chain, such as retailer stores

9.2. Elements of economic environment

Economic environment refers all economic surroundings that influence organization activities. It consists of economic parameters. It is concerned with the nature and direction of economy in which the organizations operate. Important elements of economic development are:

1.Economic systems: Economic system determines the scope of private sector ownership of the factors of production and market forces. The models of economic systems are:

A) **Free market economic:** This system is based on private ownership of the factors of production. Profit serves as the driver of economic engine. The competitive market mechanism guides business decisions. There is freedom of choice. Individual initiative is encouraged.

B) **Centrally planned economy:** This system is based on policy ownership of the factors of production. The economy is centrally planned, controlled and regulated by the government. There is no consumer sovereignty. Policy enterprises play a dominant role.

C) **Mixed economy:** This system is a mix of free market and centrally planned economics. Both public and private sectors coexist. The public sector has ownership and control of basic industries including utilities. The sector owns agriculture and other industries but is regulated by the state.

2. Economic policies: Policies are guidelines for decision making and action. Economic policies of the government significantly influence and guide organizations. Key economic policies influencing organization are:

A) **Monetary policy:** It is concerned with money supply, inflation rates, interest rates and credit availability. It influences the level of spending

through interest rates. Cheap money reduces cost, dear money increase cost. Foreign exchange rates affect imports and exports.

B) **Fiscal policy:** It is concerned with the use of taxation and government expenditure to regulate economic activity, tax on income, expenditure and capital influence business decisions.

C) **Industrial policy:** It is concerned with industrial licensing location, incentives, facilities, foreign investment, technology transfer and nationalization.

3. Economic conditions: They indicate the health of the economy in which the organization operate. The factors affecting economic conditions are:

- **State of economic development:** An economy can be least developed developing and developed. Organizational activities are influenced by the stage of economic development.
- **Income:** The level of employment affect expenditure, saving and investment. They together influence the economic conditions of organization.
- **Employment:** The level of employment affects organization. It determines availability of labour.
- **Business cycle:** The stages of business cycle can prosperity, rescission and recovery. They affect the health of the organization.
- **Influence:** It is rise in price level. It influences costs, price and profit of organization.

9.3. Impact of Economic Environment on Business

The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

1.Income:

One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money.

The proportion of money spent by a customer on various products varies across cultures. Some products, for instance, dishwashers, which are considered to be necessities in western markets, do not even fall into the consideration set of

consumers in the Indian market. Therefore, despite having a higher income, customers will not spend on products that are not considered to be desirable.

2.Inflation:

Inflation is an important economic indicator of an economy. Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. An economy should try to achieve low rate of inflation. The best way to achieve a low rate of inflation is to ensure that products and services are produced efficiently.

When costs of production go up, companies should try to withhold increasing prices as long as possible, since customers do not start valuing the product more because it is more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that the cost of production can be brought down. If inflation exists because the supplies are less than the demand, the money supply can be restricted in the short run, but in the long run, companies will have to expand capacities and increase their supplies.

3.Recession:

Recession is a period of economic activity when income, production and employment tend to fall and demand for products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001.

Companies selling to consumers have special responsibility during recession. Once consumers start buying, businesses will start buying automatically. Therefore, companies selling to consumers should generate confidence among them by offering them high quality products and services at reasonable prices and also extend credit to them. Companies should be prepared to do whatever it takes to make the consumers buy from them.

4. Interest Rate:

If interest rate in an economy is high, businesses will borrow capital at a higher rate, and they will set up new businesses only when they are convinced that they can earn at a rate higher than the interest rate they are paying on the capital.

If the interest rates are high, new businesses will not come. Even among existing businesses, operating costs would go up as their working capital requirements will attract higher interest rates. Therefore, companies will be able to produce products and services at higher costs and will sell them at higher prices.

Lower interest rate is one sure way to spur consumer purchases. Also, consumers are not too keen to save because their money will not grow rapidly due to lower interest rate. They would be keener to spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to get higher returns there. Therefore, business will get impetus because finance in the form of equity capital will be available to them.

5. Exchange rate:

Exchange rate becomes a very important driver of performance when a company exports its products, and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country whose currency is stronger. A company will run its most profitable operations when it exports its product to a country whose currency is stronger, and imports material and components from a country whose currency is weaker.

Exchange rate has become more important, as supply chains of most companies are becoming global in scope, i.e., companies are locating their manufacturing and distribution centres throughout the world, depending upon the advantages of each location.

9.4. Economic Systems

There are four primary types of economic systems in the world:

1. Traditional economic systems
2. Command economic systems
3. Market economic systems
4. Mixed economic systems.

Each system in turn and give ample attention to the attributes listed above. It's important to understand how different parts of the world function economically, as the economy is one of the strongest forces when it comes to balancing political power, instigating war and delivering a high (or low) quality of life to the people it serves.

1.Traditional Economic System

A traditional economic system is the best place to start because it is, quite literally, the most traditional and ancient type of economy in the world. There are certain elements of a traditional economy that those in more advanced economies, such as Mixed, would like to see return to prominence.

There is also the fact that each member of a traditional economy has a more specific and pronounced role, and these societies are often very close-knit and socially satisfied. The main disadvantage is that traditional economies do not enjoy the things other economies take for granted i.e., western medicine, centralized utilities, technology, etc.

2. Command Economic System

In terms of economic advancement, the command economic system is the next step from a traditional economy. This by no means indicates that it is fairer or an exact improvement. There are many things fundamentally wrong with a command economy.

You can see how this kind of economy would, over time, create unrest among the general population. But there are actually several potential advantages, as long as the government uses intelligent regulations. First of all, a command economy is capable of creating a healthy supply of its own resources and it generally rewards its own people with affordable prices (but because it is ultimately regulated by the government, it is ultimately priced by the government). Still, there is often no shortage of abs as the government functions similarly to a market economy in that it wants to grow and grow upon its populace.

3. Market Economic System

A market economy is very similar to a free market. The government does not control vital resources, valuable goods, or any other major segment of the economy. In this way, organizations run by the people determine how the economy runs, how supply is generated, what demands are necessary, etc.

a) **Capitalism and Socialism:** No truly free market economy exists in the world. For example, while America is a capitalist nation, government still regulates (or attempts to regulate) fair trade, government programs, moral business, monopolies, etc. etc. The advantage to capitalism is you can have an explosive economy that is very well controlled and relatively safe. This would be contrasted to socialism, in which the government (like a command economy) controls and owns the most profitable and vital industries but allows the rest of the market to operate freely; that is, price is allowed to fluctuate freely based on supply and demand. If you want to know how the global economy works and the role you play in it, check out this sweet class on Economics without Boundaries.

b) **Market Economy and Politics:** Arguably the biggest advantage to a market economy (at least, outside of economic benefits) is the separation of the market and the government. This prevents the government from becoming too powerful, too controlling and too similar

to the governments of the world that oppress their people while living lavishly on controlled resources. There is something wary about a system which to be successful must foster constant growth, but as a result progress and innovation have occurred at such incredible rates as to affect the way the world economy functions.

4. Mixed Economic System

A mixed economic system (also known as a Dual Economy) is just like it sounds (a combination of economic systems), but it primarily refers to a mixture of a market and command economy (for obvious reasons, a traditional economy does not typically mix well). As you can imagine, many variations exist, with some mixed economies being primarily free markets and others being strongly controlled by the government. Learn more about an essential part of our economy with this free post on understanding the stock market.

In the most common types of mixed economies, the market is more or less free of government ownership except for a few key areas. These areas are usually not the resources that a command economy control. Instead, there are the government programs such as education, transportation, etc. While a mixed economy can lead to incredible results, it can also suffer from similar downfalls found in other economies.

9.5. Mixed Economy and Planned Economy

The economy can be divided into mainly three types based on the government's control over the economy. In a planned economy, the government takes all the decisions and runs the show. In contrast, both government and private players are actively involved in running economic activities in a mixed economy. There is another category wherein only the private players are the decision-makers. We are currently focusing on two types of economies, i.e., planned and mixed economies.

Planned economy

An economic system in which the elements of an economy (such as labour, capital, and natural resources) are subject to government control and regulation designed to achieve the objectives of a comprehensive economic development plan is called a planned economy.

Features or characteristics of a planned economy

One of the main characteristics of the planned economy is that the government has ownership over all the resources. Other features of a planned economy are: Important decisions such as what to produce, how to produce and how to distribute goods or services are taken by the government. Usually, prices are decided by the price control mechanism. Production is planned for at least five

or ten years in advance. Involves a high level of bureaucracy to manage and plan economic decisions. A higher degree of political control

Mixed Economy

In a mixed economy, both the public and private sectors coexist. It falls somewhere in between the capitalists, i.e., free markets and socialist economies, and enjoys the benefit of both. In this type of economy, some part is left to the free market, whereas some part is managed by the government. A mixed economy is based on a system that allows private enterprises to run most businesses. Yet, the governments also intervene in certain areas of the economy. Apart from the USA, India is also one such country that has adopted this kind of economic model for its development. The basic idea behind the formulation of a mixed economy is to come up with a unique system that can have the benefits of both types of economies. Mixed economies enjoy the freedoms of a capitalist economy and the benefits of a socialist economy. A mixed economy has the characteristics of market, command, and traditional economies and is considered the most flexible system better suited to various countries. A free market is considered as closely associated with the capitalist economy, and a command economy is generally associated with socialism.

Characteristics of a mixed economy

There are certain characteristics that determine whether an economy is a mixed economy or not. Some of the important characteristics are reproduced below for better understanding:

Private and public ownership

In a mixed economy, both public and private ownership exist together. Mixed economies also promote ownership through joint sectors, which are run by the government and private companies.

Cooperative sector

In a mixed economy, another sector co-exists simultaneously, i.e. the cooperative sector. The main aim of this sector is to work for society, and the government does provide financial assistance to this sector for its development, especially to co-operatives engaged in the agricultural, dairy farming, and small scale industries.

Private property

Another characteristic of a mixed economy is that individuals can maintain ownership of their private property. In this type of economy, all individuals are free to produce goods and products, acquire and hold property, choose the occupation of their interest and demand products/services they want.

Regulation

A mixed economy allows some operations to be carried on freely, and in some sectors, the government's role is much more active in regulating the same.

Social welfare

One of the important characteristics of a mixed economy is that it provides social security for its citizens, especially for the disabled, unemployed, and elderly. It aims to reduce the gap in the level of wealth their citizens acquire, thereby minimising the inequalities in society. With the aim of reducing poverty and unemployment, the government also works to improve social security, public health care, public education system, etc.

Advantages of a mixed economy-A mixed economy enjoys certain advantages over other types of economies. Some of the advantages are summarised below for quick reference:

Free markets

One of the biggest advantages of a mixed economy is that it somehow depends on supply and demand to decide prices. Although a mixed economy does not allow markets to run absolutely free, such as in capital-based economies, it still allows for free competition in many markets.

Economic stability

In a mixed economy, all economic activities are planned systematically. The government performs this task through various detailed plans for the entire economy. As the economic activities are well planned, it promotes an atmosphere of economic stability.

Public goods

In a mixed economy, goods or services such as facilities of parks, libraries and education are duly supplied by the government. It ultimately allows the economy to be more productive and efficient.

Promotes equality

Mixed economies rely more on the welfare state and aim to maintain a balance between the rich and poor and thereby promote equality. In this type of economy, the capitalist has the money and resources to run a business, but the government also provides loans, grants, and rebates to the general public to run their business or for further studies. Hence, it promotes equality in society and allows everyone to grow.

Social welfare

Mixed economies also enjoy the benefits of a socialist economy, such as social welfare. The main role of the government is to provide some form of social safety net to the needy. Through various policies and programmes, the government of a mixed economy provides benefits to the unemployed, disabled, pensioners and aged people.

9.6. Economic Indicators and Metrics

9.6.1. Gross Domestic Product (GDP):

Gross Domestic Product (GDP) is one of the most widely used and important economic indicators. It measures the total value of all goods and services produced within a country's borders over a specific period, typically annually or quarterly. GDP serves as a comprehensive measure of economic activity and performance, reflecting the overall size and health of an economy. Here's a more detailed explanation:

Components of GDP: GDP can be broken down into four main components:

- Personal Consumption Expenditures: Spending by households on goods and services, including durable goods (e.g., cars, appliances), nondurable goods (e.g., food, clothing), and services (e.g., healthcare, education).
- Business Investment: Investment in capital goods such as machinery, equipment, and structures by businesses to expand production capacity and enhance productivity.
- Government Spending: Expenditures by government entities on goods and services, including defense, education, healthcare, infrastructure, and public administration.
- Net Exports: The value of exports minus imports, representing the contribution of international trade to GDP.
- GDP Growth Rate: Economists closely monitor GDP growth rate as an indicator of economic health and performance. Positive GDP growth indicates expansion and economic prosperity, while negative growth may signal recession or contraction.

Limitations of GDP: While GDP provides valuable insights into economic activity, it has limitations:

- It does not account for income distribution, inequality, or welfare.
- It does not capture non-market activities, such as household work or volunteer services.

- It does not measure environmental sustainability or social progress.

Uses of GDP: GDP data is used by policymakers, businesses, investors, and researchers for various purposes:

- Assessing economic performance and trends.
- Formulating monetary and fiscal policies.
- Making investment decisions and business planning.
- Comparing economic performance across countries and regions.
- Overall, GDP serves as a key indicator of economic activity, providing valuable insights into the size, growth, and structure of an economy.

9.6.2. Unemployment Rate:

The unemployment rate measures the percentage of the labor force that is unemployed and actively seeking employment within an economy. It is a critical indicator of labor market conditions and economic health, reflecting the level of job opportunities, income distribution, and social welfare. Here's a more detailed explanation:

Calculation: The unemployment rate is calculated by dividing the number of unemployed individuals by the total labor force (employed plus unemployed) and multiplying by 100 to express it as a percentage.

Types of Unemployment:

- Frictional Unemployment: Temporary unemployment resulting from individuals transitioning between jobs or entering the workforce for the first time.
- Structural Unemployment: Unemployment caused by a mismatch between the skills or qualifications of job seekers and the available job opportunities.
- Cyclical Unemployment: Unemployment arising from economic downturns, recessions, or contractions when aggregate demand for goods and services declines, leading to layoffs and job losses.
- Seasonal Unemployment: Unemployment related to seasonal fluctuations in demand for certain industries or occupations, such as agriculture, tourism, or retail.

Impacts of Unemployment:

- Economic: Unemployment reduces consumer spending, aggregate demand, and economic growth. It leads to income loss, poverty, and social welfare expenditures.

- Social: Unemployment negatively impacts individuals' mental health, self-esteem, and social well-being. It can lead to social unrest, crime, and political instability.
- Policy: Governments implement various policies to address unemployment, including monetary policies (e.g., interest rate adjustments), fiscal policies (e.g., stimulus measures, job training programs), and labor market reforms.
- Unemployment Trends: Economists analyze unemployment trends and changes over time to assess labor market dynamics, identify structural challenges, and inform policy interventions.

Overall, the unemployment rate provides valuable insights into labor market conditions, economic performance, and social welfare, guiding policymakers, businesses, and stakeholders in addressing unemployment challenges.

9.6.3. Inflation Rate:

The inflation rate measures the percentage change in the general price level of goods and services over a specific period, typically annually or monthly. It reflects the rate of increase in consumer prices and purchasing power, impacting consumers, businesses, investors, and policymakers. Here's a more detailed explanation:

Calculation: The inflation rate is calculated using a price index, such as the Consumer Price Index (CPI) or Producer Price Index (PPI), which tracks changes in the prices of a basket of goods and services commonly purchased by consumers or producers.

Types of Inflation:

- Demand-Pull Inflation: Inflation caused by excessive aggregate demand exceeding the supply of goods and services, leading to upward pressure on prices due to increased consumer spending or investment.
- Cost-Push Inflation: Inflation resulting from rising production costs, such as wages, raw materials, or energy prices, which leads to higher prices for goods and services.
- Built-In Inflation: Inflation caused by expectations of future price increases, leading to wage-price spirals and self-reinforcing inflationary pressures.

Impacts of Inflation:

- Purchasing Power: Inflation reduces the purchasing power of money, as the same amount of currency buys fewer goods and services over time.

- Income Distribution: Inflation affects different groups of consumers and businesses unevenly, leading to income redistribution and wealth effects.
- Interest Rates: Inflation influences nominal interest rates, real interest rates, and borrowing costs, impacting savings, investments, and financial markets.
- Policy Responses: Central banks and governments implement monetary and fiscal policies to manage inflation, such as adjusting interest rates, controlling money supply, or implementing price controls and subsidies.
- Inflation Targets: Many central banks target a specific inflation rate, such as 2% annually, to maintain price stability, economic growth, and employment levels. They use various monetary policy tools, such as open market operations or reserve requirements, to achieve their inflation targets.

Overall, the inflation rate provides valuable insights into price dynamics, purchasing power, and monetary policy effectiveness, guiding economic decision-making and policy formulation.

9.6.4. Consumer Confidence Index:

The Consumer Confidence Index (CCI) measures consumers' perceptions, attitudes, and expectations regarding current economic conditions and future prospects. It serves as a leading indicator of consumer spending, sentiment, and economic growth, influencing business decisions, investment strategies, and policymaking. Here's a more detailed explanation:

Calculation: The Consumer Confidence Index is based on surveys or polls conducted among consumers to assess their confidence levels, sentiment, and outlook on various aspects of the economy, including personal finances, employment prospects, and purchasing intentions. Responses are aggregated and analyzed to generate an index value.

Components of CCI: The Consumer Confidence Index typically includes sub-indices or components measuring different dimensions of consumer sentiment, such as:

- Present Situation Index: Assessing consumers' perceptions of current economic conditions, job market conditions, and household finances.
- Expectations Index: Gauging consumers' expectations and outlook for future economic conditions, employment opportunities, income growth, and inflation.

Importance of CCI: The Consumer Confidence Index serves several important functions in the economy:

Leading Indicator: CCI serves as a leading indicator of consumer spending patterns, economic sentiment, and future economic activity. Changes in consumer confidence often precede shifts in consumer behavior and economic

9.7. Global Economic Interdependence

9.7.1. International Trade:

International trade refers to the exchange of goods and services across borders between countries or regions. It has been a fundamental driver of economic growth, development, and prosperity throughout history. Here's a detailed explanation:

Importance of International Trade:

- Economic Growth: International trade fosters economic growth by allowing countries to specialize in producing goods and services in which they have a comparative advantage, thus maximizing efficiency and productivity.
- Market Expansion: Trade opens up new markets for businesses, enabling them to reach a larger consumer base beyond their domestic borders.
- Resource Allocation: Trade facilitates the efficient allocation of resources by enabling countries to obtain goods and services that they cannot produce domestically or produce at higher costs.
- Innovation and Technological Transfer: Trade encourages innovation and technological transfer as companies seek to remain competitive in global markets, leading to the dissemination of new ideas, technologies, and best practices.
- Cultural Exchange: Trade promotes cultural exchange and understanding between nations, fostering cooperation, mutual respect, and diplomatic relations.

Components of International Trade:

- Exporting: Selling goods and services produced domestically to foreign markets.
- Importing: Purchasing goods and services produced abroad for consumption or production purposes.
- Balance of Trade: The difference between a country's exports and imports, which can be either positive (surplus) or negative (deficit).

Trade Facilitation:

- Trade Agreements: Bilateral or multilateral agreements negotiated between countries to liberalize trade, reduce tariffs and trade barriers, and promote economic cooperation.
- Trade Organizations: International organizations, such as the World Trade Organization (WTO), facilitate negotiations, resolve trade disputes, and monitor compliance with trade rules and agreements.
- Trade Finance: Financial services, such as letters of credit, trade insurance, and export financing, support international trade transactions and mitigate risks for exporters and importers.

Challenges and Risks:

- Protectionism: Trade barriers, tariffs, and protectionist policies imposed by countries to shield domestic industries from foreign competition can hinder free trade and economic integration.
- Trade Imbalances: Persistent trade imbalances, such as large trade deficits or surpluses, can lead to economic instability, currency fluctuations, and geopolitical tensions.
- Trade Disputes: Disputes over trade practices, intellectual property rights, subsidies, and unfair competition can escalate into trade conflicts and retaliation measures between countries.

Overall, international trade promotes economic prosperity, fosters cooperation among nations, and contributes to global development and integration.

9.7.2. Foreign Exchange Markets:

Foreign exchange (forex or FX) markets are decentralized global financial markets where currencies are traded, enabling international transactions, investment, and speculation. They play a crucial role in facilitating international trade, managing currency risks, and supporting global financial stability. Here's a detailed explanation:

Functions of Foreign Exchange Markets:

- Exchange Rate Determination: Foreign exchange markets determine exchange rates, which represent the value of one currency relative to another, based on supply and demand dynamics, economic fundamentals, and market sentiment.
- Currency Conversion: Foreign exchange markets provide a mechanism for converting one currency into another, facilitating international trade, investment, and travel.

- Hedging and Risk Management: Market participants use foreign exchange derivatives, such as forwards, options, and swaps, to hedge currency risks and protect against adverse exchange rate movements.
- Arbitrage and Speculation: Traders engage in arbitrage and speculation activities to exploit discrepancies in exchange rates, earning profits from buying and selling currencies based on anticipated price movements.
- Central Bank Interventions: Central banks intervene in foreign exchange markets to stabilize exchange rates, maintain monetary policy objectives, and manage currency reserves.

Participants in Foreign Exchange Markets:

- Commercial Banks: Banks act as intermediaries in the forex market, facilitating currency transactions for corporate clients, institutions, and retail customers.
- Central Banks: Central banks intervene in forex markets to influence exchange rates, implement monetary policy, and maintain foreign exchange reserves.
- Corporations: Multinational corporations engage in forex markets to manage currency risks associated with international trade, investment, and operations.
- Hedge Funds and Speculators: Hedge funds and speculators trade currencies for profit, exploiting short-term price fluctuations and market inefficiencies.
- Governments and Sovereign Wealth Funds: Governments and sovereign wealth funds participate in forex markets to manage currency reserves, stabilize exchange rates, and support economic policies.
- Market Structure and Trading Platforms: Foreign exchange markets operate globally, 24 hours a day, across different trading sessions and time zones. Transactions occur over-the-counter (OTC) through electronic trading platforms, such as Reuters, Bloomberg, and EBS, as well as interbank networks and clearing systems.

Overall, foreign exchange markets facilitate currency transactions, support international commerce, and play a crucial role in global economic interdependence.

9.7.3. Trade Agreements and Tariffs:

Trade agreements and tariffs are essential components of international trade policy, influencing the terms of trade between countries, promoting economic integration, and shaping global supply chains. Here's a detailed explanation:

Trade Agreements:

- Bilateral Agreements: Trade agreements negotiated between two countries to promote trade, reduce tariffs, and enhance economic cooperation. Examples include free trade agreements (FTAs), bilateral investment treaties (BITs), and preferential trade arrangements.
- Multilateral Agreements: Trade agreements negotiated among multiple countries or regions to establish common trade rules, reduce barriers, and promote open markets. Examples include the World Trade Organization (WTO) agreements, such as the General Agreement on Tariffs and Trade (GATT), and regional trade blocs, such as the European Union (EU) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Tariffs:

- Definition: Tariffs are taxes or duties imposed on imported goods and services by governments to raise revenue, protect domestic industries, and regulate trade flows.
- Types of Tariffs: Tariffs can be classified into several types, including:
- Ad Valorem Tariffs: Tariffs calculated as a percentage of the value of imported goods.
- Specific Tariffs: Tariffs levied as a fixed amount per unit of imported goods.
- Compound Tariffs: Tariffs comprising both ad valorem and specific components.
- Effects of Tariffs: Tariffs influence international trade flows, prices, and market competitiveness:
- Import Tariffs: Increase the cost of imported goods, making them less competitive compared to domestically produced goods.
- Export Tariffs: Reduce the competitiveness of exported goods by raising their prices in foreign markets.
- Retaliatory Tariffs: Trigger trade disputes and retaliation measures between countries

Let Us Sum Up

In this unit you have learned about the following:

The economic environment consists of external factors in a business' market and the broader economy that can influence a business. You can divide the economic environment into the microeconomic environment, which affects

business decision making - such as individual actions of firms and consumers - and the macroeconomic environment, which affects an entire economy and all of its participants. Many economic factors act as external constraints on your business, which means that you have little, if any, control over them. Let's look at both broad factors in more detail.

Check your Progress

1. Economic environment refers to all forces which have a _____
2. ______environment is within the control of the business
3. ____ Environment is beyond the control of the business.
4. Micro environment is also called as ________.
5. Macro environment is also called as _______.

Glossary

Currency exchange rates: It is a relative price of one currency expressed in terms of another currency

Consumer discretionary Income: is the amount of an individual's income that is left for spending, investing, or saving after paying taxes and paying for personal necessities, such as food, shelter, and clothing.

Savings rates: is a measure of the amount of money which an individual deducts from his/her disposable personal income to keep aside as a nest egg or for retirement, expressed as a percentage or ratio.

Consumer confidence levels: This consumer confidence indicator provides an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment and capability of savings.

Unemployment rate: The unemployment rate is the percentage of the labour force that is looking for a job.

Answer to Check Your Progress

1. Economic
2. Internal
3. External
4. Operating environment
5. General environment

Suggested reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-10

Macroeconomic Parameters and Five Year Plan

STRUCTURE

Overview

Objectives

10.1. Macroeconomic Parameters

10.2. Five Year Plan in India

10.3. Planning Commission of India Vs NITI Aayog

10.4. First Five-Year Plan (1951 To 1956):

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

Macroeconomic parameters are key indicators that provide insight into the overall health of an economy. These parameters are often used by policymakers, analysts, and investors to monitor economic performance, identify trends, and make informed decisions. These parameters, along with others such as exchange rates, consumer spending, and business investment, provide insight into the overall health and direction of an economy. By monitoring these indicators, policymakers, analysts, and investors can make informed decisions to support economic growth and stability.

In this unit, the concept of Macroeconomic Parameters, Five Year Plan in India, Planning Commission of India Vs NITI Aayog and First Five-Year Plan (1951 To 1956) has been clearly explained.

Objectives

After learning this module, students will be able to understand:

- Meaning of economic environment and its definition
- Elements of economic environment
- Impact of economic environment on business
- Types of economic systems
- Types of various macroeconomic parameters
- The objectives and achievements of Five-Year Plans in India

The performance of an economy is usually assessed in terms of the achievement of economic objectives. Long term objectives are for sustainable growth and development, and short-term objectives are for stabilisation of the economy in response to sudden and unpredictable events.

To know how well an economy is performing against these objectives, economists employ a wide range of economic indicators. Economic indicators measure macro-economic variables that directly or indirectly enable economists to judge whether economic performance has improved or deteriorated. Tracking these indicators is especially valuable to policy makers, both in terms of assessing whether to intervene and whether the intervention has worked or not.

Macroeconomic parameters are statistics that indicate the current status of the economy of a state depending on a particular area of the economy (industry, labour market, trade, etc.). They are published regularly at a certain time by governmental agencies and the private sector. When properly used, these indicators can be an invaluable resource for any Forex trader.

In truth, these statistics help Forex traders monitor the economy's pulse; thus, it is not surprising that these are religiously followed by almost everyone in the financial markets. After publication of these indicators, we can observe volatility of the market. The degree of volatility is determined depending on the importance of an indicator. That is why it is important to understand which indicator is important and what it represents.

10.1. Macroeconomic Parameters

The important macroeconomic parameters are as follows:

1. Interest Rates Announcement
2. Gross Domestic Product (GDP)
3. Gross national product (GNP)
4. National Income
5. Per capita income
6. Inflation
7. Balance of Payments
8. Fiscal Deficit
9. Wholesale Price Index
10. Consumer Price Index

The macroeconomic parameters are discussed below:

1. **Interest Rates Announcement:**

   Interest rates are the cost of borrowing money, and they play a significant role in the overall macroeconomic conditions of a country. Central banks and monetary authorities make interest rate announcements that can affect the borrowing and lending activities of banks, individuals, and businesses. Higher interest rates can reduce consumer and business spending, as it makes borrowing more expensive, while lower interest rates can stimulate economic activity.

2. **Gross Domestic Product (GDP):**

   GDP is the total monetary value of all final goods and services produced within a country's borders in a given period. It is a measure of the size of the economy and its growth rate. GDP is an essential macroeconomic parameter because it reflects the overall economic activity and performance of a country. It is used to compare the economic performance of different countries and to track changes in economic activity over time.

3. **Gross National Product (GNP):**

   GNP is the total monetary value of all final goods and services produced by a country's citizens, including those produced outside the country's borders. GNP is used to measure the economic performance of a country's citizens and businesses, regardless of their location.

4. **National Income:**

   National Income refers to the total income earned by individuals and businesses in a country, including wages, salaries, profits, and rents. It is an essential macroeconomic parameter because it reflects the overall economic activity and standard of living of a country's population.

5. **Per Capita Income:**

   Per Capita Income is calculated by dividing the total national income of a country by its population. It measures the average income earned by each person in a country and is an important parameter to gauge the standard of living of a country's citizens.

6. **Inflation:**

   Inflation is the rate at which the general level of prices for goods and services is rising. It is an essential macroeconomic parameter because it affects the purchasing power of consumers, the profitability of businesses, and the overall economic stability of a country. Central banks and monetary authorities often use monetary policy tools to control inflation.

7. **Balance of Payments:**

   The Balance of Payments is a record of all international transactions made by a country's residents, including trade in goods and services, investments, and remittances. It is an important macroeconomic parameter because it reflects a country's economic relationships with other countries and its overall economic competitiveness.

8. **Fiscal Deficit:**

   Fiscal Deficit is the difference between a government's total expenditures and its total revenues. It is an important macroeconomic parameter because it reflects a government's borrowing needs and its ability to finance its spending through revenue sources such as taxes, tariffs, and other fees.

9. **Wholesale Price Index:**

   The Wholesale Price Index (WPI) is a measure of the average price of a basket of wholesale goods in a country. It is an important macroeconomic parameter because it reflects changes in the cost of production and can affect the prices of finished goods and services.

10. **Consumer Price Index:**

    The Consumer Price Index (CPI) is a measure of the average price of a basket of consumer goods and services in a country. It is an important macroeconomic parameter because it reflects changes in the cost of living and can affect the purchasing power of consumers.

10.2. Five Year Plan in India

For the smooth functioning of any economy, planning plays an important role. The Planning Commission has been entrusted with the responsibility of the creation, development and execution of India's five-year plans. India's five-year plans are also supervised by the Planning commission (from 2014, it is supervised by NITI Aayog). The planned economic development in India began in 1951 with the inception of First Five Year Plan.

Theoretical efforts had begun much earlier, even prior to the independence. The setting up of National Planning Committee by Indian National Congress in 1938, The Bombay Plan & Gandhian Plan in 1944, the Peoples Plan in 1945 (by post-war reconstruction Committee of Indian Trade Union), Sarvodaya Plan in 1950 by Jaiprakash Narayan were all various steps taken in this direction.

After independence, India launched its First Five Year Plan in 1951, under the socialist influence of first Prime Minister Jawaharlal Nehru. The process began with the setting up of Planning Commission in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of

living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community.

10.3. Planning Commission of India Vs NITI Aayog

The Planning Commission of India and NITI Aayog are two prominent institutions responsible for economic planning and policy-making in India. The Planning Commission was established in 1950, while NITI Aayog was established in 2015, to replace the Planning Commission. Here is a detailed comparison between the two institutions:

- **Mandate and Objective:** The Planning Commission had a central role in India's planned economic development, with the primary objective of formulating and implementing five-year plans. The Commission was responsible for coordinating policies and programs across various sectors, providing guidance to states, and allocating resources to various sectors.

  NITI Aayog, on the other hand, has a broader mandate that goes beyond planning and allocation of resources. Its primary objective is to promote cooperative federalism by providing a platform for states to participate in policy-making and decision-making. NITI Aayog's mandate includes developing long-term strategic plans, monitoring and evaluating the implementation of policies, and identifying key areas of reforms.

- **Structure and Composition:** The Planning Commission was a centralized institution, with a hierarchical structure and a small group of senior officials at the top. The Commission had a Deputy Chairman, full-time members, and part-time members, who were appointed by the Prime Minister.

  In contrast, NITI Aayog has a more decentralized structure, with a governing council, chaired by the Prime Minister, and comprising the Chief Ministers of all states and union territories. The Aayog also has a full-time CEO and other officials responsible for specific areas of work.

- **Funding and Resource Allocation:** The Planning Commission had the responsibility of allocating resources to various sectors and states, based on the priorities identified in the Five-Year Plans. The Commission had the power to allocate funds from the central government to state governments, as well as to various ministries and departments.

  NITI Aayog does not have the authority to allocate funds, and its role is limited to providing policy advice and strategic direction. However, the Aayog does work closely with the Finance Commission, which is responsible for recommending the sharing of resources between the central and state governments.

- **Approach to Planning and Policy-Making:**

  The Planning Commission was criticized for its top-down approach to planning, which was often bureaucratic and inflexible. The Commission relied heavily on expert committees and advisory bodies, which led to a lack of stakeholder engagement and participation.

  NITI Aayog, on the other hand, is designed to be a more participatory and consultative body. The Aayog has established various forums for stakeholder engagement, including sectoral committees and task forces, and has emphasized the importance of evidence-based policymaking.

In conclusion, while the Planning Commission played a significant role in India's economic development, it faced criticism for its centralized approach to planning and resource allocation. NITI Aayog, with its focus on cooperative federalism, participatory planning, and evidence-based policymaking, represents a more decentralized and consultative approach to economic planning and policy-making.

10.4. First Five-Year Plan (1951 To 1956)

- **First Five-Year Plan**

The First Five-Year Plan was launched in India in 1951, just four years after the country achieved independence from British colonial rule. The primary objective of the plan was to accelerate the process of industrialization and to develop basic infrastructure in the country.

The plan was based on the Mahalanobis model, named after the economist Prasanta Chandra Mahalanobis, which emphasized the role of the public sector in promoting industrial growth. The plan set ambitious targets for industrial production, with a focus on the development of heavy industries such as steel, power, and transport.

The plan also aimed to increase agricultural productivity by investing in irrigation, rural electrification, and agricultural research. It emphasized the need to reduce poverty and inequality, by focusing on employment generation and social welfare programs.

The plan allocated significant resources to the development of basic infrastructure such as roads, railways, and ports. It also established the National Planning Commission, later renamed as the Planning Commission, as the primary agency responsible for planning and implementing economic policies in the country.

Despite several challenges, such as the Korean War, the plan achieved some significant successes. Industrial production increased by an average of 10% per year, and agricultural productivity also showed improvement. The plan helped to

lay the foundation for India's industrialization and modernization in the coming years.

However, the plan was also criticized for its narrow focus on industrial development and its neglect of the agricultural sector. The plan also failed to adequately address the issue of poverty and inequality, which remained major challenges in the country. Overall, the First Five-Year Plan laid the groundwork for India's planned economic development, and provided valuable lessons for future plans.

- **Second Five Year Plan (1956-1961)**

  The Second Five-Year Plan was launched in India in 1956, building on the achievements and lessons learned from the First Five-Year Plan. The primary objective of the plan was to continue the process of industrialization, while also addressing some of the weaknesses and shortcomings of the first plan.

  The plan focused on several key areas, including the development of heavy industries, expansion of irrigation facilities, and improvement of social welfare programs. The plan also emphasized the need to reduce regional disparities and to promote balanced regional development.

  One of the key features of the plan was the emphasis on community development programs, aimed at improving the quality of life in rural areas. These programs included the construction of schools, hospitals, and other basic infrastructure, as well as the development of cooperatives and other community-based organizations.

  The Second Five-Year Plan also saw the establishment of several new institutions, including the Industrial Finance Corporation, the Industrial Development Bank, and the National Productivity Council. These institutions played a significant role in promoting industrial growth and innovation in the country.

  Despite several challenges, such as the Indo-China War and severe droughts in some parts of the country, the plan achieved significant success. Industrial production increased by an average of 8.5% per year, while agricultural production also showed improvement. The plan also helped to reduce regional disparities and to promote balanced regional development.

  However, the plan was criticized for its lack of emphasis on the agricultural sector, which continued to face several challenges such as low productivity and inadequate infrastructure. The plan was also criticized for its over-reliance on foreign aid, which was seen as a potential threat to India's economic sovereignty.

Overall, the Second Five-Year Plan laid the foundation for India's continued economic growth and development in the coming years, and provided valuable lessons for future plans.

- **Plan Holidays (1966-69)**

  Due to miserable failure of the Third Plan the government was forced to declare "plan holidays" (from 1966–67, 1967–68, and 1968–69). Three annual plans were drawn during this intervening period. During 1966-67 there was again the problem of drought. Equal priority was given to agriculture, its allied activities, and industrial sector. The main reasons for plan holidays were the war, lack of resources, and increase in inflation.

- **Fourth Five Year Plan (1969 To 1974)**

  The Fourth Five-Year Plan was launched in India in 1969, during a period of significant political and economic instability in the country. The primary objective of the plan was to promote rapid economic growth and development, with a focus on reducing poverty and inequality.

  The plan was based on the Gandhian model of development, which emphasized the importance of self-reliance, decentralization, and community participation. The plan aimed to achieve a high rate of economic growth, while also ensuring that the benefits of growth were distributed more equitably.

  One of the key features of the plan was the emphasis on agricultural development, with a focus on increasing agricultural productivity, improving rural infrastructure, and promoting agricultural research and education. The plan also aimed to promote the development of small-scale industries, with a focus on rural areas.

  The Fourth Five-Year Plan also saw the establishment of several new institutions, including the Agricultural Prices Commission and the National Bank for Agriculture and Rural Development. These institutions played a significant role in promoting agricultural growth and development in the country.

  Despite several challenges, such as the global oil crisis and severe droughts in some parts of the country, the plan achieved significant success. Agricultural production increased by an average of 4% per year, while industrial production also showed improvement. The plan also helped to reduce poverty and inequality, with a significant increase in employment opportunities and social welfare programs.

  However, the plan was criticized for its over-reliance on the public sector, which was seen as a potential threat to economic efficiency and innovation.

The plan was also criticized for its neglect of the private sector and its failure to address the issue of inflation, which remained a major challenge in the country.

Overall, the Fourth Five-Year Plan laid the foundation for India's continued economic growth and development in the coming years, and provided valuable lessons for future plans.

- **Rolling Plan (1978–1980)**

  The Rolling Plan was a unique experiment in planning in India, launched in 1978. It was designed to be a flexible and adaptive planning process, which could respond to changing economic conditions and emerging challenges in a more effective way than the traditional Five-Year Plans.

  The Rolling Plan was based on a three-year planning cycle, with the plan being updated and revised every year based on the feedback and performance of the previous year. The plan focused on key areas such as agriculture, industry, energy, and social welfare, with a focus on promoting rapid economic growth and development.

  One of the key features of the Rolling Plan was the emphasis on the development of small-scale industries and the promotion of rural employment. The plan aimed to create new employment opportunities in rural areas, with a focus on improving the living standards of the rural poor.

  The Rolling Plan also aimed to promote the use of technology and modern management techniques in the industrial sector, with a focus on increasing efficiency and productivity. The plan also emphasized the need to reduce regional disparities and to promote balanced regional development.

  Despite several challenges, such as the global economic recession and high inflation, the Rolling Plan achieved significant success. Industrial production increased by an average of 8% per year, while agricultural production also showed improvement. The plan also helped to reduce poverty and inequality, with a significant increase in employment opportunities and social welfare programs.

  However, the Rolling Plan was criticized for its lack of long-term perspective and its potential to create policy uncertainty and inconsistency. The plan was also criticized for its over-reliance on the public sector, which was seen as a potential threat to economic efficiency and innovation.

Overall, the Rolling Plan represented a significant departure from the traditional Five-Year Plan model, and provided valuable lessons for future planning processes in India.

- **Sixth Five Year Plan (1980-1985)**

  The Sixth Five-Year Plan was launched in India in 1980, with a focus on promoting rapid economic growth and development, while also addressing the social and economic needs of the country. The plan aimed to achieve a high rate of economic growth, with a focus on reducing poverty and inequality.

  One of the key features of the Sixth Five-Year Plan was the emphasis on the development of the agricultural sector. The plan aimed to increase agricultural productivity, improve rural infrastructure, and promote the development of agro-based industries. The plan also emphasized the need to promote sustainable agriculture practices and to address issues such as land degradation and soil erosion.

  The plan also focused on the development of the industrial sector, with a focus on promoting the use of modern technology and management practices. The plan aimed to promote the development of small-scale industries, with a focus on rural areas. The plan also emphasized the need to promote exports and to reduce the dependence of the Indian economy on imports.

  The Sixth Five-Year Plan also placed a strong emphasis on social welfare programs, with a focus on improving access to education, healthcare, and basic infrastructure. The plan aimed to reduce poverty and inequality, with a particular focus on improving the living standards of marginalized communities.

  Despite several challenges, such as high inflation and a balance of payments crisis, the Sixth Five-Year Plan achieved significant success. Agricultural production increased by an average of 4.5% per year, while industrial production also showed improvement. The plan also helped to reduce poverty and inequality, with a significant increase in employment opportunities and social welfare programs.

  However, the plan was criticized for its over-reliance on the public sector, which was seen as a potential threat to economic efficiency and innovation. The plan was also criticized for its neglect of the private sector and its failure to address the issue of corruption, which remained a major challenge in the country.

  Overall, the Sixth Five-Year Plan laid the foundation for India's continued economic growth and development in the coming years, and provided valuable lessons for future plans.

- **Seventh Five Year Plan (1985–1990)**

  The Seventh Five-Year Plan was launched in India in 1985, with a focus on accelerating economic growth, promoting social welfare, and reducing poverty and inequality. The plan aimed to achieve a high rate of economic growth, with a focus on promoting the development of the agricultural and industrial sectors.

  One of the key features of the Seventh Five-Year Plan was the emphasis on the development of the agricultural sector. The plan aimed to increase agricultural productivity, improve rural infrastructure, and promote the development of agro-based industries. The plan also emphasized the need to promote sustainable agriculture practices and to address issues such as land degradation and soil erosion.

  The plan also focused on the development of the industrial sector, with a focus on promoting the use of modern technology and management practices. The plan aimed to promote the development of small-scale industries, with a focus on rural areas. The plan also emphasized the need to promote exports and to reduce the dependence of the Indian economy on imports.

  The Seventh Five-Year Plan also placed a strong emphasis on social welfare programs, with a focus on improving access to education, healthcare, and basic infrastructure. The plan aimed to reduce poverty and inequality, with a particular focus on improving the living standards of marginalized communities.

  Despite several challenges, such as a balance of payments crisis, the Seventh Five-Year Plan achieved significant success. Agricultural production increased by an average of 4.5% per year, while industrial production also showed improvement. The plan also helped to reduce poverty and inequality, with a significant increase in employment opportunities and social welfare programs.

  However, the plan was criticized for its over-reliance on the public sector, which was seen as a potential threat to economic efficiency and innovation. The plan was also criticized for its neglect of the private sector and its failure to address the issue of corruption, which remained a major challenge in the country.

Overall, the Seventh Five-Year Plan laid the foundation for India's continued economic growth and development in the coming years, and provided valuable lessons for future plans.

10.5. Environmental Forecasting

In today's business world rapid changes are too frequent. It would be crucial for managers to invent new ways of surviving in the ever-changing business environment. They would have to build up the capacity of a firm to face the changes and adapting themselves to changes.

They would have to find out new ways of creating opportunities of profitability and growth. The new rules and regulations also create more pressure on business.

To prepare for such ongoing eventualities, managers will have to prepare themselves for really understanding the remote and the immediate environments of business and mechanisms of changes that affect their industry or firm. The changes have not only affect smaller companies but also the giants of various industries. It creates an awareness of environmental forecasting.

1. Environmental Forecasting Methods:

Everyone can understand that the economic, technological, political and social changes are a part of organizational life. Given that fact, the obvious questions, how can these changes be forecast?

To say the least, forecasting is a most difficult process. Some forecasting rules are the following:

a. It is very difficult to forecast, especially, the future.
b. The moment you forecast you know you're going to be wrong – you just don't know when and in which direction.
c. If you're right, never let them forget it.
d. Regardless of the possibility of error, to be successful, organizations must forecast their future environment.

Forecasting methods and levels of sophistication vary greatly. The methods employed may vary from educated guesses to computer projections using sophisticated statistical analyses. Several factors determine the most appropriate methods of forecasting, including the nature of the desired forecast, the available expertise, and the available financial resources.

All forecasting techniques can be classified as either qualitative or quantitative. Qualitative techniques are based primarily on opinions and judgments. Quantitative techniques are based primarily on the analysis of data and the use of statistical techniques. Several qualitative and quantitative techniques are available to business.

2. Qualitative Forecasting Techniques:

a. Sales Force Composite:

Under the sales force composite method, a forecast of sales is determined by combining the sales predictions of experienced sales people. Because sales people are in constant contact with customers, they are often in a position to accurately forecast sales. Advantages of this method are the relatively low cost and simplicity. The major disadvantage is that sales personnel are not always unbiased, especially if their sales quotas are based on sales forecasts.

b. Customer Evaluation:

This method is similar to the sales force composite except that it goes to customers for estimates of what the customers expect to buy. Individual customer estimates are then pooled to obtain a total forecast.

This method works best when a small number of customers make up a large percentage of total sales. Drawbacks are that the customer may not be interested enough to do a good job and that the method has no provisions for including new customers.

c. Executive Opinion:

With this method, several managers get together and devise a forecast based on their pooled opinions. Advantages of this method are simplicity and low cost. The major disadvantage is that the forecast is not necessarily based on facts.

d. Delphi Technique:

The Delphi technique is a method for developing a consensus of expert opinion. Under this method, a panel of experts is chosen to study a particular question. The panel members do not meet as a group and may not even know each other's identity. Panel members are then asked (usually by mailed questionnaire) to give their opinions about certain future events or forecasts.

After the first round of opinions has been collected, the coordinator summarizes the opinions and sends this information to the panel members. Based on this information, panel members rethink their earlier responses and make a second forecast.

This same procedure continues until a consensus is reached or until the responses do not change appreciably. The Delphi technique is relatively inexpensive and moderately complex.

e. Anticipatory Surveys:

In this method, mailed questionnaires, telephone interviews, or personal interviews are used to forecast customer intentions. Anticipatory survey is a

form of sampling, in that those surveyed are intended to represent some larger population.

Potential drawbacks of this method are that stated intentions are not necessarily carried out and that the sample surveyed does not represent the population. This method is usually accompanied by medium costs and not much complexity.

3. Quantitative Forecasting Techniques:

a. Time-Series Analysis:

This technique forecasts future demand based on what has happened in the past. The basic idea of time-series analysis is to fit a trend line to past data and then to extrapolate this trend line into the future.

Sophisticated mathematical procedures are used to derive this trend line and to identify and seasonal or cyclical fluctuations. Usually a computer program is used to do the calculations required by a time-series analysis.

One advantage of this technique is that it is based on something other than opinion. This method works best when a significant amount of historical data is available and when the environmental forces are relatively stable. The disadvantage is that the future may not be like the past.

b. Regression Modeling:

Regression modeling is a mathematical forecasting technique in which an equation with one or more input variables is derived to predict another variable. The variable being predicted is called the dependent variable. The input variables used to predict the dependent variable are called independent variables.

The general idea of regression modeling is not determine how changes in the independent variables affect the dependent variable. Once the mathematical relationship between the independent variables and the dependent variable has been determined, future values for the dependent variable can be forecast based on known or predicted values of the independent variables.

The mathematical calculations required to derive the equation are extremely complex and almost always require the use of a computer-. Regression modeling is relatively complex and expensive.

c. Econometric Modeling:

Econometric modeling is one of the most sophisticated methods of forecasting. In general, econometric models attempt to mathematically model an entire economy. Most econometric models are based on numerous regression

equations that attempt to describe the relationships between the different sectors of the economy.

Very few organizations are capable of developing their own econometric models. Those organizations that do use econometric models usually hire the services of consulting groups or company that specialist in econometric modeling. This method is very expensive and complex and is, therefore, primarily used only by very large organizations.

4. Environmental Scanning:

We now turn to discuss the methods techniques employed by the organizations to monitor their relevant environment and to gather data to derive information about the opportunities and threats that affect their business. The process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning.

Let Us Sum Up

In this unit you have learned about the following:

A 5-year plan is a strategic roadmap that outlines an organization's goals and objectives for the next five years. It is a comprehensive document that outlines the organization's mission, vision, and strategies to achieve its goals. The purpose of a 5-year plan is to provide a framework for decision-making, to guide the allocation of resources and to ensure that everyone in the organization is working towards the same objectives. It helps the organization to stay focused on its long-term goals and to measure its progress towards achieving them.

Check your Progress

1. The final approval to the five year plans of India is given by________
2. The main objective of the first five year plan of India was__________
3. Who is the president of the National Development Council________
4. The first five-year plan of India started in__________
5. Who is the chairman of NITI Aayog________

Glossary

Currency exchange : where clients can purchase and sell foreign currencybanknotes.

Wire transfer : where clients can send funds to international banks abroad.

Remittance : where clients that are migrant workers send money back to their homecountry.

Answer to Check Your Progress

1. National Development Council
2. Development of agriculture
3. Prime Minister
4. 1951
5. Prime Minister

Suggested reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-11

Financial Environment, Systems and Services

STRUCTURE

Overview

Objectives

11.1. Financial Environment- Meaning

11.2. Components of Financial Environment

11.3. Financial System

11.4. Financial Services

11.5. Financial Markets

11.6. Financial Instruments

11.7. Financial Institutions

11.8. Financial Regulation and Supervision

11.9. Financial Planning and Management

11.10. Financial Innovation and Technology

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

A financial environment is a part of an economy with the major players being firms, investors, and markets. Essentially, this sector can represent a large part of a well-developed economy as individuals, who retain private property could grow their capital. Firms are business entities that offer goods or services to consumers. Investors are individuals or businesses that place capital into businesses for financial returns.

In this unit, the Meaning of Financial Environment, Components of Financial Environment, Financial System and the concept of Financial Services has been clearly explained.

Objectives

After learning this module, students will be able to understand:

- Meaning and definition
- Components of Financial Environment

- Financial Systems
- Various types of Financial Services
- Pattern of Financial institutions in India

11.1. Financial Environment- Meaning

A financial environment is a part of an economy with the major players being firms, investors, and markets. Essentially, this sector can represent a large part of a well-developed economy as individuals, who retain private property have the ability to grow their capital. Firms are business entities that offer goods or services to consumers. Investors are individuals or businesses that place capital into businesses for financial returns.

Markets represent the financial environment that makes this all possible. Historically, firms were very small or even nonexistent in economies or financial markets. Though a few firms have always been in existence, the ability for a large number of firms was not possible until markets became more mature. Mature markets allow for more access to resources necessary to produce goods and services. As firms begin to grow, expand, and multiply, higher capital needs to persist in order for firms to succeed.

Capital sources include money from outside parties, such as investors. Many times, investors are individuals who have more capital than is necessary to provide a sufficient living standard. Any excess capital can actually make individuals more money if they invest the funds into a firm that offers a financial return. This symbiotic relationship in the financial environment allows both parties to increase their capital. Many different factors play a role for individuals making investments. A few of these may include risk, current market conditions, and competition, among others.

Financial environment of a company refers to all the financial institutions and financial market around the company that affects the working of the company as a whole. The financial environment has a number of factors. It includes the financial institutions, government, individuals and firms around the business. Firms use their financial markets to keep their savings as property. It is extremely important for the monetary markets.

11.2. Components of Financial Environment

The financial environment is composed of three key components:

(1) Financial managers,

(2) Financial markets, and

(3) Investors (including creditors).

- Financial Managers: Financial managers are individuals or teams responsible for managing the financial resources of an organization. They make important decisions related to financing, investment, and risk management to ensure the financial health and success of the organization.
- Financial Markets: Financial markets refer to the markets where financial instruments such as stocks, bonds, currencies, and derivatives are bought and sold. Financial markets provide a platform for companies and governments to raise capital, and for investors to earn returns on their investments.
- Investors (including Creditors): Investors refer to individuals or organizations who invest their money in financial instruments with the expectation of earning returns. They include both equity investors (who invest in stocks) and debt investors (who invest in bonds and other fixed-income securities). Creditors are also an important part of the financial environment, as they provide loans and other forms of credit to individuals and organizations.

These three components of the financial environment are interdependent and influence each other in various ways. For example, the decisions made by financial managers can affect the performance of financial markets and the investment decisions of investors. Similarly, changes in financial markets can affect the availability of capital and credit, which in turn can affect the decisions made by financial managers.

11.3. Financial System

The processes and procedures used by an organization's management to exercise financial control and accountability is called financial system. These measures include recording, verification, and timely reporting of transactions that affect revenues, expenditures, assets, and liabilities.

In finance, the financial system is the system that allows the transfer of money between savers (and investors) and borrowers. A financial system can operate on a global, regional or firm specific level. Gurusamy, writing in Financial Services and Systems has described it as comprising "a set of complex and closely interconnected financial institutions, markets, instruments, services, practices, and transactions."

According to Franklin Allen and Douglas Gale, "Financial systems are crucial to the allocation of resources in a modern economy. They channel household savings to the corporate sector and allocate investment funds among firms; they allow inter temporal smoothing of consumption by households and expenditures by firms; and they enable households and firms to share risks. These functions

are common to the financial systems of most developed economies. Yet the form of these financial systems varies widely."

Financial systems depend on the countries viewpoint on freedom of trade. Some countries i.e. The Soviet Union had socialist financial systems because they value centralized organized state funded trading rather than freedom of trade by everyone.

11.4. Financial Services

Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including credit unions, banks, credit card companies, insurance companies, accountancy companies, consumer finance companies, stock brokerages, investment funds and some government sponsored enterprises.

1. Commercial banking services

Commercial banking services refer to the range of financial services offered by commercial banks to individuals, businesses, and other organizations. These services include deposit-taking, lending, and various other financial products and services.

Here are some of the key commercial banking services:

- **Deposit-taking:** Commercial banks accept deposits from individuals and organizations, and provide various types of deposit accounts such as savings accounts, checking accounts, and time deposits. Deposit accounts typically earn interest, and may offer other benefits such as online banking, ATM access, and debit or credit cards.
- **Lending:** Commercial banks provide loans and credit facilities to individuals, businesses, and other organizations. These loans may be for a variety of purposes, such as buying a home, starting or expanding a business, or financing capital projects. Commercial banks earn interest on these loans, and also charge fees for services such as loan origination and servicing.
- **Trade finance:** Commercial banks offer trade finance services to facilitate international trade. These services may include letters of credit, trade finance loans, and various other products to help importers and exporters manage their financial risks and cash flow.
- **Treasury services:** Commercial banks offer treasury services to help businesses and other organizations manage their cash flow and risk. These services may include cash management, foreign exchange services, and various other products to help organizations manage their financial operations.

- **Credit cards:** Commercial banks issue credit cards to individuals and businesses, allowing them to make purchases on credit and pay back the balance over time. Credit cards may also offer rewards programs and other benefits to cardholders.
- **Wealth management:** Commercial banks offer wealth management services to help individuals and families manage their investments and assets. These services may include investment advice, portfolio management, and financial planning.

Overall, commercial banking services are an essential part of the financial system, providing individuals, businesses, and other organizations with the financial products and services they need to manage their finances and achieve their financial goals.

2. Investment banking services

Investment banking services refer to the range of financial services provided by investment banks to businesses, governments, and other organizations. Investment banks play a key role in facilitating capital-raising activities, mergers and acquisitions, and other financial transactions.

Here are some of the key investment banking services:

- **Capital raising:** Investment banks help businesses and other organizations raise capital by issuing stocks, bonds, and other securities. They may also help companies raise capital through private placements, where securities are sold to a select group of investors.
- **Mergers and acquisitions:** Investment banks advise companies on mergers, acquisitions, and other strategic transactions. They may help companies identify potential acquisition targets, conduct due diligence, and negotiate the terms of a transaction.
- **Underwriting:** Investment banks underwrite securities offerings, which involves assuming the risk of selling securities to investors at a set price. Underwriting helps companies raise capital more efficiently by ensuring that there is a market for their securities.
- **Structured finance:** Investment banks help structure and sell complex financial instruments such as asset-backed securities and collateralized debt obligations. These instruments allow companies to raise capital by securitizing assets such as loans, mortgages, and other financial assets.
- **Trading and market-making:** Investment banks trade securities on behalf of clients and provide liquidity to financial markets through market-making activities. They also provide clients with research and analysis to help inform investment decisions.

- **Risk management:** Investment banks help clients manage various types of financial risk, such as market risk, credit risk, and operational risk. They may offer hedging strategies, such as options and futures contracts, to help clients manage their exposure to volatile markets.

Overall, investment banking services are an essential part of the financial system, providing companies and other organizations with the expertise and capital they need to grow and succeed. Investment banks also play an important role in facilitating the efficient functioning of financial markets by providing liquidity and market-making services.

3. Foreign exchange services

Foreign exchange services refer to the range of financial services related to the buying and selling of foreign currencies. These services are typically offered by commercial banks, investment banks, and other financial institutions to businesses and individuals who need to transact in foreign currencies.

Here are some of the key foreign exchange services:

- **Currency exchange:** Foreign exchange services allow businesses and individuals to exchange one currency for another. This can be done through physical currency exchange at a bank or through online platforms.
- **International wire transfers:** Foreign exchange services allow businesses and individuals to send and receive international wire transfers in different currencies. These services typically involve fees and may also include currency conversion fees.
- **Hedging:** Foreign exchange services provide tools to help businesses and individuals manage their exposure to foreign currency risk. This can be done through currency futures, options, and other financial instruments that can be used to hedge against adverse movements in foreign currency exchange rates.
- **Foreign currency accounts**: Some foreign exchange services allow businesses and individuals to hold foreign currency accounts. These accounts can be used to receive payments in foreign currencies, make payments in foreign currencies, and store foreign currencies for future use.
- **International trade finance:** Foreign exchange services provide financing and risk management tools to businesses engaged in international trade. This can include letters of credit, trade finance loans, and other financial products designed to facilitate international trade transactions.

- **Currency research and analysis:** Foreign exchange services may also include research and analysis of foreign exchange markets and currencies. This can include market commentary, economic analysis, and forecasts of currency exchange rates.

Overall, foreign exchange services are essential for businesses and individuals engaged in international trade or travel. They provide tools to manage foreign currency risk, facilitate international payments, and provide access to foreign currencies when needed.

4. Investment services

Investment services refer to the range of financial services provided by financial institutions to help individuals and organizations invest their money in various financial assets. Investment services may include advice, research, trading, and other services to help clients make informed investment decisions.

Here are some of the key investment services:

- **Investment advice:** Investment advisors provide advice to clients on how to invest their money based on their financial goals, risk tolerance, and other factors. They may also provide ongoing advice and support to help clients manage their investments.
- **Asset management:** Asset management services involve managing a portfolio of assets on behalf of clients. This may include selecting and managing investments, monitoring market trends, and making investment decisions on behalf of clients.
- **Trading services:** Investment services may include trading services, which allow clients to buy and sell securities and other financial assets. This may include access to online trading platforms or direct trading with an investment advisor.
- **Research and analysis:** Investment services may include research and analysis of financial markets and individual securities. This can include economic research, company analysis, and other tools to help clients make informed investment decisions.
- **Retirement planning:** Investment services may also include retirement planning services, which help individuals plan for their financial needs in retirement. This may include advice on retirement savings and investment strategies, as well as other financial planning tools.
- **Education and training:** Investment services may provide education and training to help clients improve their financial literacy and understanding of investing. This may include seminars, online courses, and other educational resources.

Overall, investment services are designed to help clients manage their investments and achieve their financial goals. They provide a range of tools and services to help clients make informed investment decisions and manage their portfolios over time.

5. Insurance services

Insurance services refer to products and services offered by insurance companies to protect individuals, businesses, and other organizations against financial losses due to unforeseen events. These events can include accidents, theft, property damage, illness, and other types of risks.

Insurance services typically include:

- **Health insurance:** provides coverage for medical expenses and treatments.
- **Life insurance:** pays a benefit to beneficiaries in the event of the policyholder's death.
- **Property and casualty insurance:** covers damage to property and liability for accidents and injuries.
- **Auto insurance:** provides coverage for damage to or loss of a vehicle, as well as liability for accidents.
- **Travel insurance:** covers unexpected expenses related to travel, such as trip cancellations, medical emergencies, and lost luggage.
- **Disability insurance**: provides income replacement if the policyholder becomes disabled and is unable to work.
- **Long-term care insurance:** covers the cost of long-term care services, such as nursing home care, in-home care, and assisted living.

Insurance services are typically sold through insurance agents or brokers, who work with clients to identify their insurance needs and recommend appropriate policies. The cost of insurance services varies depending on the type of coverage, the policyholder's risk profile, and other factors.

11.5. Financial Markets:

Financial markets are platforms where buyers and sellers trade financial assets such as stocks, bonds, currencies, commodities, and derivatives. These markets play a crucial role in allocating capital, determining prices, and facilitating investment and risk management. Here's an explanation of the major types of financial markets:

11.5.1. Money Market:

The money market is a segment of the financial market where short-term debt securities with high liquidity and low risk are traded. Participants in the money market include governments, financial institutions, and corporations. Money market instruments include Treasury bills, commercial paper, certificates of deposit (CDs), and repurchase agreements (repos). The money market serves as a source of short-term funding for entities and plays a vital role in monetary policy implementation by central banks.

11.5.2. Capital Market:

The capital market is a segment of the financial market where long-term debt and equity securities are traded. Capital markets provide a platform for raising capital for businesses and governments through the issuance of stocks and bonds. Equity markets facilitate the trading of stocks, representing ownership stakes in companies, while bond markets enable the issuance and trading of debt securities, including government bonds, corporate bonds, and municipal bonds. Capital markets play a critical role in fostering economic growth, investment, and wealth creation.

11.5.3. Derivatives Market:

The derivatives market is a financial market where financial instruments derived from underlying assets are traded. Derivatives include options, futures, forwards, and swaps, which allow investors to hedge risks, speculate on price movements, and leverage their positions. Derivatives markets are characterized by high leverage, liquidity, and volatility, and they play a crucial role in price discovery, risk management, and hedging strategies for investors, corporations, and financial institutions.

11.5.4. Foreign Exchange Market:

The foreign exchange (forex) market is a global decentralized market where currencies are traded, enabling international transactions and investment. Participants in the forex market include central banks, commercial banks, hedge funds, corporations, and retail traders. The forex market operates 24 hours a day, five days a week, across different time zones. Exchange rates in the forex market are determined by supply and demand dynamics, economic fundamentals, and geopolitical factors.

11.5.5. Commodity Market:

The commodity market is a financial market where raw materials, such as agricultural products, energy resources, metals, and precious metals, are traded. Commodity markets enable producers, consumers, and investors to buy and sell commodities to manage price risks, hedge against inflation, and

speculate on price movements. Commodity markets can be divided into spot markets, where physical commodities are traded for immediate delivery, and futures markets, where contracts for future delivery are bought and sold.

11.6. Financial Instruments:

Financial instruments are tradable assets that represent ownership rights, debt obligations, or derivative contracts. These instruments are traded in financial markets and serve various purposes for investors, issuers, and intermediaries. Here's an explanation of common financial instruments:

11.6.1. Stocks (Equities):

Stocks represent ownership shares in a corporation, entitling the holder to dividends and voting rights. Investors buy stocks to participate in the company's profits and capital appreciation. Stocks are traded on stock exchanges or over-the-counter markets, and their prices fluctuate based on company performance, market conditions, and investor sentiment.

11.6.2. Bonds (Fixed-Income Securities):

Bonds are debt securities issued by governments, municipalities, or corporations to raise capital. Bondholders lend money to the issuer in exchange for periodic interest payments and the repayment of the principal at maturity. Bonds have fixed or variable interest rates, varying maturities, and credit ratings indicating the issuer's creditworthiness. Bonds are traded in bond markets, and their prices are influenced by interest rates, credit risk, and market conditions.

11.6.3. Mutual Funds:

Mutual funds are investment vehicles that pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. Mutual funds are managed by professional fund managers, who make investment decisions based on the fund's objectives and strategies. Investors buy shares in mutual funds, which represent proportional ownership of the fund's assets. Mutual funds provide diversification, liquidity, and professional management for individual investors.

11.6.4. Exchange-Traded Funds (ETFs):

Exchange-traded funds (ETFs) are investment funds that trade on stock exchanges, similar to individual stocks. ETFs hold a basket of securities, such as stocks, bonds, commodities, or currencies, and track the performance of an underlying index or benchmark. ETFs offer diversification, flexibility, and low costs compared to mutual funds. Investors can buy and sell ETF shares throughout the trading day at market prices.

11.6.5. Options and Futures Contracts:

Options and futures are derivative contracts that provide investors with the right or obligation to buy or sell underlying assets at predetermined prices and dates in the future. Options give the holder the right, but not the obligation, to buy (call option) or sell (put option) assets at a specified price (strike price) before expiration. Futures contracts obligate the buyer and seller to purchase or sell assets at a specified price and date. Options and futures are used for hedging, speculation, and leverage in financial markets.

These financial instruments play essential roles in investment, risk management, and capital allocation in financial markets.

11.7. Financial Institutions:

Financial institutions are organizations that provide financial services, such as banking, lending, investing, and insurance, to individuals, businesses, and governments. These institutions play a crucial role in intermediating funds between savers and borrowers, facilitating economic activities, and managing financial risks. Here's an explanation of common types of financial institutions:

11.7.1. Commercial Banks:

Commercial banks are financial institutions that accept deposits from customers and provide various banking services, including loans, mortgages, and checking accounts. Banks play a central role in the financial system by providing liquidity, credit, and payment services to individuals, businesses, and governments. Commercial banks are regulated by banking authorities to ensure financial stability and consumer protection.

11.7.2. Investment Banks:

Investment banks are financial institutions that provide advisory, underwriting, and capital-raising services to corporations, institutions, and governments. Investment banks facilitate mergers and acquisitions, initial public offerings (IPOs), debt and equity offerings, and other corporate finance activities. Investment banks also engage in trading, asset management, and securities brokerage services. Investment banks are subject to regulatory oversight to maintain market integrity and investor confidence.

11.7.3. Credit Unions:

Credit unions are member-owned financial cooperatives that provide banking and financial services to their members. Credit unions operate on a not-for-profit basis, with members serving as owners and customers. Credit unions offer savings accounts, loans, mortgages, and other financial products and services to meet the needs of their members. Credit unions are regulated by government agencies to ensure financial soundness and consumer protection.

11.7.4. Insurance Companies

Insurance companies are financial institutions that provide risk management and financial protection against unforeseen events, such as accidents, illnesses, and natural disasters. Insurance companies offer various types of insurance policies, including life insurance, health insurance, property insurance, and casualty insurance. Insurers collect premiums from policyholders and pay out claims when covered events occur. Insurance companies are regulated to ensure solvency, stability, and consumer protection in the insurance industry.

11.7.5. Pension Funds:

Pension funds are investment funds that manage retirement savings and pension assets on behalf of individuals, employees, and retirees. Pension funds invest in a diversified portfolio of stocks, bonds, real estate, and other assets to generate returns and fund future pension obligations. Pension funds provide retirement income and financial security for retirees and beneficiaries. Pension funds are subject to regulatory oversight to safeguard pension assets and ensure long-term sustainability.

These financial institutions play vital roles in mobilizing savings, allocating capital, and managing financial risks in the economy.

11.8. Financial Regulation and Supervision:

Financial regulation and supervision refer to the rules, laws, and oversight mechanisms established by governments and regulatory authorities to ensure the stability, integrity, and efficiency of financial markets and institutions. Financial regulation aims to protect investors, maintain market integrity, and mitigate systemic risks in the financial system. Here's an explanation of key aspects of financial regulation and supervision:

11.8.1. Regulatory Agencies:

Regulatory agencies are government bodies responsible for overseeing and enforcing financial regulations and laws. Examples of regulatory agencies include the Securities and Exchange Commission (SEC) in the United States, the Federal Deposit Insurance Corporation (FDIC), the Financial Industry Regulatory Authority (FINRA), and the European Securities and Markets Authority (ESMA). Regulatory agencies supervise financial markets, enforce compliance with securities laws, and protect investors from fraud and misconduct.

11.8.2. Basel Accords:

The Basel Accords are international banking regulations developed by the Basel Committee on Banking Supervision to strengthen the resilience and

stability of the global banking system. The Basel Accords establish minimum capital requirements, risk management standards, and regulatory frameworks for banks to ensure financial soundness and mitigate systemic risks. The Basel Accords include Basel I, Basel II, and Basel III, with subsequent revisions and updates to address evolving risks and challenges in the banking industry.

11.8.3. Dodd-Frank Act (USA):

The Dodd-Frank Wall Street Reform and Consumer Protection Act is a landmark financial reform legislation enacted in the United States in response to the 2008 financial crisis. The Dodd-Frank Act aims to enhance financial stability, promote transparency, and protect consumers from abusive practices in the financial industry. Key provisions of the Dodd-Frank Act include measures to regulate systemic risk, improve oversight of derivatives markets, enhance consumer protections, and establish the Consumer Financial Protection Bureau (CFPB).

11.8.4. MiFID II (EU):

The Markets in Financial Instruments Directive (MiFID) II is a European Union (EU) regulation that governs the operation of financial markets and the provision of investment services within the EU. MiFID II aims to enhance transparency, investor protection, and market integrity in the EU financial markets. MiFID II introduced new requirements for market transparency, trading venues, investor protection, and product governance, as well as stricter rules for the provision of investment services and the conduct of business by financial firms.

11.8.5. Anti-Money Laundering (AML) Regulations:

Anti-Money Laundering (AML) regulations are measures designed to prevent and combat money laundering, terrorist financing, and other illicit financial activities. AML regulations require financial institutions to implement policies, procedures, and controls to detect, report, and deter suspicious transactions and activities. AML regulations include customer due diligence requirements, transaction monitoring, reporting obligations, and know-your-customer (KYC) procedures. Regulatory authorities enforce AML regulations to safeguard the integrity of the financial system and combat financial crime.

Financial regulation and supervision play a critical role in maintaining market integrity, investor confidence, and financial stability in the global financial system.

11.9. Financial Planning and Management:

Financial planning and management involve the process of setting financial goals, making informed decisions, and implementing strategies to achieve financial objectives effectively. Financial planning helps individuals, businesses,

and organizations manage their finances, optimize resources, and plan for the future. Here's an explanation of key aspects of financial planning and management:

11.9.1. Budgeting and Forecasting:

Budgeting and forecasting involve the process of estimating future income, expenses, and cash flows to develop a financial plan and allocate resources effectively. Budgeting helps individuals and organizations set financial goals, prioritize spending, and monitor performance against targets. Forecasting enables businesses to anticipate changes in market conditions, demand, and revenues, and plan for future investments and expenditures.

11.9.2. Investment Management:

Investment management encompasses the professional management of investment portfolios, including stocks, bonds, mutual funds, and other securities, to achieve financial objectives and maximize returns. Investment managers analyze market trends, conduct research, and make investment decisions based on risk tolerance, investment goals, and market conditions. Investment management services are offered by asset management firms, wealth management advisors, and financial institutions.

11.9.3. Risk Management:

Risk management involves identifying, assessing, and mitigating financial risks to protect assets, investments, and financial goals from adverse events and uncertainties. Risk management strategies include diversification, asset allocation, hedging, insurance, and contingency planning. Risk management helps individuals and organizations manage volatility, minimize losses, and preserve capital in changing market environments.

11.9.4. Tax Planning:

Tax planning involves optimizing tax liabilities and maximizing tax efficiency through strategic planning, deductions, credits, and exemptions. Tax planning strategies aim to minimize tax burdens, maximize after-tax returns, and comply with tax laws and regulations. Tax planning considerations include income taxes, capital gains taxes, estate taxes, and tax-deferred investment vehicles.

11.9.5. Retirement Planning:

Retirement planning involves preparing for financial security and independence during retirement by setting retirement goals, saving and investing for retirement, and developing retirement income strategies. Retirement planning considers factors such as retirement age, life expectancy, retirement lifestyle, healthcare costs, and inflation. Retirement planning tools include retirement

savings accounts, employer-sponsored retirement plans, individual retirement accounts (IRAs), and annuities.

Financial planning and management help individuals and organizations make informed decisions, achieve financial goals, and build wealth over time

11.10. Financial Innovation and Technology:

Financial innovation and technology (fintech) refer to the development and adoption of innovative technologies and digital solutions to improve financial services, enhance efficiency, and transform the financial industry. Fintech innovations disrupt traditional business models, create new opportunities, and empower consumers with innovative financial products and services. Here's an explanation of key trends and developments in financial innovation and technology:

11.10.1. Fintech (Financial Technology):

Fintech encompasses a broad range of technologies, applications, and innovations that leverage digital platforms, data analytics, artificial intelligence, and blockchain technology to revolutionize financial services. Fintech startups and companies develop innovative solutions for payments, lending, wealth management, insurance, and regulatory compliance. Fintech disruptors challenge traditional financial institutions and drive innovation in the financial industry.

11.10.2. Blockchain and Cryptocurrencies:

Blockchain technology is a decentralized digital ledger that records transactions across a distributed network of computers, providing transparency, security, and immutability. Cryptocurrencies are digital or virtual currencies that use blockchain technology to enable secure peer-to-peer transactions without the need for intermediaries. Bitcoin, Ethereum, and other cryptocurrencies are gaining adoption as alternative forms of payment, investment, and store of value.

11.10.3. Artificial Intelligence (AI) in Finance:

Artificial intelligence (AI) and machine learning algorithms are used in finance to analyze data, automate processes, and make intelligent decisions in trading, risk management, credit scoring, and fraud detection. AI-powered chatbots and virtual assistants provide personalized financial advice, customer service, and investment recommendations. AI technologies enhance efficiency, accuracy, and scalability in financial operations and decision-making.

11.10.4. Robo-Advisors:

Robo-advisors are automated investment platforms that use algorithms and software to provide personalized investment advice, asset allocation, and portfolio management services to investors. Robo-advisors offer low-cost, diversified investment portfolios tailored to investors' risk tolerance, financial goals, and time horizon. Robo-advisors democratize access to investment management and appeal to tech-savvy investors seeking automated, hassle-free investment solutions.

11.10.5. Digital Payments and Mobile Banking:

Digital payments and mobile banking technologies enable consumers to conduct financial transactions, payments, and banking activities using digital channels, such as smartphones, tablets, and computers. Mobile payment apps, digital wallets, and peer-to-peer payment platforms facilitate fast, convenient, and secure transactions without physical cash or cards. Digital payments and mobile banking are driving financial inclusion, reducing transaction costs, and expanding access to financial services globally.

Financial innovation and technology revolutionize the way financial services are delivered, consumed, and regulated, shaping the future of the financial industry and transforming the way individuals and businesses manage their finances.

This detailed explanation provides insights into the diverse aspects of financial markets, instruments, institutions, regulation, planning, and technology, highlighting their significance in the global economy and their impact on businesses, investors, and consumers.

Let Us Sum Up

In this unit, you have studied about the followings:

The financial environment of a company refers to all the financial institutions and financial market around the company that affects the working of the company as a whole. The financial environment has several factors. It includes the financial institutions, government, individuals, and firms around the business. Firms use their financial markets to keep their savings as property. It is extremely important for the monetary markets.

Markets represent the financial environment that makes this all possible. Historically, firms were very small or even nonexistent in economies or financial markets. Though a few firms have always been in existence, the ability for many firms was not possible until markets became more mature. Mature markets allow for more access to resources necessary to produce goods and services. As firms begin to grow, expand, and multiply, higher capital needs to persist in order for firms to succeed.

Check your Progress

1. The goods and the services produced, priced and distributed by the government is _____________.
2. Who is responsible for presenting the Union Budget before the Parliament_____________.
3. The taking over of a private firm by the host country government to be run it as a government unit is _____________.
4. The total accumulated value of foreign- owned assets at a given period of time is _____________.
5. The focus on increasing profitability and profit growth by reaping the cost reduction that come from economies of scale is _____________.

Glossary

Currency exchange: where clients can purchase and sell foreign currencybanknotes.

Wire transfer : where clients can send funds to international banks abroad.

Remittance : where clients that are migrant workers send money back to their homecountry.

Asset management: the term usually given to describe companies which run collective investment funds. Also refers to services provided by others, generally registered with the Securities and Exchange Commission as Registered Investment Advisors. Investment banking financial services focus on creating capital through client investments.

Hedge fund management: Hedge funds often employ the services of "prime brokerage" divisions at major investment banks to execute their trades.

Custody services: the safe-keeping and processing of the world's securities trades and servicing the associated portfolios.

Answers for Check your Progress

1. Public Sector
2. Finance Minister of India.
3. Nationalization.
4. Foreign Direct Investment (FDI)
5. Economies of Scale

Suggested reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi
4. Vivek Mittal, Business Environment, Excel Books, New Delhi

Block-5: Introduction

Block-5: Financial and Technical Environment has been divided in to four Units.

Unit-12: Innovation and Technology deals with Definition of Innovation, Types of Innovation, Technology Definition, Types of Technology, Leadership Definition, Types of Leadership, Followership Definition, Types of Followership, Technology Management Components, Technology Forecasting, Managing Innovation and Commercialization.

Unit-13: Capital Market explains about the Role of Stock Exchanges in Capital Market of India, Various Stock Exchanges in India, Securities and Exchange Board of India (SEBI) and the Role or Functions of SEBI.

Unit-14: Foreign Direct Investment presents about the Introduction of FDI, Benefits of Foreign Direct Investment, Negative impact of Foreign Direct Investment, Forms of Foreign Direct Investment, Types of Foreign Direct Investment, Understanding Foreign Institutional Investors, Merits and Demerits in FDI, World Trade Organization (WTO), Principles of the World Trade Organization, Functions of the World Trade Organization, Key subjects in the World Trade Organization, Introduction of Foreign Trade, Distinction between Domestic and International Trade, Foreign Trade Policy, Objectives of The Foreign Trade Policy and Disinvestment.

Unit-15: Technological Environment describes about the Technological Environment and its Meaning, the Factors Affecting Technology in Businesses Environment, Importance of technology in business, Choice of Technology in Business Environment, Selecting appropriate technology in business, Problems and Solutions.

In all the units of Block -5 **Financial and Technical Environment**, the Check your progress, Glossary, Answers to check your progress and Suggested Reading has been provided and the Learners are expected to attempt all the Check your progress as part of study.

Unit-12
Innovation and Technology

STRUCTURE

Overview

Objectives

12.1. Definition of Innovation

12.2. Types of Innovation

12.3. Technology Definition

12.4. Types of Technology

12.5. Leadership Definition

12.6. Types of Leadership

12.7. Followership Definition

12.8. Types of Followership

12.9. Technology Management Components

12.10. Technology Forecasting

12.11. Managing Innovation and Commercialization

Let us sum up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

Innovation and technology have become increasingly important in the modern business environment. Organizations that are able to innovate and leverage new technologies often gain a competitive advantage, as they are better able to meet the needs of customers and adapt to changing market conditions.

In this unit, the Definition and Types of Innovation, Technology, Leadership and Followership, Technology Management Components, Technology Forecasting, Managing Innovation and Commercialization has been clearly explained.

Objectives

After completion of this unit, you will be able to explain and understand the followings:

- Identifying opportunities for innovation: Students should be able to identify potential areas for innovation and develop strategies for creating new products, services, or processes.
- Evaluating innovation options: Students should be able to evaluate different innovation options, such as developing new technologies, improving existing products, or entering new markets, and determine which options are most viable.
- Managing innovation projects: Students should be able to manage innovation projects, including developing project plans, setting timelines, and coordinating with stakeholders.
- Developing innovative solutions: Students should be able to develop innovative solutions to real-world problems, using creative thinking and problem-solving skills.
- Understanding the impact of innovation: Students should be able to understand the potential impact of innovation on society, the environment, and the economy, and evaluate the ethical implications of different innovation options.

12.1. Definition of Innovation

Innovation can be defined as the process of creating new ideas, products, or methods that bring about positive change or improvement. It involves identifying a problem or opportunity and developing a creative solution that adds value to the lives of individuals or organizations. Innovation can take many forms, such as technological advancements, new business models, improved processes, or innovative products and services. It often involves taking risks and challenging the status quo, and can lead to increased efficiency, productivity, and competitiveness. Innovation is a key driver of economic growth and is essential for organizations and individuals to stay relevant and adapt to changing circumstances.

12.2. Types of Innovation

There are several types of innovation, including:

- **Product innovation:** This type of innovation involves creating new or improved products that better meet the needs or desires of customers. Examples of product innovation include the development of the iPhone, electric cars, or plant-based meat substitutes.
- **Process innovation:** This type of innovation involves improving or streamlining internal processes within an organization to increase efficiency, reduce costs, or improve quality. Examples of process

innovation include lean manufacturing techniques, supply chain optimization, or automated customer service chatbots.

- **Service innovation:** This type of innovation involves creating new or improved services that better meet the needs of customers. Examples of service innovation include the rise of ride-sharing services like Uber and Lyft, online banking and investment platforms, or meal delivery services like Blue Apron or HelloFresh.
- **Business model innovation:** This type of innovation involves developing new ways of creating, delivering, or capturing value in a market. Examples of business model innovation include the subscription-based model of companies like Netflix or Spotify, or the sharing economy model of companies like Airbnb.
- **Social innovation:** This type of innovation involves creating new solutions to social or environmental challenges, such as poverty, inequality, or climate change. Examples of social innovation include the development of renewable energy technologies, microfinance programs, or food waste reduction initiatives.
- **Open innovation:** This type of innovation involves collaborating with external partners, such as customers, suppliers, or other organizations, to generate new ideas and develop innovative solutions together. Examples of open innovation include crowdsourcing, joint research and development projects, or strategic partnerships.

Each type of innovation requires different skills, resources, and strategies, and can bring different benefits and challenges to organizations and individuals. Understanding the different types of innovation can help individuals and organizations identify opportunities for growth and development, and implement effective innovation strategies.

12.3. Technology Definition

Technology refers to the tools, techniques, and processes used to create, develop, and improve products, services, and systems. It involves the application of scientific and engineering principles to design and develop new technologies or improve existing ones. Technology can take many forms, including hardware, software, and infrastructure, and can be used in a wide range of industries, such as healthcare, finance, transportation, and manufacturing.

Technology is constantly evolving and has a significant impact on society and the economy. It can help to increase productivity, efficiency, and innovation, and has the potential to solve some of the world's most pressing challenges, such as climate change, healthcare, and poverty. At the same time, technology can also

have negative effects, such as job displacement, privacy concerns, and social isolation.

As technology continues to advance, it is important for individuals and organizations to stay up-to-date and adapt to new developments. This requires ongoing learning and training, as well as the ability to think creatively and critically about how to apply technology in innovative ways.

12.4. Types of Technology

There are many types of technology, including:

- **Information Technology (IT):** This includes hardware and software used to manage, process, store, and transmit digital information. Examples of IT include computers, smartphones, servers, and data centers.
- **Biotechnology:** This includes technologies used in biology and medicine, such as genetic engineering, drug development, and medical devices.
- **Energy technology**: This includes technologies used in energy production, distribution, and consumption, such as solar panels, wind turbines, and electric vehicles.
- **Industrial technology:** This includes technologies used in manufacturing and industry, such as robotics, automation, and 3D printing.
- **Transportation technology:** This includes technologies used in transportation and logistics, such as autonomous vehicles, drones, and GPS tracking systems.
- **Agricultural technology**: This includes technologies used in agriculture and food production, such as precision farming, genetically modified crops, and food processing equipment.
- **Communication technology**: This includes technologies used in communication and media, such as social media platforms, video conferencing, and streaming services.
- **Environmental technology**: This includes technologies used in environmental protection and sustainability, such as water purification systems, waste management, and renewable energy sources.

These are just a few examples of the many types of technology that exist. With rapid advancements in technology, new types of technology are constantly emerging, and existing technologies are being improved and integrated in innovative ways.

12.5. Leadership Definition

Leadership is the ability to inspire, influence, and guide a group of individuals or an organization towards a common goal. It involves the use of a variety of skills and behaviors, such as effective communication, vision setting, strategic thinking, decision-making, and empathy, to motivate and empower others to achieve success.

A leader is someone who not only provides direction and guidance but also leads by example. They demonstrate integrity, honesty, and a strong work ethic, and inspire trust and respect among their team members. A good leader is able to create a positive and productive work environment, where team members feel valued, supported, and encouraged to contribute their best work.

Leadership is not limited to formal positions of authority, such as managers or executives, but can be demonstrated by anyone who takes on a leadership role within their team or community. Effective leadership is essential for the success of any organization, as it helps to drive innovation, build strong relationships, and create a culture of accountability and continuous improvement.

12.6. Types of Leadership

There are various types of leadership styles, including:

- **Autocratic leadership:** This style involves making decisions without consulting others and often relying on the leader's authority and power to implement decisions.
- **Democratic leadership:** This style involves involving team members in the decision-making process and considering their input and feedback before making a final decision.
- **Laissez-faire leadership:** This style involves giving team members a high degree of autonomy and freedom to make decisions and complete tasks on their own.
- **Transformational leadership**: This style involves inspiring and motivating team members to achieve a common goal by providing a clear vision, setting high expectations, and encouraging personal and professional development.
- **Transactional leadership:** This style involves rewarding team members for achieving specific goals or performance targets and using a system of rewards and punishments to motivate and manage behavior.
- **Servant leadership:** This style involves putting the needs of team members first and focusing on supporting their personal and professional growth and development.

- **Charismatic leadership:** This style involves using personality and charm to inspire and motivate team members to achieve a common goal.

Each leadership style has its own advantages and disadvantages and may be more or less effective depending on the situation and the personalities involved. Effective leaders are often able to adapt their leadership style to different situations and contexts in order to achieve the best results.

12.7. Followership Definition

Followership refers to the willingness and ability of individuals to follow the direction and leadership of others, usually within an organizational or group context. It involves supporting the vision, goals, and values of the leader or organization, and working collaboratively with others to achieve shared objectives.

Effective followership involves actively engaging with the leader and other team members, providing constructive feedback, and taking personal responsibility for contributing to the success of the team or organization. It also involves demonstrating a high level of commitment, loyalty, and trust in the leader and the organization.

Followership is an important aspect of effective leadership, as it enables leaders to achieve their goals and objectives by leveraging the strengths and abilities of their team members. By creating a culture of trust, respect, and collaboration, leaders can inspire and motivate their followers to achieve their full potential and contribute to the success of the organization.

12.8. Types of Followership

There are several types of followership, including:

- **Conformist:** These followers tend to conform to the expectations of their leader and the group without questioning or challenging them.
- **Passive:** These followers tend to be passive and uninvolved, often waiting for others to take the lead and make decisions.
- **Alienated:** These followers tend to feel disconnected or disengaged from the group or leader, often due to a lack of trust or respect.
- **Pragmatic:** These followers tend to be practical and focused on achieving specific goals, often using their own judgment and initiative to contribute to the success of the team or organization.
- **Exemplary:** These followers set a positive example for others to follow, often demonstrating high levels of commitment, enthusiasm, and dedication to the group or leader.

- **Independent:** These followers tend to be independent and self-motivated, often pursuing their own goals and objectives while still contributing to the success of the team or organization.

Effective followership involves understanding the strengths and weaknesses of each type of follower and leveraging them to achieve shared goals and objectives. Leaders can use different strategies to motivate and engage different types of followers, such as providing clear expectations, demonstrating trust and respect, and encouraging open communication and feedback.

12.9. Technology Management Components

Technology management involves the strategic planning, development, implementation, and utilization of technology to achieve business objectives. The components of technology management include:

- **Technology strategy:** The development and implementation of a technology strategy that aligns with the business strategy and goals of the organization. This involves identifying the technology needed to support the organization's objectives, evaluating the risks and opportunities associated with various technology options, and developing a plan to implement the technology strategy.
- **Technology assessment and selection:** The evaluation and selection of technology solutions that meet the organization's requirements. This involves assessing the capabilities, features, and functionality of technology solutions, as well as evaluating their cost-effectiveness, scalability, and compatibility with existing systems.
- **Technology development and innovation:** The creation of new technology solutions or the improvement of existing ones to enhance organizational performance. This involves developing new products, services, or processes that leverage emerging technologies or improve existing ones to increase efficiency, reduce costs, or improve customer satisfaction.
- **Technology implementation and integration:** The successful deployment of technology solutions in the organization. This involves integrating new technology solutions with existing systems, ensuring that they are secure, reliable, and scalable, and providing training and support to users.
- **Technology operations and maintenance:** The ongoing management and maintenance of technology solutions to ensure they continue to meet the organization's requirements. This involves monitoring performance,

resolving issues, and implementing upgrades or enhancements as necessary to maintain the effectiveness of technology solutions.

- **Technology governance and risk management:** The establishment of policies and procedures to ensure that technology solutions are used appropriately and securely. This involves managing risks associated with technology use, including cybersecurity risks, ensuring compliance with regulatory requirements, and managing vendor relationships.

Overall, effective technology management requires a coordinated approach that involves collaboration between business and technology leaders, as well as ongoing evaluation and improvement of technology solutions to ensure they continue to meet the organization's changing needs.

12.10. Technology Forecasting

Technology forecasting is the process of predicting the future development and application of technology. It involves using various analytical techniques to assess the potential impact of emerging technologies on society, business, and the environment. The purpose of technology forecasting is to help organizations plan and prepare for the future by identifying new opportunities, anticipating changes in the competitive landscape, and developing strategies to stay ahead of the curve.

Some of the methods used in technology forecasting include:

- Trend analysis: Examining historical data and trends to identify patterns and extrapolate future developments.
- Expert opinions: Consulting with experts in the field to gain insights into emerging technologies and their potential impact.
- Scenario planning: Developing multiple scenarios based on different assumptions and analyzing the potential outcomes of each scenario.
- Delphi method: A structured approach that involves a series of questionnaires and rounds of feedback from a panel of experts.
- Market research: Conducting surveys and analyzing market data to identify emerging trends and customer needs.
- Patent analysis: Analyzing patent filings and trends to identify emerging technologies and potential areas of innovation.

The output of technology forecasting can be used to inform strategic planning and decision-making, as well as to identify new business opportunities and potential risks. It can also help organizations stay ahead of the competition by identifying emerging trends and technologies before they become widely adopted. However, it is important to note that technology forecasting is not an exact science and that

the future is inherently uncertain. As such, it is important to use multiple methods and to regularly update forecasts as new information becomes available.

12.11. Managing Innovation and Commercialization

Managing innovation and commercialization involves developing and bringing new products, services, and technologies to market. The process typically involves the following steps:

- Ideation: Generating and evaluating ideas for new products, services, and technologies.
- Concept development: Refining and testing ideas to determine their feasibility and potential market value.
- Prototype development: Creating and testing prototypes to refine the product or service and identify any technical or design issues.
- Product development: Developing a final product or service, including manufacturing processes, supply chain management, and quality control.
- Market testing: Conducting market research and testing to assess customer demand and refine the product or service based on feedback.
- Commercialization: Launching the product or service, including marketing and sales activities, distribution channels, and customer support.
- Effective management of innovation and commercialization requires a structured and collaborative approach that involves cross-functional teams working together to bring new products and services to market. Some key strategies for managing innovation and commercialization include:
- Establishing a culture of innovation: Encouraging creativity and risk-taking among employees and creating an environment that supports innovation.
- Building strategic partnerships: Collaborating with external partners, including suppliers, customers, and other stakeholders, to bring new products and services to market.
- Fostering cross-functional collaboration: Bringing together teams from different departments and areas of expertise to work on new product development and commercialization.
- Using agile methodologies: Adopting agile development methodologies that allow for rapid prototyping and testing, as well as flexible project management.

- Ensuring effective intellectual property management: Protecting intellectual property through patents, trademarks, and other legal means to ensure that the organization can capitalize on its innovations.
- Monitoring and measuring success: Establishing key performance indicators (KPIs) to track the success of innovation and commercialization efforts and using data and analytics to make informed decisions.

Let us Sum up

In this unit, you have learned about the followings:

Overall, managing innovation and commercialization is a complex and multifaceted process that requires a strategic and collaborative approach, as well as the ability to adapt to changing market conditions and customer needs.

Check Your Progress

1. ____________have become increasingly important in the modern business environment.
2. Organizations that are able to innovate and leverage ______________ often gain a competitive advantage, as they are better able to meet the needs of customers and adapt to changing market conditions.
3. Companies can use innovation to develop____________, or improve existing ones.
4. __________can also be used to improve business processes, such as production, supply chain management, or customer service.
5. __________ that are able to adopt and leverage new technologies, such as artificial intelligence, machine learning, or blockchain, can gain a competitive advantage by improving operational efficiency, reducing errors, and increasing customer satisfaction.

Glossary

Innovation: The process of creating new or improved products, services, or processes that provide value to customers or stakeholders.

Technology: The tools, techniques, and systems used to create, design, and produce goods and services.

Digital transformation: The process of using digital technologies to fundamentally transform the way a business operates, such as adopting new business models, changing organizational structures, or investing in new technology infrastructure.

Disruption: A radical change in an industry or market caused by the introduction of a new product, service, or technology.

Agile: A project management approach that emphasizes flexibility and adaptability, often used in software development and other fast-paced environments.

Answers to Check your Progress

1. Innovation And Technology
2. New Technologies
3. New Products and Services
4. Innovation
5. Companies

Suggested reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-13
Capital Market

STRUCTURE

Overview
Objectives
13.1. Capital Market-Introduction
13.2. Role of Stock Exchanges in Capital Market of India
13.3. Various Stock Exchanges in India
13.4. Securities and Exchange Board of India (SEBI)
13.5. Role or Functions of SEBI
Let us sum up
Check your progress
Glossary
Answer to check your progress
Suggested Reading

Overview

The capital market is a financial market where companies, governments, and other organizations can raise funds through the sale of securities. Securities are financial instruments that represent ownership in a company or the right to receive payment from a company or government. Capital markets facilitate the transfer of funds from savers to investors who need capital to finance their operations or projects. These markets are made up of two main types of securities: debt securities and equity securities.

Role of Stock Exchanges in Capital Market of India, Various Stock Exchanges in India, Securities and Exchange Board of India (SEBI) and the Role or Functions of SEBI has been clearly explained.

Objectives

After completion of this Unit, you will be able to know about the followings:

- Understanding the types of securities
- Analyzing financial statements and Evaluating risk and return
- Understanding market trends and Role of intermediaries
- Regulation and compliance and Ethics and social responsibility

13.1. Capital Market-Introduction

Capital markets are financial markets for the buying and selling of long-term debt or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments. Capital markets are defined as markets in which money is provided for periods longer than a year.

A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments tend to issue only bonds, whereas companies often issue either equity or bonds.

The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere.

The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

13.2. Role of Stock Exchanges in Capital Market of India

Stock exchanges play a crucial role in the capital market of India by providing a platform for companies to raise funds from investors and enabling investors to buy and sell securities. The primary stock exchanges in India are the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE).

Some of the roles played by stock exchanges in the capital market of India are:

- **Providing a platform for companies to raise funds:** Companies can issue securities such as stocks and bonds on the stock exchange and raise capital from investors. This helps companies to expand their operations and invest in new projects.
- **Facilitating trading of securities:** Stock exchanges provide a marketplace where investors can buy and sell securities, such as stocks, bonds, and derivatives. This enables investors to participate in the capital market and earn returns on their investments.
- **Maintaining transparency:** Stock exchanges operate as regulated entities and maintain transparency in trading activities. They ensure that

companies comply with disclosure requirements, and investors have access to relevant information to make informed investment decisions.

- **Providing liquidity:** Stock exchanges provide liquidity to investors, which means they can buy and sell securities easily and quickly. This helps investors to exit investments when needed and reduces the risk associated with investing in illiquid assets.
- **Setting benchmark prices:** The stock exchange sets benchmark prices for securities traded on the platform, which provides investors with a reference point for valuing their investments.

Overall, the stock exchanges play a critical role in the capital market of India by providing a platform for companies to raise funds and enabling investors to invest in the market and earn returns on their investments.

13.3. Various Stock Exchanges in India

India has several stock exchanges, but the two main stock exchanges are:

- **National Stock Exchange of India (NSE):** The NSE is the largest stock exchange in India in terms of market capitalization and trades both equities and derivatives. It was established in 1992 and is located in Mumbai.
- **Bombay Stock Exchange (BSE):** The BSE is the oldest stock exchange in Asia and was established in 1875. It trades equities, debt instruments, and derivatives.

Apart from these two main stock exchanges, there are a few other stock exchanges operating in India, which include:

- **Calcutta Stock Exchange (CSE):** The CSE was established in 1908 and is located in Kolkata. It primarily trades equities and has a regional focus.
- **Multi Commodity Exchange (MCX):** The MCX is India's largest commodity derivatives exchange, established in 2003 and located in Mumbai.
- **National Commodity and Derivatives Exchange (NCDEX):** The NCDEX is a national level commodity derivatives exchange established in 2003 and located in Mumbai.
- **Metropolitan Stock Exchange of India (MSE):** The MSE was established in 2008 and is located in Mumbai. It primarily trades equities and has a small market share.

- **India International Exchange (INX):** The INX is India's first international stock exchange located in Gujarat International Finance Tec-City (GIFT City) and primarily deals in international financial products.

It is worth noting that the NSE and the BSE account for the majority of stock trading volume in India, and the other exchanges have a relatively small market share.

13.4. Securities and Exchange Board of India (SEBI)

Securities and Exchange Board of India (SEBI) is an apex body for overall development and regulation of the securities market. It was set up on April 12, 1988. To start with, SEBI was set up as a non-statutory body. Later on, it became a statutory body under the Securities Exchange Board of India Act, 1992. The Act entrusted SEBI with comprehensive powers over practically all the aspects of capital market operations.

13.5. Role or Functions of SEBI

SEBI (Securities and Exchange Board of India) is the regulatory body that oversees and regulates the securities market in India. Its primary role is to protect the interests of investors and promote the development of the securities market in India. Some of the key functions of SEBI are:

- Regulating the securities market: SEBI regulates the securities market by issuing rules and regulations for companies, stock exchanges, and intermediaries involved in trading securities.
- Protecting the interests of investors: SEBI takes measures to protect the interests of investors by ensuring that the market is fair, transparent, and free from fraudulent activities.
- Promoting fair practices: SEBI promotes fair practices in the securities market by taking action against fraudulent activities, insider trading, and other unethical practices.
- Developing the securities market: SEBI promotes the development of the securities market by encouraging the listing of companies on stock exchanges, introducing new financial instruments, and enhancing the liquidity of the market.
- Educating investors: SEBI educates investors about the securities market, its risks, and rewards, and how to make informed investment decisions.

- Monitoring and enforcing compliance: SEBI monitors compliance with its regulations and takes enforcement action against those who violate the rules.

Let us Sum up

In this unit you have learned about the following:

Overall, SEBI plays a vital role in ensuring the growth and development of the securities market in India while protecting the interests of investors.

Check your Progress

1. The _____________ is a market where long-term securities such as stocks and bonds are traded.
2. The ______________ index is a measure of the performance of a stock market index.
3. The rate_____________ is the interest rate at which banks lend to each other overnight.
4. A_______ is a financial instrument that represents ownership in a corporation.
5. The __________________ is a regulatory body that oversees the securities industry in the United States.

Glossary

Stock: A financial instrument that represents ownership in a corporation.

Bond: A financial instrument that represents a loan made by an investor to a borrower (usually a government or corporation) for a specified period of time at a fixed or variable interest rate.

Capital market: A market where long-term securities such as stocks and bonds are traded.

IPO (Initial Public Offering): The first sale of a company's stock to the public.

Securities: Financial instruments that are traded on the capital market, such as stocks, bonds, and options.

Answers to Check your Progress

1. Capital Market
2. Stock Market
3. Federal Funds
4. Stock
5. Securities And Exchange Commission (Sec)

Suggested Readings

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-14

Foreign Direct Investment

STRUCTURE

Overview

Objectives

14.1. Introduction of FDI

14.2. Benefits of Foreign Direct Investment

14.3. Negative impact of Foreign Direct Investment

14.4. Forms of Foreign Direct Investment

14.5. Types of Foreign Direct Investment

14.6. Understanding Foreign Institutional Investors

14.7. Merits and Demerits in FDI

14.8. World Trade Organization (WTO)

14.9. Principles of the World Trade Organization

14.10. Functions of the World Trade Organization

14.11. Key subjects in the World Trade Organization

14.12. Introduction of Foreign Trade

14.13. Distinction between Domestic and International Trade

14.14. Foreign Trade Policy

14.15. Objectives of the Foreign Trade Policy

14.16. Disinvestment

Let Us Sum Up

Check your progress

Glossary

Answer to check your progress

Suggested Reading

Overview

Foreign Direct Investment (FDI) refers to an investment made by a company or individual in one country into a business located in another country. FDI is a crucial component of globalization and the growth of international business. FDI can take many forms, including establishing a new business, acquiring an existing business, or forming a joint venture with a foreign company.

FDI can bring numerous benefits to the host country, such as job creation, technology transfer, access to capital, and the expansion of the domestic market. However, FDI can also have drawbacks, such as the potential for

exploitation of labour or resources, increased inequality, and the loss of domestic control over key industries.

In this unit, the concept of Foreign Direct Investment has been clearly explained.

Objectives

After completion of this unit, you will be to know about the followings:

- Understanding the concept of foreign direct investment and its significance in the global economy.
- Identifying the different types of FDI and their characteristics, such as horizontal FDI, vertical FDI, and conglomerate FDI.
- Analyzing the benefits and drawbacks of FDI for host countries, including the potential impact on economic growth, employment, technology transfer, and the balance of payments.
- Evaluating the role of government policies in attracting and regulating FDI, such as investment promotion agencies, tax incentives, and investment screening mechanisms.

14.1. Introduction of FDI

FDI, or Foreign Direct Investment, refers to an investment made by a company or individual from one country into a business located in another country. In other words, FDI is a form of cross-border investment where a company or individual invests in a foreign business enterprise, either by acquiring a controlling interest in an existing business or by establishing a new business operation in the foreign country.

FDI is an important source of external finance for many countries and can bring numerous benefits, including increased economic growth, job creation, transfer of technology and know-how, and access to new markets. It can also help to diversify the economy, promote competition, and enhance productivity.

Governments often encourage FDI by offering incentives such as tax breaks, grants, or subsidies, as they believe that FDI can contribute to their country's economic development. However, FDI can also present challenges such as the potential for exploitation by foreign investors, loss of control over strategic assets, and negative effects on local industries and communities.

Overall, FDI plays an important role in the global economy and can bring significant benefits to both investors and host countries, but it also requires careful consideration and management to ensure that it contributes to sustainable economic growth and development.

14.2. Benefits of Foreign Direct Investment

Foreign Direct Investment (FDI) can bring many benefits to both the investor and the host country. Some of the key benefits of FDI are:

- **Increased economic growth:** FDI can boost economic growth by increasing investment, creating jobs, and contributing to the development of new industries and businesses.
- **Transfer of technology and know-how:** FDI can bring new technologies, knowledge, and management practices to the host country, which can improve the productivity and competitiveness of local firms and industries.
- **Access to new markets:** FDI can provide companies with access to new markets, customers, and suppliers, which can help them expand their business and increase their profitability.
- **Diversification of the economy:** FDI can help to diversify the economy by introducing new industries and products, which can reduce the country's dependence on a single sector or product.
- **Improved infrastructure:** FDI can also lead to improvements in infrastructure, such as roads, ports, and telecommunications, which can benefit the host country and its citizens.
- **Job creation:** FDI can create new jobs and reduce unemployment in the host country, which can have a positive impact on the local economy and society.
- **Increased tax revenues:** FDI can generate tax revenues for the host country, which can be used to finance public services and infrastructure.

Overall, FDI can bring significant benefits to both the investor and the host country, but it requires careful management and regulation to ensure that it contributes to sustainable economic growth and development.

14.3. Negative impact of Foreign Direct Investment

While Foreign Direct Investment (FDI) can bring many benefits to the host country, there can also be negative impacts that need to be carefully considered and managed. Some of the potential negative impacts of FDI are:

- **Exploitation of labour:** Foreign investors may sometimes exploit labour in the host country by paying low wages, imposing long working hours, and neglecting safety and health standards.

- **Environmental damage:** FDI can sometimes lead to environmental damage, such as pollution, deforestation, and depletion of natural resources.
- **Negative effects on local businesses:** FDI can sometimes harm local businesses by creating unfair competition, crowding out local firms, and reducing the bargaining power of local suppliers.
- **Loss of control over strategic assets:** FDI can also lead to the loss of control over strategic assets, such as natural resources, infrastructure, and key industries.
- **Economic volatility:** FDI can sometimes lead to economic volatility, as foreign investors may withdraw their investment during times of economic uncertainty or political instability.
- **Dependence on foreign capital:** FDI can also create a dependence on foreign capital, which can leave the host country vulnerable to external economic shocks and fluctuations.

Overall, while FDI can bring significant benefits to the host country, there can also be potential negative impacts that need to be carefully considered and managed. Host countries need to ensure that FDI is regulated in a way that maximizes its benefits while minimizing its negative impacts on society and the environment.

14.4. Forms of Foreign Direct Investment

Foreign Direct Investment (FDI) can take different forms, depending on the degree of ownership and control that the foreign investor has over the local business. Some of the common forms of FDI are:

- **Greenfield investment:** This refers to when a foreign investor establishes a new business operation in the host country, either by building new facilities or acquiring land and constructing new buildings. Greenfield investment provides the investor with greater control over the business and allows them to customize the operation to suit their needs.
- **Merger and acquisition (M&A):** This refers to when a foreign investor acquires an existing local business by purchasing the majority or all of its shares. M&A provides the investor with immediate access to an established market and customer base, but it may also involve greater risks and uncertainties, such as cultural differences and resistance from employees.
- **Joint venture (JV):** This refers to when a foreign investor partners with a local business to establish a new business entity, with both parties sharing ownership, control, and profits. JV can provide the investor with

access to local knowledge and expertise, as well as a greater understanding of the local market and business environment.

- **Cross-border investment:** This refers to when a foreign investor makes an investment in a local business that operates in a different country. Cross-border investment allows the investor to diversify their portfolio and gain exposure to different markets and industries.

Overall, the choice of FDI form depends on the investor's strategic goals, the nature of the business, and the local market and regulatory environment. Each form of FDI has its own advantages and disadvantages, and investors need to carefully assess the risks and opportunities before making an investment decision.

14.5. Types of Foreign Direct Investment

Foreign Direct Investment (FDI) can be classified into different types based on the motive and direction of the investment. The main types of FDI are:

- **Horizontal FDI:** This refers to when a company invests in the same industry or business activity in a foreign country as it does in its home country. The objective of horizontal FDI is to expand the company's market reach, diversify its customer base, and gain economies of scale.
- **Vertical FDI:** This refers to when a company invests in a different stage of the production process in a foreign country, either upstream or downstream. Upstream FDI involves investing in suppliers, while downstream FDI involves investing in distributors or retailers. The objective of vertical FDI is to gain greater control over the production process, reduce costs, and improve efficiency.
- **Conglomerate FDI:** This refers to when a company invests in a different industry or business activity in a foreign country than it does in its home country. The objective of conglomerate FDI is to diversify the company's portfolio, reduce risk, and take advantage of new business opportunities.
- **Platform FDI:** This refers to when a company establishes a subsidiary in a foreign country that serves as a platform for exporting goods or services to other countries. The objective of platform FDI is to take advantage of favourable trade policies, access new markets, and reduce transportation costs.
- **Resource-seeking FDI:** This refers to when a company invests in a foreign country to gain access to natural resources, such as minerals, oil, and gas. The objective of resource-seeking FDI is to secure a reliable and affordable supply of raw materials, reduce production costs, and increase competitiveness.

Overall, the type of FDI that a company chooses to pursue depends on its strategic goals, market opportunities, and competitive environment. By selecting the right type of FDI, companies can leverage their strengths and resources to create value and achieve sustainable growth.

14.6. Understanding Foreign Institutional Investors

Foreign Institutional Investors (FIIs) are institutional investors who invest in the financial markets of a country other than their own. FIIs can be mutual funds, hedge funds, pension funds, endowments, insurance companies, banks, and other similar entities.

FIIs primarily invest in the equity and debt markets of a country, with the goal of achieving higher returns than they would in their own country. They may also invest in other financial instruments like exchange-traded funds, real estate, and commodities.

FIIs have become increasingly important in global financial markets as they bring significant amounts of capital into the countries they invest in. This capital can provide a boost to the local economy and help fund the development of new projects and businesses.

FIIs are subject to regulations and restrictions in the countries they invest in. These regulations may include restrictions on the amount of ownership that FIIs can have in a company, as well as rules around the repatriation of profits and capital.

FIIs are a key driver of global financial markets, and understanding their behavior and investment strategies is important for anyone interested in investing in the global economy.

Why do Foreign Institutional Investors invest in other countries?

Foreign Institutional Investors (FIIs) invest in other countries for several reasons, including:

Diversification: Investing in other countries provides FIIs with a way to diversify their portfolios and reduce their exposure to risks that are specific to their home country's economy. By spreading their investments across different geographies, FIIs can reduce the impact of any negative events that may affect a particular market or sector.

Higher returns: Investing in other countries can provide FIIs with access to higher returns than they can achieve in their home country. Emerging markets, for example, may offer higher growth rates and returns than more mature markets.

Access to new markets: Investing in other countries can give FIIs access to new markets and investment opportunities that may not be available in their home country. This can help them to diversify their portfolios further and take advantage of growth opportunities in different sectors.

Currency diversification: Investing in other countries can also provide FIIs with exposure to different currencies, which can help to diversify their portfolios and reduce their currency risk.

Regulatory advantages: Some countries may offer regulatory advantages or tax incentives that make investing in their markets more attractive to FIIs. For example, some countries may offer lower tax rates on capital gains or dividends, or provide exemptions from certain regulatory requirements.

Overall, investing in other countries allows FIIs to diversify their portfolios, access new investment opportunities, and potentially achieve higher returns than they can in their home country. However, it is important to note that investing in foreign markets also comes with additional risks, such as currency risk, political risk, and regulatory risk.

14.7. Merits and Demerits in FDI

Foreign Direct Investment (FDI) refers to the investment made by a foreign company or individual in a company or project located in another country. Like any other form of investment, FDI has both merits and demerits.

Merits of FDI:

- **Capital Inflow**: FDI brings in much-needed capital for economic development, especially in developing countries where domestic capital is limited. This capital can help to finance new projects, expand existing businesses, and create new jobs.
- **Technology Transfer:** FDI can also bring in new technologies, skills, and management practices that may not be available domestically. This can help to boost productivity, improve product quality, and enhance the competitiveness of local firms.
- **Employment Generation:** FDI can create new job opportunities, particularly in sectors such as manufacturing, construction, and services. This can help to reduce unemployment and poverty in the host country.
- **Export Promotion:** FDI can help to promote exports, as foreign investors may bring in new markets and distribution networks, as well as expertise in marketing and branding.

- **Infrastructure Development:** FDI can also help to improve infrastructure in the host country, as foreign investors may invest in projects such as roads, airports, and power plants.

Demerits of FDI:

- **Economic Dependence:** FDI can create economic dependence on foreign investors, particularly if they dominate key sectors of the economy. This can make the host country vulnerable to external shocks and changes in investor sentiment.
- **Capital Flight:** FDI can also lead to capital flight if investors withdraw their investments due to changes in market conditions, political instability, or changes in government policy. This can have a negative impact on the host country's economy.
- **Exploitation:** FDI can sometimes be associated with exploitation, particularly in the case of multinational corporations that may pay low wages, violate labour rights, or harm the environment.
- **Exchange Rate Fluctuations:** FDI can also be affected by exchange rate fluctuations, as changes in the exchange rate can affect the profitability of foreign investors.
- **Competition:** FDI can create competition for domestic firms, particularly if foreign investors have access to better technology, marketing, or distribution networks. This can lead to the displacement of domestic firms and a loss of market share.

In summary, FDI can bring significant benefits to the host country in terms of capital inflow, technology transfer, employment generation, and infrastructure development. However, it also comes with some risks and challenges, including economic dependence, capital flight, exploitation, exchange rate fluctuations, and competition with domestic firms.

14.8. World Trade Organization (WTO)

The World Trade Organization (WTO) is an intergovernmental organization that was established on January 1, 1995, to promote free trade and economic cooperation among its member countries. The organization is based in Geneva, Switzerland, and currently has 164 member countries.

The WTO serves as a forum for negotiating and implementing trade agreements, resolving disputes between member countries, and monitoring national trade policies. The organization operates on the principle of non-discrimination, meaning that member countries must treat other members equally in terms of trade.

The primary function of the WTO is to administer trade agreements negotiated among member countries. These agreements cover a range of topics, including tariffs, intellectual property, services, and investment. The WTO also provides technical assistance and training to member countries to help them implement these agreements.

The WTO has a dispute settlement system that allows member countries to resolve disputes over alleged violations of trade agreements.

The system involves a panel of experts who hear the arguments of both sides and make a recommendation for resolving the dispute. If a member country does not comply with the recommendation, the WTO can authorize sanctions against the offending country.

The WTO has been criticized by some for being dominated by developed countries and for prioritizing the interests of multinational corporations over the interests of developing countries.

However, the WTO has also been credited with helping to reduce trade barriers and promote economic growth and development in many countries.

Overall, the WTO plays a key role in promoting international trade and resolving disputes between member countries, and its work is essential for maintaining a stable and predictable global trading system.

14.9. Principles of the World Trade Organization

The World Trade Organization (WTO) operates on a set of principles that guide its work in promoting free trade and economic cooperation among its member countries. These principles include:

- **Non-Discrimination:** The WTO operates on the principle of non-discrimination, which means that member countries must treat other members equally in terms of trade. This is embodied in two main agreements: the Most-Favoured-Nation (MFN) principle, which requires that each member country must treat all other members equally, and the National Treatment principle, which requires that imported goods be treated the same as domestic goods.
- **Free Trade:** The WTO promotes the free flow of goods, services, and capital across borders. This is achieved by reducing or eliminating trade barriers such as tariffs, quotas, and other restrictions on trade.
- **Predictability:** The WTO seeks to create a stable and predictable trading environment by providing a framework of rules and procedures for international trade. This helps to reduce uncertainty and risks for businesses engaging in international trade.

- **Promoting Fair Competition:** The WTO seeks to promote fair competition among member countries by preventing anti-competitive practices such as dumping, subsidies, and monopolies.
- **Encouraging Development and Economic Reform:** The WTO recognizes the need for developing countries to participate in international trade and provides technical assistance and training to help them build capacity and develop their economies. The WTO also encourages members to undertake economic reforms to improve their competitiveness and promote economic growth.
- **Transparency:** The WTO requires member countries to provide information on their trade policies and practices, and to notify other members of any changes in their policies. This helps to ensure that trade policies are transparent and predictable.

Overall, these principles guide the work of the WTO in promoting free trade and economic cooperation among its member countries, while also ensuring that trade is fair and transparent.

14.10. Functions of the World Trade Organization

The World Trade Organization (WTO) has several functions that are designed to promote free trade and economic cooperation among its member countries. These functions include:

- **Administering trade agreements:** The WTO administers a range of trade agreements negotiated among member countries. These agreements cover topics such as tariffs, non-tariff barriers, intellectual property, services, and investment.
- **Providing a forum for trade negotiations:** The WTO provides a forum for member countries to negotiate new trade agreements and to update and modify existing agreements.
- **Monitoring national trade policies:** The WTO monitors the trade policies of member countries to ensure that they are in compliance with WTO rules and principles. The organization conducts regular reviews of member countries' trade policies and practices, and provides technical assistance to help them comply with WTO rules.
- **Providing technical assistance and training:** The WTO provides technical assistance and training to member countries to help them build capacity and develop their economies. This assistance includes support for trade-related infrastructure, institutional capacity building, and policy development.

- **Resolving trade disputes:** The WTO has a dispute settlement system that allows member countries to resolve disputes over alleged violations of trade agreements. The system involves a panel of experts who hear the arguments of both sides and make a recommendation for resolving the dispute. If a member country does not comply with the recommendation, the WTO can authorize sanctions against the offending country.
- **Cooperating with other international organizations:** The WTO works closely with other international organizations, including the International Monetary Fund (IMF) and the World Bank, to promote economic development and to ensure that trade policies are coordinated with other economic policies.

Overall, the WTO plays a critical role in promoting free trade and economic cooperation among its member countries, while also ensuring that trade is fair and transparent. Its functions are essential for maintaining a stable and predictable global trading system.

14.11. Key subjects in the World Trade Organization

The World Trade Organization (WTO) covers a wide range of subjects related to international trade. Some of the key subjects that the WTO addresses include:

- **Tariffs:** The WTO seeks to reduce or eliminate tariffs on goods traded between member countries. Tariffs are taxes that countries impose on imported goods, and reducing or eliminating them can make trade more affordable and efficient.
- **Non-tariff barriers:** In addition to tariffs, countries also use other measures to restrict trade, such as quotas, licensing requirements, and technical regulations. The WTO seeks to reduce or eliminate these non-tariff barriers to trade.
- **Agriculture**: Agriculture is an important sector of the global economy, and the WTO addresses issues related to trade in agricultural products, including subsidies, tariffs, and non-tariff barriers.
- **Services:** The WTO also covers trade in services, such as banking, telecommunications, and transportation. The organization seeks to promote greater liberalization of trade in services and to ensure that services are traded fairly and transparently.
- **Intellectual Property:** The WTO has agreements related to intellectual property, including patents, trademarks, and copyrights. These

agreements seek to protect intellectual property rights and to ensure that trade in intellectual property is conducted fairly and transparently.

- **Trade-related Investment Measures (TRIMs):** TRIMs are measures that countries use to regulate foreign investment. The WTO seeks to ensure that TRIMs do not restrict trade or discriminate against foreign investors.
- **Trade-related aspects of environmental measures:** The WTO recognizes the importance of protecting the environment and addresses trade-related aspects of environmental measures. This includes issues such as the use of trade measures to enforce environmental standards, and the relationship between trade and sustainable development.

These are just a few of the key subjects that the WTO addresses. The organization also covers a range of other topics related to international trade, including trade in textiles and clothing, trade in information technology products, and trade in services.

14.12. Introduction of Foreign Trade

Foreign trade, also known as international trade, refers to the exchange of goods and services across national borders. Countries engage in foreign trade to take advantage of their comparative advantages, which means they specialize in producing goods and services that they can produce more efficiently than other countries. By specializing in these goods and services, they can produce more and at a lower cost, which makes them more competitive in the global market.

Foreign trade can take place in several ways, including:

Exporting: Exporting involves selling goods and services produced in one country to buyers in another country. Companies that export can increase their sales and profits by reaching a larger customer base.

Importing: Importing involves buying goods and services produced in another country and bringing them into one's own country. Importing can allow countries to access goods and services that they cannot produce themselves or that they can produce at a higher cost.

Foreign direct investment (FDI): FDI involves investing in and operating a business in another country. FDI can give companies access to new markets, resources, and technologies.

Foreign trade is important for economic growth and development, as it allows countries to expand their markets, access new resources, and specialize in the production of goods and services that they are best suited to produce. However, foreign trade can also create challenges, such as the risk of trade imbalances,

protectionism, and the loss of domestic jobs in certain industries. Therefore, countries must carefully balance the benefits and risks of engaging in foreign trade.

14.13. Distinction between Domestic and International Trade

Domestic trade and international trade are two distinct types of trade that involve the exchange of goods and services. The main differences between domestic and international trade are as follows:

- **Geography:** The primary difference between domestic and international trade is their geographic scope. Domestic trade involves the exchange of goods and services within the borders of a single country, while international trade involves the exchange of goods and services between different countries.
- **Regulations:** Domestic trade is governed by the laws and regulations of a single country, while international trade is subject to a complex web of international trade agreements, customs regulations, tariffs, and other trade barriers.
- **Currency:** In domestic trade, transactions are typically conducted in the local currency. In international trade, transactions may involve multiple currencies, and currency exchange rates can have a significant impact on the profitability of international trade.
- **Transport and Logistics:** Domestic trade often involves shorter distances, and transportation and logistics are usually simpler and less expensive than in international trade. International trade requires more complex transportation and logistics arrangements, such as shipping, customs clearance, and insurance.
- **Cultural Differences:** International trade also involves navigating cultural differences between countries, such as language, business practices, and customs.
- **Competition:** In domestic trade, companies generally compete with other domestic companies. In international trade, companies face competition from companies in other countries, which can be more difficult to predict and navigate.

Overall, while both domestic and international trade involve the exchange of goods and services, they differ in their geographic scope, regulations, currency, transport and logistics, cultural differences, and competition. Understanding these differences is important for businesses that are looking to expand into international markets or to engage in cross-border trade.

14.14. Foreign Trade Policy

Foreign trade policy refers to the set of rules, regulations, and measures that a country adopts to govern its international trade relations. The main objective of foreign trade policy is to promote exports and economic growth, while also protecting the domestic economy and ensuring fair trade practices. Some of the key components of a foreign trade policy may include:

- **Tariff and non-tariff measures:** A country's foreign trade policy may include measures such as tariffs (taxes on imports), quotas (limits on the quantity of imports), and other non-tariff barriers (such as technical standards and regulations) to protect domestic industries and ensure fair competition.
- **Export promotion:** A foreign trade policy may include measures to promote exports, such as providing financial incentives for exporters, streamlining export procedures, and improving access to foreign markets.
- **Import substitution:** A foreign trade policy may also include measures to promote domestic production and reduce imports, such as providing subsidies to domestic industries, imposing tariffs on imports, and promoting research and development.
- **Trade agreements:** A foreign trade policy may also involve negotiating and signing trade agreements with other countries or trading blocs to reduce trade barriers and promote trade liberalization.
- **Intellectual property protection:** A foreign trade policy may also include measures to protect intellectual property rights, such as patents, trademarks, and copyrights, to ensure that domestic companies can compete fairly in international markets.
- **Exchange rate management:** A foreign trade policy may also involve managing the exchange rate of the country's currency to ensure that it remains competitive in international markets.

Overall, a country's foreign trade policy plays a critical role in promoting economic growth and ensuring fair and competitive trade practices. By adopting effective policies and measures, countries can expand their export markets, reduce imports, protect domestic industries, and ensure a level playing field for all businesses.

14.15. Objectives of the Foreign Trade Policy

The main objectives of foreign trade policy are as follows:

- **Promoting exports:** One of the primary objectives of foreign trade policy is to promote exports by providing support and incentives to exporters. This includes simplifying export procedures, improving access to finance, providing export credits and insurance, and offering tax incentives.
- **Encouraging foreign direct investment:** Foreign trade policy also aims to attract Foreign Direct Investment (FDI) by creating a favourable investment climate, providing incentives for investors, and improving infrastructure and other facilities.
- **Reducing import dependency:** Another objective of foreign trade policy is to reduce import dependency by promoting domestic production and improving competitiveness. This includes providing subsidies and other incentives to domestic industries, implementing trade barriers, and promoting research and development.
- **Improving trade balance:** Foreign trade policy also aims to improve the trade balance by increasing exports and reducing imports. This includes negotiating trade agreements with other countries, imposing import tariffs, and promoting export-oriented industries.
- **Promoting sustainable development:** Foreign trade policy also aims to promote sustainable development by ensuring that trade and investment policies do not harm the environment, social welfare, or public health. This includes promoting environmentally-friendly production processes, improving labour standards, and protecting intellectual property rights.
- **Enhancing competitiveness:** Finally, foreign trade policy aims to enhance the competitiveness of domestic industries by improving infrastructure, reducing the cost of doing business, promoting innovation and technology, and improving access to finance.

Overall, the objectives of foreign trade policy are aimed at promoting economic growth, creating employment opportunities, reducing poverty, and improving the standard of living of the population.

14.16. Disinvestment

Disinvestment refers to the process of selling off or reducing the government's stake in public sector enterprises, companies, or assets. It is a strategic move undertaken by the government to reduce its fiscal burden, promote private sector participation and increase efficiency in public sector enterprises. Disinvestment can be carried out in several ways, including:

Public Offerings: Disinvestment can be carried out by issuing shares of public sector enterprises to the general public through Initial Public Offerings (IPOs) or Follow-on Public Offerings (FPOs).

Strategic Sale: The government can sell its stake in a public sector enterprise to a strategic investor, either through competitive bidding or negotiations.

Asset Sale: The government can also disinvest by selling off specific assets of a public sector enterprise, such as land, buildings, or machinery.

Buybacks: In certain cases, the government can also opt for share buybacks, which involve repurchasing the shares of a public sector enterprise from the market.

Disinvestment is often used as a tool to raise revenue for the government and reduce its fiscal deficit. It is also aimed at improving the efficiency and competitiveness of public sector enterprises by introducing private sector participation, improving governance and accountability, and promoting better management practices. However, disinvestment is often criticized for its potential negative impacts, such as loss of jobs, reduced public control over strategic sectors, and a possible decline in social welfare programs. Therefore, disinvestment needs to be carried out carefully, with a well-planned strategy that balances the economic benefits and social costs.

Objectives Of Disinvestment

The primary objectives of disinvestment are as follows:

Fiscal consolidation: Disinvestment is often used as a tool to raise revenue for the government and reduce its fiscal deficit. By selling off its stake in public sector enterprises, the government can generate funds that can be used for various developmental and social welfare programs.

Encouraging private sector participation: Disinvestment promotes private sector participation in the economy, which leads to increased efficiency, competition, and innovation. Private sector participation can also lead to better management practices, modernization of technology, and improved productivity in public sector enterprises.

Improving corporate governance: Disinvestment can help in improving corporate governance by reducing the role of the government in the management of public sector enterprises. This promotes transparency, accountability, and better decision-making, leading to improved performance.

Increasing market efficiency: Disinvestment can lead to an increase in market efficiency by introducing competition in the market. It can also lead to better price discovery, improved allocation of resources, and better utilization of assets.

Reducing political interference: Disinvestment can help in reducing political interference in public sector enterprises, which often leads to poor management, corruption, and inefficiency.

Unlocking the value of assets: Public sector enterprises often have valuable assets such as land, buildings, and machinery. Disinvestment can help in unlocking the value of these assets by selling them to private investors who can put them to better use.

Overall, the objectives of disinvestment are aimed at promoting economic growth, reducing the fiscal burden on the government, improving the efficiency of public sector enterprises, and promoting private sector participation in the economy.

Importance of disinvestment

Disinvestment is an important tool for governments to achieve several economic and social objectives. Here are some of the key reasons why disinvestment is important:

Revenue generation: One of the primary objectives of disinvestment is to generate revenue for the government. The sale of shares or assets of public sector enterprises can help the government raise funds to finance its development programs and reduce its fiscal deficit.

Encouraging private sector participation: Disinvestment promotes private sector participation in the economy, leading to increased efficiency, competition, and innovation. Private sector participation can also lead to better management practices, modernization of technology, and improved productivity in public sector enterprises.

Improving corporate governance: Disinvestment can help in improving corporate governance by reducing the role of the government in the management of public sector enterprises. This promotes transparency, accountability, and better decision-making, leading to improved performance.

Unlocking the value of assets: Public sector enterprises often have valuable assets such as land, buildings, and machinery. Disinvestment can help in unlocking the value of these assets by selling them to private investors who can put them to better use.

Reducing fiscal burden: Public sector enterprises are often a drain on the government's finances, and disinvestment can help reduce the fiscal burden on the government.

Better allocation of resources: Disinvestment can lead to better allocation of resources as private investors tend to put resources to more productive use.

Promoting economic growth: Disinvestment can lead to economic growth by promoting private sector participation, increasing efficiency, and improving the allocation of resources.

In conclusion, disinvestment is an important tool for governments to achieve several economic and social objectives. It helps in raising revenue, promoting private sector participation, improving corporate governance, unlocking the value of assets, reducing fiscal burden, promoting economic growth, and improving the allocation of resources.

Disinvestment Policy

A disinvestment policy outlines the principles and guidelines for the government's disinvestment program. It typically includes the following elements:

Objectives: The policy should clearly state the objectives of the disinvestment program, such as raising revenue, promoting private sector participation, and improving the efficiency of public sector enterprises.

Criteria for selection: The policy should provide criteria for the selection of public sector enterprises that will be considered for disinvestment. The criteria could include financial performance, market conditions, and strategic importance.

Modalities: The policy should specify the modalities for disinvestment, such as the percentage of shares to be sold, the method of sale, and the timing of the sale.

Role of stakeholders: The policy should define the role of stakeholders, such as employees, investors, and the public, in the disinvestment process.

Governance: The policy should establish a governance framework for the disinvestment program, including the roles and responsibilities of various agencies and departments.

Communication: The policy should outline a communication strategy for the disinvestment program, including how the government will communicate with stakeholders and the public about the program.

Evaluation: The policy should establish a framework for evaluating the performance of the disinvestment program, including how the government will measure the impact of the program on its objectives.

Overall, a disinvestment policy is a critical component of the government's efforts to promote economic growth, reduce the fiscal burden on the government, and improve the efficiency of public sector enterprises. It provides

a framework for the selection and implementation of disinvestment programs, and ensures transparency and accountability in the disinvestment process.

Let us Sum Up

In this unit you have learned about the followings:

Foreign Direct Investment (FDI) and the World Trade Organization (WTO) are two important elements of the global economic system. FDI involves investments made by a company or individual in one country into a business located in another country, while the WTO aims to promote free trade and reduce barriers to international trade and investment.

FDI and WTO are closely related, as both involve the movement of capital, goods, and services across borders. The WTO facilitates FDI by promoting trade liberalization, negotiating investment-related policies, and establishing rules and regulations that govern international trade and investment.

FDI can have implications for WTO rules, such as intellectual property rights, dispute settlement mechanisms, and investment protections. The WTO has agreements on investment-related policies that can affect FDI, and it also provides a platform for addressing disputes related to FDI and investment policies through its dispute settlement mechanism.

Overall, FDI and WTO are important components of the global economic system, and their interaction is crucial for promoting economic growth and development while ensuring that trade and investment are conducted in a fair and transparent manner.

Check your progress

1. FDI stands for, __________which refers to an investment made by a company or individual in one country into a business located in another country.
2. The WTO stands for the___________, which is an international organization that aims to promote free trade and reduce barriers to international trade and investment.
3. __________are closely related as both involve the movement of capital, goods, and services across borders.
4. ____________ can have implications for WTO rules, as it may involve issues such as intellectual property rights, dispute settlement mechanisms, and investment protections.

Glossary

- **World Trade Organization (WTO):** An international organization that aims to promote free trade and reduce barriers to international trade and investment.
- **Free Trade**: The absence of trade barriers such as tariffs, quotas, and subsidies.
- **Trade Liberalization:** The process of reducing or eliminating trade barriers to promote free trade.
- **Intellectual Property Rights:** Legal protections for creative works such as patents, trademarks, and copyrights.
- **Dispute Settlement Mechanism:** A process used by the WTO to settle disputes between member countries regarding trade and investment policies.
- **Agreement on Trade-Related Investment Measures (TRIMS):** A WTO agreement that regulates certain investment-related policies that could restrict trade.
- **General Agreement on Trade in Services (GATS):** A WTO agreement that regulates international trade in services.

Answers to check your progress

1. Foreign Direct Investment
2. World Trade Organization
3. FDI and WTO
4. FDI

Suggested Readings

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Unit-15

Technological Environment

STRUCTURE

Overview

Objectives

15.1. Technological Environment – Meaning

15.2. Factors Affecting Technology in Businesses Environment

15.3. Importance of technology in business

15.4. Choice of Technology in Business Environment

15.5. Selecting appropriate technology in business - Problems and Solutions

Check your progress

Let us sum up

Glossary

Answer to check your progress

Suggested Reading

Overview

The technological environment refers to the overall state of technology, including advancements, innovations, and changes that impact individuals, businesses, and society as a whole. Technological developments have had a profound impact on nearly every aspect of modern life, including how we work, communicate, access information, and conduct business.

In this unit, the concept of Technological Environment has been clearly explained.

Objectives

After completion of this unit, you will be able to explain understand:

- Technology legislation
- Internet/broadband– consumer & business markets
- Technology infrastructure in a country (Web/Broadband/Mobile)
- Technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones.

15.1. Technological Environment – Meaning

Technological Environment means the development in the field of technology which affects business by new inventions of productions and other improvements in techniques to perform the business work.

We see that in 21st century, technology is changing very fast. Now, all work is done online and business shops are using machinery at high level. Following technological environment factors affect business are:

- New inventions to produce the products.
- New inventions relating to marketing like BPO for selling online in the international market.

Technology has a major impact on business. It affects the business prospects, cuts down the profits and forces the management to change the course of the business operations. Any change in technology changes the work cultures, the methods and the systems. It affects the speed of operations and gives a boost to productivity. Examples of technological changes are seen in aviation, electronics, energy, communication, the consumer goods industry, optics, medicines and manufacturing.

15.2. Factors Affecting Technology in Businesses Environment

Technological factors affecting businesses all over the world demands a changing behaviour with regard to traditional marketing. The rapid development of technology requires quick reaction by businesses in order to survive in an emerging competitive environment and keep up with new trends and innovative services which other competitors might be offering. There are several factors that can affect technology in a business environment. Here are some of the key factors:

- **Cost:** The cost of technology can be a significant factor in its adoption and use. Businesses need to evaluate the cost of implementing and maintaining technology and weigh it against the potential benefits and ROI.
- **Compatibility:** The compatibility of technology with existing systems and software can affect its adoption and effectiveness. If new technology is not compatible with existing systems, it can create integration challenges and lead to data loss or corruption.
- **Training:** Proper training and education on new technology are essential for its effective use. Businesses need to ensure that employees have the necessary skills and knowledge to use new technology, or else it may not be adopted or used correctly.

- **Security:** Cybersecurity threats are a significant concern for businesses, and technology needs to be secure and able to protect against these threats. Businesses need to implement appropriate security measures to ensure that technology is safe from cyberattacks and data breaches.
- **Regulations:** Certain industries are subject to regulatory compliance, which can impact the choice and use of technology. Businesses need to ensure that they comply with relevant regulations, which may affect the technology they choose to adopt.
- **Business Culture:** The business culture and attitudes towards technology can affect its adoption and use. If the culture is resistant to change or innovation, then it may be challenging to implement new technology and achieve the desired benefits.

Overall, businesses need to consider these factors when adopting new technology and ensure that they are prepared to address any challenges that may arise. By considering these factors, businesses can make informed decisions about the technology they choose to adopt and maximize its benefits.

15.3. Importance of technology in business

Technology has been important in business operations. No matter the size of your enterprise, technology has both tangible and intangible benefits that will help you make money and produce the results. Technological infrastructure affects the culture, efficiency and relationships of a business. It also affects the security of confidential information and trade advantages. Technology plays a crucial role in modern businesses, and its importance cannot be overstated. Here are some reasons why technology is essential in business:

- **Efficiency:** Technology can automate many processes, making them faster and more efficient. This can save time and reduce costs, which can translate into increased profits for the business.
- **Communication:** Technology has revolutionized communication, making it faster and more accessible. With tools like email, instant messaging, and video conferencing, businesses can communicate with customers and employees from anywhere in the world.
- **Marketing:** Technology has opened up new marketing channels, such as social media, that can reach a broader audience. This can help businesses to increase brand awareness, generate leads, and ultimately drive sales.
- **Data Management:** With the growth of big data, technology is essential for managing and analyzing large amounts of information. This can help

businesses make data-driven decisions and identify new opportunities for growth.

- **Customer Experience:** Technology can enhance the customer experience, making it easier for customers to interact with businesses. For example, online chatbots can provide immediate customer support, while online shopping platforms can offer a more convenient purchasing experience.
- **Innovation:** Technology is a driving force behind innovation, allowing businesses to create new products and services that meet the changing needs of customers. This can help businesses stay competitive and adapt to changing market conditions.

Therefore the technology has become an integral part of modern businesses, and its importance will only continue to grow as new advancements are made. By embracing technology, businesses can improve efficiency, enhance communication, and drive growth and profitability.

15.4. Choice of Technology in Business Environment

Few successful companies do not use technology to improve productivity, communicate more efficiently and track customers and goods. In fact, most successful organizations rely on technology for almost every aspect of their business. Although there are many types of technology available, going digital have to intimidate business owners. It can all be broken down into understandable chunks of functionality. The choice of technology in a business environment is crucial as it can have a significant impact on the business's success. Here are some factors to consider when selecting a technology:

- **Business Goals:** The technology chosen should align with the business's overall goals and objectives. For example, if the goal is to improve efficiency, then a technology that automates processes may be more appropriate.
- **Scalability:** The technology should be scalable to accommodate the business's growth. It should be able to handle increased demand and workload as the business expands.
- **Ease of Use**: The technology should be user-friendly and easy to adopt. This will ensure that employees can quickly learn how to use it, and it will not impede productivity.
- **Integration:** The technology should be able to integrate with other systems and software that the business uses. This will ensure that there is a seamless flow of data between different departments.

- **Cost:** The cost of the technology should be considered, including any ongoing maintenance or upgrade expenses. It is important to evaluate the return on investment (ROI) and determine if the benefits outweigh the costs.
- **Security:** The technology should be secure and protect sensitive business information from cyber threats. It should have proper encryption and authentication measures in place to safeguard data.

15.5. Selecting appropriate technology in business - Problems and Solutions

Technology issues can trip up any entrepreneur, from creating an affordable website to figuring out collaboration tools to setting up cloud storage. And most entrepreneurs get frustrated with the learning curve and expense required to master a new device, application or service. But, done right, technology can empower your business to climb to amazing heights.

1. Building a website

Designing, building and maintaining a website is naturally intimidating to anyone unfamiliar with the process. And, once launched, a website or blog generates ongoing work such as responding to customer inquiries, performing search engine optimization, posting content and staying current with changes in internet technology. It's enough to make any business owner run for cover.

There are a number of companies offering free or low-cost website building platforms. These companies usually offer easy-to-use customizable website designs, and can help you with a domain name, hosting and email set up.

2. Data loss

According to research conducted by Price Waterhouse Coopers, 70% of small businesses that experience a data loss will go out of business within a year. That may reflect the vulnerability of smaller businesses in this area: we simply don't have the big-business budgets to spend on data storage, backup and protection. And, a disproportionate amount of our data may reside on one or two devices – leaving us vulnerable to catastrophe if a key machine is lost, stolen or destroyed.

Thankfully, there are a number of data solutions available. You can physically back up your data to an external device, you can copy your data onto disc, or you can subscribe to a cloud storage facility such as Box.com. For extra security, do all three. Whatever solution you prefer, make sure your data backup source is offsite, secure and accessible anytime.

3. Managing information

Who knew a small business could generate so much data? Business owners are bombarded with different types of data including website analytics, sales numbers, financial reports and prospect research – all of it important and constantly changing.

Before anyone can make sense of this information, the challenge is organizing it. And that's where dashboards come in very handy. A dashboard is management tool that allows a business leader to monitor key performance indicators (KPIs). It curates information to provide at-a-glance reviews – imagine being able to track the dollar value of sales secured by your remote sales team as deals close. You can also use a dashboard to spot problems within your business early enough to take action.

For example, Microsoft Dynamics is customer relationship management (CRM) software that lets you monitor team activities across sales, marketing, customer care and social media for up-to-date information.

4. Social Media

The challenge here is time: Business owners want to be active in social media platforms (and know their marketing success depends on it) but understandably struggle to find the time to send tweets, post blogs, or build connections. Lean on technology and apps to make social media participation fast and easy. Hoot suite gives you one platform to manage and measure your social media activities across networks such as Facebook, Twitter, YouTube and LinkedIn. And every social media network is mobile enabled, so you can dash off some words of wisdom from your phone whenever and wherever you choose.

5. Cost to upgrade technology

The good news about technology is also the bad news: it changes quickly. It can get expensive to pay for the latest smart phones, tablets, wireless routers and other productivity devices – especially if you're buying for a team. There's also the cost to subscribe to current Software-as-a-Service (SaaS) applications essential to power everyday business functions such as accounting, invoicing, customer relationship management, data storage and more.

Upgrading technology is an important strategy for two reasons: it will help your business to remain competitive, and it will enable you and your employees to work more efficiently. Upgrading your tools only when you notice an impact on productivity may be too late – work with your accountant or financial advisor to establish a realistic annual budget to keep your technology fresh. Thankfully, technology costs are trending downward as more vendors compete for your business.

6. Emerging Technology in Business

Information technology has transformed the social and business environment. Technology often deals with methods or tools used to gather, manipulate, store and communicate information. Many businesses have implemented technology designed for personal use to reduce business costs and improve the efficiency and effectiveness of production methods. Companies also use technology to open several domestic or international business locations. Emerging technology includes new or advanced hardware or software.

15.6. PESTLE Analysis

PESTLE analysis is a framework used to analyze the external macro-environmental factors that may affect an organization's performance and decision-making. The acronym PESTLE stands for Political, Economic, Social, Technological, Legal, and Environmental factors.

- **Political factors:** These factors refer to the influence of government policies, regulations, and stability on the business environment. Examples include government stability, tax policies, trade regulations, labour laws, and political stability.
- **Economic factors:** These factors refer to the impact of economic conditions on businesses. Examples include inflation, exchange rates, interest rates, economic growth, and the overall state of the economy.
- **Social factors:** These factors refer to the influence of cultural, demographic, and societal trends on businesses. Examples include population growth, education levels, lifestyle trends, consumer attitudes and values, and health and safety concerns.
- **Technological factors:** These factors refer to the impact of technological advancements on businesses. Examples include automation, innovation, research and development, and the availability of technology.
- **Legal factors:** These factors refer to the influence of laws and regulations on businesses. Examples include employment laws, consumer protection laws, and intellectual property laws.
- **Environmental factors:** These factors refer to the impact of the natural environment on businesses. Examples include climate change, environmental regulations, and natural disasters.
- By analyzing these factors, organizations can identify potential opportunities and threats that may affect their operations, and adjust their strategies accordingly. PESTLE analysis can be used in various

contexts, such as strategic planning, market research, and risk management.

Let us sum up

In this unit you have learned about the concept of Technological environment.

Check your progress

1. The process of using digital technologies to improve or automate business operations is called _______.
2. The use of social media platforms and other digital tools to promote a brand or product is called ________.
3. The practice of using software and other digital tools to automate repetitive tasks and increase efficiency is called _______.
4. The process of protecting computer systems, networks, and data from digital attacks is called ________.
5. The use of cloud-based computing resources to store, process, and manage data is called _______.

Glossary

Cloud Computing: The use of remote servers hosted on the internet to store, manage and process data, rather than using a local server or personal computer.

Cybersecurity: The practice of protecting computer systems, networks and data from digital attacks, theft or damage.

Digital Transformation: The process of using digital technologies to fundamentally change how businesses operate and deliver value to customers.

Internet of Things (IoT): The network of physical devices, vehicles, home appliances and other items embedded with sensors, software, and connectivity to exchange data with other devices and systems.

Answers to Check Your Progress

1. Digital Transformation
2. Digital Marketing
3. Robotic Process Automation
4. Cybersecurity
5. Cloud Computing

Suggested Reading

1. Pandey GN, Environment Management, Vikas Publishing, New Delhi.
2. Paul Justin, Business Environment: Text and Cases, Tata McGraw Hill, New Delhi.
3. Saleem Sheikh, Business Environment, Pearson Education, New Delhi.
4. Vivek Mittal, Business Environment, Excel Books, New Delhi.

Model End Semester Examination Question Paper

Bachelor of Business Administration (BBA)

Course Code: **DCBBA-21**/Course Title: **Business Environment**

Max. Marks: 70 **Time: 3 hours**

PART – A (5x2 =10 Marks)

Answer any FIVE questions out of EIGHT questions

[All questions carry equal marks]

1. Define Business Environment.
2. Write short note on Micro Environment?
3. What is Fundamental Rights?
4. What is Democracy?
5. What is Social Responsibility?
6. Define Corporate Governance.
7. Define the term “Central Bank”.
8. Define RBI

PART – B (4X5=20 Marks)

Answer any FOUR questions out of SEVEN questions

[All questions carry equal marks]

9. Explain the Nature of Business Environment.
10. State the main components of economic environment.
11. Explain in brief, the Fundamental Rights of a Citizen in India.
12. Explain in brief cultural traits and their impact on business.
13. Explain the role of RBI in economic development.
14. Explain the Functions of Reserve Bank of India.
15. Explain the functions of Commercial Banks.

PART - C (10 Marks) 4X10= 40 Marks

Answer any FOUR questions out of SEVEN questions

[All questions carry equal marks]

16. Discuss the internal factors which influence business decisions.
17. Discuss the impact of environment on business and strategic decisions.
18. Explain the impact of Gross Domestic Product (GDP) on business.
19. Explain the importance of Fiscal Policy in India.
20. Explain the Regulation and Control of Stock Exchanges.
21. Discuss the State Financial Corporations?
22. Describe different types of financial institutions.

Document Information

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Sources included in the report

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40	Arts/Literature, Social Science, Management and other Professional Courses, Natural and Applied Science
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14	State Open Universities and Gyandarshan
15	Capacity Building and Teacher Education
16	Skill and Vocational Education
Channels 17 to 20 are managed by **IIT Bombay**	
17	Biotechnology and Biochemical Engineering
18	Electronics and Communication Engineering
19	Electrical Engineering
20	Physics

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23	Civil Engineering
Channels 24 to 28 are managed by **IIT Kanpur**	
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28	Visual communications, Graphic design, Media technology
	Channels 29 to 30 are managed by **IIT Kharagpur**
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30	Computer Sciences Engineering / IT & Related Branches
Channels 31 to 35 are managed by **IIT Madras**	
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32	Bridge Courses, Impact Series
33	Chemical Engineering, Nanotechnology, Environmental and Atmospheric Sciences
34	Health Sciences
35	Metallurgical and Material Science Engineering, Mining and Ocean Engineering
36	Skills and Logistics (IT - Enabled Sector, Banking, Financial and Insurance sector Skills Logistics, Supply Chain Management and Transportation, Life skills)
Channels 37 to 38 are managed by **IIT Tirupati**	
37	Chemistry, Biochemistry and Food Processing Engineering
38	Mathematics
Channels 39 is managed by **University of Hyderabad and National Sanskrit University**	
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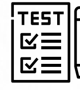

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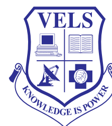

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