

# Nature and Scope of business

December 9, 2022

## Old Concept of Business:

In the old days the business was conceived merely in terms of business. The business of business is business. In those days the sole and exclusive objective of business was maximization of profit at any cost. Business began merely as an institution for the purpose of making money.

So long as a man made money and kept himself out of jail he was considered successful. He felt no particular obligation and acknowledged no responsibility to the community. As he was the owner of the business he thought he had the perfect right to do with it what he pleased.

## New Concept of Business:

The modern business enterprise is a social and economic institution. It does not live in a vacuum. Business by itself is not an end but a means to achieve an end i.e., public welfare. Urwick has rightly pointed out that profit can no longer be the main objective of a business than eating is the main objective of living.

## According to Peter Drucker the objective of business is to create a customer.

The first business of every business is to secure customers. The customer is the master and to serve him well is the only purpose of business. Business cannot survive without customers. Modern business aims at profit through service.

The term Business Organization is a composite of two terms "**Business**" and "**Organization**". In order to understand the term it is relevant to deeply look into the meaning and the components of the terms business and organization. Clear understanding of these two terms will enable us to grasp the economic basis of modern social organization.

The word business simply means "**The state of being busy**". It confines its study only to those human activities in relation to exchange of goods and services for money.

The purpose of exchange of goods and services is to satisfy human wants. A number of authors and authorities have attempted to define the term business in so many ways. However, all definitions focus their attention on one particular aspect i.e., "**satisfaction of human wants**".

Of the above definitions, the comprehensive definition of L.B. Dicksee is given below:

"Business refers to a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted. The term is used to cover the whole complex field of commerce and industry — the basic industries and the net

work of ancillary services, distribution, banking, insurance, transport and so on which serve and interpenetrate the world of business as a whole“.

### **Characteristics of Business:**

#### **Production or Acquisition of Goods:**

The business of business is to provide goods and services (intangible goods) at a price. These goods must be either produced or procured so that they can be sold and supplied at a price.

#### **Dealings in Goods and Services:**

Business means dealing in goods and services. Goods may be either consumer goods such as food, clothing, watches etc. or may be producers' goods such as machinery which is used not for direct consumption but for production.

#### **Recurrence of Transactions:**

Regularly and recurring nature of buying and selling is a characteristic of business. A single buying and selling transaction does not constitute business. If a person sells his car and makes a profit, it does not amount to business. But if he keeps a stock of cars and conducts a series of such deals, it will be his business.

#### **Profit Motive:**

Profit motive is an important characteristic of business. Business is an activity by which a man makes his living or earns profit. Profit is the biggest motivation for continuing business. Profit is essential for survival and development. If a person could not earn profit in a particular business, he will turn to another business. This is true even of Govt. business. Profit is a reward for the efficiency of the entrepreneur.

Abot remarked, Business without profit is not a business any more than a pickle in a candy. Peter Drucker said, business cannot behave like anything else, it can only behave like business, that it must apply economic rationality to whatever it is doing and this is the right way for it to behave.

#### **Elements of Risk:**

Risk means the possibility of loss. Economic activity is related with future and future is always uncertain and full of risks. Since business activity involves risks, it is often called an adventure. It is through the assumption of risks that business earns profit.

#### **Scope of Business:**

Easiest way to define the scope of business is to say, business is what businessmen do. Business includes trade, commerce and industry. Business has two aspects economic and functional. Production, distribution and exchange of goods for the purpose of earning money come within the scope of business.

Production is the economic aspect of business. Production means the creation of utility. Utility means the power to satisfy a human want. Any commodity or service which can satisfy a human want is said to have utility.

**There are five different types of utility:**

**a. Form:**

Utility can be created by changing the form of matter. Mud has usually no utility, but if a pot is made of mud, it acquires utility.

**b. Place:**

Utility can be created by transferring matter from one place where it is less useful to another place where it is more useful. Coal at the bottom of earth is of no use but when it is brought to a factory it becomes more useful.

**c. Time:**

Utility can be created by holding matter over to a time when it would be more useful. Clothing is sold at a higher price during the puja season than in other times of the year.

**d. Nature:**

Men obtain many useful goods from nature, e.g., air, sunlight etc. They yield satisfaction to men. Such goods are said to have natural utility.

**e. Service:**

Utility can be created by performing a service. Personal services that of a doctor, or teacher can satisfy human needs.

**Business is also concerned with three important economic issues:**

**i. What goods are to be produced?**

What goods are to be produced and in what quantities arise directly because of the scarcity of resources? If resources were unlimited, the problem of what goods are to be produced would not have arisen because in that case we would have been able to produce all goods we wanted and in the desired quantities. Since resources are scarce relative to human wants, a business firm has to choose among various goods.

**ii. How are the different goods produced?**

There are various alternative methods of production and a firm has to choose among them. For example, cloth can be produced either with power-looms or with handlooms. The business firm has to decide which particular method has to be adopted.

**iii. Are all available resources being fully and efficiently utilised?**

Resources being scarce a firm will try to use all the available resources in the optimal manner with a view to maximizing profit. Distribution and exchange are the functional aspects of business. When goods have been produced and ready, the next task is its distribution, to bring it to the market and the consumer.

The businessman has to ensure that the product reaches its destination in good condition, in the desired quantity, at the right time, involving the appropriate cost.

Exchange takes place in market. Formerly, commodities were produced for home consumption, but now production is mainly for sale and export. Under the barter system surpluses of produce were interchanged between the parties concerned.

It was only after the introduction of money that markets came to be organised for the sale and purchase of commodities. Agricultural marketing was of little significance under subsistence farming. The commercialisation of agriculture gave rise to marketing and the development of transport and communications contributed to its growth.

### **Scope of business includes following three aspects of business:**

#### **Business is an Economic Activity:**

An economic activity involves the task of adjusting means to the ends or ends to the means. An economic activity may assume the form of production, consumption, distribution and exchange. Each business firm has a target to achieve and for that purpose it has some resources at its disposal.

Sometimes the target has to be matched with given resources and sometimes resources have to be matched with the given target. Either way, the function of the business firm is to achieve optimum result of economic activities.

#### **Business Firm is an Economic Unit:**

A business firm is basically a transformation unit, it transforms input into output. The objective of this activity is to earn maximum profit in the long run. It is a value added process the value of output in excess of the value of input.

#### **Business Decision making is the Most Important Aspect of Business Firm:**

Decision making involves making a choice from a set of alternative courses of action. Rational choice is the root of all business problems. The question of choice arises because resources are scarce. When input is the constraining factor, business firm's decision variable is the output and when output is the constraining factor firm's decision variable is the input.

**The scope of business will be wider if we look at it from the systems approach.**

A business organisation in an open system as it influences and is also influenced by its environment. It receives inputs from the society in the form of raw materials, labour, capital and information. It throws output into the society in the form of goods and services.

**Broadly speaking, business organisation as a system has five subsystems:**

- (a) Finance system to look after finance function,
- (b) Production system to look after production function,
- (c) Marketing system to look after marketing function,
- (d) Personnel system to look after the development and utilisation of human resources, and
- (e) Research and development system for innovations.

Each functional area of business may be considered as a subsystem of the operating enterprise.

# Social Responsibility of Business

---

December 9, 2022

Social responsibility of business implies the obligations of the management of a business enterprise to protect the interests of the society.

According to the concept of social responsibility the objective of managers for taking business decisions is not merely to maximize profits or shareholders' value but also to serve and protect the interests of other members of a society such as workers, consumers and the community as a whole.

Thus, Sachar Committee on Companies and MRTP Acts appointed by Government of India states, "In the development of corporate ethics we have reached a stage where the question of social responsibility of business to the community can no longer be scoffed at or taken lightly. In the environment of modern corporate economic development, the corporate sector no longer functions in isolation. If the plea of the companies that they are performing a social purpose is to be accepted, it can only be judged by the test of social responsiveness shown to the needs of the society".

It may be noted that some Indian sociologists and economists relate the idea of social responsibility of business of the Gandhian concept of trusteeship. According to Mahatma Gandhi, capitalist class owns wealth or capital as trustees of the society. The resources and capital they use for production of goods and services, according to him, should be used not to maximize profits for them but for the larger benefit of the society.

However, in our view, it will be too idealistic to expect that business enterprises will be purely guided by the benefits they confer on the society by their activities. The concept of social responsibility as used in management science is that businesses should maximize their profits subject to their working in a socially responsible manner to promote the interests of the society.

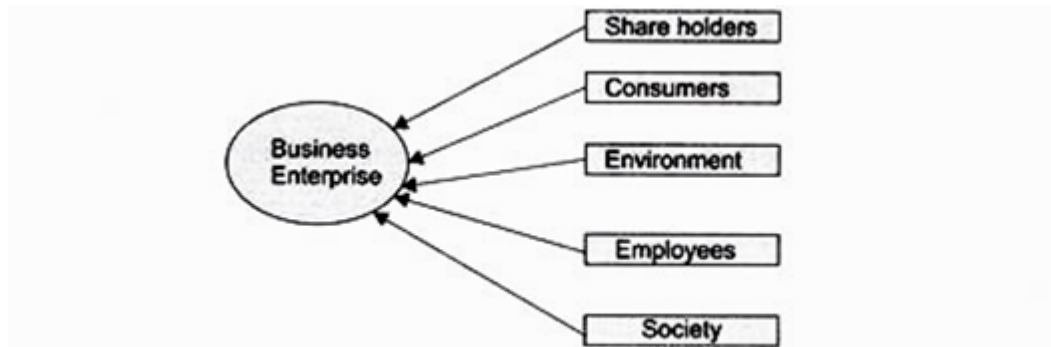
Their business activities should not harm other groups such as consumers, workers, and public at large. Mr. N.R. Narayana, Chairman of Infosys makes the idea of social responsibility of business quite clear when in a conference on corporate social responsibility he said, "Corporate's foremost social responsibility is to create maximum shareholders' value working in a way which is fair to all its stakeholders workers, consumers, the community, government and the environment He further points out."

Working in harmony with the community and environment around us and not cheating our customers and workers we might not gain anything in the short run but in the long term it means greater profits and shareholders' value'

## **Social Responsibility of Business and Social Contract**

It is evident from above, the social responsibility of business implies that a corporate enterprise has to serve interests other than that of common shareholders who, of course, expect that their rate of return, value or wealth should be maximized.

But in today's world the interest of other stakeholders, community and environment must be protected and promoted. Social responsibility of business enterprises to the various stakeholders and society in general is considered to be the result of a social Fig.1. Responsibility of Business Enterprises towards Stakeholders and Society in General contract.



**Fig. – 1.** Responsibility of Business Enterprises towards Stakeholders and Society in General.

## **Responsibility of Business Enterprises towards Stakeholders and Society in General**

Social contract is a set of rules that defines the agreed interrelationship between various elements of a society. The social contract often involves a quid pro quo (i.e. something given in exchange for another). In the social contract, one party to the contract gives something and expects a certain thing or behaviour pattern from the other.

In the present context the social contract is concerned with the relationship of a business enterprise with various stakeholders such as shareholders, employees, consumers, government and society in general. The business enterprises happen to have resources because society consisting of various stakeholders has given them this right and therefore it expects from them to use them to for serving the interests of all of them.

Though all stakeholders including the society in general are affected by the business activities of a corporate enterprise, managers may not acknowledge responsibility to them. Social responsibility of business implies that corporate managers must promote the interests of all stakeholders not merely of shareholders who happen to be the so called owners of the business enterprises.

### **1. Responsibility to Shareholders**

In the context of good corporate governance, a corporate enterprise must recognise the rights of shareholders and protect their interests. It should respect shareholders' right to information and respect their right to submit proposals to vote and to ask questions at the annual general body meeting.

The corporate enterprise should observe the best code of conduct in its dealings with the shareholders. However, the corporate Board and management try to increase profits or shareholders' value but in pursuing this objective, they should protect the interests of employees, consumers and other stakeholders. Its special responsibility is that in its efforts to increase profits or shareholders' value it should not pollute the environment.

## **2. Responsibility to Employees**

The success of a business enterprise depends to a large extent on the morale of its employees. Employees make valuable contribution to the activities of a business organization. The corporate enterprise should have good and fair employment practices and industrial relations to enhance its productivity. It must recognize the rights of workers or employees to freedom of association and free collective bargaining. Besides, it should not discriminate between various employees.

The most important responsibility of a corporate enterprise towards employees is the payment of fair wages to them and provide healthy and good working conditions. The business enterprises should recognise the need for providing essential labour welfare activities to their employees, especially they should take care of women workers. Besides, the enterprises should make arrangements for proper training and education of the workers to enhance their skills.

However, it may be noted that very few companies in India follow many of the above good practices. While the captains of Indian industries generally complain about low productivity of their employees, little has been done to address their problems. Ajith Nivard Cabraal rightly writes, "It should perhaps be realised that corporations can only be as effective and efficient as its employees and therefore steps should be taken to implement such reforms in a pro-active manner, rather than merely attempting to comply with many labour laws that prevail in the country. This is probably one area where good governance practices could make a significant impact on the country's business environment."

## **3. Responsibility to Consumers**

Some economists think that consumer is a king who directs the business enterprises to produce goods and services to satisfy his wants. However, in the modern times this may not be strictly true but the companies must acknowledge their responsibilities to protect their interests in undertaking their productive activities.

Invoking the notion of social contract, the management expert Peter Drucker observes, "The customer is the foundation of a business and keeps it in existence. He alone gives employment. To meet the wants and needs of a consumer, the society entrusts wealth-producing resources to the business enterprise". In view of above, the business enterprises should recognise the rights of consumers and understand their needs and wants and produce goods or services accordingly.

The following responsibilities of business enterprises to consumers are worth mentioning:

- They should supply goods or services to the consumers at reasonable prices and do not try to exploit them by forming cartels. This is more relevant in case of business enterprises producing essential goods such as life-saving drugs, vegetable oil and essential services such as electricity supply and telephone services.
- They should not supply to the consumers' shoddy and unsafe products which may do harm to them.
- They should provide the consumers the required after-sales services.
- They should not misinform the consumers through inappropriate and misleading advertisements.
- They should make arrangements for proper distribution system of their products so as to ensure that black-marketing and profiteering by traders do not occur.
- They should acknowledge the rights of consumers to be heard and take necessary measures to redress their genuine grievances.

The organized movement to protect consumer rights which is termed as consumerism has been the result of the negligence of business enterprises to their responsibilities to consumers. Besides, due to the indifferent attitude of business enterprises to consumer rights, Government has been compelled to enact Consumer Protection Act to protect consumers' rights and to prevent their exploitation by the businesses.

#### **4. Obligation towards the Environment**

The foremost responsibility of business enterprises is to ensure that they should not damage the environment and for this purpose they should reduce as much as possible air and water pollution by their productive activities. They should not dump their toxic waste products in rivers and streams to avoid their pollution. Pollution of environment poses a great health hazard for the people and is a cause of several respiratory and skin diseases.

#### **5. Responsibility to Society in General**

Business enterprises function by public consent with the basic objective of producing goods and services to meet the needs of the society and provide employment to the people. The traditional view is that in performing this function businesses maximize profits or shareholders' value and doing so they do not behave in any socially irresponsible way.

In the present world where there are monopolies, oligopolies in product and factor markets and also there are externalities, especially detrimental externalities such as environment pollution by the activities of business enterprises maximization of private profits does not always lead to the maximization of social benefit.

In fact in such imperfect market conditions, consumers are exploited by raising of prices much above the cost of production, workers are exploited as they are not paid fair wages equal to the value of their marginal product. Besides, there are harmful external effects to

which are not given due considerations by private enterprises in making their business decisions. Therefore, there is urgent need to make business enterprises behave in a socially responsible manner and to work for promoting social interests.

In view of the above in the context of modern developments, it is hard to agree with Milton Friedman, a winner of Nobel Prize in economics, who called the idea of corporate social responsibility as a “fundamentally subversive doctrine”. Friedman writes, “There is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”.

However, few economists and rational thinkers will subscribe to Friedman’s views like that of Adam Smith. Thus, authors of a noted textbook on management write, “It is true that Friedman sets a rather high standard when he suggests that businesses should operate within the ‘rules of the game’, practicing neither deception nor fraud. The rules of the game obviously include accepted ethical practices, in addition to international, national and other laws. How many corporations are willing to tell the absolute truth in the advertisements and to engage in open and fair competition avoiding collusion, price fixing and so forth. The fact is that few subscribe to Friedman s hard-line views today”.

Expressing the same sentiments, Dr. Manmohan Singh, who has been instrumental in initiating economic reforms promoting liberalization and privatization, in his recent speech while inaugurating the campus of Institute for Studies in Industrial Development on May 1, 2007 said, “I was struck by a comment in the media that most of the billionaires among India’s top business leaders operate in oligopolistic markets and in sectors where the government has conferred special privileges on a few. This sounds like a crony capitalism..... Are we doing enough to protect consumers and small businesses from the consequences of modern capitalism in our country” Later, on May 24, 2007, while giving inaugural address at the Annual Session of CII he urged the captains of Indian industry to break cartels and abstain from greed in their quest for profit maximisation.

To quote him, “The operation of cartels by groups of companies to keep prices high must end. It is unacceptable to obstruct the forces of competition from having free play. It is even more distressing in a country where the poor are severely affected by rising commodity prices. Cartels are a crime and go against the grain of an open economy”. More importantly, he further adds, “Maximization of profits should be within the bounds of decency and greed”.

The above views of Dr. Manmohan singh show that corporate businesses in India do not show any sense of social responsibility and due to oligopolies, informal collusion and other malpractices fleece the customers by charging higher prices in order to maximize their profits. This is clearly refutation of Friedman’s view that profit maximization always implies social responsibility of business.

**Business enterprises have a lot of responsibility to the society at large.**

1. To take appropriate measures to reduce level of pollution and adopt eco-friendly technologies.
2. To generate sufficient employment opportunities so as to make good contribution to the reduction of poverty in the country.
3. Respect the rights of workers and other employees and take appropriate measures to ensure their safety and to improve their working conditions.
4. To provide quality healthcare to their employees.
5. To invest adequately in the research and development so as to make innovations to improve their productivity.

Dr. Manmohan Singh in the speeches referred to above adds the following social responsibilities of the corporate enterprises in India:

6. Do not pay excessive remuneration to promoters and senior executives as it creates social resentment.
7. To end cartels that keep prices highly
8. To implement affirmative action and to provide jobs to SCs, STs and OBCs.  
Besides, Dr. Manmohan Singh wants the private corporate sector to give preference to minorities, especially Muslims in providing employment.
9. To resist to pay bribes to officials and therefore do not promote corruption. He thus says, "Corruption need not be the grease that oils wheels of progress. There are many successful companies today that have refused to yield to this temptation. Others must follow".

Social responsibility is related to the concept of ethics. Ethics is the discipline that deals with moral duties and obligations. Social responsibility implies corporate enterprises should follow business ethics and work for not only to maximize their profits or shareholders' value but also to promote the interests of other stakeholders and the society as a whole.

Two instances of lack of social responsibility of business witnessed in India are worth mentioning. One refers to Bhopal Gas Leak Tragedy. On Dec. 2, 1984 in a pesticide factory located in Bhopal and owned by a multinational corporation 'Union Carbide Limited (UCL), there was a leakage of poisonous gas from factory which resulted in the death of more than 2000 poor people and about 2 lakh persons were badly injured and crippled.

This was due to the non-installation of safety measures by the company. Union Carbide tried to show that it was not responsible. A long legal battle was fought and ultimately Union Carbide was held responsible by the court and was asked to pay \$ 650 millions to the victims as damages.

Another recent case of lack of corporate social responsibility in India and failure of good corporate governance in India is provided by Satyam Saga. Ramalinga Raju, chairman of Satyam Computers Committed fraud running into several thousand crores inflicting heavy

losses to the shareholders and lenders of the company. For this criminal act Raju is in Jail and his company has been taken over by Mahindera.

This Satyam fraud raises the question of failure of corporate governance in India, especially the role of independent directors in ensuring good governance of the corporates. The above two examples should serve as a wake-up call for Indian corporate businesses that they should discharge their responsibility to their customers, employees, other stakeholders and society at large.

## **Components of Corporate Social Responsibility**

### **1. Community Involvement**

It refers to a wide range of actions taken by companies to maximize the impacts of their spending, time products, services for the welfare of community at large.

### **2. Human Rights**

The business practices can profoundly affect the rights and dignity of employees and communities. The main focus is on developing workplace free from discriminations where creativity and learning can flourish decent codes of profession conduct and where a proper balance can be created.

### **3. Labour Security**

It includes freedom of association and the effective recognition of the right to collective bargaining, the eliminations of all forms of forced and compulsory labour, the effective abolition of child labour and the eliminations of discrimination in respect of employment and occupation.

### **4. Environmental Protection**

The environmental issues have been global concerns thus the corporate sector also focuses on finding sustainable solutions for natural resources and to reduce companies' impact on environment. Over the past several years, environmental responsibility has expanded to involve substantially more than compliance with all applicable government regulations or even a few initiatives such as recycling or energy efficiency.

Many citizens, environmental organizations and leadership companies define environmental responsibility as involving a comprehensive approach to company's operations, products and facilities including assessing business, products, processes and maintained balance between work and other aspects of life.

### **5. Business Standard**

It covers a broad area of corporate activities such as ethics, financial return and environment protections.

### **6. Educations and Leadership Development**

As education is one of the key elements of sustainable development and pro-poor growth, businesses, working together with public sector and civil society can make an important contribution in providing access to quality education for all further companies can also make more critical impact on the development process by raising standards in corporate education and leadership development.

### **Importance of Corporate Social Responsibility**

The notion that discharging corporate social responsibility involves costs and, in turn, reduces profits has proved wrong without doubt. Rather, it has been well established that discharging social responsibility strengthens the corporation's foundation to earn profit not just in the short-run but also in the long- run. Numerous such stories abound in the corporate world.

Johnson & Johnson presents one classical example of how a company puts public welfare ahead of its own interest (profit), especially when the company itself is a victim. 28 September 1982 was a tragic day for Chicago when Johnson & Johnson made Extra Strength Tylenol caused cyanide poisoning and killed many people.

Showing its utmost concern for social welfare, Johnson & Johnson not only cooperated with the efforts to investigate into the incident, but also announced a reward of \$ 1, 00,000 for giving information about the culprit.

The Tylenol crisis cost Johnson & Johnson plenty some \$ 50 million besides withdrawal of 31 million bottles from the market with a retail value of over \$ 100 million. Potentially, the most devastating cost resulted from lost public confidence. Only six weeks after it had withdrawn all Tylenol capsules from the market, the company reintroduced the product in tamper-proof packages, as are used in all of today's pharmaceutical products.

Amazingly, Johnson & Johnson regained 95 per cent of the market share it had before the Tylenol crisis (Waldholz 1982). Johnson & Johnson's this vignette clearly exemplifies how concern for social welfare strengthens an organisation's foundation, better call it "Organisational Character" and, in turn, its profit earning capacity. Character is foundation for over all prosperity. As Swami Vivekananda also said: "First build character, everything else will follow".

Maruti Udyog Limited (MUL) is another such example that kept social welfare ahead of its interest. In the year 1997, of all the cars sold between January and April, this responsible company recalled about 50,000 of their most popular product, the Maruti 800 passenger cars from the market, because they suspected them to be made of inferior steel. This became a newspaper headlines, as it was the biggest ever recall of cars from the Indian market place.

The logic behind this positive relationship appears to be that social involvement of business provides a number of benefits to it that more than offset its costs. These benefits would include a positive consumer image, a more dedicated and motivated workforce,

strong public confidence, social acceptance, and even less interference from regulating agencies.

One way to understand the relevance of corporate social responsibility lies in our ancient teaching of Propkaram Paramam Dharma, i.e., helping others, what the sociologists call, altruism, is the most sacred duty. Performing duty is “Dharma” and “Dharma” is truth.

Truth prevails in its own manifestations and lasts for long. Our past is witness that in all walks of life, at last satyamev jayate, i.e., ultimately truth alone prevails and wins. Cooperate social responsibility is a company’s ‘dharma’ that enables the company to survive and thrive for long.

Just as any untruth is short lived, so is an untruth or unethical business too. There are plethora of corporate examples like Arthur Anderson, Enron, Union Carbide, Harshad Mehta Stock Business and so on confirming that no business can exist and survive without the acceptance and sanction of the society in which it carries out its activities. Without social sanction, business is sure to flounder and perish.

Following are some more justifications in favour of why corporations should discharge social responsibility. Many of these (Mintzerg 1983) tend to be couched in terms of enlightened self- interest, i.e., the corporation takes on social responsibilities insofar as doing so promotes its own self-interest.

1. Corporations perceived as being socially responsible might be rewarded with extra and/or more satisfied customers, whilst perceived irresponsibility may result in rejection or boycott by customers. Pepsi and Coca-Cola experienced such boycott from customers in India in 2007.
2. Research reports that employees are attracted to and even become more committed to corporations that show socially responsible behaviour (Greening and Turban 2000).
3. Corporations that voluntarily commit to social actions and programmes may also forestall legislation and ensure greater corporate independence from government.
4. Making positive contribution through socially responsible behaviour to society might be regarded as a long-term investment in creating an improved and stable business context to do business.

In addition to above business justifications couched in favour of corporate social responsibility, following are some important moral justifications also in favour of Corporate Social Responsibility (CSR):

1. Corporations through their actions cause some social problems like pollution, dirtiness, etc. and hence they have a moral responsibility to solve these problems caused by them and also make efforts to prevent such problems in future.
2. Corporations as social actors use social resources which are often scarce. Hence, they should use these resources in responsible manner for the benefit of the society.

3. Corporate activities of one type or other like providing products and services, employment to workers, and so on and so forth, have social impacts be positive or negative or neutral. Hence, corporations are responsible to own the responsibility of these impacts.

In reality, corporations rely not only on the contributions of shareholders but also of wide constituencies, or say, stakeholders in society such as consumers, suppliers, local communities, etc. Hence, corporations have a duty to take into account the interests and goals of shareholders as well as other stakeholders.

Given the range of justifications in favour of CSR, there has not been any doubt about the need for and significance of socially responsible behaviour exhibited by the corporations.

### Forms of Corporate Social Responsibility (CSR)

Among the organizational researchers who have tried from time to time to identify and describe the various forms of CSR, probably the most established and accepted model of CSR which addresses the forms of CSR is the one called 'Four-Part Model of Corporate Social Responsibility' as proposed by Archie Carroll and subsequently refined later by Carroll and Buchholtz. This model is depicted in the following Figure 1. Carroll's Four-Part Model of Corporate Social Responsibility. According to Carroll, CSR is a multi-layer concept consisting of four inter-related aspects of responsibilities, namely, economic, legal, ethical, and philanthropic. He presents these different responsibilities as consecutive layers within a pyramid.

Hence, he offers the definition of CSR in these words: "Corporate social responsibility encompasses the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time."

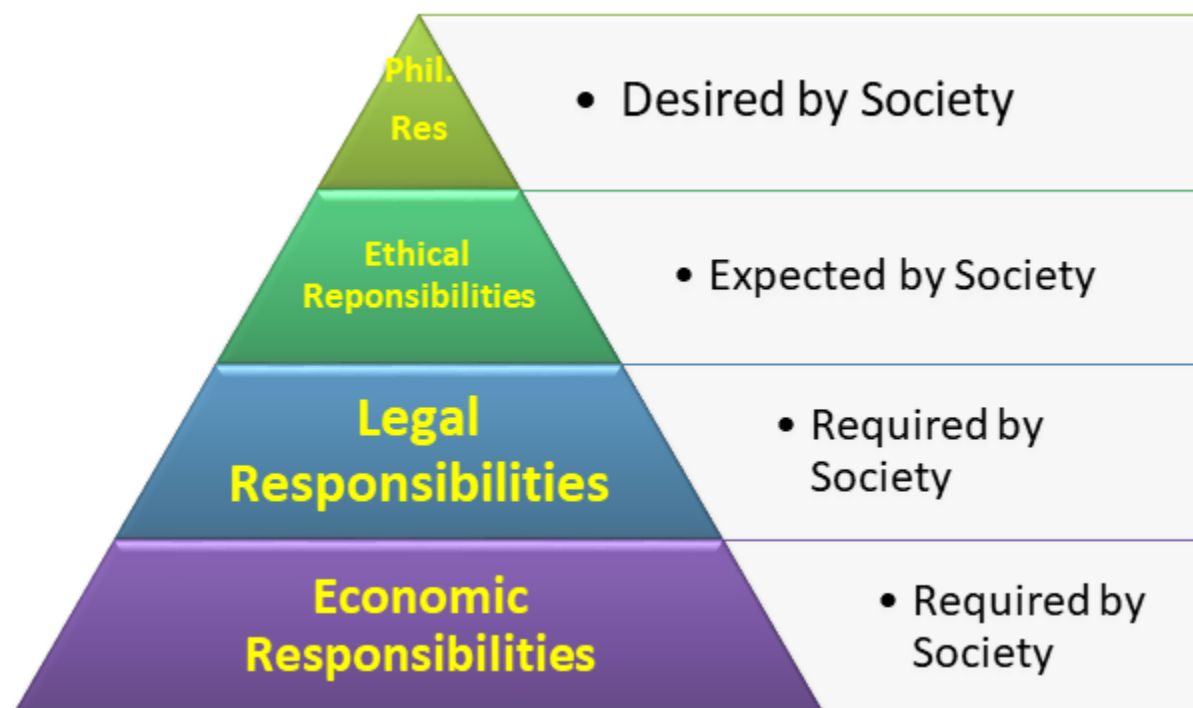


Fig: Carrol's 4 part model of CSR

## **1. Economic Responsibility**

A corporation has to meet its economic responsibilities in terms of reasonable return to investors, fair compensation to employees, goods at fair prices to customers, etc. Thus, meeting economic responsibility is the first-layer of responsibility and also the basis for the subsequent responsibilities. The fact remains that meeting economic responsibility is must for all corporations to survive in the time.

## **2. Legal Responsibility**

The legal responsibility of business corporations demands that businesses abide by the law of land and play by the rule of the game. Laws are the codification of do's and don'ts do's in the society.

Abiding by laws is the prerequisite for any corporation to be socially responsible. Corporate history is replete with instances where violation of laws disallowed corporations to run any longer. Enron, Union Carbide, Global Trust Bank, etc. are some of such illustrative corporate cases of social rejection and boycott.

## **3. Ethical Responsibility**

These responsibilities refer to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, and rule and regulations does not make business conduct always as ethical or good. The conduct of corporations that go beyond law and contribute to social well being is called ethical.

Hence, corporations have an ethical responsibility to do, even going beyond law and rule and regulations, what proves good for the society. In other words, ethical responsibilities consist of what is generally expected by society from corporations over and above economic and legal expectations.

## **4. Philanthropic Responsibility**

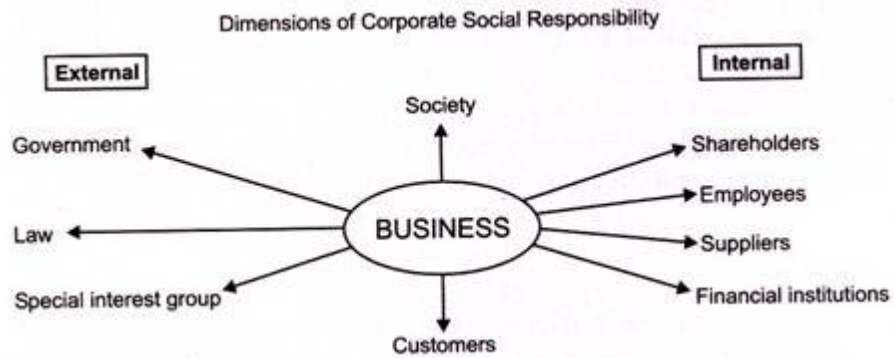
The Greek word 'philanthropy' means literally 'the love of the fellow human.' The use of this idea in business context incorporates activities that are, of course, within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large.

Making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities discharged by the corporations. It is important to note that the philanthropic activities are desires of corporations, not expected by the society.

## **Dimensions of CSR**

The facets and dimensions of corporate social responsibility include the obligations a business has to its interest groups also called 'stakeholders.' The stakeholders in a business include shareholders / owners, consumers, employees, government, society, etc.

These are depicted in the following diagram:



# Size of business unit

---

December 9, 2022

A Business Unit is most commonly recognized as an independent transaction-processing entity. It is defined as an organization or the subset of an organization which is independent in its accounting and operational functionality. A Business Unit is basically a profit making centre which has a prime focus to segment the market and be able to enhance the product offerings of the company. They usually have a separate clearly defined marketing plan, a well-defined marketing campaign and a detailed analysis of the competition, even when they are essentially a part of a bigger business entity.

In organizations, subsidiaries are often confused with business units. But these two have some significant differences. A company which is at least 50 percent owned by another company, more commonly known as the parent company is referred to as a subsidiary. The subsidiary is a complete corporate body, whereas the business units are sub-components or components of these subsidiaries. Business units are a smaller entity like a department or a functional group within a company which is responsible for handling the issues and affairs of that specific activity. Examples of business units include marketing, finance, operations, accounting, sales, human resources and research and development divisions.

Companies can have multiple independent business units into itself or as a branch, and each one of them is responsible for their own profitability. For example: General Electric is a company having 49 business units.

There are three important parameters that are usually seen as the success determining factors of a business unit:

- The degree of functionality and facility sharing between multiple SBUs.
- The autonomy and power delegated to a business unit manager.
- The way of handling new products in organizations.

## **Factor affecting Size of Business unit**

### **1. Entrepreneurial Skill:**

The most important factor of comes is the skill, initiative and resourcefulness of the entrepreneur. Everything depends on his judgment and ability. An entrepreneur of outstanding ability will be able to procure as much finance as he may need, hire the requisite labor force and build up a huge business. But an entrepreneur of moderate ability will run business on a moderate scale and a man of limited entrepreneurial skill will be content with a small business

### **2. Managerial Ability:**

For running the routine part of the business, managers are appointed. If a firm is lucky enough to have a manager of great ability, the size of the firm will grow to considerable dimensions. On the other hand, a mediocre manager will have a small-sized firm to manage.

### **3. Availability of Finance:**

It is finance which oils the wheels of business machine. If ample funds are available, it will help the entrepreneur to make his business grow to a big size. This requires a proper development, of the banking system so that savings of the community can be effectively mobilized and utilized in the development of trade and industry.

### **4. Availability of Labour:**

Another factor on which the size of the firm depends is the availability of labour of requisite skill. After all, what can the entrepreneur even with large capital do, if the labour to man the business is not available? What is required is efficient and skilled labour.

### **5. Nature of Business:**

Much also depends on the nature of business. If the business obeys the law of increasing Returns, it will grow to a big size, otherwise, in the case of diminishing returns it will remain stunted, and in the case of constant returns it will remain stagnant.

### **6. Extent of the Market:**

The size of the firm also depends on the extent of the market. If the commodity in which the firm deals or which it-manufactures has a wide market, naturally the business will assume a large scale. But if the demand for the commodity is fitful or limited, the size of the firm will continue to be small. These are some of the factors on which the size of an average firm in a country depends.

e-business (**electronic business**) is the conduct of business processes on the internet. These e-business processes include buying and selling goods and services, servicing customers, processing payments, managing production control, collaborating with business partners, sharing information, running automated employee services, recruiting; and more.

E-business can comprise a range of functions and services. They range from the development of intranets and extranets to the provision of e-services over the internet by application service providers.

Today, as corporations continuously rethink their businesses in terms of the internet specifically, the internet's availability, reach and ever-changing capabilities, they are conducting e-business to buy parts and supplies from other companies, collaborate on sales promotions, and conduct joint research.

The growth of e-business in recent decades has given rise to new business requirements. On the customer front, consumers expect organizations to offer self-service options for conducting transactions; they expect personalized experiences; and they want speedy, secure interactions. On the regulatory front, new laws and best practices for keeping electronic data secure have been instated. As e-commerce accelerated, companies have adopted stringent security protocols and tools, including encryption and digital certificates, to protect against hackers, fraud and theft.

With the security built into browsers and with digital certificates now available for individuals and companies from various vendors providing cybersecurity tools and technologies, cybersecurity has become ingrained in e-business. However, the security of business transactions on the web remains a pressing issue for consumers and enterprises alike, even as that concern has not slowed the growth of e-business.

## **E-business model**

IBM was one of the first companies to use the term e-business when, in October 1997, it launched a thematic campaign to address the confusion many consumers had about internet-based businesses. The company spent approximately \$500 million on an advertising and marketing campaign to demonstrate the value of the e-business model and to show that IBM had the "talent, the services and the products to help customers capture the benefits of this new way of doing business," according to the company website. By 2000, IBM's e-business revenue had grown to more than \$88 billion from \$64 billion in 1994, and net income had nearly tripled.

There are several types of e-business models. In the business-to-consumer (B2C) model, sellers offer products and services directly to consumers online, and the buyer purchases them via the internet.

Under the business-to-business (B2B) model, companies use the internet to conduct transactions with one another. Unlike B2C transactions, B2B transactions usually involve multiple online transactions at each step of the supply chain.

The consumer-to-business (C2B) model defines a type of e-business where consumers create their own value and demand for goods and services. Reverse online auctions are examples of C2B e-business models, as are airline ticket websites, like Priceline.

Under the consumer-to-consumer (C2C) e-business model, consumers are both buyers and sellers via third-party-facilitated online marketplaces, such as eBay. These C2C e-business models generate revenue through personal ad fees, charging for memberships and subscriptions, and collecting transaction fees.

### **Examples of e-businesses**

Examples of e-businesses include both older companies that successfully transformed themselves for the digital age, as well as newer, born-digital entities. The latter are organizations that advisory firm Gartner has defined as starting after 1995 and as having “operating models and capabilities [that] are based on exploiting internet-era information and digital technologies as a core competency.”

The most notable e-business example is Amazon, which, as the world’s largest e-commerce marketplace and largest internet company based on revenue, has used its e-business model to disrupt numerous established industries, from publishing to supermarkets.

Uber and Lyft, both of which built businesses that match drivers with people needing rides, are other examples. Uber Eats, Uber’s food ordering and delivery platform launched in 2014, is an example of how an e-business can expand in the digital age.

Travel sites like Expedia, Travelocity and TripAdvisor that enable consumers to research, plan and book all or pieces of their trips based on personalized criteria, such as price, consumer ratings, locations and more, are other e-business model examples.

Meanwhile, Schindler Group, a Switzerland-based elevator company that started in 1874, is an example of how a legacy company is incorporating e-business into its organization, as it uses IoT and other digital services to transform the products and services it offers beyond elevators and escalators into internet and mobility services.

### **Advantages of e-business**

E-business has drastically changed how corporations as well as nonprofits, government agencies and other such institutions operate, allowing them to increase productivity, lower costs and move more quickly.

For example, electronic invoicing, automated billing and digital payment systems decrease the time workers must devote to these tasks, which many businesses handled manually just a few decades ago. As a result of the time savings, businesses can either

decrease their head count or shift worker time to higher-value tasks. Additionally, such digital systems reduce the time between invoicing and payment, thereby improving cash flow for the business.

Electronic communication systems, such as email, video conferencing and online collaboration platforms that incorporate the dynamics of social media, likewise increase productivity by decreasing delays between inquiries and responses. That's true whether the communication is between employees, employees and external business partners, or employees and customers.

The increased speed also results in faster decision-making, making companies more agile and responsive to stakeholder needs and market demands overall. Electronic communication systems also save money by eliminating, in some cases, employee travel for collaboration purposes, while also supporting more open, collaborative cultures by making it easier for employees in any position, in any department and wherever they're physically based to contribute ideas.

The digital systems that power e-business can also extend an organization's reach beyond its brick-and-mortar walls. Cloud-based business applications enable workers to perform their jobs from home and other remote locations, such as client sites. Similarly, cloud-based applications and the 24/7 nature of the internet allows business transactions to continue around the clock and around the globe, giving even solo practitioners and small businesses the ability to be global enterprises.

Digital systems, and particularly emerging technologies such as machine learning and artificial intelligence, have also improved the ease, speed and effectiveness of numerous e-business tasks, such as archiving information, searching stored data for insights, recording financial transactions and connecting with customers with personalized messaging.

More importantly, however, the rise of advanced e-commerce software and services have delivered new capabilities to organizations, such as email marketing, and created new avenues to sell their goods and services, such as online stores. E-commerce software has enabled the creation of entirely new business models, such as eBay's capacity for consumer-to-consumer and business-to-consumer sales and social networking sites such as Facebook. The e-commerce platform Shopify offers people the ability to create online stores by providing the infrastructure and e-commerce software to sell their own goods.

### **Types of e-business**

Most organizations today have at least some e-business capabilities to support their core competencies or ancillary functions.

However, the amount of e-business happening within an enterprise varies. Some organizations have limited e-business capabilities: A small business that processes payments using a mobile payment service such as Square, but uses no other digital services, would be such a business. On the other end of the spectrum are those

companies whose business model is fully empowered by electronic and digital services. Rocket Mortgage, an online and mobile-friendly loan product from Quicken Loans, would be an example of that type of e-business.

Although organizations are increasingly using digital services to support a host of functions and capabilities, even those organizations that could be classified as e-commerce entities or fully powered e-business tend to be categorized in traditional terms.

Business and digital authorities still frequently classify e-business as B2B, B2C, C2C and C2B. Some offer additional classes of e-business, such as business-to-government and business-to-employee.

### **Challenges of e-business**

The level and types of challenges with electronic business vary from one organization to the next, depending on a host of factors from whether they use digital services to enable e-business in only parts of their operations, to whether digital services power their core value proposition, to whether they have legacy technology infrastructure or were born digital.

However, some common challenges exist. Those challenges include the following:

- Securing e-business services against cyberattacks;
- Scaling services fast enough to meet demand without jeopardizing performance;
- Evolving their technologies fast enough to keep pace with changing market dynamics;
- Finding and training workers who can keep pace with skills that constantly need to evolve; and
- Keeping pace with e-business capabilities that, by their electronic nature, are always on.

Additionally, many companies struggle to progress from siloed instances of e-business within their organization to integrating e-business services and using them to transform themselves into digital operations, where the various e-business elements converge and work seamlessly together.

### **Security and risks**

E-business tactics offer advantages such as reaching a wider customer base and faster transactions, but they also come with associated risks. For example, e-business creates huge data security risks, because customers are often required to provide sensitive information, such as contact information and credit card numbers, during e-business transactions. This information is enticing to hackers and particularly vulnerable to data breaches, so e-business website owners are responsible for incorporating methods, such as data encryption, to ensure secure transactions. Failure to ensure data integrity and incorporate appropriate data security measures creates the risk of fines and the loss of customer loyalty.

Because successful e-business relies on swift, secure online transactions, even something as simple as a bad web hosting service creates a financial risk for these companies. Crashed servers and insufficient bandwidth lead to persistent website downtime and customer dissatisfaction, so companies must invest in well-known, reliable hosting providers that can, in turn, drive up the costs associated with running a successful e-business.

There are marketing risks when it comes to e-business, as well. All types of businesses rely on effective marketing to drive growth and sales, but online marketing techniques are much different from traditional, offline ones. Without an effective marketing campaign specifically tailored to promote e-business, an organization creates huge financial risk by investing in marketing resources that do not drive consumer traffic to the transaction websites. E-businesses are also vulnerable to systematic risk that influences the entire online market segment. For example, the dot-com crash of 2000 to 2001 began after several e-business startups went public and were purchased by other e-businesses. These e-businesses had little cash flow, and many valued growth over financial stability. This created an unsustainable economic bubble that ultimately put many of these companies out of business when it burst.

### **E-business vs. E-commerce**

E-commerce and e-business are similar, but not synonymous, as e-commerce refers narrowly to buying and selling products online, whereas e-business defines a wider range of business processes by including aspects such as supply chain management, electronic order processing and customer relationship management designed to help the company operate more effectively and efficiently. Thus, e-commerce should be seen as a subset of e-business.

E-business processes can be handled in-house through a company's own network or outsourced to providers that specialize in these specific aspects of the transaction. In contrast, the e-commerce definition is much clearer and basically describes any part of the processes via which online orders are made and paid for. For example, a customer making an online order but picking it up at the brick-and-mortar store is an example of an e-commerce transaction.

# Business Environment, Characteristics, Scope, Features, Components

---

December 9, 2022

Business Environment means a collection of all individuals, entities and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival.

## **Characteristics of the business environment:**

### **(1) Totality of External Forces:**

Business environment is the sum totals of all those factors/forces which are available outside the business and over which the business has no control. It is the group of many such forces that is why, its nature is of totality.

### **(2) Specific and General Forces:**

The forces present outside the business can be divided into two parts – specific and general.

#### **(i) Specific:**

These forces affect the firms of an industry separately, e.g., customers, suppliers, competitive firms, investors, etc.

#### **(ii) General:**

These forces affect all the firms of an industry equally, e.g., social, political, legal and technical situations.

### **(3) Interrelatedness:**

The different factors of business environment are co-related. For example, let us suppose that there is a change in the import-export policy with the coming of a new government.

In this case, the coming of new government to power and change in the import-export policy are political and economic changes respectively. Thus, a change in one factor affects the other factor.

### **(4) Dynamic Nature:**

As is clear that environment is a mixture of many factors and changes in some or the other factors continue to take place. Therefore, it is said that business environment is dynamic.

### **(5) Uncertainty:**

Nothing can be said with any amount of certainty about the factors of the business environment because they continue to change quickly. The professional people who determine the business strategy take into consideration the likely changes beforehand.

But this is a risky job. For example, technical changes are very rapid. Nobody can anticipate the possibility of these swift technical changes. Anything can happen, anytime. The same is the situation of fashion.

### **(6) Complexity:**

Environment comprises of many factors. All these factors are related to each other. Therefore, their individual effect on the business cannot be recognised. This is perhaps the reason which makes it difficult for the business to face them.

### **(7) Relativity:**

Business environment is related to the local conditions and this is the reason as to why the business environment happens to be different in different countries and different even in the same country at different places.

## **Scope**

### **Identifies Business Opportunities and Threats**

Business environment helps business in identification of various opportunities and threats. When business is able to detect market opportunities timely, they can easily take advantages of such opportunity at earliest. They can earn maximum returns by availing such opportunity before the competitors. By proper interaction between business and its environment all threats can be easily detected. It will enable business in taking corrective measures timely.

### **Helps in Planning and Policy Formulation**

Proper understanding of business environment helps in formulating better policies and strategies. It conveys all current information regarding market conditions to business. All opportunities and threats are scanned through the study of the business environment. Businessmen are properly aware of environment and thereby take all decisions according to it. Their entire plan can be changed effectively and efficiently through environmental awareness.

### **Provides Useful Resources**

Business depends on the environment in which they operate for several resources. Business environment supplies several inputs like raw materials, capital and labour which are used by the business for its operations. These inputs are converted into goods and services for satisfying the needs of the market. Without proper supply of inputs, business cannot continue its operations. It is fully dependent upon environment for taking inputs and delivering the required goods or services.

## **Improves Performance**

Business environment has an effective role in accelerating the overall performance of business organisations. Through continuous environmental awareness, managers update their knowledge and skills. Environmental study serves as the medium of educating management. Monitoring of environment provides qualitative information which helps in developing strategic thinking. It enables managers to adopt suitable management practices to control and improve the performance of business.

## **Helps in Coping with Rapid Changes**

Factors which constitute business environment are dynamic in nature. They keep on changing continuously from time to time. These changes include changes in customer's preferences, fashion, technology, economic conditions etc.

Proper understanding of the business environment helps business in detecting all these frequently occurring changes easily. It enables them in dealing with these changes efficiently by taking appropriate actions at right time. Managers through continuous monitoring of environment are sensitive to such changes and respond effectively.

## **Enhances Business Image**

Business through proper understanding of its environment are able to improve its public image. They are more responsive and sensitive to the environmental needs through proper knowledge of business environment. Study of environment provides them information for making realistic plans and implementing them effectively. Businesses are able to provide better service and serve the interest of entire society. People are happy with the business and develop confidence towards it. This enables in developing a better image in market.

## **Assist in Facing Competition**

Business environment communicates all details about competitors in market to business. Awareness regarding the actions and strategies of competitors is crucial for every business for meeting competition effectively. It helps business in formulating plans and policies in accordance with the competitor's actions. Businesses are able to face challenges and competition in market through systematic planning in an efficient way.

## **Significance/Features of Business Environment**

**Dynamic:** The environment in which the business operates changes continuously because there is a wide variety of factors that exist in the environment, causing it to change its shape and character.

**Complex:** There are many forces, events and conditions that constitute business environment, arising from various sources. So, it is a bit difficult to understand the relative influence of a particular factor, on the operation of the organisation.

**Uncertain:** Uncertainty is an inherent characteristic of the business environment because no one can predict what is going to happen in future.

**Multi-faceted:** A single change in the business environment, can be viewed differently by different observers because their perceptions vary.

**Far-reaching Impact:** The survival, growth and profitability, of a business enterprise, depends largely on the environment in which it exists. A small change in the environment has a far-reaching impact on the organisation in different ways.

**Relative:** The notion of a business environment is relative since it varies from one location to another.

## **Components**

The business environment is always changing and is uncertain. It is because of this that it is said that the business environment is the sum of all the factors outside the control of management of a company the factors which are constantly changing and they carry with them both opportunities and risks or uncertainties which can make or mar the future of business.

### **(i) Economical Environment:**

Economic Environment consists of Gross Domestic Product, Income level at national level and per capita level, Profit earning rate, Productivity and Employment rate, Industrial, monetary and fiscal policy of the government etc.

The economic environment factors have immediate and direct impact on the businessman so businessmen must scan the economic environment and take timely actions to deal with these environments. Economic environment may put constraints and may offer opportunities to the businessman. After the new economic policy of 1991, lots of opportunities are offered to businessmen. The common factors which have influenced the Indian economic environment are

**(a)** Banking sector reform has led to many attractive schemes of deposits and lending money. The Banks are offering loans at very nominal rate of interest and with minimum formalities to be completed.

**(b)** Recent changes in economic and fiscal policy of country have encouraged NRIs and foreign investors to invest in Indian companies.

**(c)** Lots of economic reforms are taking place in leasing and financing institutions. The private sector is allowed to enter in financial institutions; as a result customers are gaining.

Some Aspects of Economic Environment:

1. Role of Private and Public sector

2. Rate of growth of GDP, GNP, and Per Capita Income
3. Rate of Saving and Investment
4. Balance of Trade
5. Balance of Payment
6. Transport and Communication System
7. Money Supply in the Economy
8. International Debt

**(ii) Social Environment:**

Social Environment consists of the customs and traditions of the society in which business is existing. It includes the standard of living, taste, preferences and education level of the people living in the society where business exists.

The businessman cannot overlook the components of social environment as these components may not have immediate impact on the business but in the long run the social environment has great impact on the business.

For example, when the Pepsi Cola Company used the slogan of “Come Alive” in their advertisement then the people of a particular region misinterpreted the word “Come Alive” as they assumed it means Coming out of Graves. So, they condemned the use of the product and there was no demand of Pepsi Cola in that region. So, the company had to change its advertisement slogan as it cannot survive in market by ignoring the sentiments of the people.

In India also, there are many Social reforms taking place and the common factors of Indian Social Environment are:

- (a)** Demand for reservation in jobs for minority and women
- (b)** Demand for equal status of women by paying equal wages for male and female workers
- (c)** Demand for automatic machines and luxury items in middle class families
- (d)** The social movements to improve the education level of girl child.
- (e)** Health and Fitness trend has become popular.

Some Aspects of Social Environment:

1. Quality of life
2. Importance or place of women in workforce
3. Birth and Death rates
4. Attitude of customers towards innovation, life style etc.
5. Education and literacy rates
6. Consumption habits
7. Population

## 8. Tradition, customs and habits of people

### **(iii) Political Environment:**

Political environment constitutes all the factors related to government affairs such as type of government in power, attitude of government towards different groups of societies, policy changes implemented by different governments etc. The political environment has immediate and great impact on the business transactions so businessman must scan this environment very carefully.

The businessman has to make changes in his organisation according to the changing factor of political environment. For example, in 1977 when Janata Government came in power they made the policy of sending back all the foreign companies. As a result the Coca Cola Company had to close its business and leave the country.

The common factors and forces which have influenced the Indian political environment are:

**(a)** The government in Hyderabad is taking keen interest in boosting I.T. industry, as a result the state is more commonly known as Cyber bad instead of Hyderabad.

**(b)** After the economic policy of liberalisation and globalisation, the foreign companies got easy entry in India. As a result, the Coca Cola which was sent back in 1977 came back to India. Along with Coca Cola, Pepsi Cola and many other foreign companies are establishing their business in India.

Some Aspects of Political Environment:

1. Present political system
2. Constitution of the country
3. Profile of political leaders
4. Government intervention in business
5. Foreign policy of government
6. Values and ideology of political parties

### **(iv) Legal Environment:**

Legal environment constitutes the laws and various legislations passed in the parliament. The businessman cannot overlook the legislations because he has to perform his business transactions within the framework of legal environment.

The common legislation passed which has affected the business transactions are Trade Mark Act, Essential Commodity Act, Weights and Measures Act, etc. Most of the time legal environments put constraints on the businessman but sometimes they provide opportunities also. The common instances of Indian legal environment which have influenced business transactions recently are:

1. Deregulation of capital market has made it easy for businessman to collect capital from primary market.
2. Removal of control from the foreign exchange and liberalisation in investment is encouraging foreign investors and NRIs to invest in Indian capital market.
3. Advertisement of alcoholic product is prohibited.
4. Compulsory to give statutory warning in Tobacco production.
5. Delicensing policy of industries.

Some Aspects of Legal Environment:

1. Various laws and legislative acts.
2. Legal policies related to licensing.
3. Legal policies related to foreign trade.
4. Statutory warnings essential to be printed on label.
5. Foreign Exchange Regulation and Management Act.
6. Laws to keep a check on Advertisements.

#### **(v) Technological Environment:**

Technological environment refers to changes taking place in the method of production, use of new equipment and machineries to improve, the quality of product. The businessman must closely monitor the technological changes taking place in his industry because he will have to implement these changes to remain in the competitive market.

Technological Environment

Technological changes always bring quality improvement and more benefits for customers. The recent technological changes of Indian market are:

1. Digital watches have killed the prospects and the business of traditional watches.
2. Color T.V. technology has closed the business of black and white T.V.
3. Artificial fabric has taken the market of traditional cotton and silk fabrics.
4. Photo copier and Xerox machines have led to the closure of carbon paper business.
5. Shift in Demand from vacuum tubes to transistors.
6. Shift from steam locomotives its diesel and electric engine.
7. From typewriter to Word Processors.

Some Aspects of Technological Environment:

1. Various Innovations and Inventions.
2. Scientific Improvements.
3. Developments in IT sector
4. Import and Export of Technology.
5. Technological Advances in Computers.

## **Regulator of Business:**

The entire regulatory legislation and policies **stand** covered under this segment. On the one hand, there is a very large indirect area of government control over the functioning of private sector business through budgetary and monetary policies.

But against this there is also a fast-expanding area of direct administrative or physical controls through which the government seeks to ensure that private investment and production in industry and the use of scarce resources conform to government's basic socio-economic objectives.

They have become necessary tools in a system which seeks to avoid total nationalisation of resources.

Government's regulatory functions with regard to trade, business and industry aim at laying down the limits for the private enterprise. The regulatory functions of the Government include:

**(i)** Restraints on private activities

**(ii)** Control of monopoly and big business

**(iii)** Development of public enterprises as an alternative to private enterprises to ensure competitive dualism

**(iv)** Maintenance of a proper socio-economic infrastructure.

## **Promoter of Business:**

The promotional role of the government in relation to industries can be seen as providing finance to industry, in granting various incentives and in creating infrastructure facilities for industrial growth and investment.

For example, our government has identified certain backward areas as 'No Industry Districts'. To promote development of such areas, Government provides subsidies and tax holiday to attract investment in backward areas.

In this way the government will help the process of balanced development and thereby remove regional disparities. The government is assisting the development of small scale industries.

The District Industrial Centers are assisting the development of small industries. The government is actively helping the industrial development of the country by providing finance to them through the development banks.

## **Government as the Planner:**

In its role as a planner, the government indicates various priorities in the Five Year Plans and also the sectoral allocation of resources. Mixed economies are democratically planned economies.

The government tries to manage the economy and its business activities through the exercise of planning. Planning is the most important activity in a modern mixed economy. The idea of economic planning can be traced to three different sources: Rationalism, Socialism and Nationalism.

Economists advocate a planned economy on the ground that it can be a rational economy which can utilize the available resources in an optimal manner.

In other words, the planned economy is a rational economy which attempts to secure the maximum return with minimum wastage of productive resources.

The socialists advocate a planned economy because it helps to achieve some desirable social ends like economic equality. An unplanned economy, left to it, is incapable of attaining the social ends.

The nationalists advocate a planned economy because a planned economy is a powerful economy.

## **The Government's responsibilities towards business are as follows:**

### **Providing Monetary System**

The Government has to provide monetary system so that business transactions can be effected. Further, it is also the responsibility of the Government to regulate money and credit, and protect the money value of the currency in terms of other currencies.

### **Incentives to Home Industries**

It is the responsibility of the Government to encourage the development of home industries by providing them various incentives and subsidies.

### **Conducting Inspections**

It is the responsibility of the Government to inspect the private business concerns in order to make sure that they produce quality products, and also to prevent the production and sale of sub-standard goods.

### **Transfer of Technology**

It is the responsibility of the Government to transfer to private industries whatever discoveries are made by the Government owned Research Institutions so that they can be used for commercial production.

## **Assistance to Small-scale Industries**

It is the responsibility of the Government to provide the required facilities and encourage the development of small-scale industries to overcome the problem faced by them.

## **Supply of Information**

It is the responsibility of the Governments to provide information, which is useful to businessmen in carrying out their business activities. Government agencies publish and provide a large volume of information, which is used extensively by business firms. This information normally relates to economic and business activity, specific lines of business, scientific and technological developments, and many other things of interest to business houses or business leaders.

## **Provision of Basic Infrastructure**

Government should provide basic infrastructural facilities such as transportation, power, finance, trained personnel and civic amenities, which are indispensable for the effective functioning of business concerns.

## **Balanced Regional Development and Growth**

It is the responsibility of the Government to make sure that there are balanced regional developments and growth.

## **Maintaining Law and Order**

Maintaining law and order and protecting persons and property is another responsibility of the Government of the country. It would be impossible to carry on business in the absence of a peaceful atmosphere.

## **Enacting and Enforcing Laws**

Enacting and enforcing laws is the prime responsibility of the Government of each country. This is because laws and regulations only enable the businesses to function smoothly. Further, Government provides a system of court for adjudicating differences between firms, individual or Government agencies.