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INDEX

S.NO	TABLE OF CONTENTS	PAGE NO
1.	Business	3
2.	Scope	4
3.	Characteristics	5
4.	Goals	6
5.	Criticisms	8
6.	Business Environment	9
7.	Objectives	10
8.	Types	10
9.	Economic Environment	11
10.	Concept	14
11.	Factors	15
12.	Basic Economic System	16
13.	Economic Planning	17
14.	Privatization	19
15.	Nature	20
16.	Objectives	20
17.	Political Environment	21
18.	Political Institutions	22
19.	Legislature	22
20.	Executives	23
21.	Judiciary	23
22.	Government in Business	24
23.	Regulatory	25
24.	Intervention	26
25.	Participatory Roles	28
26.	Financial Environment	32
27.	Financial System	38
28.	RBI	42
29.	Commercial Banks	43
30.	International Economic Institutions	45
31.	World Bank	50
32.	IMF	47
33.	WTO	46
34.	Social Environment	52
35.	Cultural Environment	53
36.	Impact of Culture on Business	53
37.	People’s Attitude to Business Work	54
38.	Business and Society	55
39.	Social Resposibility of Business	59
40.	CSR	57

UNIT - I

What Is a Business?

A business is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities. Businesses can be for-profit entities or non-profit organizations that operate to fulfill a charitable mission or further a social cause.

The term *business* also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit. Businesses range in scale from a sole proprietorship to an international corporation. Several lines of theory are engaged with understanding business administration including organization theory, and strategic management.

Scope of Business or, Nature of Business

The scope of **business** is very comprehensive. It encompasses all human activities, which tend to satisfy needs and wants of the human beings living in a society. A large part of the business is concerned with providing the final or finished products or goods to the desired people.

Business is universal and everywhere. It is essential to ensure the production and distribution of goods and services to satisfy the economic wants of people at a profit. The nature and scope of business are changing very quickly. The people, who are engaged in business, must have to cope with the changing environment because the people's attitudes, habits, testes, likes and dislikes, norms, beliefs, values, perceptions and motives are changing with the change of time.

Profit earning cannot be the sole motive of business activity. Businessmen do have a social responsibility too that must be met. ***Business*** organizations produce goods and services to generate profit but such activities create impact on society as well as the whole community. The responsibility of businessman is to provide the goods and services in a way which is not harmful to the society.

Business may be understood as the organized efforts of enterprise to supply consumers with goods and services for a profit. Businesses vary in size, as measured by the number of employees or by sales volume. But, all businesses share the same purpose: to earn profits. The purpose of business goes beyond earning profit.

There are: • It is an important institution in society. • Be it for the supply of goods and services • Creation of job opportunities • Offer of better quality of life • Contributing to the economic growth of the country. Hence, it is understood that the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

Scope of Business – Components of Business

Industry

The word “Industry” refers to that part of business activities which is apprehensive with the extraction, production or fabrication of products. The products which are raised, produced or processed by an industry may either be used by the ultimate consumer or by another concern for further production. If the goods produced by an industry are consumed by the final customers, these are named as ‘consumer’s goods’ e.g. clothes. If the goods are used for further production of wealth they are called producer’s or capital goods. In case the goods produced by an industry are further processed into finished products by another concern they are called as intermediate goods. i.e Plastic.

Trade

The process of buying and selling of goods is called Trade. It is the exchange of goods and services among buyers and sellers in which both the parties are benefited. Trade is classified into two types.

Internal Trade

The process of buying and selling of goods within the edge of a country is called internal trade.

1- Wholesale Trade. The process of purchase of goods in huge quantity from producers and their resale to retailers is known as wholesale trade. The retailer then further sells these goods to the final consumers.

2- Retail Trade. The retailer sale the goods and services to the ultimate consumers is known as Retail Trade.

External Trade:

The purchase and sale of goods between two countries are called external trade. It is also called foreign trade. There are two types of external Trade.

Import Trade ii. Export Trade.

Aid to Trade

The activities which help in the purchase of goods and services are called aids to trade. The aids which are compulsory for the development of the trade are as follows:-

Transport

The different ways of transport help in carrying goods from the places of production to centers of utilization e.g. Railways, ships, airlines etc.

Insurance

Insurance is very essential aid to trade. The risk of damage of goods due to fire, flood, earthquake or other causes us covered by insurance.

Warehousing

Warehousing is a kind of storeroom. Nowadays most of the goods are produce in anticipation of demand. They are stored in safe places and are released as and when demanded in the market. Warehousing thus helps in overcoming the barrier of time and creates time utility.

Banking

The commercial banks play a vital role in financing the different trade activities. They are funding the traders for stock holding and transportation of goods. They also support the buyers and sellers of goods in receiving and making payments, both at the national and worldwide level. The credit facility in the form of cash credit, overdrafts and loans is provided to the traders.

Advertisement

Selling of goods is the most difficult problem for the producer. Advertisement regarding the product through newspapers, magazines, radio and television has greatly helped the consumers in choosing the goods of their taste. So advertisements play a vital role in increasing sale of goods.

What are the Characteristics of Business?

1. Creation of utilities:

Business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods. In the words of Roger, “a business exists to create and deliver value satisfaction to customers at a profit”.

Business enables people to satisfy their wants more effectively and economically. It carries goods from place of surplus to the place of scarcity (place utility). It makes goods available for use in future through storage (time utility).

2. Dealings in goods and services:

Every business enterprise produces and/or buys goods and services for selling them to others. Goods may be consumer goods or producer goods.

Consumer goods are meant for direct use by the ultimate consumers, e.g., bread, tea, shoes, etc. Producer goods are used for the production of consumer or capital goods like raw materials, machinery, etc. Services like transport, warehousing, banking, insurance, etc. may be considered as intangible and invisible goods

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Services facilitate buying and selling of goods by overcoming various hindrances in trade.

3. Continuity in dealings:

Dealings in goods and services become business only if undertaken on a regular basis. According to Peterson and Plowman, "a single isolated transaction of purchase and sale will not constitute business recurring or repeated transaction of purchase and sale alone mean business."

For instance, if a person sells his old scooter or car it is not business though the seller gets money in exchange. But if he opens a shop and sells scooters or cars regularly, it will become business. Therefore, regularity of dealings is an essential feature of business.

4. Sale, transfer or exchange:

All business activities involve transfer or exchange of goods and services for some consideration. The consideration called price is usually expressed in terms of money. Business delivers goods and services to those who need them and are able and willing to pay for them.

For example, if a person cooks and serves food to his family, it is not business. But when he cooks food and sells it to others for a price, it becomes business. According to Peter Drucker "any organisation that fulfils itself through marketing a product or service is a business".:

5. Economic activity:

Business is primarily an economic activity as it involves production and distribution of goods and services for earning money. However, business is also a social institution because it helps to improve the living standards of people through effective utilisation of scarce resources of the society.

Only economic activities are included in business. Non-economic activities do not form a part of business.

6. Art as well as science:

Business is an art because it requires personal skills and experience. It is also a science because it is based on certain principles and laws.

The above mentioned characteristics are common to all business enterprises irrespective of their nature, size and form of ownership.

Goals are used to help a business grow and achieve its objectives. They can be used to foster teamwork and help the business describe what it wants to accomplish. Setting goals is an important part of any business plan.

Business Goals

Part of the planning process, **business goals** describe what a company expects to accomplish over a specific period of time. Businesses usually outline their goals and objectives in their business plans. Goals might pertain to the company as a whole, departments, employees, customers, or any other area of the business.

Profit - Making profit is the primary goal of any business enterprise.

Growth - Business should grow in all directions over a period of time.

Power - Business houses have vast resources at its command. These resources confer enormous economic and political power.

Employee satisfaction and development - Business is people. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.

Quality Products and Services - Persistent quality of products earns brand loyalty, a vital ingredient of success.

Market Leadership - To earn a niche for oneself in the market, innovation is the key factor.
Challenging - Business offers vast scope and poses formidable challenges.

Joy of creation - It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services.

Service to society - Business is a part of society and has several obligations towards it.

The Importance of Business Goals

Businesses should not fear setting goals because there is absolutely no downside to the process. Goals give a business direction and help measure results. There are four detailed and important reasons why a business should have goals.

1. Measure success - Good organizations should always be trying to improve, grow, and become more efficient. Setting goals provides the clearest way to measure the success of the company.

2. Leadership cohesion - Setting goals ensures that everyone understands what the organization is trying to achieve. When the leadership team clearly understands what the business is trying to accomplish, it provides greater rationale for the decisions management might make regarding hiring, acquisitions, incentives, sales programs, etc.

3. Knowledge is power - If an employee knows and understands the goals, it becomes easier for him or her to make daily decisions based on the long- and short-term goals that were established.

4. Reassess goals - When goals are set, they can be monitored on a regular basis to verify the business is headed in the right direction. If the business is not achieving or moving towards accomplishing its goals, then changes or adjustments need to be made.

Pitfalls of Developing Business Goals

Setting business goals can go wrong if not done correctly. Seasoned business managers put a great deal of time and energy into developing and implementing business goals. There are two big pitfalls a business manager should try to avoid.

1. Setting unrealistically high goals - When a goal is perceived to be unreachable, no effort will be made by the employees to achieve them. A businessperson needs to set realistic goals so that the employees can come together as a team to achieve them.

2. Setting vague and ambiguous goals - Goals that are not specific enough do not lead to action and are useless. If achievements cannot be measured against the businesses expectations, then a manager cannot observe any progress towards the goal.

Criticisms in Business :-

The notion of a legally sanctioned corporation remains controversial for several reasons, most of which stem from the granting of corporations both limited liability on the part of its members and the status and rights of a legal person. Some opponents to this granting of "personhood" to an organization with no personal liability contend that it creates a legal entity with the extensive financial resources to co-opt public policy and exploit resources and populations without any moral or legal responsibility to encourage restraint.

Divisions between labor, management, and owners

Adam Smith in *The Wealth of Nations* criticized the joint-stock company corporate form because the separation of ownership and management could lead to inefficient management.

The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own.... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.

The context for Adam Smith's term for "companies" in *The Wealth of Nations* was the joint-stock company. In the 18th century, the joint-stock company was a distinct entity created by the King of Great Britain as Royal Charter trading companies. These entities were sometimes awarded legal monopoly in designated regions of the world, such as the British East India Company.

Furthermore, the context of the quote points to the complications inherent in chartered joint-stock companies. Each company had a Courts of Governors and day-to-day duties were overseen

by local managers. Governor supervision of day-to-day operations was minimal and was exacerbated by the poor communications of the 18th century.

Bribery and corruption were inherent in this type of corporate model as the local managers sought to avoid close supervision by the Courts of Governors, politicians, and Prime Ministers. In these circumstances, Smith did not consider joint-stock company governance to be honest. More importantly, the East India Company demonstrated inherent flaws in the corporate form. The division between owners and managers in a joint-stock company, and the limited legal liability this division was based on guaranteed that stockholders would be apathetic about a company's activities as long as the company continued to be profitable. Just as problematic, the laws of agency upon which the corporate form was based allowed for boards of directors to be so autonomous from and unconstrained by stockholder wishes that directors became negligent and ultimately self-interested in the management of the corporation.

BUSINESS ENVIRONMENT

Environment refers to all external forces, which have a bearing on the functioning of business. Environment factors “are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.

TYPES OF ENVIRONMENT

Environment includes such factors as socio-economic, technological, supplier, competitor and the government. There are two more factors, which exercise considerable influence on business. They are physical or natural environment and global environment.

Technological Environment Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

Economic Environment There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units

. Political Environment It refers to the influence exerted by the three political institutions viz., legislature executive and the judiciary in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth.

Natural Environment Business, an economic pursuit of man, continues to be dictated by nature. To what extend business depends on nature and what is the relationship between the two constitutes an interesting study.

Global or international Environment Thanks to liberalization, Indian companies are forces to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment.

Social and culture Environment It refers to people's attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business.

Objectives of Business Environment

Business may be understood as the organized efforts taken by an enterprise to supply the consumer with goods & services. Business varies in size if measured by the number of employees or by sales volume irrespective of its small or large size all of the businesses aim in making a profit. It is an important institution in society. following are few objectives of a business.

1)Profit

making a profit is the primary goal of any business. Enterprise profit is the excess of income & expenditure. It is the main incentive, motivator, strong sustainer to run the business by allocating various needed resources.

2) Growth

Growth is another primary objective of business. Enterprise should grow in all directions over a period of time

following are strategies adopted to achieve growth

a) Add More products in the market.

b)Diversification into a new area.

c) Integration forward or backward.

d) Increase market share.

e) Expand the market.

3) Employee Satisfaction & Development

4) Market Leadership To earn market leadership is yet another objective of business. Innovation is the key to earn a good market innovation may be a product, advertising, distribution, finance etc.

5) Quality Products & Services Those who maintain the quality are only survived in competition. Persistent quality, product earns brand loyalty are a vital ingredient for success.

6) Challenging The business offers vast scope & faces huge challenges. Business who sustains in failure betrays their inability & incompetence can accept the challenges in the environment and makes the business successful are only able to sustain in the cutthroat competition

UNIT – II

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

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Demand

Supply

Competitors

Suppliers

Distribution chain, such as retail stores

Interest rates :- **Interest rate on business** loan depends upon your **business**, the loan amount you have applied for and your past relationship with the bank.
Current **rate** of **interest** on **business** loan starts at 13.50%. Processing fees – Most banks charges minimum processing fees of 2% to 3% on loans.

Taxes :-

The form of business you operate determines what taxes you must pay and how you pay them. The following are the five general types of business taxes.

Income Tax

Estimated Taxes

Self-Employment Tax

Employment Taxes

Excise Tax

Income Tax

All businesses except partnerships must file an annual income tax return. Partnerships file an information return. The form you use depends on how your business is organized. Refer to Business Structures to find out which returns you must file based on the business entity established.

The federal income tax is a pay-as-you-go tax. You must pay the tax as you earn or receive income during the year. An employee usually has income tax withheld from his or her pay. If you do not pay your tax through withholding, or do not pay enough tax that way, you might have to pay estimated tax. If you are not required to make estimated tax payments, you may pay any tax due when you file your return. For additional information refer to Publication 583.

Estimated tax

Generally, you must pay taxes on income, including self-employment tax (discussed next), by making regular payments of estimated tax during the year. For additional information, refer to Estimated Taxes.

Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. Your payments of SE tax contribute to your coverage under the social security system. Social security coverage provides you with retirement benefits, disability benefits, survivor benefits, and hospital insurance (Medicare) benefits.

Generally, you must pay SE tax and file Schedule SE (Form 1040) if either of the following applies.

If your net earnings from self-employment were $400 or more.

If you work for a church or a qualified church-controlled organization (other than as a minister or member of a religious order) that elected an exemption from social security and Medicare taxes, you are subject to SE tax if you receive $108.28 or more in wages from the church or organization.

Note: There are **special rules** and **exceptions** for aliens, fishing crew members, notary public, state or local government employees, foreign government or international organization employees, etc. For additional information, refer to Self-Employment Tax.

Employment Taxes

When you have employees, you as the employer have certain employment tax responsibilities that you must pay and forms you must file. Employment taxes include the following:

Social security and Medicare taxes

Federal income tax withholding

Federal unemployment (FUTA) tax

For additional information, refer to Employment Taxes for Small Businesses.

Excise Tax

This section describes the excise taxes you may have to pay and the forms you have to file if you do any of the following.

Manufacture or sell certain products.

Operate certain kinds of businesses.

Use various kinds of equipment, facilities, or products.

Receive payment for certain services.

Form 720 - The federal excise taxes reported on Form 720, consist of several broad categories of taxes, including the following.

Environmental taxes.

Communications and air transportation taxes.

Fuel taxes.

Tax on the first retail sale of heavy trucks, trailers, and tractors.

Manufacturers taxes on the sale or use of a variety of different articles

Form 2290 - There is a federal excise tax on certain trucks, truck tractors, and buses used on public highways. The tax applies to vehicles having a taxable gross weight of 55,000 pounds or more. Report the tax on Form 2290. For additional information, see the instructions for Form 2290 .

Form 730 - If you are in the business of accepting wagers or conducting a wagering pool or lottery, you may be liable for the federal excise tax on wagering. Use Form 730, to figure the tax on the wagers you receive.

Form 11-C - Use Form 11-C, Occupational Tax and Registration Return for Wagering, to register for any wagering activity and to pay the federal occupational tax on wagering.

Excise tax has several general excise tax programs. One of the major components of the excise program is motor fuel. For additional information, refer to Excise Taxes

Inflation :- . **Inflation** is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over a period of time. ... Often expressed as a percentage, **inflation** indicates a decrease in the purchasing power of a nation's currency

Currency exchange rates :- An international exchange rate, also known as a foreign exchange (FX) rate, is the price of one country's currency in terms of another country's currency. Foreign exchange rates are relative and are expressed as the value of one currency compared to another.

Consumer discretionary income :- It can basically be defined as any **income** remaining after all essential expenses have been paid. ...**Businesses** are often concerned over how much **discretionary income consumers** have because this is the money that the **consumers** have left to purchase non-essential goods and services.

A **savings rate :- It** is the amount of money, expressed as a **percentage** or ratio, that a person deducts from his disposable personal income to set aside as a nest egg or for retirement.

Consumer confidence:- **Consumer confidence** is an economic indicator that measures the **degree** of optimism that **consumers** feel about the overall state of the economy and their personal financial situation.

Unemployment rate:- The **unemployment rate** is defined as the **percentage** of **unemployed** workersinthetotallabor force. **Unemployment** tends to be cyclical and decreases when the economy expands as companies contract more workers to meet growing demand. **Unemployment** usually increases as economic activity slows.

Recession :- A **recession** is a **business** cycle contraction when there is a general decline in economic activity. Recessions generally occur when there is a widespread drop in spending (an adverse demand shock).

Depression :- A **depression** is a sustained, long-term downturn in economic activity in one or more economies. It is a more severe economic downturn than a recession, which is a slowdown in economic activity over the course of a normal **business** cycle.

Market size :- Market size is the number of individuals in a certain **market** segment who are potential buyers. **Companies** should determine **market size** before launching a new product or service.

Demand :- Demand is the quantity of a good or service that consumers and **businesses** are willing and able to buy at a given price in a given time period. Market **demand** is the sum of the individual **demand** for a product from buyers in the market.

Supply :- Supply is a fundamental economic concept that describes the total amount of a specific good or service that is available to consumers. **Supply** can relate to the amount available at a specific price or the amount available across a range of prices if displayed on a graph.

competitors :-. Any person or entity which is a rival against another. In **business**, a company in the same industry or a similar industry which offers a similar product or service. The presence of one or more **competitors** can reduce the prices of goods and services as the **companies** attempt to gain a larger market share.

Suppliers :- A **supplier** is an entity that supplies goods and services to another organization. This entity is part of the supply chain of a **business**, which may provide the bulk of the value contained within its products. Some **suppliers** may even engage in drop shipping, where they ship goods directly to the customers of the buyer.

Distribution Chain :- A **distribution channel** is a **chain** of **businesses** or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer. **Distribution channels** can include wholesalers, retailers, distributors, and even the Internet.

Basic Economic System :-A country's economic system is made up of institutions and decision-making structures that determine economic activity. An economic system is the combination of the various agencies and entities that provide the economic structure that defines the social community. These agencies are joined by lines of trade and exchange goods. Many different objectives may be seen as desirable for an economy, like efficiency, growth, liberty, and equality. An economic system may involve production, allocation of economic inputs, distribution of economic outputs, landlords and land availability, households (earnings and expenditure consumption of goods and services in an economy), financial institutions, firms, and the government.

Alternatively, an economic system is the set of principles by which problems of economics are addressed, such as the economic problem of scarcity through allocation of finite productive resources.

Types of Economic Systems

Examples of contemporary economic systems include:

Planned systems

Free market systems

Mixed economies

Today the world largely operates under a global economic system based on the free market mode of production.

Planned Systems

In a planned system, the government exerts control over the allocation and distribution of all or some goods and services. The system with the highest level of government control is communism.

In theory, a communist economy is one in which the government owns all or most enterprises. Central planning by the government dictates which goods or services are produced, how they are produced, and who will receive them. In practice, pure communism is practically nonexistent today, and only a few countries (notably North Korea and Cuba) operate under rigid, centrally planned economic systems.

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Under socialism, industries that provide essential services, such as utilities, banking, and health care, may be government owned. Other businesses are owned privately. Central planning allocates the goods and services produced by government-run industries and tries to ensure that the resulting wealth is distributed equally. In contrast, privately owned companies are operated for the purpose of making a profit for their owners. In general, workers in socialist economies work fewer hours, have longer vacations, and receive more health, education, and child-care benefits than do workers in capitalist economies. To offset the high cost of public services, taxes are generally steep. Examples of socialist countries include Sweden and France.

Free Market System

The economic system in which most businesses are owned and operated by individuals is the free market system, also known as " capitalism. "

In a free market, competition dictates how goods and services will be allocated. Business is conducted with only limited government involvement. The economies of the United States and other countries, such as Japan, are based on capitalism.

In a capitalist economic system:

Production is carried out to maximize private profit.

Decisions regarding investment and the use of the means of production are determined by competing business owners in the marketplace.

Production takes place within the process of capital accumulation.

The means of production are owned primarily by private enterprises and decisions regarding production and investment determined by private owners in capital markets.

Capitalist systems range from laissez-faire, with minimal government regulation and state enterprise, to regulated and social market systems, with the stated aim of ensuring social justice and a more equitable distribution of wealth or ameliorating market failures.

Economic Planning :-

Planning is a pervasive function of management and it chalks out a course of action for the enterprise to follow. Planning enables to provide for uncertain future. Planning makes it possible for things to occur which would not otherwise happen and it is mental exercise which requires the use of intellectual facilities. There are two aspects of Indian Planning:

1.ManagementaspectofIndianPlanning
2. Economic aspect of Indian Planning.

In management aspect of Indian planning, we make use of planning for the betterment of business enterprise. Planning is concerned with thinking before doing and deciding in advance what is to be done, how is it to be done, when is it to be done and who is to do it.

According to Theo Haimann, “Planning is deciding in advance what is to be done. When a manager plans, he projects a course of action for the future, attempting to achieve a consistent, coordinated structure of operations aimed at the desired results”.

Planning is universal and every business unit has to plan its economic activity. Planning lays down the means to achieve objectives. Planning is an intellectual process and requires mental exercise. On the basis of facts and figures, planning lays down a course of action to be followed. Planning is always a continuous and perpetual process and if circumstances prevail, changes and modifications are regularly done in the planned course of action on account of changes in environment. Planning must be precise as to its meaning, scope and nature. Finally, in the nature of planning we can say that it covers the entire enterprise will all its segments and every level of management.

Planning must provide some basic concepts like objectives, policies procedures, programs and budgets. Objectives are basic plans which decide goals or end results of the projected actions of an enterprise, Policies provide guide to action. These are generally statements which guide or channel thinking in decision making of subordinates. Procedures indicate the specific manner in which a certain activity is to be performed. A procedure is thus a standing plan which lays down a sequence of step by step actions that are repeatedly followed. It may be durable like policies, but they are not as flexible as policies are Program lays down the course of action that are executed to obtain established set objectives. Programs are necessary for both repetitive and non-repetitive courses of action. Programs are made of many small plans where each plan contributes to the accomplishment of the overall objectives of the enterprise. Budget is an instrument used by management for planning the future course of business. In other words, budgets are plans containing statements of expected results in numerical terms. Budgets and programs are closely interrelated. Many programs are implemented by means of some budgets; the budgets themselves are very often utilized as the entire program in many business enterprises.

Plans can be divided in a number of ways. A manager prepares various types of plans in order to achieve the objectives of an enterprise. According to the nature and use of planning different plans can be divided into three groups, i.e.

(a)BasicPlans
(b)standingPlans
(c) Master plans.

For all types of planning and operations, basic plans are necessary. The entire planning activity is geared into action through the formulation of objectives and strategies. Standing plans serves as a guideline to managerial action. It provides readymade answers to a given situation. Standing

plans include policies and procedures which have application only in repetitive action. Master plans indicate the complete course of action along with timing and strategy consideration. There are some types of plans, viz.

(i)ShortRangeandLongRangePlans
(ii)FinancialandNon-FinancialPlans
(iii) Formal and Informal Plans

In order to achieve fundamental objectives of the enterprise, a long term plan covering a period of 20 to 25 years are taken. Short range plans are made for guiding the day to day actions of an undertaking. There plans are generally for one year only. Plans dealing with monetary aspects are financial plans and non-financial plans relate to the physical resources of concern. Formal plans are always considered better because they are written whereas informal plans are unwritten and it involves a more thinking on the part of the managers.

PRIVATIZATION :-

Privatization, which has become a universal trend, means transfer of ownership and/or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the state from an industry or sector, partially or fully. Another dimension of privatization is opening up of an industry that has been reserved for the public sector to the private sector. Privatization is an inevitable historical reaction to the indiscriminate expansion of the state sector and the associated problems. Even in the 'communist' countries it became a vital measure of economic rejuvenation.

OBJECTS The objects are: • To improve the performance of PSUs so as to lessen the financial burden on taxpayers. • To increase the size and dynamism of the private sector, distributing ownership more widely in the population at large. • To encourage and to facilitate private sector investments, from both domestic and foreign sources. • To generate revenues for the state • To reduce the administrative burden on the state • Launching and sustaining the transformation of the economy from a command to a market model.

PRIVATISATION ROUTES The important ways of privatization are: • Divestiture, or privatization of ownership, through the sales of equity. • Denationalization or reprivatisation. • Contracting - under which government contracts out services to other organizations that produce and deliver them. • Franchising- authorizing the delivery of certain services in designated geographical areas- is common in utilities and urban transport. • Government withdrawing from the provision of certain goods and services leaving then wholly or partly to the private sector. • Privatization of management, using leases and management contracts • Liquidation, which can be either formal or informal. Formal liquidation involves the closure of an enterprise and the sale of its assets. Under informal liquidation, a firm retains its legal status even though some or all of its operations may be suspended.

BENEFITS The benefits of privatization may be listed down as follows: • It reduces the fiscal burden of the state by relieving it of the losses of the SOEs and reducing the size of the bureaucracy. • Privatization of SOEs enables the government to mop up funds. • Privatization helps the state to trim the size of the administrative machinery. • It enables the government to concentrate more on the essential state functions. • Privatization helps accelerate the pace of economic developments as it attracts more resources from the private sector for development. • It may result in better management of the enterprises. • Privatization may also encourage entrepreneurship. • Privatization may increase the number of workers and common man who are shareholders. This could make the enterprises subject more public vigilance.

CRITICISMS Some of the important argument against privatization is as follows: • The public sector has been developed with certain noble objectives and privatization means discarding them in one stroke. • Privatization will encourage concentration of economic power to the common detriment. • If privatization results in the substitution of the monopoly power of the public enterprises by the monopoly power of private enterprises it will be very dangerous. • Privatization many a time results in the acquisition of national firms by foreign firms. • Privatization of profitable enterprises, including potentially profitable, means foregoing future streams of income for the government. • Privatization of strategic and vital sectors is against national interests. • There are well managed and ill-managed firms both in the public and private sectors. It is not sector that matters, but the quality and commitment of the management. • The capital markets of developing countries are not developed enough for efficiently carrying out privatization. • Privatization in many instances is a half-hearted measure and therefore it is not properly carried out. As a result that the expected results may not be achieved. • In many instance, there are vested interested behind privatization and it amounts deceiving the nation. In many countries privatization often has been a “garage sale” to favored individuals and groups.

CONDITIONS FOR SUCCESS • Privatization cannot be sustained unless the political leadership is committed to it, and unless it reflects a shift in the preferences of the public arising out of dissatisfaction with the performance of other alternatives. • Replacement of a government monopoly by a private monopoly may not increase public welfare-there must a multiplicity of private suppliers. Freedom of entry to provide goods and services. • Public services to be provided by the private sector must be specific or have measurable outcome. • Lack of specificity makes it more difficult to control services provided by the private sector. Service delivery by non-governmental organizational or local governments may be more appropriate under these conditions. • Consumers should be able to link the benefits they receive from a service to the costs they pay for it, since they will then shop more wisely for difficult services.

PRIVATISATION IN INDIA In India, although there were some isolated cases of privatization, no definite policy decision was taken until the new economic policy was been ushered in .The accumulated loses of many SOEs, including some state transport corporations, are larger than the capital invested in them. Privatization of certain sectors and enterprises are, therefore, necessary to reduce the budgetary burden on the public, to make available more resources for the

development activities, to enable the government to concentrate more on the essential and priority areas. The new industrial policy, which has abolished the public sector monopoly in all but a very few industries is a significant step towards Privatization. The new policy also proposes Privatization of enterprises by selling shares to mutual funds, workers and the public. The central government has been reviewing the existing portfolio of public investment with a view to offloading public investment. The disinvestments Commission was set up by Government of India in August 1996, for suggesting the modalities for undertaking disinvestments of equities for select PSUs. The commission has recommended disinvestments at varying levels for a number of PSUs.

PRIVATISATION POLICY The current direction of Privatization policy is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The policy of disinvestments specifically aimed at: • Modernization and up gradation of Public Sector Enterprises. • Creation of new assets. • Generation of Employment • Retiring of public debt • To ensure that disinvestments does not result in alienation of national assets, which through the process of disinvestments, remain where they are. It will also ensure that disinvestment does not result in private monopolies. • Setting up a Disinvestments Proceeds Fund. • Formulating the guidelines for the disinvestments of natural assets companies.

UNIT – III

Political Environment :-

The political environment of business refers to the political or government actions that impact business operations. The political factors usually go hand in hand with the legal ones and are generally viewed as the non-market forces that impact businesses. Political decisions ultimately affect the economic, social and cultural environments as a whole.

The political environment can be studied in terms of the central government, the citizens of a country, rules, and regulations or international relations. Examples of political factors related to the central government of a country are levels of bureaucracy, corruption, and government stability. A culture of corruption in a country stifles business operations by creating an unlevel playing field where corrupt individuals are more empowered to advance their business goals than their non-corrupt counterparts. A highly unstable government is unable to offer businessmen the security they need to trade peacefully, hence a highly volatile trading environment. Examples of political factors tied to international relations are policies on trade tariffs, policies on importation and exportation of goods and services and international trade agreements.

The political environment of business are the political factors that can affect the way in which businesses operate, the businesses that are present, the obstacles that a business may face, and the

likelihood of success of different types of businesses. According to the Business Dictionary the political environment is the government actions which affect the operations of a company or business. These actions can be present on several different levels including the local, state, regional, national, and international level. Those who own businesses often pay close attention to these factors to deduce the way in which government actions will affect their business.

The political environment of business is often a significant issue when discussing international businesses. The political environment of business often affects the choice of foreign market that a company will enter. This is due to the fact that it can affect the regulations that the business may face, the amount of government interference that a company can expect, the profitability of the choice to enter this market and more. In addition, the stability of the country's government and economic system are often very important factors.

Political Institutions :-

Political institutions are organizations which create, enforce, and apply laws; that mediate conflict; make (governmental) policy on the economy and social systems; and otherwise provide representation for the populous.

These **three** parts are known as the **three** branches of government. They are the **legislative** branch, the **executive** branch and the **judicial** branch. Each branch is independent from the others, but each holds a similar amount of authority.

Under a democratic set up, like in our country, the political environment comprises three vital political institutions: 1. Legislature 2. Executive 3. Judiciary.

1. Legislature:

Legislature is the most powerful institution. The main powers are vested in the legislature are; in today's economies, particularly of developing countries like India, relevance of a protective legal environment for Business assumes immense proportions as it is the very foundation of every investment decision.

The business has to be within the law of the Land. Every aspect of business from its birth till death is covered under the laws to ensure that not only profit is earned in a justified and fair way but also to ensure that in the attainment of business interests the interest of each person is fully protected and the profits of business are distributed in a manner beneficial to the society.

2. Executive:

Government is the executory body of the laws which are framed by the legislature.

According to E. V. Schneider "Government is that institution by which men everywhere, seek to order society, that is, to control the structure and functioning of society."

According to Musselman and Hughes “Government is the centre of political authority having the power to govern those it serves.”

In simple words, the role of the Government is to shape, direct and control the business activities. The translations of the objective of any laws to the reality depend as much upon the law itself as on its implementation. The implementation of the law in its word and spirit only can ensure the realisation of its true objectives.

Indian constitution provides for a federal setup with powers being divided between central and the state governments. The powers and functions of central and state government are described in the constitution.

3. Judiciary:

The third political institution is judiciary. The judiciary sees to it that the exercise of authority by the executives is according to the general rules laid down by the legislature, it may declare that any particular order issued is, infact, ultra vires (beyond the authority). It is the power of the Judiciary to settle legal disputes that affect business considerably.

Following are a few examples of the disputes which are often referred to courts for settlement and the verdicts are sought:

(i) Disputes between employers and employees

(ii) Disputes between employer and employer

(iii) Disputes between employee and employee

(iv) Disputes between employers and the public

(v) Disputes between employers and the government

In some cases the courts of justice protect the citizens from unlawful acts passed by the legislatures and arbitrary acts done by the Government or the executive. The judicial verdicts have far reaching consequences on business.

The consequences become more intense and severe because:

(i) Judicial errors do occur, though infrequently

(ii) Judges may vary in the severity of punishment inflicted.

(iii) Possibility of wrong assessment of penalty

(iv) Conflicting verdicts may be pronounced by different judges on the same or similar disputes

(v) There is a lot of confusion in the labor laws themselves.

Today's requirement is that the Judicial System should be overhauled by performance so that order and confidence of the masses can be restored in it. The democracy of the country will die soon if an alert, independent and quick to act judiciary does not come alive in place of the existing functioning anarchy.

Government in Business :-

Government's role in **business** is as old as the country itself; the Constitution gives the **government** the power to regulate some commerce. Though the **government's** role has increased over time, the **business** community still enjoys considerable freedom. The **government** exercises its authority several ways.

The **government** most often directly influences organizations by establishing regulations, laws, and rules that dictate what organizations can and cannot **do**. To implement legislation, the **government** generally creates special agencies to monitor and control certain aspects of **business** activity.

The Regulatory Role of Government in Business :-

In a mixed economy, the private sector constitutes the largest sector of the economy.

The roles of a government, in a mixed economy, is grouped into two categories, namely, regulatory roles and promotional or development roles.

The regulatory role of the government involves formulating and implementing various direct and indirect measures to monitor and regulate the economic activities of the private sector. These measures are required to prevent the socially restrictive activities of businesses and concentration of economic power and encourage private businesses to work towards the growth of the economy.

On the other hand, the promotional role of the government involves policies and measures taken for the progress of development infrastructure of an economy. The development infrastructure of an economy involves economic and social overhead capital that is necessary for the growth of industries and optimal utilization of resources. In addition, it is required to improve the production capacity of an economy. These activities, in a mixed economy, such as India, are performed by the government by implementing various developmental programs.

For example, in India, Five Year Plan is a form of program in which the government sets the goals to be achieved within five years and mentions the resources required to achieve those goals.

Let us discuss the regulatory and promotional roles of a government in detail.

Regulatory Measures:

As per the free market mechanism, the government intervention is prohibited for the growth of an economy. However, in a mixed economy, the government is responsible for making and implementing various regulatory measures.

The regulatory measures taken by a government include the following:

Industrial and licensing policies

Policies related to taxation

Monetary and credit policies

Policies related to income and wages

Technology and employment policies

Import and export policies

Foreign exchange policies

Industrial safety and environment policies

The regulatory measures used in a mixed economy restrict the working of the free market mechanism. This is because of the reason that these measures limit the functioning of market forces in an economy. In addition, the regulatory measures obstruct the automatic market functioning by altering the price structure.

This leads to in-optimal price structure, which further results in inequitable allocation of resources. These alternations in the price structure adversely affect the business decisions of the private sector. For example, the policy of minimum wages leads to a higher wage rate as compared to prevailing rate in the competitive market.

In such a case, private businesses hire less number of workers on the basis of their marginal productivity as compared to the number of workers hired in the absence of Minimum Wages Act, 1948. This results in the reduction of production and profit of private businesses. Similarly, when the government implements dear money policy and increases bank rates, the rate of credit taken by private businesses from banks also get reduced. The investment by private businesses can be affected by the level of profitability.

If the level of profitability is high, then the investment by the private sector would reduce and get confined to rate of interest only. In such a case, private businesses would have less inventories and labor.

In addition, they would not prefer to invest in any new plans and would transfer the replacement of capital goods to future. Such types of loss-making business decisions are the result of government dear credit policy.

Apart from this, the taxation policy of the government also has adverse effects on the private sector. For example, if the rate of taxes imposed by the government are very high, then the profit after tax of businesses would decrease.

This would further lead to decrease in investment and savings of businesses. However, the effect of taxation on private businesses is dependent on their ability to avoid or evade the tax burden.

Till now, we have discussed the adverse effects of government policies on private business decisions. However, it is a narrow analysis of measures and policies taken by the government.

The government policies should be analyzed by finding out the impact of its policies on the society as a whole. For example, the minimum wage policy of the government helps in bringing equality in income level and reducing labor exploitation.

Besides this, it also facilitates the growth of private businesses in various ways, which are as follows:

Increasing the total purchasing power of individuals in an economy that simultaneously increases the demand of goods and services by the individuals

Reducing the possibility of unnecessary conflicts between employees and organizations on account of wages

Similarly, the government policies, such as tight money and cheap credit, helps in making the economy more stable, which benefits both businesses and individuals. Although, high rate of tax imposed by the government on private businesses seems to a restriction in their growth.

However, the government compensates this restriction by increasing the aggregate demand and purchasing goods and services from the private sector. Therefore, government policies are equally beneficial for private businesses.

Promotional Roles:

The main promotional role of a government is to increase the social and economic overhead capital for the growth of an economy.

The economic overhead can be increased by building developmental structure, which includes:

Development and creation of transport and communication facilities

Construction of irrigation facilities, such as dams, canals, and tube wells

Production and appropriate distribution of electricity and various other resources of energy, such as coal and natural gas

Expansion of businesses having strategic importance

Development and implementation of advanced technology

On the other hand, social overhead depends on activities, such as investment in educational, health, community development, and housing programs. This helps in increasing the productivity and growth perspectives.

The infrastructure building helps private businesses by producing overheads socially and economically, which, in turn, increases the production and economic growth. The growth of the economy automatically results in the expansion of private businesses. In addition economic growth increases the size of market, which further increases the total demand for goods and services. This provides a major advantage to private businesses. Apart from this, economic and social overhead capital results in the creation of external economies and reduction in capital-output ratio and production cost.

Role of Government in Economic Development

A government can participate in economic activities depends on the type of economic systems.

The capitalist economic system restricts the intervention of government in the economy.

Therefore even highly developed capitalist economies face various economic problems, such as economic instability, unemployment, and labor exploitation.

The main reason behind these problems is the profit maximization motive of organizations without any concern for economic welfare.

Therefore, the government intervention is necessary in capitalist economies for the eradication of unethical business practices, welfare of society, and economic stability.

On the other hand, underdeveloped countries usually adopt mixed economic structure. In these countries, even the basic requirements of individuals are not fulfilled. Therefore, underdeveloped countries face a large number of economic problems, such as poverty, less per capita income, and low standard of living, as compared to developed countries.

In such conditions, the government of underdeveloped countries needs to take several measures for the growth and development of economy. The prime function of the government in underdeveloped nations is to meet the basic requirements of individuals, such as schools, hospitals, colleges, transportation facilities, roads, and electricity.

These requirements of individuals involve a huge investment by the government. A nation whose basic needs are satisfied is able to attract foreign investments and encourage the growth of the private sector.

Over a passage of time, underdeveloped countries have realized that they are far behind the developed countries due to their adverse social, economic, and political conditions. Therefore, the government of underdeveloped countries has taken various measures to solve economic problems, so that economic growth and development can be achieved.

Some of the measures taken by government are as follows:

(a) Economic and Social Overheads:

Help in the economic growth and development of a country. Economic overheads include means of communication, transportation facilities, and electricity. On the other hand, social overheads comprise of educational, medical, and water facilities.

(b) Financial Facilities:

Act as an important tool in the economic development of a country. In underdeveloped countries, the savings of organizations and individuals are very less. Therefore, these savings cannot be utilized for economic development. For the utilization of these savings, the country requires to have a well-established banking system and other financing bodies.

The financial bodies along with the banking system are able to transfer the savings to industries. Here, government is required to establish more financial bodies for the economic development of the country.

(c) Direct Participation:

Constitutes an important measure taken by the government for economic development. The government directly intervenes in the economic development to support and regulate private business practices by formulating various policies. For example, in India, the government has established various public sector organizations in different fields, such as steel plant, electrical, fertilizers, and antibiotics under Industrial Policy Resolutions of 1948 and 1956. The profit generated from these organizations is utilized in the development of the country.

(d) Indirect Measures:

Refer to steps taken by the government to increase the growth of the country. It includes various policies, such as monetary, fiscal, and industrial relation policies.

Economic Growth:

(1) Single dimensional i.e., increase in output alone.

(2) Quantitative Changes-Change in national and per capital income.

(3) Spontaneous in character.

(4) Discontinuous Change

(5) Growth is possible without development

(6) Determinant of economic growth may be economic development.

(7) Solution of the problem of under developed countries.

(8) Developments related to underdeveloped countries

(9) Economic developed is regulated and controlled in character

(10) Economic development is not possible with Economic growth

(11) Economic development is an innovative process leading to the structural transformation of social system

Economic Development:

(1) Multi dimensional i.e., more output and changes in technical and institutional arrangements.

(2) Qualitative Changes-Change in composition and distribution of national and per capital income and change in functional capacities.

(3) Gradual and steady change in the long run.

(4) Continuous Change.

(5) Growth to some extent is essential for development.

(6) Economic development is the determinant of economic growth

(7) Solution of the problem of developed countries.

(8) Growth relates to developed countries

(9) Economic growth is spontaneous in character.

(10) Economic growth is possible without Economic development.

(11) Economic growth is an expanses of the system in one or more dimensions without a change in its structure.

Intervention and Participatory Roles of Government in Business :-

In modern times, State participation in economic activity can hardly be a matter of disagreement.

The free play of economic forces, even in highly developed capitalist countries, has often meant large unemployment and instability of the economic system.

In the advanced countries, State intervention has been invoked to ensure economic stability and full employment of resources. State action is all the more inevitable in under-developed economies which are struggling hard to get rid of poverty and to attain higher living standards.

Accordingly, Governments are playing a vital role in the development of under-developed economies.

Their role is all the more remarkable in the following respects:

(i) Comprehensive Planning:

In an under-developed economy, there is a circular constellation of forces tending to act and react upon one another in such a way as to keep a poor country in a stationary state of under-development equilibrium. The vicious circle of under-developed equilibrium can be broken only by a comprehensive government planning of the process of economic development. Planning Commissions have been set up and institutional framework built up.

(ii) Institution of Controls:

A high rate of investment and growth of output cannot be attained, in an under-developed country, simply as a result of the functioning of the market forces. The operation of these forces is hindered by the existence of economic rigidities and structural disequilibria. Economic development is not a spontaneous or automatic affair.

On the contrary, it is evident that there are automatic forces within the system tending to keep it moored to a low level. Thus, if an underdeveloped country does not wish to remain caught up in a vicious circle, the Government must interfere with the market forces to break that circle. That is why various controls have been instituted, e.g., price control, exchange control, control of capital issues, industrial licensing.

(iii) Social and Economic Overheads:

In the initial phase, the process of development, in an under-developed country, is held up primarily by the lack of basic social and economic overheads such as schools, technical institutions and research institutes, hospitals and railways, roads, ports, harbours and bridges, etc. To provide them requires very large investments.

Such investments will lead to the creation of external economies, which in their turn will provide incentives to the development of private enterprise in the field of industry as well as of

agriculture. The Governments, therefore, go all out inbuilding up the infrastructure of the economy for initiating the process of economic growth.

Private enterprise will not undertake investments in social overheads.

The reason is that the returns from them in the form of an increase in the supply of technical skills and higher standards of education and health can be realised only over a long period. Besides, these returns will accrue to the whole society rather than to those entrepreneurs who incur the necessary large expenditure on the creation of such costly social over-heads.

Therefore, investment in them is not profitable from the standpoint of the private entrepreneurs, howsoever productive it may be from the broader interest of the society. This indicates the need for direct participation of the government by way of investment in social overheads, so that the rate of development is quickened.

Investments in economic overheads require huge outlays of capital which are usually beyond the capacity of private enterprise. Besides, the returns from such investments are quite uncertain and take very long to accrue. Private enterprise is generally interested in quick returns and will be seldom prepared to wait so long.

Nor can private enterprise easily mobilize resources for building up all these overheads. The State is in a far better position to find the necessary resources through taxation borrowing and deficit-financing sources not open to private enterprise. Hence, private enterprise lacks the capacity to undertake large-scale and comprehensive development. Not only that, it also lacks the necessary approach to development.

Hence, it becomes the duty of the government to build up the necessary infrastructure.

(iv) Institutional and Organisational Reforms:

It is felt that outmoded social institutions and defective organisation stand in the way of economic progress. The Government, therefore, sets out to introduce institutional and organisational reforms. We may mention here abolition of zamindari, imposition of ceiling on land holdings, tenancy reforms, introduction of co-operative farming, nationalisation of insurance and banks reform of managing agency system and other reforms introduced in India since planning was started.

(v) Setting up Financial Institutions:

In order to cope with the growing requirements for finance, special institutions are set up for providing agricultural, industrial and export finance. For instance, Industrial Finance Corporation, Industrial Development Bank and Agricultural Refinance and Development

Corporation have been set up in India in recent years to provide the necessary financial-resources.

(vi) Public Undertakings:

In order to fill up important gaps in the industrial structure of the country and to start industries of strategic importance, Government actively enters business and launches big enterprises, e.g., huge steel plants, machine-making plants, heavy electrical work and heavy engineering works have been set up in India.

(vii) Economic Planning:

The role of government in development is further highlighted by the fact that under-developed countries suffer from a serious deficiency of all types of resources and skills, while the need for them is so great. Under such circumstances, what is needed is a wise and efficient allocation of limited resources. This can only be done by the State. It can be done through central planning according to a scheme of priorities well suited to the country's conditions and need.

UNIT – IV

A **financial environment** is a part of an economy with the major players being firms, investors, and markets. Firms are any **business** that offer goods or services to consumers. Investors are individuals or **businesses** that place capital into **businesses** for **financial** returns.

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.

Financial deals bring two different identities together; wherein one side has party that has shortage of funds and on other side there is a party who has surplus funds. Fund seekers want to get liquid funds and are willing to pay cost for it. Whereas fund investors have wish to channelize their savings in most optimal way so as that they may earn maximum return on it. Financial markets have an important role to play in this financial environment. Financial market introduces borrower and suppliers together so that investment objectives of both can be met. Financial environment emerges when different individual and institutional investors enter in this market with different investment objectives. Investors are generally categorized in three different types depending on their willingness to assume risk. Aggressive investors are the one who wish to take maximum risk with objective to earn above average return. On the other extreme are conservative investors who wish to take lowest degree of risk and are satisfied with minimum assured return. Within these two extremes lie balanced investors who will prefer to take calculated risk and will like to get return higher than risk free return. Investors are an important building block of financial environment. However, this is most diversified component as

investors plan to invest with different investment objectives. Investment objective of investors may include tax planning, capital appreciation, enhanced liquidity, assured return, long term return etc. These investors prefer to select different financial products (Financial instruments) based on these varied investment objectives. Selection of these financial products is also affected by investors' decision to select a particular combination os assumed risk level and preferred return.

Components of the Financial Environment The complete system of financial environment comprises of four important components.

These include (1) financial managers (2) investors (3) financial markets and 4) Financial instruments.

Financial Managers Decision of investing funds lies with financial managers. Financial managers are responsible for taking decision on acquiring the funds for business and appropriately investing those funds. Finance manager is accountable on the issue of how to obtain funds (financing) and where to invest a company's funds to expand its business. The actions taken by financial managers to make financial decisions for their respective firms are referred to as financial management (or managerial finance). Financial managers are expected to make financial decisions in such a way to optimize risk return trade off so as to ensure maximum value of the firm and ultimately maximize the value of the firm's stock price. Hence, the final focus of finance manager is to take financial decisions in a way that may ensure maximum wealth to the shareholders.

Financing Decisions by Financial Managers One of the important decisions to be taken by finance manager is to arrange required funds for the business needs. However, while procuring these funds for the firm he has option to arrange it through either debt financing or equity financing. In debt financing, borrowed funds are used to finance investments in projects. For example, firms can obtain loans or can issue debt securities, which are certificates representing credit provided to the firm by the security's purchaser. Incase of arranging funds through equity financing, required funds are arranged by offering ownership in the firm to the investors. Further, these funds are used to finance investments in projects. In case of arranging funds through equity financing firms have option to either retain some of their earnings or come up with new issue i.e. issuing equity securities (stocks). These stocks are certificates representing ownership interest in the issuing firm. Selecting and deciding a balance between quantum of debt financing and equity financing is to establish a linkage between shortterm and long-term financing. Hence, time factor plays an important role in the decision of firm to design their capital structure. Hence, for a finance manager determining the optimal sources of financing at a given point in time is important issue. Among the decision to balance between debt and equity financing, a finance manager is also required to have in-depth analysis of the financing alternatives, costs associated with procuring those funds and finally, long-run implications of this decision.

Investment Decisions by Financial Managers Investment decision is among the two important decisions taken by finance managers. Responsibility of financial managers is to identify and assess budding investment opportunities for the business and finally, to determine and decide if they may pursue with those opportunities. The investment decisions of financial managers significantly affect the firm's degree of success, because they determine what types of businesses their respective firms engage in. Investment decisions determine the composition of assets found on the left-hand side of the balance sheet: The financial manager needs to take a balanced decision on investing funds in long term fixed assets and to keep some funds in cash or near money assets to meet working capital requirements of the business. Finance manager attempts to maintain optimal levels of each type of current asset, such as cash and inventory. He is also required to decide which fixed assets (such as buildings or machinery) to invest in and when existing fixed assets need to be purchased, modified, replaced, or dispose off. These decisions are very crucial as they have significant affect the firm's success in achieving its goals.

Investors Investors may be individuals or institutions who have surplus funds and are willing to provide these funds to borrowers such as firms, government agencies, individuals or other institutions. This section provides a brief insight on investors and how do they create provision of funds? Individual investors are generally small investors who commonly provide funds to firms by purchasing their securities (equity shares or debt securities). Second category of investors includes institutional investors. The financial institutions that provide funds are referred to as institutional investors. Some of these institutions focus on providing loans, whereas others commonly purchase securities that are issued by firms.

Debt Financing Provided by Investors Debt financing to firms is provided in various forms by individual and institutional investors. Individual investors who wish to take least risk and want to get assured return will prefer to invest their funds in debt securities. However, financial institutions have different constraints to prefer investment in debt securities. One special feature of financial institutions providing debt financing is that they generally invest their funds in bulk so, for this reason they have to maintain a separate loan division who monitor this complete process. For this purpose, financial institutions are required to employ loan officers whose main responsibility is to finalize the credit worthiness of the borrower by evaluating the financial condition of potential borrowers. It is worth mentioning here that main reason for the financial institutions preference to invest in debt securities is to receive compensation as periodic interest payments on the funds offered by them as loans to the borrower. Fixed maturity period is another feature that attracts both individual and institutional investors for debt financing. Hence, debt financing is provided for a specified maturity date at which the amount borrowed has to be paid back. In another form of debt financing, individual investors and financial institutions purchase debt securities that are issued by firms and governments. Sometimes borrowers try to attract investors by offering them dual return as along with fixed interest on principal amount they are offered some discount from its principal value, so that the principal they are repaid at maturity exceeds the amount they paid for the debt security. In addition to this investors may also be lured

by the cumulative periodic interest payments on principal amount. Some of the debt securities have this additional feature that to ensure liquidity investors can sell these to other investors before their maturity. As a result this borrowed amount of loan is transferred to the other investors.

Equity Financing Provided by Investors Investors who have desire to get high returns than normal risk free return may prefer to invest in equity securities. A firm collects funds through equity financing by selling their shares of stock to investors. These stocks ensure ownership rights to the investors and each investor who purchases stock becomes an owner of the firm. However, one particular feature of these securities is that there is no maturity on equity investment but investors can ensure the liquidity of these securities by selling the stock they own to other investors in secondary market. Investors who invest in firm's equity stock gets return in the form of dividend on the stock. Equity investors also get benefitted by capital appreciation which results from increase in the share prices of the stock.

Risk Return trade off Risk and return are the two most crucial parameters that an investor may evaluate at the very first sight to finalize his investment decision. Investors expect to earn a reasonable return on funds provided by them to borrowers as debt or equity financing. Here, return on any investment refers to the actual benefit received by the investor for holding a particular investment for a definite period. However, how much return an investment will earn is highly dependent on decisions of the financial managers, who is responsible for taking investment decision. Hence, if financial managers use their diligent skills to wisely invest funds received from investors in very profitable projects, the firm earns a high return on its investments. As a result even investors who invested in the firm's stock earn a high return on their investment. And vice versa is that negligent decisions by a financial managers will result in poor returns on the firm's investments. Finally, this poor decision will assure lesser returns to the shareholders who invested in the firm's stock. Almost every kind of investment decisions are exposed to risk because of the presence of the uncertainty in financial market environment. Degree of this risk may vary for different kind of investments. Risk-averse investors always prefer less risk for a given expected return. Even investors decision to invest in debt securities also has some default risk, in terms of assured timely return of borrowed funds. Equity investment carries more risk. When investors select equity securities, they must have idea that there is no fixed guaranteed return on this investment. Return on their investment may be lower or higher than expected. This variation in terms of lower returns may be if the firm performs worse than expected and does not declare expected dividends or it may be if no capital appreciation is earned because stock price does not rise. 4 The Financial Markets Financial markets represent place/ market that facilitate the flow of funds among investors and borrowers. In financial markets investors and borrowers trade financial securities, commodities and other fungible items at a price determined by demand and supply. Financial markets are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. Hence, financial markets refer to an

organized institutional structure or mechanism for creating and exchanging financial assets. An important component of these financial markets is financial institutions that act as intermediaries.

Financial markets can be a) Capital markets b) Money market Capital Markets: This market segment of financial markets facilitates trade of long-term debt and corporate stock. In capital markets securities traded have maturity period of more than one year. Capital market is a market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital market may be equity market or debt market. The equity market refers to the one where the sale of equity stock takes place by firms to investors. Buyers and sellers of stock get agreed-upon a definite price to buy/sell equity shares. These prices of securities are highly sensitive in equity markets. The debt markets enable firms to obtain debt financing from institutional and individual investors or to transfer ownership of debt securities between investors. Financial institution serves as intermediary for trade of bothy equity and debt securities. It is very common for one financial institution to act as the institutional investor while another financial institution serves as the intermediary for execution of a particular trade transaction Money Markets: These are the markets for debt securities where short term securities are traded. Securities bought and sold in money market have maturities of one year or less. Securities traded in money market are Treasury bills, banker's acceptances, Certificate of deposits, commercial paper etc.

The Cost of Money Any investors who sacrifice the use of funds and invest it in financial markets usually expect the borrower to pay a nominal Rate of Interest (k). Hence, the price paid by borrower for borrowing money is cost of money he has arranged. This is usually referred as a percentage rate over a period of time and reflects the rate of exchange of present consumption for future consumption. Risk-Free Rate (kRF): The rate earned on a riskless investment usually government securities carry risk free rate. Inflation Premium: It refers to premium resulting from expected inflation over a period• of time. Default Risk Premium: Risk associated with default on a loan by the borrower.• Liquidity Premium: Premium arising due to lack of liquidity.• Maturity Risk Premium: This risk reflects the degree of interest rate risk because of• changes in the interest rate over a period of time. 5 Financial Instruments Financial instruments refer to tradeable securities of financial markets. These financial instruments may represent cash, ownership interest or contractual right to pay/receive money. Broadly, financial instruments can be of two types: a) Cash instruments b) Derivative instruments Cash instruments are the one whose value is directly determined by the market e.g. deposits and loans. Whereas value of derivative instrument is derived from underlying asset e.g. forward, options, swap etc. 6 Integration of Components in the Financial Environment Job of a finance manager starts as soon as a firm require funds to meet out their financial obligations. Hence, they start looking for investors who have surplus investible funds. Hence, financial planning on the part of firm's financial managers will try to estimate how much funds the firm needs to invest in its business. At the same time they will try to locate prospective investors from where the firm will obtain funds. Integration of financial markets have benefitted both borrowers and investors by

improving their assess from domestic markets to international markets also. In simple words, through financial markets' integration domestic investors can buy foreign assets and foreign investors can buy domestic assets. Further, integration of financial markets in world wide economy has also stream lined the complete processes of financial trading. As a result financial assets having similar risk command the same expected return regardless of location of origin of the asset. All this has become possible because of uniformity in accounting and financial standards among countries that are fully integrated into world financial markets. Financial integration is a novel phenomenon through which financial markets of global economies have come close and linked together so that investors may extend their reach to other economies. Improved level of information and communication technology has made it possible by enhancing connectivity of investors and borrowers. Financial markets' integration ensure: Sharing of information among financial institutions• Sharing of best practices among financial institutions• Sharing of newly introduced technologies among financial institutions• Assess of borrowers to raise funds directly from the international capital markets;• Design newly engineered financial products• Rapid adaption/copycat of newly engineered financial products among financial• institutions in different economies Cross-border capital flows• However there are few imperfections that may restrict integration of financial markets. Hence, the imperfect financial integration can stem from the inequality of the marginal rate of substitutions of different agents. Further, besides these financial market imperfections there are few legal restrictions that can also hinder financial integration. So in order to achieve financial integration in totality there is a need to remove the restrictions pertaining to cross-border financial operations and to have a common consent on (a) financial institutions to operate freely (b) permit businesses to directly raise funds or borrow and (c) equity and bond investors to invest across the state line with fewer restrictions. Although legal restrictions need to remove for financial integration of financial markets yet an important point to note here is that legal restrictions are among the best devices to deal with the market imperfections. Hence, complete elimination of the legal restrictions can make the world economy become worse off. For proper financial integration, neighboring, regional and/or global economies can agree upon through a formal international treaty which the governing bodies of these economies agree to cooperate to address regional and/or global financial disturbances through regulatory and policy responses. During the last two decades, many developing countries have encouraged inflows of capital by withdrawing restrictions, introducing autonomy in domestic financial markets and by initiating market-oriented reforms. India has also shown its strong presence in the financial integration process since 1990. This is quite evident from the structural reform introduced in India to enhance the productivity and efficiency of the economy as a whole so as to make it internationally competitive. Universal banking, deregulation of interest rates, reduction of Cash reserve ratio (CRR) and Statutory reserve ratio (SLR), repeal of FERA Act, aligning call money rates and exchange rates with LIBOR are few actions taken by Indian economy in support of financial integration. Despite the fact that Indian regulatory bodies have taken many actions to support the financial integration yet this ongoing initiative programs

needs to be accelerated to further deepen the degree of convergence between the overseas and domestic markets.

Financial System :-

A **financial system** is a network of financial institutions, financial markets, financial instruments and financial services to facilitate the transfer of funds. The system consists of savers, intermediaries, instruments and the ultimate user of funds. The level of economic growth largely depends upon and is facilitated by the state of financial system prevailing in the economy. Efficient financial system and sustainable economic growth are corollary. The financial system mobilizes the savings and channelizes them into the productive activity and thus influences the pace of economic development. Economic growth is hampered for want of effective financial system. Broadly speaking, financial system deals with three inter-related and interdependent variables, i.e., money, credit and finance.

The financial system provides channels to transfer funds from individual and groups who have saved money to individuals and group who want to borrow money. Saver (refer to the lender) are suppliers of funds to borrowers in return with promises of repayment of even more funds in the future. Borrowers are demanders of funds for consumer durables, house, or business plant and equipment, promising to repay borrower funds based on their expectation of having higher incomes in the future. These promises are financial liabilities for the borrower-that is, both a source of funds and a claim against the borrower's future income.

Main Functions of Financial System

The functions of financial system can be enumerated as follows:

Financial system works as an effective conduit for optimum allocation of financial resources in an economy.

It helps in establishing a link between the savers and the investors.

Financial system allows 'asset-liability transformation'. Banks create claims (liabilities) against themselves when they accept deposits from customers but also create assets when they provide loans to clients.

Economic resources (i.e., funds) are transferred from one party to another through financial system.

The financial system ensures the efficient functioning of the payment mechanism in an economy. All transactions between the buyers and sellers of goods and services are effected smoothly because of financial system.

Financial system helps in risk transformation by diversification, as in case of mutual funds.

Financial system enhances liquidity of financial claims.

Financial system helps price discovery of financial assets resulting from the interaction of buyers and sellers. For example, the prices of securities are determined by demand and supply forces in the capital market.

Financial system helps reducing the cost of transactions.

Financial markets play a significant role in economic growth through their role of allocation capital, monitoring managers, mobilizing of savings and promoting technological changes among others. Economists had held the view that the development of the financial sector is a crucial element for stimulating economic growth. Financial development can be defined as the ability of a financial sector acquire effectively information, enforce contracts, facilitate transactions and create incentives for the emergence of particular types of financial contracts, markets and intermediaries, and all should be at a low cost. Financial development occurs when financial instruments, markets and intermediaries ameliorate through the basis of information, enforcement and transaction costs, and therefore better provide financial services. The financial functions or services may influence saving and investment decisions of an economy through capital accumulation and technological innovation and hence economic growth. Capital accumulation can either be modeled through capital externalities or capital goods produced using constant returns to scale but without the use of any reproducible factors to generate steady-state per capita growth. Through capital accumulation, the functions performed by the financial system affect the steady growth rate thereby influencing the rate of capital formation. The financial system affects capital accumulation either by altering the savings rate or by reallocating savings among different capital producing levels. Through technological innovation, the focus is on the invention of new production processes and goods.

The financial system of an economy provides the way to collect money from the people who have it and distribute it to those who can use it best. So, the efficient allocation of economic resources is achieved by a financial system that distributes money to those people and for those purposes that will yield the best returns.

The financial system is composed of the products and services provided by financial institutions, which includes banks, insurance companies, pension funds, organized exchanges, and the many other companies that serve to facilitate economic transactions. Virtually all economic transactions are effected by one or more of these financial institutions. They create financial instruments, such as stocks and bonds, pay interest on deposits, lend money to creditworthy borrowers, and create and maintain the payment systems of modern economies.

These financial products and services are based on the following fundamental objectives of any modern financial system:

I. To provide a payment system

II. To give time value to money

III. To offer products and services to reduce financial risk or to compensate risk-taking for desirable objectives

IV. To collect and disperse information that allows the most efficient allocation of economic resources

V. To create and maintain financial markets that provide prices, which indicates how well investments are performing, determines the subsequent allocation of resources, and to maintain economic stability in the markets

Components of Financial System

A financial system refers to a system which enables the transfer of money between investors and borrowers. A financial system could be defined at an international, regional or organizational level. The term "system" in "Financial System" indicates a group of complex and closely linked institutions, agents, procedures, markets, transactions, claims and liabilities within an economy. There are five components of Financial System which is discussed below:

1. Financial Institutions: It ensures smooth working of the financial system by making investors and borrowers meet. They mobilize the savings of investors either directly or indirectly via financial markets by making use of different financial instruments as well as in the process using the services of numerous financial services providers. They could be categorized into Regulatory, Intermediaries, Non-intermediaries and Others. They offer services to organizations looking for advises on different problems including restructuring to diversification strategies. They offer complete series of services to the organizations who want to raise funds from the markets and take care of financial assets, for example deposits, securities, loans, etc.

2. Financial Markets: A Financial Market can be defined as the market in which financial assets are created or transferred. As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset. Financial Assets or Financial Instruments represent a claim to the payment of a sum of money sometime in the future and /or periodic payment in the form of interest or dividend. There are four components of financial market are given below:

I. **Money Market:** The money market is a wholesale debt market for low-risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

II. **Capital Market:** The capital market is designed to finance the long-term investments. The transactions taking place in this market will be for periods over a year.

III. **Foreign Exchange Market:** The Foreign Exchange market deals with the multicurrency requirements which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated markets across the globe.

IV. **Credit Market**- Credit market is a place where banks, Financial Institutions (FIs) and Non Bank Financial Institutions (NBFCs) purvey short, medium and long-termloanstocorporateandindividuals.

3. Financial Instruments: This is an important component of financial system. The products which are traded in a financial market are financial assets, securities or other types of financial instruments. There are a wide range of securities in the markets since the needs of investors and credit seekers are different. They indicate a claim on the settlement of principal down the road or payment of a regular amount by means of interest or dividend. Equity shares, debentures, bonds, etc. are **4. Financial Services:** It consists of services provided by Asset Management and Liability Management Companies. They help to get the required funds and also make sure that they are efficiently invested. They assist to determine the financing combination and extend their professional services up to the stage of servicing of lenders. They help with borrowing, selling and purchasing securities, lending and investing, making and allowing payments and settlements and taking care of risk exposures in financial markets. These range from the leasing companies, mutual fund houses, merchant bankers, portfolio managers, bill discounting and acceptance houses. The financial services sector offers a number of professional services like credit rating, venture capital financing, mutual funds, merchant banking, depository services, book building, etc. Financial institutions and financial markets help in the working of the financial system by means of financial instruments. To be able to carry out the jobs given, they need several services of financial nature. Therefore, financial services are considered as the 4th major component of the financial system.

5. Money: It is understood to be anything that is accepted for payment of products and services or for the repayment of debt. It is a medium of exchange and acts as a store of value. It eases the exchange of different goods and services for money.

Conclusion: Hence it can be said that a financial provides a platform to the lenders and borrowers to interact with each other for their mutual benefits. The ultimate profits of this interaction come in the form of capital accumulation (which is very crucial for the developing countries like India, who faces the problem of capital crunch) and economic development of the country.

RBI :-

The Reserve Bank of India is the Central Bank of India, which means it is at the apex of the banking structure of the economy. It is one of the main governing body and regulatory body in India and helps the government in its role as a business facilitator. Let us learn a bit more about the RBI.

The RBI was first established on the 1st of April 1935 and nationalized in 1949. The governing of the RBI is done in accord to the RBI Act by the government. Its day to day affairs are take care of the Board of Directors who are chosen by the government.

Functions of the RBI

The issuer of Currency: The RBI is the only authorized body that can issue currency in the country. So they print, distribute and regulate the flow of currency in the economy.

Banker to the Government: Even the Central and State government need basic banking functions. The RBI provides them with these facilities like depositing monies, remittances etc. It can also make advances and provide loans to the government whenever necessary.

Banker to other Banks: The Reserve Bank of India also supervises all other commercial banks in the country. It provides financial assistance to these banks like short-term loans and advances. The RBI also will dictate interest rates and the CRR limits to the commercial banks.

Regulator of Foreign Exchange: It is the function of the RBI to maintain the value of the rupee in the global economy. It does so by acting as the custodian of foreign exchange reserves in the country. It maintains enough reserves to battle against fluctuations.

Controls Credit in the Economy: This can be said to be the primary function of the Reserve Bank of India, the control of credit and money in the market. It uses qualitative and quantitative methods to either expand or contract the available credit in the economy according to circumstances.

RBI's Role in Business Facilitation

As we know the government plays a huge role in facilitating and promoting business and trade in the economy. It does so through its various business organizations. The RBI plays a major role in this function. Let us see how the RBI helps facilitate business and growth in the economy.

Currency Policy

If you remember from the recent demonetization event, the RBI played a major role in that. This is because the RBI is responsible for the monetization of the economy, i.e. the currency policy.

The entire economy depends on the availability of money in the market. So the money supply is also critical to the functioning and success of businesses. And businesses also require foreign currency for international trade.

The RBI is also responsible for the foreign exchange mechanism of the economy. So the RBI plays a very direct role in the government's facilitation of business in the economy.

Credit Policy

Funding and loans are a very important aspect of businesses. The RBI does not provide any financing to the businesses directly. However, it does control the credit available in the market through the banks and any other lending institutions.

By using quantitative methods like the SLR and the CRR ratios it can increase or decrease the funds available with the banks. This will, in turn, decide how much loans the banks can provide to its customers. The most direct measure is the bank rates, or what we call the basis points scheme.

The RBI can also use qualitative measures to increase or decrease credit availability in the economy. Say, for example, it feels the steel industry needs more loans to advance. Then it can relax the norms for such an industry and instruct the banks to make such loans available. There is also the Priority Lending Sector as decided by the RBI.

Commercial Banks :-

Commercial Bank can be described as a financial institution, that offers basic investment products like a savings account, current account, etc to the individuals and corporates. Along with that, it provides a range of financial services to the general public such as accepting deposits, granting loans and advances to the customers.

It is a profit making company, which pays interest at a low rate to the depositors and charges higher rate of interest to the borrowers and in this way, the bank earns the profit.

Types of Commercial Banks :-

Commercial banks are classified into two categories i.e. **scheduled commercial banks** and **non-scheduled commercial banks**. Further, scheduled commercial banks are further classified into three types:

Private Bank: When the private individuals own more than 51% of the share capital, then that banking company is a private one. However, these banks are publicly listed companies in a recognized exchange.

Public Bank: When the Government holds more than 51% of the share capital of a publicly listed banking company, then that bank is called as Public sector bank.

Foreign Bank: Banks set up in foreign countries, and operate their branches in the home country are called as foreign banks.

Non-scheduled commercial banks refer to the banks which are not covered in the Reserve Bank of India's second schedule. The paid-up capital of such banks is not more than Rs. 5 lakhs.

Functions of Commercial Banks :-

Primary functions

Accepting Deposits: The primary function for which the commercial banks were established is **to accept deposits from the general public**, who possess surplus funds and are willing to deposit them so as to earn interest on it.

There are various products offered by the bank to the customers for the deposit of their money, which includes savings account, current account, fixed deposit and recurring deposit.

Advancing Loans: Next important function performed by the commercial bank is lending money to the individuals and companies. The banks make loans to the customers in the form of term loans, cash credit, overdraft and discounting of bills of exchange.

Secondary functions

Agency Services: There are some facilities provided by the commercial banks in which they act as an agent of the customers. Such services are:

Collection and payment of rent, interest and dividend.

Collection and payment of cheques and bills.

Buying and selling securities.

Payment of insurance premium and subscriptions.

General Utility Services: Commercial banks provide general utility services to the customers and charges a fee for the same. It covers services like:

Safekeeping of valuables, documents etc, in locker or vault.

ATM card, credit card and debit card facility.

Issue of demand draft, pay order and traveller's cheque.

Internet and mobile banking

Sale of application forms of competitive exams.

Transfer of funds: Banks assist in the transfer of funds from one person to another or from one place to another through its credit instruments.

Credit Creation: The commercial banks are authorized to create credit, by granting more loans than the amounts deposited by the customers.

A commercial bank offers an array of facilities such as internet banking, mobile banking, ATM facility, credit card facility, NEFT, RTGS and so forth for which it charges a definite sum as a fee for providing these facilities.

International Economic Institutions :-

Almost every country exports and imports products to benefit from the growing international trade.

The growth of international trade can be increased, if the countries follow a common set of rules, regulations, and standards related to import and export.

These common rules and regulations are set by various international economic institutions. These institutions aim to provide a level playing field for all the countries and develop economic cooperation.

These institutions also help in solving the currency issues among countries related to stabilizing the exchange rates. There are three major international economic institutions, namely, WTO, IMF, and UNCTAD.

World Trade Organization:

WTO was formed in 1995 to replace the General Agreement on Tariffs and Trade (GATT), which was started in 1948. GATT was replaced by WTO because GATT was biased in favor of developed countries. WTO was formed as a global international organization dealing with the rules of international trade among countries.

The main objective of WTO is to help the global organizations to conduct their businesses. WTO, headquartered at Geneva, Switzerland, consists of 153 members and represents more than 97% of world's trade.

The main objectives of WTO are as follows:

a. Raising the standard of living of people, promoting full employment, expanding production and trade, and utilizing the world's resources optimally

b. Ensuring that developing and less developed countries have better share of growth in the world trade

c. Introducing sustainable development in which balanced growth of trade and environment goes together

The main functions of WTO are as follows:

a. Setting the framework for trade policies

b. Reviewing the trade policies of different countries

c. Providing technical cooperation to less developed and developing countries

d. Setting a forum for addressing trade-related disputes among different countries

e. Reducing the barriers to international trade

f. Facilitating the implementation, administration, and operation of agreements

g. Setting a negotiation forum for multilateral trade agreements

h. Cooperating with the international institutions, such as IMF and World Bank for making global economic policies

Ensuring the transparency of trade policies

j. Conducting economic research and analysis

WTO has the following advantages:

(a) Promoting peace within nations:

Leads to less trade disputes. WTO helps in creating international cooperation, peace, and prosperity among nations.

(b) Handling the disputes constructively:

Helps in lesser trade conflicts. When the international trade expands, the chances of disputes also increase. WTO helps in reducing these trade disputes and tensions among nations.

(c) Helping consumers by providing choices:

Implies that by promoting international trade, WTO helps consumers in gaining access to a large number of products.

(d) Encouraging good governance:

Accelerates the growth of a country. The rules formulated by WTO encourage good governance and discourage the unwise policies that lead to corruption in a country.

(e) Stimulating economic growth:

Leads to more jobs and increase in income. The policies of WTO focus on reducing trade barriers among nations to increase the quantum of import and export.

International Monetary Fund:

IMF, established in 1945, consists of 187 member countries. It works to secure financial stability, develop global monetary cooperation, facilitate international trade, and reduce poverty and maintain sustainable economic growth around the world. Its headquarters are in Washington, D.C., United States.

The objectives of IMF are as follows:

a. Helping in increasing employment and real income of people

b. Solving the international monetary problems that distort the economic development of different nations

c. Maintaining stability in the international exchange rates

d. Strengthening the economic integrity of the nations

e. Providing funds to the member nations as and when required

f. Monitoring the financial and economic policies of member nations

g. Assisting low developed countries in effectively managing their economies

WTO and IMF have total 150 common members. Thus, they both work together where the central focus of WTO is on the international trade and of IMF is on the international monetary and financial system. These organizations together ensure a sound system of global trade and financial stability in the world.

United Nations Conference on Trade and Development:

UNCTAD, established in 1964, is the principal organ of United Nations General Assembly. It provides a forum where the developing countries can discuss the problems related to economic development. UNCTAD is headquartered in Geneva, Switzerland and has 193 member countries.

The conference of these member countries is held after every four years. UNCTAD was created because the existing institutions, such as GATT, IMF, and World Bank were not concerned with the problem of developing countries. UNCTAD's main objective is to formulate the policies related to areas of development, such as trade, finance, transport, and technology.

The main objectives of UNCTAD are as follows:

a. Eliminating trade barriers that act as constraints for developing countries

b. Promoting international trade for speeding up the economic development

c. Formulating principles and policies related to international trade

d. Negotiating the multinational trade agreements

e. Providing technical assistance to developing countries specially low developed countries

It is important to note that UNCTAD is a strategic partner of WTO. Both the organizations ensure that international trade helps the low developed and developing countries in accelerating their pace of growth. On 16th April, 2003, WTO and UNCTAD also signed a Memorandum of Understanding (MoU), which identifies the fields for cooperation to facilitate the joint activities between them.

Regional Economic Integration:

Economic institutions, such as WTO, IMF, and UNCTAD aim at promoting economic cooperation worldwide. A similar effort is made regionally through regional economic integration that is an agreement between the countries to
expand trade with mutual benefits. Regional economic integration involves removing trade barriers and coordinating the trade policies of the countries.

It occurs because of various reasons, which are mentioned as follows:

(a) Shared culture:

Involves similarity in language, religion, norms, and traditions of the countries that prompt them to trade with each other. This commonality facilitates the smooth flow of communication among countries. Same language of the countries helps the organizations to understand the complexities of the targeted markets.

(b) History of political and economic dominance:

Affects the integration among the countries. For instance, the rule of Britishers has introduced the English language in India that later became a widely used language. Thus, former colonial power facilitates the shared culture and language. It is easy for organizations to target the markets, if culture and language is similar.

(c) Regional closeness:

Helps in maintaining strong economic relationships among the countries. The countries with same border have access to effective and direct transportation that increases the probability of trade between them.

Regional economic integration is done through various agreements.

(a) Customs Union:

Allows the trade of goods and services among the member countries without any custom duties and tariffs. In customs union, a group of countries forms common trade policies that decide the common tariff for trading goods and services from rest of the world and ensures no tariff for participating countries.

In customs union, the import duties and regulations are same for all the member countries. It can be said that customs union is a free trade zone with a common tariff for rest of the world.

(b) Common Market:

Refers to an agreement where countries join together to eliminate the trade barriers. The unique feature of common markets is that they allow free movement of goods, labor, and capital among the countries. Common markets are formed to eliminate the physical and fiscal barriers, where physical barriers include borders and fiscal barriers include taxes. These barriers hamper the freedom of movement of the labor and capital within the nations.

The formation of common markets helps in increasing employment opportunities and gross domestic product of the participating nations. In a common market, the organizations benefit from economies of scale, lower costs, and high profitability; whereas, consumers benefit from increased choice of products and low prices.

The aims and objectives of the common market are as follows:

i. Attaining sustainable development of the participating nations

ii. Promoting mutual development in all fields of economic activities

iii. Adopting policies and programs for raising the standard of living of the residents and fostering closer relations among participating nations

iv. Facilitating cooperation among participating nations to maintain peace, security, and stability

v. Strengthening the relations between the countries and the rest of the world

World Bank :-

The International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and promoting long-range balance growth in international trade.

The World Bank was established in December 1945 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. It opened for business in June 1946 and helped in the reconstruction of nations devastated by World War II. Since 1960s the World Bank has shifted its focus from the advanced industrialized nations to developing third-world countries.

Organization and Structure:

The organization of the bank consists of the Board of Governors, the Board of Executive Directors and the Advisory Committee, the Loan Committee and the president and other staff members. All the powers of the bank are vested in the Board of Governors which is the supreme policy making body of the bank.

The board consists of one Governor and one Alternative Governor appointed for five years by each member country. Each Governor has the voting power which is related to the financial contribution of the Government which he represents, The Board of Executive Directors consists of 21 members, 6 of them are appointed by the six largest shareholders, namely the USA, the UK, West Germany, France, Japan and India. The rest of the 15 members are elected by the remaining countries.

Each Executive Director holds voting power in proportion to the shares held by his Government. The board of Executive Directors meets regularly once a month to carry on the routine working of the bank.

The president of the bank is pointed by the Board of Executive Directors. He is the Chief Executive of the Bank and he is responsible for the conduct of the day-to-day business of the bank. The Advisory committees appointed by the Board of Directors.

It consists of 7 members who are expects in different branches of banking. There is also another body known as the Loan Committee. This committee is consulted by the bank before any loan is extended to a member country.

Capital Resources of World Bank:

The initial authorized capital of the World Bank was $ 10,000 million, which was divided in 1 lakh shares of $ 1 lakh each. The authorized capital of the Bank has been increased from time to time with the approval of member countries.

Member countries repay the share amount to the World Bank in the following ways:

1. 2% of allotted share are repaid in gold, US dollar or Special Drawing Rights (SDR).

2. Every member country is free to repay 18% of its capital share in its own currency.

3. The remaining 80% share deposited by the member country only on demand by the World Bank.

Objectives:

The following objectives are assigned by the World Bank:

1. To provide long-run capital to member countries for economic reconstruction and development.

2. To induce long-run capital investment for assuring Balance of Payments (BoP) equilibrium and balanced development of international trade.

3. To provide guarantee for loans granted to small and large units and other projects of member countries.

4. To ensure the implementation of development projects so as to bring about a smooth transference from a war-time to peace economy.

5. To promote capital investment in member countries by the following ways;

(a) To provide guarantee on private loans or capital investment.

(b) If private capital is not available even after providing guarantee, then IBRD provides loans for productive activities on considerate conditions.

Functions:

World Bank is playing main role of providing loans for development works to member countries, especially to underdeveloped countries. The World Bank provides long-term loans for various development projects of 5 to 20 years duration.

The main functions can be explained with the help of the following points:

1. World Bank provides various technical services to the member countries. For this purpose, the Bank has established "The Economic Development Institute" and a Staff College in Washington.

2. Bank can grant loans to a member country up to 20% of its share in the paid-up capital.

3. The quantities of loans, interest rate and terms and conditions are determined by the Bank itself.

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4. Generally, Bank grants loans for a particular project duly submitted to the Bank by the member country.

5. The debtor nation has to repay either in reserve currencies or in the currency in which the loan was sanctioned.

6. Bank also provides loan to private investors belonging to member countries on its own guarantee, but for this loan private investors have to seek prior permission from those counties where this amount will be collected.

UNIT – V

Social and Cultural Environmeny :-

Businesses affect the societies in which they operate and are, in turn, affected by social and cultural change in those societies.

Social change may affect businesses through many aspects of their activity. These may include:

Human resources - expectations within society about patterns of employment and working conditions will affect the firm's organisation. Increasingly, trends towards home working, more flexible employment patterns and a portfolio approach to a career are influencing firms and the way they operate. Social change impacts on firms in different ways, but all businesses would be wise to plan for change.

Marketing - firms need to ensure that their product portfolios reflect the pattern of demand in society. Changes in society lead to changes in the pattern of demand and firms need to be aware of changes taking place in their market. Market research will be an important element of judging the significance of trends and changing consumer purchasing behaviour.

Production - with the growth in multinational enterprises, production has become increasingly globalised and ready to shift anywhere. However, firms are also under increasing pressure to ensure that their production does not impact negatively on the countries and societies where they operate

Social Responsibility . As well as being affected by society, business also has a responsibility to the society in which it operates. Members of society are stakeholders (have an interest in how the business operates) and need to be treated accordingly. Let's look at the range of major stakeholders and think of how a business has a social responsibility towards them.

Employees - they look for job security and adequate rates of pay.

Customers - want to buy with trust and a belief that adequate quality will be a norm. They also assume safety has been a primary objective of the business and that the price they pay is a fair reflection of costs plus a reasonable amount of profit.

Suppliers - expect some security of orders at a fair price and regular payment of bills.

Owners - look for dividends, increasing profits and a positive image of the business with the wider public e.g. environmental responsibility.

Government - hope that business uses resources efficiently and effectively and makes decisions with the best and widest interests of society in mind.

Local community - again look for jobs within a secure environment and a lack of social costs

Impact of Culture on Business :-

The impact of culture on business is hard to overstate: 82 percent of the respondents to our 2016 Global Human Capital Trends survey believe that culture is a potential competitive advantage. Today, new tools can help leaders measure and manage culture toward alignment with business goals.

CULTURE has become one of the most important business topics of 2016. CEOs and HR leaders now recognize that culture drives people's behavior, innovation, and customer service: 82 percent of survey respondents believe that "culture is a potential competitive advantage." Knowing that leadership behavior and reward systems directly impact organizational performance, customer service, employee engagement, and retention, leading companies are using data and behavioral information to manage and influence their culture.

Culture is a business issue, not merely an HR issue. The CEO and executive team should take responsibility for an organization's culture, with HR supporting that responsibility through measurement, process, and infrastructure.

While culture is widely viewed as important, it is still largely not well understood; many organizations find it difficult to measure and even more difficult to manage. Only 28 percent of survey respondents believe they understand their culture well, while only 19 percent believe they have the "right culture."

Culture can determine success or failure during times of change: Mergers, acquisitions, growth, and product cycles can either succeed or fail depending on the alignment of culture with the business's direction.

Culture describes "the way things work around here." Specifically, it includes the values, beliefs, behaviors, artifacts, and reward systems that influence people's behavior on a day-to-day basis. It is driven by top leadership and becomes deeply embedded in the company through a myriad of processes, reward systems, and behaviors. Culture includes all the behaviors that may or may not

improve business performance. Today, culture is a CEO-level issue and something that can be measured and improved to drive strategy

Engagement, in contrast, describes “how people feel about the way things work around here.” It is a way of describing employees’ level of commitment to the company and to their work. According to our model, engagement encompasses five broad areas: meaningful work and jobs, management practices and behaviors, the work environment, opportunities for development and growth, and trust in leadership.1 When engagement is poor, employees feel uneasy or uncommitted, resulting in high turnover, low performance, and low levels of innovation and customer service. New tools are enabling companies to monitor engagement on a detailed, real-time basis, delivering specific, actionable information to continuously improve the work environment.

The two are connected. When a company’s culture is clearly aligned with business strategy, it attracts people who feel comfortable in it, which in turn should produce a high level of engagement. Conversely, programs to improve engagement often discover cultural issues, forcing the company and its leadership to question and change its values, incentives, programs, and structure. Both culture and engagement require CEO-level commitment and strong support from HR to understand, measure, and improve.

People’s Attitude to Business and work :-

The corporate world faces many challenges. To be able to deal with them and come out better, **business people** need to be open-minded about the hardships, changes and meeting others in their line of **work**. An open minded **business** person is more likely to succeed than others. The **business** world requires brave persons

It may seem as if skills and experience are the most important characteristics of an employee, but attitude plays just as big of a role. After all, what good are great professional skills without the attitude to see it all through? There are five key attitudes that small businesses should seek out in employees to ensure a harmonious professional environment and a productive staff.

Respect for Others

Respect in the workplace doesn't solely extend to the way employees interact with management. People who have self-respect don't do managers' biding no matter what; they think for themselves and present alternative ideas at times, but respectfully. Employees should also have a respectful attitude when interacting with clients and customers as well as co-workers. Those with this type of attitude are willing to treat other people politely and professionally, even if they disagree with the other person's point of view.

Infectious Enthusiasm About Life

Someone who is enthusiastic about life in general radiates a positive energy that rubs off on everyone around her. She dives into every project with interest, eagerly learns new skills and ideas and quickly applies them to her work. Some people are born with positive energy, but it can also be developed. Teach your staff to approach every situation, positive or negative, as a challenge and an opportunity.

Adopt a "glass half full" attitude in the company and encourage employees to build on it. Soon they'll extend an enthusiastic attitude toward co-workers, customers and everything they do.

Commitment to the Job

Small businesses need employees who are not only committed to the goals and initiatives that affect the bottom line, but who also are committed to their particular positions. Employees project a committed attitude by showing a willingness to do whatever it takes to fulfill the duties of their positions and via the development of new ideas to make the company even better. When committed individuals work together as a team towards company goals, everyone benefits.

Innovative Ideas and Finding New Ways

Employees with an innovative attitude don't shy away from trying something new or finding a different way to do things. Small businesses need employees who can think outside of the box and innovate new ways to accomplish existing tasks and approach goals. Employees with this type of attitude know their ideas might not work out to be the best way to do something, but that the biggest failure is not at least giving new ideas a shot.

Helpfulness with Others

It is important to have a helpful attitude at work, whether that means assisting clients and customers with their needs or helping co-workers accomplish overall company goals. The more helpful an attitude employees have, the more people want to be around them at work and the more willing they are to partner with those employees on key projects and initiatives.

Business and Society :-

Business today is arguably the most dominant institution in the world. The term business refers here to any organization that is engaged in making a product or providing a service for a profit.Society, in its broadest sense, refers to human beings and to the social structures they collectively create. In a more specific sense, the term is used to refer to segments of humankind, such as members of a particular community, nation, or interest group. As a set of organizations created by humans, business is clearly a part of society. At the same time, it is also a distinct entity, separated from the rest of society by clear boundaries. Business is engaged in ongoing exchanges with its external environment across these dividing lines.

In the eyes of business owners during the 19thcentury and the first half of the 20th , their role was to produce goods and services and make as much money as possible for themselves and shareholders. The public's duty was to buy the goods and services. It was not until the 1960s that the traditional roles changed and "stakeholders," i.e., anyone who has a vested interest in any action a company takes, began to play an important role in the relationship between business and society. Today, that relationship continues to evolve toward a symbiotic partnership between business, government, and the broader society. Most business leaders now take it for granted that companies have obligations to communities and private-sector interests beyond simply providing jobs and delivering goods or services. Laws regarding environmental and social issues, for the most part, are placing heightened demands on corporations to honor widely held social values, such as enforcing fairness in the workplace and controlling the degradation of natural resources. Moreover, at the dawn of the 21st century many in society expect businesses not only to comply with such regulations, but also to exceed the letter of the law, uphold high standards of ethics in all dealings, and invest a portion of their profits in socially constructive ventures or philanthropy— behaviours that some have termed "corporate citizenship."

Identifying the role and responsibilities of business in society has been the quest and concern of many scholars for decades. In recent years the relationship between business and society had witnessed a massive transformation from the traditional classical view of business as profit maximizing economic agents to a more ethical outlook that analyzes the greater impact of business on society. A number of factors havecontributedin shaping the new relation between business and society. Globalization imposed tremendous pressure on businesses worldwide to enhance their global image. Rising power of consumers forced businesses to become more conscious of the destructive effect of their actions, adding to that the growing trend of ethical consumerism which imposes both an opportunity and a threat to businesses worldwide.

CSR :-

Many notions such as Business Ethics, Corporate Philanthropy and Corporate Social Responsibility, are sometimes used interchangeably to describe the relation between business and society, although each has a different aim. Business ethics are the principles and standards that guide acceptable behavior in business organizations, whereas the extent of acceptability of business behaviour is determined by a variety of entities including customers, competitors, government regulators, interest groups, and the public, thus it relates to society's evaluation of an action as right or wrong. Common business problems such as defective products, bribery, and accounting fraud exist due to the lack of or decline in business ethics. Although the judgment on business actions is based on each individual’s moral principles and values this ethical perception of business stresses on the fact that there has been a radical change in society's view of businesses. Although the terms corporate social responsibility and business ethics are used interchangeably, they have different meanings; whereas corporate social responsibility (CSR) tries to analyze the extended socio-economic role of business in society. CSR is a broader concept in a sense that it is concerned-from a stakeholder perspective–with the impact of

business’s activities on society. Thus, CSR is a stakeholder oriented notion that focuses primarily on voluntary commitments of an organization regarding both its internal and external issues, which are determined by the business’s understanding and acknowledgement of its moral responsibilities concerning the impact of its activities on society. The Dynamic Environment of Business The external environment of business is dynamic and ever changing. Businesses and their stakeholders do not interact in a vacuum. On the contrary, most companies operate in a swirl of social, ethical, global, political, ecological, and technological change that produces both opportunities and threats.These six dynamic forces powerfully shape the business and society relationship. Changing societal expectations. Everywhere around the world, society’s• expectations of business are changing. People increasingly expect business to be more responsible, believing companies should pay close attention to social issues and act as good citizens in society. New public issues constantly arise that require action. Increasingly, business is faced with the daunting task of balancing its social, legal, and economic obligations, seeking to meet its commitments to multiple stakeholders. Modern businesses are increasingly exploring opportunities to act as social entrepreneurs often by focusing on those at the bottom of the pyramid. Growing emphasis on ethical reasoning and actions. The public also expects• business to be ethical and wants corporate managers to apply ethical principles or values—in other words, guidelines about what is right and wrong, fair and unfair, and morally correct—when they make business decisions. Fair employment practices, concern for consumer safety, contribution to the welfare of the community, and human rights protection around the world have become more prominent and important. Business has created ethics programs to help ensure that employees are aware of these issues and act in accordance with ethical standards. Globalization. We live in an increasingly integrated world economy, characterized• by the unceasing movement of goods, services, and capital across national borders. Large transnational corporations do business in scores of countries. Products and services people buy every day in the United States or Germany may have come from Indonesia, Haiti, or Mexico. Today, economic forces truly play out on a global stage. A financial crisis on Wall Street can quickly impact economies around the world. Societal issues—such as the race to find a cure for HIV/AIDS, the movement for women’s equality, or the demands of citizens everywhere for full access to the Internet—also cut across national boundaries. Environmental issues, such as ozone depletion and species extinction, affect all communities. Globalization challenges business to integrate their financial, social, and environmental performance. Evolving government regulations and business response. The role of government• has changed dramatically in many nations in recent decades. Governments around the world have enacted a myriad of new policies that have profoundly constrained how business is allowed to operate. Government regulation of business periodically becomes tighter, then looser, much as a pendulum swings back and forth. Because of the dynamic nature of this force, business has developed various strategies to influence elected officials and government regulators at federal, state, and local levels. Business managers understand the opportunities that may arise from active participation in the political process.

Dynamic natural environment. All interactions between business and society occur within a finite natural ecosystem. Humans share a single planet, and many of our resources—oil, coal, and gas, for example—are nonrenewable. Once used, they are gone forever. Other resources, like clean water, timber, and fish, are renewable, but only if humans use them sustainably, not taking more than can be naturally replenished. Climate change now threatens all nations. The relentless demands of human society, in many arenas, have already exceeded the carrying capacity of the Earth's ecosystem. The state of the Earth's resources and changing attitudes about the natural environment powerfully impact the business–society relationship. Explosion of new technology and innovation.

Technology is one of the most• dramatic and powerful forces affecting business and society. New technological innovations harness the human imagination to create new machines, processes, and software that address the needs, problems, and concerns of modern society. In recent years, the pace of technological change has increased enormously. From genetically modified foods to social networking via the Internet, from nanotechnology to wireless communications, change keeps coming. The extent and pace of technological innovation pose massive challenges for business, and sometimes government, as they seek to manage various privacy, security, and intellectual property issues embedded in this dynamic force.

Social Responsibility of Business :-

The social responsibility of business means various obligations or responsibilities or duties that a business-organization has towards the society within which it exists and operates from.Generally, the social responsibility of business comprises of certain duties towards entities, which are depicted and listed below.

1. Shareholders or investors who contribute funds for business. 2. Employees and others that make up its personnel. 3. Consumers or customers who consume and/or use its outputs (products and/or services). 4. Government and local administrative bodies that regulate its commercial activities in their jurisdictions. 5. Members of a local community who are either directly or indirectly influenced by its activities in their area. 6. Surrounding environment of a location from it operates. 7. The general public that makes up a big part of society.

The social responsibility of business comprises of the following obligations: 1. A business must give a proper dividend to its shareholders or investors. 2. It must provide fair wages and salaries with good working conditions. 3. It must provide a regular supply of good quality goods and/or services to its consumers/customers at reasonable prices. 4. It must abide by all government rules and regulations, supports its business- related policies and should pay fair taxes without keeping any delays or dues. 5. It must also contribute in betterment of a local community by doing generous activities like building schools, colleges, hospitals, etc. 6. It must take immense care to see that its activities neither directly nor indirectly create havoc on the vitality of its surrounding environment. 7. It should maintain a stringent policy to curb or control pollution in regard to

contamination of air, water, land, sound and radiation leakages. Here, to do so, it must hire experienced professional individuals who are experts in their respective fields. 8. It should also offer social-welfare services to the general public.

The core objectives of social responsibility of business are as follows:

1. It is a concept that implies a business must operate (function) with a firm mindset to protect and promote the interest and welfare of society.

2. Profit (earned through any means) must not be its only highest objective else contributions made for betterment and progress of a society must also be given a prime importance. 3. It must honestly fulfill its social responsibilities in regard to the welfare of society in which it operates and whose resources & infrastructures it makes use of to earn huge profits. 4. It should never neglect (avoid) its responsibilities towards society in which it flourishes.

Now let's discuss how the survival, growth and success of business are linked and dependent on sincere execution of its social responsibilities.

1. Shareholders or investors Social responsibility of business towards its shareholders or investors is most important of all other obligations.

If a business satisfies its funders, they are likely to invest more money in a project. As a result, more funds will flow in and the same can be utilized to modernize, expand and diversify the existing activities on a larger scale. Happy financiers can fulfill the rising demand of funds needed for its growth and expansion.

2. Personnel Social responsibility of business towards its personnel is important because they are the wheels of an organization. Without their support, the commercial institution simply can't function or operate.

If a business takes care of the needs of its human resource (for e.g. of office staff, employees, workers, etc.) wisely, it will boost the motivation and working spirit within an organization. A happy employee usually gives his best to the organization in terms of quality labor and timely output than an unsatisfied one. A pleasant working environment helps in improving the efficiency and productivity of working people. A good remuneration policy attracts new talented professionals who can further contribute in its growth and expansion.

Thus, if personnel are satisfied, then they will work together very hard and aid in increasing the production, sales and profit.

3. Consumers or customers Social responsibility of business towards its consumers or customers matters a lot from sales and profit point of view. Its success is directly dependents on their level of satisfaction. Higher their rate of satisfaction greater is the chances to succeed.

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If a business rolls out good-quality products and/or delivers better quality services that too at reasonable prices, then it is natural to attract lots of customers. If the quality-price ratio is maintained well and consumers get worth for their money spend, this will surely satisfy them. In a long run, customer loyalty and retention will grow, and this will ultimately lead to profitability.

4. Government Social responsibility of business towards government's regulatory bodies or agencies is quite sensitive from the license's point of view. If permission is not granted or revoked abruptly, it can result in huge losses to an organization. Therefore, compliance in this regard is necessary.

Furthermore, a business must also function within the demarcation of rules and policies as formulated from time to time by the government of state or nation. It should respect laws and abide by all established regulations while performing within the jurisdiction of state.

Some examples of activities a business can do in this regard: Licensing an organization, Seeking permissions wherever necessary, Paying fair taxes on time, Following labor, environmental and other laws, etc.

If laws are respected and followed, it creates goodwill of business in eyes of authorities. Overall, if a government is satisfied it will make favorable commercial policies, which will ultimately open new opportunities and finally benefit the organization sooner or later. Therefore, satisfaction of government and local administrative bodies is equally important for legal continuation of business.

5. Local community Social responsibility of business towards the local community of its established area is significant. This is essential for smooth functioning of its activities without any agitations or hindrances.

A business has a responsibility towards the local community besides which it is established and operates from. Industrial activities carried out in a local-area affect the lives of many people who reside in and around it. So, as a compensation for their hardship, an organization must do something or other to alleviate the intensity of suffering.

As a service to the local community, a business can build: A trust-run hospital or health center for local patients, A primary and secondary school for local children, A diploma and degree college for local students, An employment center for recruiting skilled local people, etc.

Such activities to some-extend may satisfy the people that make local community and hence their changes of agitations against an establishment are greatly reduced. This will ensure the longevity of a business in a long run.

6. Environment

Social responsibility of business with respect to its surrounding environment can't be sidelined at any cost. It must show a keen interest to safeguard and not harm the vitality of the nature.

A business must take enough care to check that its activities don't create a negative impact on the environment. For example, dumping of industrial wastes without proper treatment must be strictly avoided. Guidelines as stipulated in the environmental laws must be sincerely followed. Lives of all living beings are impacted either positively or negatively depending on how well their surrounding environment is maintained (naturally or artificially). Humans also are no exception to this. In other words, health of an environment influences the health of our society. Hence, environmental safety must not be an option else a top priority of every business.

7. Public Finally, social responsibility of business in general can also contribute to make the lives of people a little better.

Some examples of services towards public include: Building and maintaining devotional or spiritual places and gardens for people, Sponsoring the education of poor meritorious students, Organizing events for a social cause, etc.

Such philanthropic actions create a goodwill or fame for the business-organization in the psyche of general public, which though slowly but ultimately pay off in a due course of time.

The world is recognizing the importance of social responsibility of business.

Social responsibility in business or corporate social responsibility (CSR) pertains to people and organizations behaving and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues. Striving for social responsibility helps individuals, organizations, and governments have a positive impact on development, business, and society.

Social responsibility means that individuals and companies have a duty to act in the best interests of their environments and society as a whole. Social responsibility as it applies to business is known as corporate social responsibility (CSR). Many companies, such as those with "green" policies, have made social responsibility an integral part of their business models.

Additionally, some investors use a company's social responsibility, or lack thereof, as an investment criterion. As such, a dedication to social responsibility can actually turn into profits, as the idea inspires investors to invest and consumers to purchase goods and services from the company. Put simply, social responsibility helps companies develop a good reputation.

Benefits of corporate social responsibility Corporate social responsibility (CSR) offers a number of direct business benefits. Responsible business reputation Building a reputation as a responsible business will give you a competitive advantage. Companies often favour suppliers who have responsible policies. This is because it can have a positive impact on how they are seen

by their customers. Some customers don't just prefer to deal with responsible companies, but insist on it.

Reducing costs Reducing resource use, waste and emissions doesn't just help the environment - it saves you money too. It's not difficult to cut utility bills and waste disposal costs and you can bring immediate cash benefits.

Advantages of corporate social responsibility Other business benefits of CSR include: A good reputation makes it easier to recruit employees.

 CSR will help you retain staff. Employees may be motivated stay longer, reducing the costs and disruption of recruitment and retraining. Employees are better motivated and staff productivity will increase. CSR helps ensure you comply with regulatory requirements. Activities such as involvement with the local community are ideal opportunities to generate positive press coverage. Goodrelationships with local authorities make doing business easier. Understanding the wider impact of your business can present opportunities to develop new products and services. CSR can make you more competitive and reduces the risk of sudden damage to your reputation (and sales). You may find it easier to access finance as investors are more willing to back a reputable business.

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