Rural Management Business Environment

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About the Book

Businesses are set of planned activities started to earn profits for value chain enablers and create wealth for the owners and other channel partners, these activities include consumption, production, exchange or distribution. These activities are termed as economic activities and business always try to optimize these activities for wealth and profit maximization. Any business and economic activity always focus on converting naturally available resources (including human capital/labour) into financial or economic resources. On one hand this macro activity help in socio-economic development of all those involved in value chain, while on the other hand it helps generate income and growth of national income.

At macro level, policy makers, government departments, financial institutions and private sector players work towards achieving their own set objectives for medium to long term; but the basic micro unit for any economic activity is always a producer (as individual) or a business enterprise (as collective). Business enterprises produce both goods and services to maximise wealth and generate profits for all those who are involved in the process. Part of wealth and profit generated for enterprises, owners and employees goes to government as tax in different forms, helping it to achieve economic growth.

It is very important for all macro level stakeholders to allocate required resources, develop policies and create conducive environment to promote business enterprises. Here environment refers to certain internal and external forces/factors, wherein enterprise plan for future, take decisions and operates. Some of these forces are controllable and many others are uncontrollable. The constituents of any business environment can be further categorised into economic, social, political and legal. Government is important stakeholders in business environment and that is why it supports activities responsible for making business environment more conducive for all entrepreneurs, private sector organizations, financiers, consumers and producers. The Government very well understands the positive relationship among business environment, economic growth of nation and sustainable social development.

This book will help students in understanding components of business environment, specifically the rural side of it. The focus of this book will always remain rural India. Various examples are used in book to make readers understand the right perspective of opportunities and challenges present in rural business environment, stating from planning an enterprise till the legal framework under which it is established.

I thank Dr Harjoth Kaur, Assistant Professor in Government Degree & PG College for Women, Jagtiyal and Dr Agyeya Tripathi, certified Social Auditor, Qualified Research Professional and Multidisciplinary Consultant in Social Sector for contributing to this book and their outstanding insights. Also, I would like to thank MGNCRE Team members for extending their extreme support in completing this text book.

Dr W G Prasanna Kumar
Chairman MGNCRE

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Introduction

Business Environment is framed for formulating appropriate business strategies as modern business have a profound effect of complex and intricate environment. The threats and opportunities to a business organization are largely due to economic and non-economic environment. The important aspects of business environment interface apart from economic environment, socio-cultural, political-legal, natural, technological, demographic, ecological environments are all changing frequently. An understanding of these environments helps business to develop a vital tool for the business decisions. It also assists to identify the companies' strengths, weaknesses, threats and opportunities and to draw a sketch to achieve the short- and long-term objectives quickly and in an effective way.

Objectives

- To explain the concept of business environment
- To provide overview on strategic management
- To study the elements of business environment
- To identify the economic and non-economic environment and its impact on business decisions.
- To familiarize with rural product specific challenges in Indian Market

Chapter Structure

1.1 Introduction to Business Environment

1.2 Strategic Management

1.3 Economic and Non- Economic Environment

1.4 Technological Environment

1.5 Rural Product Specific Challenges in Indian Market

1.1 Introduction to Business Environment

'Business' can be any legal economic activity established under law of land, involved in production, trading and value addition of goods or services. Its performance depends upon internal and external 'Environment'. Internal Environment is controllable whereas as external environment is uncontrollable. It is known that the environment in which business operates remains dynamic and uncertain. The internal factors such as suppliers, customers, labor, business associates, competitors and regulating agencies are all controllable. A businessman can formulate a business policy to regulate these factors. It is very essential for business owner to understand the set of external factors such as economic, socio-cultural, political, legal, ecological, demographic, technological, rural-urban, national international factors which are beyond the control. Understanding these factors help owners and managers to formulate policies and manage risk in ever changing business environmental scenario.

'Environment' refers to all the uncontrollable factors which influence the functioning of the business. It refers to the surroundings of the business enterprise and its functions, operations and activities. The word environment has been derived from a French word "Environia" which means to surround. It refers to both natural and artificial resources. Environment is the mixture of conditions that surrounds any business enterprise interacting with the systems of physical, socio-cultural, technological, demographical, political-legal etc. elements which are interlinked. Environment is the sum of conditions in which a business has to survive or maintain its life cycle. Environment influences the growth and development of any business.

Meaning and Definition of Business Environment

The sum of internal and external factors that influences a business enterprise is called business environment. The business environment can include internal factors such as- customers and suppliers; its competitors and owners; Labour and Trade Unions; Business associates and Government or regulating agencies and external factors like improvements in technology; laws and government activities; and market, social and economic trends, change in demographic profile, trends in socio-cultural behavior, policies towards rural and Urban development, issues related to national and international levels etc.

"Business Environment is set of those inputs to an organization which are under the control of other organizations or interest groups or are influenced by interaction of several groups, such as economy" *Prof Paire& Anderson*

"Business Environment is an aggregate of all conditions, events and influences that surround and affect it. It is a broad and ever changing as its separate elements interact. A single firm's environment is narrow in scope than the total environment of business. It is complicated and continuously changing." *Prof Keith Davis*

Characteristics/Features of Business Environment

Business Environment is the sum of external forces which are uncontrollable and are surrounded to a business enterprise.

Business Environment= Internal forces + External forces

Internal forces such as suppliers, customers, employees, business associates, competitors and regulating agencies are all controllable. They affect directly and immediately in the functioning of the business. External forces such as economic, socio-cultural, political-legal, ecological, demographic, technological, rural-urban, national –international are all uncontrollable. These indirectly affect the business. Business Environment is dynamic and ever changing in terms of demographic profiles, customers' perception, advancement in technology,

It is very difficult to predict external forces including economic policies, legal policies, technological changes, customer's buying behavior, ecological issues, rural-urban prospects, technological improvements and as such. Hence it may be said, business environment is uncertain and unpredictable.

Business Environment differs from nation to nation, region to region and even locality to locality. Economic conditions for instance differ from USA to Russia or India. The socio-cultural behavior in India differ from North India to South India. The demand for Idli, Vada or Dosa(breakfast items) is more in South India than North India. Superstitions or blind beliefs may be more in Rural India. Therefore, Business Environment is a relative concept. All the elements of business environment i.e. economic, socio-cultural, political-legal, ecological, demographic, technological, rural-urban, national –international are inter-related. For Instance, Formal education with a rural development aspect to include practical agriculture, handicrafts, home economics and population education in curriculum, Acceptance of foreign for items such as; Beverages, Packed food, Ready to eat food , Pre-cooked food, Canned food, Personal care products , Audio/video products, Garment and apparel, Footwear , Sportswear, Toys and Gift items and so on.

Business Environment is complex and hard to be understood from single point of reference; elements need to be seen in totality. For example- disintegration of traditional joint family, disappearance of neighborhood, sophistication, emergence of individualism, Commercialization of Agriculture are complex aspects to scan and understand, and even if one understand, it is always hard to predict about customer preference and their behavior for any product or service.

Elements of Business Environment

The key constituents / elements of Business Environment can be divided into two parts. They are

1. Micro-Environment
2. Macro-Environment

Table 1.1: Key Constituents of Elements of Business Environment

Micro-Environment	**Macro-Environment**
➢ Mission, Vision and Objectives of the business enterprise ➢ Functioning of the business enterprise ➢ Form of business organization ➢ Customers ➢ Suppliers ➢ Marketing Channel ➢ Public ➢ Regulating Agencies ➢ Employees ➢ Business Associates ➢ Competitors	➢ Ecological/Physical Environment ➢ Demographic Environment ➢ Economic Environment ➢ Political-Legal Environment ➢ Socio-Cultural Environment ➢ Technological Environment ➢ International Environment ➢ Rural-Urban Environment

Source: Cherunilam (2007)

Business Environment

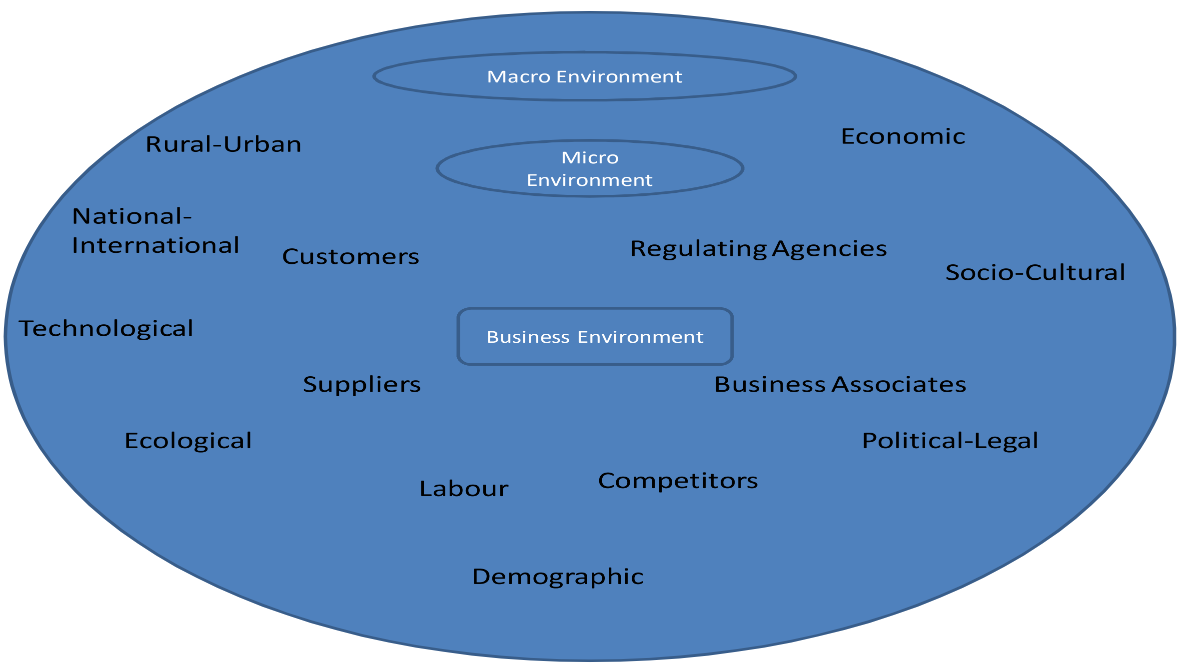

Figure 1.1: Constituents of Business Environment

Source: Cherunilam (2007)

Micro-Environment

The immediate environment surrounding a business enterprise such as customers and suppliers; its competitors and owners; Labor and Trade Unions; Business associates and Government or regulating agencies is called Micro-Environment. These factors are closely associated with business. They have an important effect on the functioning of the business. Let us take the micro environmental factors –

1) Suppliers: Suppliers are business entities which provide raw materials/components to the business. The uninterrupted supply, qualitative materials and at less price by suppliers help any business to prosper. Interrupted and untimely supply of goods and services effects cost of production and profit margins. Suppliers generally wish to provide required materials at relatively lower prices to big business firms and not to relatively small firms. It's a fact that, it is risky to depend upon a single supplier. Anyone should opt to have multiple suppliers.

2) Customers: Customers expect only three things- low price, quality goods and its availability at all places. If the Manufacturer can satisfy their customers with all the above three things, then there will be no go back. The Manufacturers have to remember that they have different categories of customers such as Industrial, Retailer, Wholesaler, Government, foreigner etc. For instance, Colgate toothpaste & oral care Products Company are of superior quality that caters to the requirements of different customers which are widely appreciated by national & international clients.

3) Employees (Labor): There are hundreds of workers working for the organization. They expect better Human Resource policies such as better working conditions, health benefits, safety benefits and welfare measures apart from their regular wages/salaries. If these are not provided, they form unions and resort to go on strikes, lockouts, gheraos, bandhs etc.

4) Competitors: In oligopolistic and monopolistic market forms different firms in an industry compete with each other for sale of their products. The competition may be on pricing their products or non-pricing competition such as competitive advertising, sponsoring some events such as cricket matches and award ceremonies etc. for sale of different varieties and models of their products, each claiming the superior nature of its products.

5) Business Associates: A "Business Associate" is a person or entity that performs certain functions or activities such as providing capital, supply of raw materials, etc. to protect the business in case of emergencies or so. They help companies to boost growth and sales. They conduct market research, develop business strategies, build client relationships, and identify new business opportunities. They find work in a variety of industries from marketing to information technology.

6) Regulating Agencies: Regulatory agencies exercise regulatory or supervisory authority over a variety of activities and endeavors of doing business in India. They are Income Tax Department, quality control departments, revenue departments, financial regulating departments, and legal departments and so on. These bodies regulate, supervise or control the operations of the business.

All these microenvironment factors play different role according to their geographic location, rules are different for operating in rural areas. Suppliers have differential pricing mechanism for rural and remote areas as it takes more efforts to send raw material or finished good or even to purchase any goods or services from these areas. Customers in rural areas also have different preferences in terms of quality, price and packaging mainly due to their habits and low disposable income. Labor is also cheap in rural and remote areas, which helps in reducing the cost of production, manufacturing, sorting, packaging and other value addition activities, making rural products less costly. While in urban and semi-urban areas the cost of labor is more, which makes product more costly; situation become worse when products are produced in urban areas and sold in rural areas with more efforts. Competition is variable which effects price, quality and other features of products and services in any geography. General business and legal regulation remain same through the country of operations, but market regulations do change as per the geography. Different states may charge differential taxes and rules for sales of goods and services within their land boundaries.

Macro-Environment

The environment surrounding a microenvironment and are uncontrollable such as economic, socio-cultural, political-legal, ecological, demographic, technological, rural-urban, national international is called Macro-Environment. These factors indirectly effect the operations of the business. They provide opportunities and pose threats. These macro factors are to be scanned through SWOT (strengths, weakness, opportunities and threats) Analysis or PESTEL (Political, economic, social, technological, environmental and legal) Analysis. This analysis will help the business to understand external environment so that strategic thinking and decision making can be facilitated for the development of business. Let us take the macro environment factors –

1) Economic Environment: A business is an economic institution primarily governed by economic environment. Economic constituents of economic environment include

    a. Economic systems such as capitalism, socialism or mixed economy
    b. Economic Policies such as Monetary Policy, Fiscal Policy, Industrial Policy, Trade Policy or Agricultural Policy
    c. Economic Conditions such as size of national income and its distribution, per capita income, rate of growth of economy, availability of capital & capital goods, price level, level of competition, demand& supply of various goods etc.

2) Socio-cultural Environment: Social environment mean a social setting in which people live or in which something happens or develops; like consumers to any business enterprise. Cultural Environment means an environment which affects the basic values, behaviors and preferences of the society. Socio-cultural environment mean a setof beliefs, customs, practices and behavior that exists within a population-all of which have an effect on consumer marketing decisions.Socio-cultural factors are customs, lifestyles, values, aesthetics, education, language, law and politics, religion, social organizations, technology and material culture, values and attitudes that characterize a society. A business enterprise should frame such a strategy that is very appropriate to socio-cultural environment.

3) Political-Legal Environment: The political-legal environment affects business and is given a lot of importance. Several legislations coming up can affect business. This environment is directly connected to the political parties in power as they represent the popular opinion of people of that region. Businesses must abide by various laws enacted by the government. Thus, political stability plays a very important role in the development of business.

4) Demographic Environment: Demography is the study of the human population living in an area, their age, jobs, income, spending habits, ethnicity, gender and so on. The study of human population helps to know the number of potential customers. Demographic factors such as age, gender, income level, educational qualifications, marital status, caste, religion, language, etc. affect the operations of the business. The diagram given below clearly explains the factors to be considered to market their products keeping in view the diversified population.

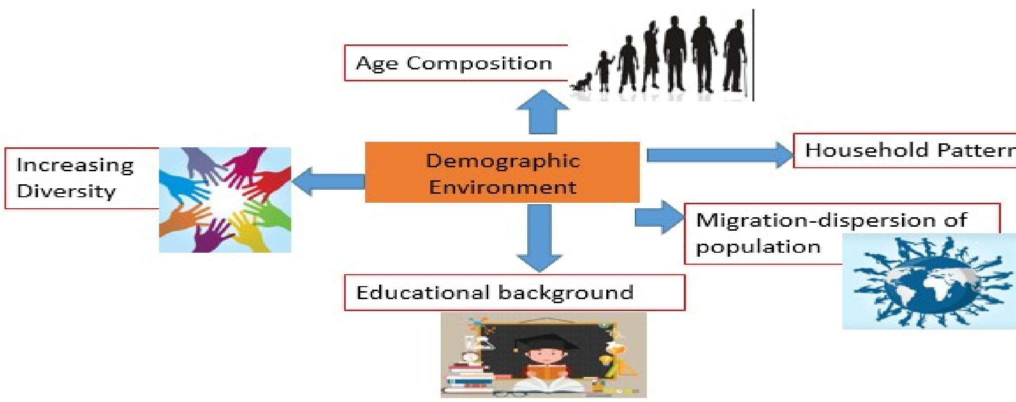

Figure 1.2: Constituents of Demographic Environment

Source: Cherunilam (2007)

5) Technological Environment: Businesses need to adopt themselves with changing technology and need to understand customer preference, along with changing products as per the latest technology. Technology affects individuals and business, it acts as a catalyst for any business to succeed. Firms are adopting various technologies to streamline their systems and processes, which help them in reducing costs, easing out management systems, developing policies, managing finances, optimally utilizing resources, etc.; all this to make business more profitable and sustainable. This also helps the firm to expand its business and reduce the time, cost and distance of their tasks.

6) International Environment: International environment largely affects industries that depend upon imports and exports of finished goods or raw material required. It is concerned with foreign policy, defense policy, foreign exchange policy, international treaties, international trade agreements, etc. Small and medium-sized rural enterprises with a strong supply chain largely depend upon traders and international suppliers for marketing their products. Indian leather and its products are well accepted in the European market. Products like Madhubani art, Banarsi and Pochampalli Sarees,

Morenga powder, Ayurvedic products, etc. come from rural enterprises and are finding purchasers around the globe.

7) National Environment: It includes the features of the business environment within the country of business operation. The main features of Indian business environment are huge population, diversified culture, multi-lingual, co-existence of public & private sector, increasing middle class, poor capital formation, increasing level of technology, under-utilized work force, lack of utilization of resources, poor market infrastructure, natural calamities, stable law and order, political disturbances, religious issues etc. The factors, forces, and institutions that have direct or indirect influence over the business transactions operating in India are to be analyzed for the smooth functioning of the business.

8) Urban-Rural Environment: It is very important to understand the fundamental differences between urban and rural to tap business opportunities. Urban is the geographical region located in cities or towns where the population is very high, life is fast and complicated, buildings and skyscrapers are found, mostly engaged in non-agricultural work like trade, commerce or service industry, areas are systematically planned, flexible to change and move for better opportunities whereas Rural is the geographical region located in the outer parts of the cities or towns, directly associated with nature, life is slow and simple, depending on agriculture and animal husbandry, huts and kutcha houses are built, reluctant to change and so on. Companies are now shifting their focus from the saturated metros and tier-I cities to semi-urban towns and villages, to increase their market share. They need to know the limitations of rural areas such as the number of villages with low population density, accessibility, infrastructure, telecommunication network, illiteracy, social and cultural backwardness and low income. Marketers have to exploit the rural market potential. It is much easier to divide it according to the needs of the urban population because of concentration, but it is very difficult in the case of the rural markets because of their widespread nature.

A Case of Punsari village in Gujarat – A close look at Punsari village can help anyone understand, why it was set as a role model to be adopted by government officials and replicate the idea across 640 districts in India. This village is class apart in many ways: the basic infrastructure sets it apart from many other semi-urban towns in India, leave away the villages. You can find primary schools equipped with CCTV cameras, Wi-Fi connectivity is available throughout the village, metal roads, chilled mineral water for drinking and independent public transport system are some of the highlights. The schools achieved zero dropouts since 2006, a RO plant supplies purified drinking water to all households at 20 paise per liter, the capital amount at village panchayat grew its capital of Rs 25,000 to Rs. 45 lakh in seven years, panchayat pays an annual premium of Rs 25 lakh to cover each and every adult villagers again his/her life and a medi-claim. The village was not benefitted from NRIs but from funds of central and state-sponsored developmental schemes in the past eight years. As such, if villages in India are developed, the whole of India gets developed automatically.

Conclusion: Each of the above environments interacts with and depends on one another. It must study the total environment and each above-said environment. It must study through SWOT Analysis and PESTLE Analysis to adjust itself in order to be successful.

Importance of Business Environment

The study of Business Environment helps owners to know the opportunities, understand their strengths, combat threats and accept the challenges. They will be capable of adapting to the environment. The study helps to

1. Snatch the opportunities first

   The organizations learn the opportunities they have through SWOT Analysis. They always try to grab the opportunity before their competitors do. For example, During the Maggi banned, Sunfeast Yippee, the noodle company had started giving market leader Maggi some sort of competition and crossed the market share of Maggi thus snatching the opportunity by understanding the weakness of Maggi. Its another brand Knorr Soupy Noodles is a product of Hindustan Unilever and is famous for its unique range of soups in India. It has earned accolades for its unique combination of noodles and soup, that is, Knorr Soupy Noodles consists of Mast Masala Soupy Noodles, Knorr Chinese Noodle Hot Spicy, Knorr Chinese Noodle Schezwan, Chinese Noodles, and Fried Rice Co.

2. Cope up with problems

   The study of business environment helps businesses to handle crisis. For Example, Nano car, a Tata Automobile product was not able to capture the market as it thought before launch. The car was designed for a common man, thought of launching its price to be Rs. 1 lakh. But, situation turned bad when whole manufacturing plant got shifted from West Bengal to Gujrat, because of various state level issues. (Flop2Hit, n.d.)

3. Building Brand Image

   Coco Cola for its unique taste, Woodland for its long-lasting shoes, McDonald for its quick serving of food, Walmart for a lesser price, Rolls-Royce for rich people, Nike, the cult brand for footwear are best examples of the company who created their brand image and identity. The business should build their brand image.

4. Base for Strategy formulation and implementation

   The study of the business environment helps to formulate strategies and implement them for fetching benefits. HUL studied the FMCG market thoroughly and understood that there is a vast potential in the rural market and therefore started using a mix of demographic, geographic and psychographic segmentation variables to address the changing needs of the customers especially rural customers. With more than 35 brands across the different segments such as oral care, personal care, home care, toiletries, packaged foods, and many others, HUL started working on high brand awareness and high visibility through retailers. It changed its distribution strategy. This is what HUL is doing to tap the potential in the rural market.

5. Encourage innovation and creativity, as well as critical thinking and problem-solving

   The study of the business environment helps in intellectual stimulation i.e. it encourages innovation and creativity, as well as critical thinking and problem-solving. For instance, OLA, through its OLA cabs became the market leader in the transport industry especially in cities. They thought out of the box. They developed an App wherein Cab owners and drivers are contacted and with a touch of technology offered a variety of services to people.

6. Constant and continuous learning

   The case of Lijjat Papad is example to be mentioned here, seven Gujarati women took up an Idea and converted that into a successful enterprise. Their continuous learning through hard work and dedication made Lijjat Papad one of the most successful cooperative society, which now employs 43,000 women and grew from Rs 80 to Rs 800 crore. The diversified products are now capturing larger markets, and include masalas, wheat flour, chapatis, detergent powder, detergent cake, and a liquid detergent. The group learned not to compromise on quality, they used innovative techniques for drying papads in rainy season using cot and stoves, connect with people through local media and word of mouth, increase number of members for higher production, distribute kneaded flour for quality control and flexibility to work from homes and so on. During all these years this cooperative society saw successfully established flour mills, own printing division and a polypropylene packing division while few unsuccessful ventures including cottage leather, matches, and agarbattis (incense sticks). Lijjat also started exporting its products to foreign customers in the United Kingdom, the United States, the Middle East, Singapore, the Netherlands Thailand, and other countries.(Anand, 2018)

Check Your Knowledge
Question 1 – Define Business Environment?
Question 2 – Give three differences between rural and urban business environment?
Question 3 – Why understanding of business environment is important before launching a business or enterprise in rural area?

Activity
Make a small chart on A4 size sheet, showing challenges and opportunities in Rural Business Environment? For reference you can take an example of any tractor company producing range of tractors for small and medium farmers in rural India.

1.2 Strategic Management

Organizations are facing many challenges, both internal and external challenges such as higher expectations of employees, lack of managerial skills, ever changing economic scenario in policies, economic conditions and economic systems, political differences, social and cultural changes, technological developments, changes in international policies and so on. These problems accelerate the downfall of any organization. Therefore, to face such problems and changes, the study of strategic management is a must. It deals in anticipating the environmental changes and designing the appropriate strategy to meet the unexpected and unbelievable changes.

The situation is equally critical while considering strategic management of rural enterprises. Rural enterprises also face challenges related to finance, HR and operations, as workers, producers, suppliers, traders and almost all stakeholders get influenced by urban business environment. Strategic management plays much larger roles in rural enterprises mainly due to higher ambiguity and lack of process and management system in relevant business environment.

Meaning of Strategy: It can be simply understood as 'the plan of action'. Strategy is the basic design of present and future objectives in a planned way, utilizing of resources to the maximum extent and interactions between organizations and all the elements of business environment.

Definition of Strategic Management

Mr. Lawrence & William defines it as "a system of decisions and actions which leads to the development of an effective strategy or strategies to help achieve corporate objectives. The strategic management process is the way in which the strategies determine objectives and make strategic decisions".

For example, Hindustan Unilever in 2011, has used concept of "give a missed call" and offered audio entertainment including filler advertisement for Wheel Active detergent powder. The whole campaign was targeted to capture rural market. The cost of advertisement per call was less than 50 paise, which is minimal when compared to its market outreach. In four months, HUL got 16 million calls and Wheel sales tripled in the region.(Mahajan, 2016)

Features of Strategic Management

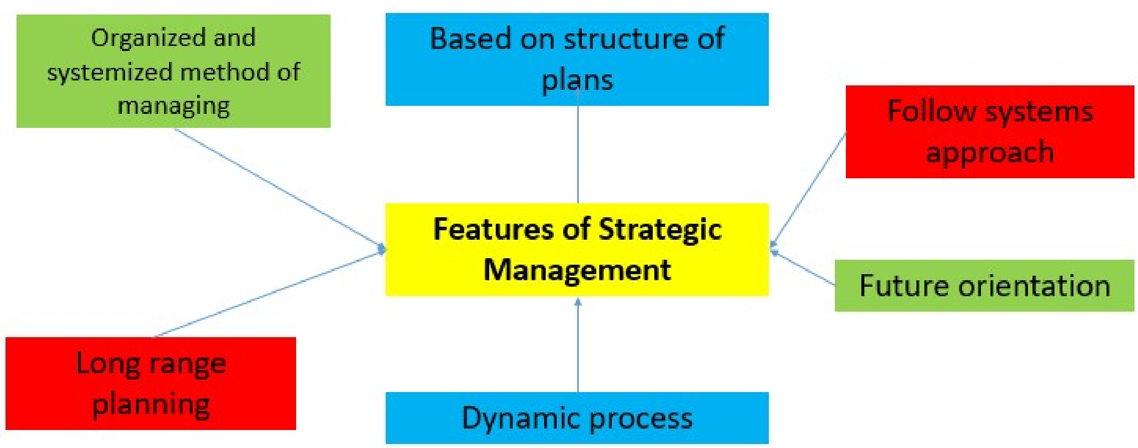

Figure 1.3: Features of Strategic Management

Source: Sontakki et al (2014)

1. Organized and systemized method of managing

   Strategic management is the art of selecting a set of decisions and actions to organize and systematically designing the formulation and implementation of strategies to achieve the ultimate objectives of an organization. For instance, Hindustan Unilever Limited (HUL) systematically designed the Shakti initiative by which a training program is developed to increase sales in rural India. It trained local women as rural sales agents to sell Unilever products door to door in their communities. Around 70,000 sales agents serving 165,000 Indian villages are trained. They were given a smart phone to manage the inventory and other aspects of their business.

2. Based on the structure of plans

   Organizations need different kinds of plans to remain sustainably profitable, innovative and relevant in medium to long term. Different types of plans for any organization are strategic plans, functional plans, operating plans, and organizational plans, each one has its own objectives, course of action, and implementation process. For example, Hero MotoCorp, a two-wheeler manufacturer captures a large volume of rural markets in India. The company always keeps a sharp eye on product development and work towards making its products more relevant.(Shyam, 2018)

3. Follow systems approach

   Strategic management follows systems approach-Input-Process and Output Model. A school of thought in management system stresses more on external and internal factors of any organization. A systems approach is generally used for evaluating market elements responsible for profitability in business. For example, rural markets are now very dynamic with the latest information and a product being available to the population, this change is potential business opportunity for various FMCG and Agro-based companies. Looking at the increased potential, companies launched products with special packaging targeting a rural mindset. For example, companies launched shampoo in small sachets ranging from Rupee 1 to Rs. 4, small biscuits, snacks and toiletries products with lower price range for making it aligned with rural purchasing power. (Rural Marketing, n.d.)

4. Future orientation

   It is related to future endeavors by studying the impact of present decisions on the future success of the organization. For instance, internet penetration in rural India has increased from 9% in 2015 to 25% in 2018 which has boosted the online rural shopping purchasing everything from apparel to furniture to dog food to electronics to what not. The massive e-commerce boon has changed the way rural Indians shop. Rural users are looking for the same things on the internet as that of the urban users, so that anything that sells in the urban market sells in the rural market too. Therefore, it is important for both new entrants and established players to understand the shift and plan their strategy accordingly.

5. Dynamic process

   Strategic management needs to be dynamic, which means it should be flexible enough to remain relevant even when there is some change in business environment. This is possible when businesses and its owner analyze available past data, consider risks, develop risk management techniques, and plan for future. For example, Unicham, a Japanese sanitary goods maker and producer of MamyPoko pants captured several Asian markets and successfully gave competition to P&Gs Pampers (disposable diapers). Behind this success there are many factors, some of those are innovative design of disposable traditional diapers into underwear-shaped pant style diapers, differential packaging containing 2 to 30 diapers and availability of different sizes. The quality and strong supply chain of product is supporting company’s ambition to become market leader. (Malviya, 2019)

6. Long-range planning

   The planning should be for 5 to 10 years of time span. For instance, corporate want to enter the rural market and make a mark, then they have to study various factors like demographic, consumption rate, availability of transport system, electricity, telecommunications, market structure, channels of distribution, government policies such as NREGS, changing lifestyle, and so on. Hence, long term planning must be done. For example, Nestle Indi has begun expanding its direct distribution reach aggressively by adding more regions under its distributors' territories, preparing a new range of products and/or SKUs (stock-keeping units) targeting rural consumers and is planning to come up with customized products for each region.

Strategic Management Process

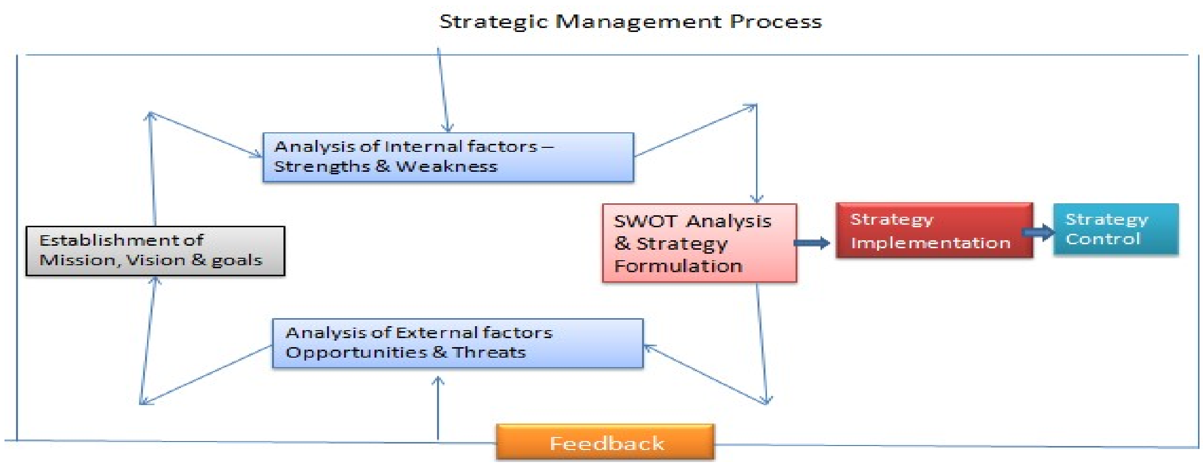

Figure 1.4: Process of Strategic Management

Source: Sontakki et al (2014)

Strategic Management is the continuing process, in which broad plans are formulated, implemented & controlled in order to lead the organization towards the achievement of its strategic goals under the umbrella of its internal & external environment. It is a process involving three main stages- Strategy formulation, Strategy Implementation and Strategy Control.

a) **Strategic Formulation:** It is the first stage of strategic management process. A strategy is drafted to execute various business activities. For formulating any strategy, following elements are to be clearly mentioned as they show the right path to lead an organization towards future goal. Laying down and clearly defining company's Vision, Mission and Objectives is first step towards strategy formulation. The figure given below is of Strategic intent.

Figure 1.2: Strategic Intent
Source: Sontakki et al (2014)

Vision, Mission and Objectives: Every organization has a purpose of its existence. They work hard for their very existence, purpose and creation of its own identity. They always try to achieve its goal for which it has been conceived as an idea of implementation and growth. These end results are vision, mission, objectives, values and aim.

A Mission Statement clearly defines the company's business, its objectives and its action to reach those objectives. In other words, the following questions need clear and achievable answers:

i) What business are we doing?
ii) What will our business be?
iii) Who are our customers?
iv) What are the business values, ethics and beliefs?
v) How the business is beneficial to society etc. is a Mission Statement.

Some of the Mission statements are:

1. As per its website, the **mission** statement of **Tata Group** is: "To improve the quality of life of the communities we serve through long-term stakeholder value creation based on Leadership with Trust."
2. As per its website, the **mission** statement of **Reliance's Group** is: "To provide the best and most value-adding advice within investor relations, financial communications, media relations, crisis communications, issues management and CSR reporting."

Features of Mission Statement

1. It should be precise and relevant to the type of business
2. It should be clearly communicated to all concerned stakeholders.
3. I t should be motivating to all stakeholders to feel proud to be connected to such a company.
4. It should be realistic and achievable.

5. It should be distinctive from its competitors.
6. It should tell all about its strategy.
7. It should address the way or approach to achieve their objectives.

Elements of Mission and Vision Statements are often combined to provide a statement of the company's purposes, goals and values. Some of the vision statements are-

1. As per its website, the **vision** of Lepakshi Handicrafts is: "An Empowered Artisan Community Thriving in an 'Enabling' Environment"
2. As per its website, the **vision** of Bata Company is: "To grow as a dynamic, innovative and market driven domestic manufacturer and distributor, with footwear as our core business, while maintaining a commitment to the country, culture and environment in which we operate."

Features of Vision

1. It should inspire all the stakeholders to do their best to achieve it.
2. It should replicate entrepreneur's dream, as s/he remains always motivated to achieve it.
3. It should be communicated to all the concerned people.
4. It leads to long term thinking, risk taking and experimentation.
5. It should be able to translate the mission statement.

Goals and Objectives

Goals are set to convert mission statement into achievable outcomes and outputs, within specified time limit. It helps in changing mission into more realistic set of targets, all these finally must be aligned with the vision of that company. According to Prof. Ansoff, goal should have some features:

Features of Goal

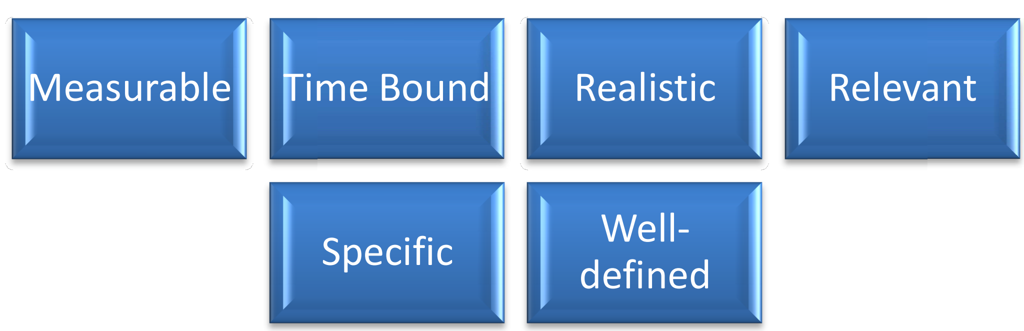

Figure 1.3: Features of Goal
Source: Sontakki et al (2014)

Goals should be measurable, as it helps management and owners to check if business achieved the desired result. Setting quantifiable parameters related to finance, operations and HR are easy; but goal is beyond these parameters, it also includes empathy, relationship with customers, product innovation, ethics, and so on. All goals need some timeline, goals not achieved within set time are loss to business, as this might help the competitor to capture the market or take advantage as a first mover.

Goals need to be realistic, any statement of business which does not show achievability within it, leads to low motivation and hence affect productivity and efficiency of all management systems. It is also very important that goal should be relevant, non-relevant goals create confusions in the mind of stakeholders. It should be flexible enough to accommodate certain short-term shocks, as one cannot change goals from time to time, responding to business environment. Goals should be specific and well-defined to achieve company's mission and well aligned with its vision too. Goals with ambiguity create management issues and keep stakeholders confuse about their role in long term.

Objectives

Objectives are prerequisite for planning. Goals describe what the organization wants to accomplish whereas objectives do it in a precise way to what will be accomplished in order to reach goals. Prof H. Igor Ansoff defines objectives as "decision rules which enable management to guide and measure the firm's performance towards its purpose". As per the website, the **Objectives** of Lepakshi Handicrafts are (Lepakshi Handicraft, n.d.):

- Develop and promote handicrafts.
- Market linkage facility for handicrafts.
- Promote handicraft through showrooms, exhibitions, and using various publicity channels
- Undertake welfare activities for artisans involved in production of handicrafts.

Features of Objectives

Organizations need objectives to get precise, quantifiable and traceable business outcomes. These objectives help management to take decisions and keep business on track. Some of the important features of any objective are:

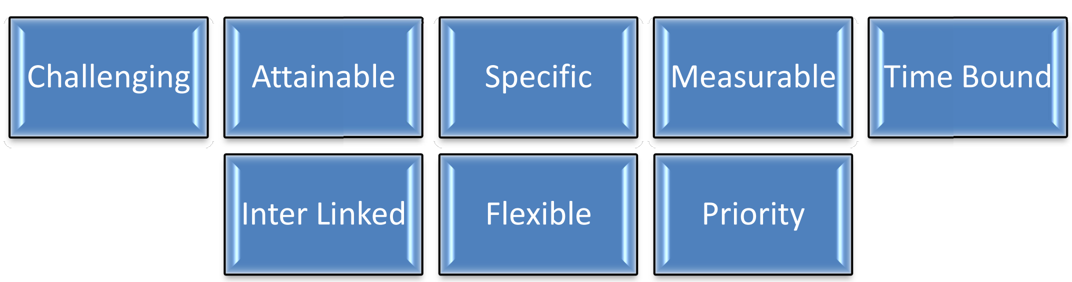

Figure 1.4: Features of Objective
Source: Sontakki et al. (2014)

The figure above can be briefly explained through following points, objectives:

1. Are measurable i.e. it can be monitored, and progress can be evaluated.
2. Help in comparing things during a set period.

3. Encourage cooperative managerial behavior by all at different level.
4. Serve the purpose for improvement.
5. Ensure growth and stability
6. Act as a base for not only simple business decisions but also crucial ones too.

SWOT Analysis

The procedure of SWOT analysis is very simple. First and foremost is to take the information from an environment and analyze it into internal analysis i.e. Strengths and Weaknesses and external Analysis i.e. Opportunities and Threats of a firm/industry. After completion, SWOT analysis determines what may help the firm in achieving its objectives, and what hurdles must be tackled or eliminated to achieve the desired end results.

SWOT Analysis

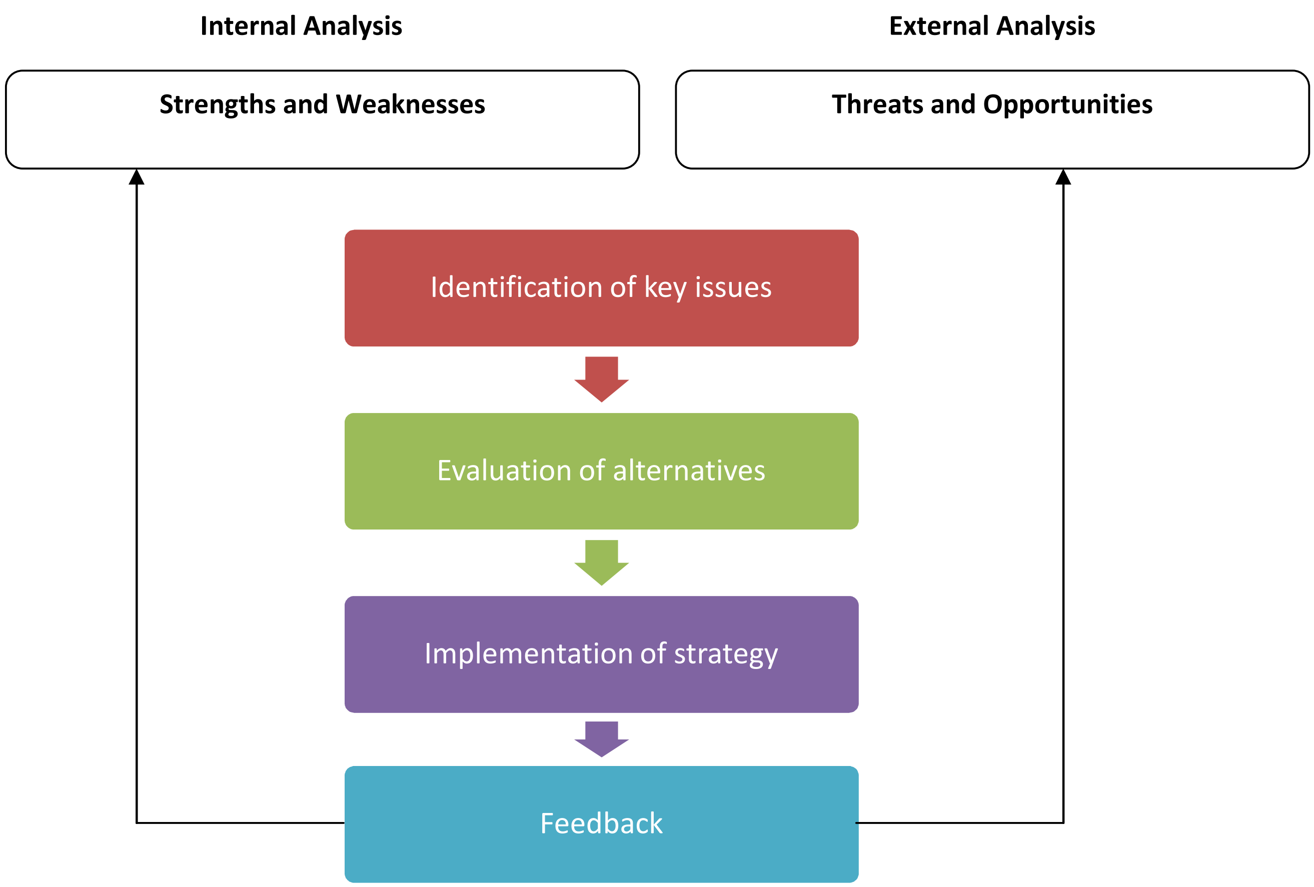

Figure 1.5: SWOT Analysis
Source: Sontakki et al. (2014)

Some of the important points to remember for best strategy formulation are

- Allocation of resources properly
- Decide the business to enter or to maintain
- Go for Mergers or joint ventures

- Rationalize to liquidate or divest business
- Capture the foreign markets
- Expansion of the business
- Face take over challenges prudently

Strategy Implementation

It is the process of activating the selected strategy. George A. Steiner, John B.Miner and Edward R.Gracy explained "the implementation of policies and strategies is concerned with the design and management of system to achieve the best integration of people, structures, processes, and resources, in reaching organizational arrangements. This stage can be understood in three phases-

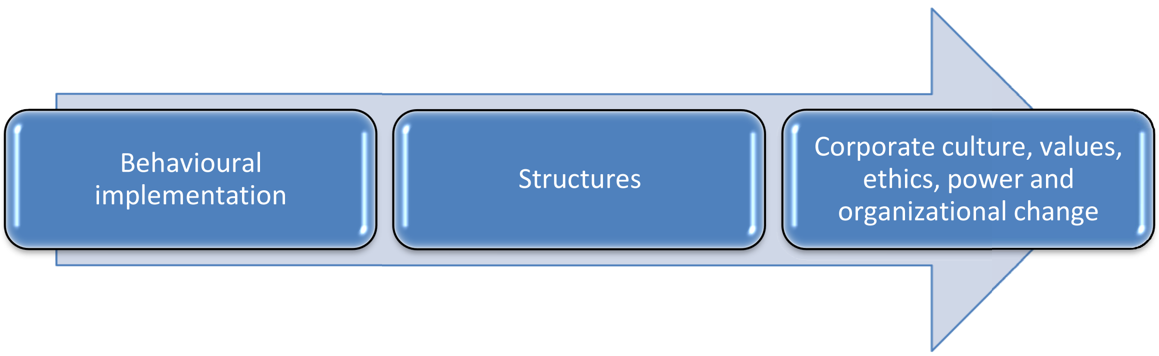

Figure 1.6: Three Phases of Strategy Implementation

Source: Sontakki et al. (2014)

Structures

Organization is a group of people working together to achieve common objectives. It is a structure of horizontal and vertical dimensions controlling relationships, powers and duties of employees related with each role they are playing in an organization. Prof George Terry defines, "organizational structure is establishing of effective authority relationships among selected work, persons and the workplaces in order for the group to work together effectively". (Terry, 1968)

The figure 1.10 shows that organizations can be seen in two ways based on structures, i.e. Differentiation and Integration. **Differentiation** is based on features like resource allocation and flow of authority whereas; **Integration** is based on functions and divisions of the organization.

Differentiation can be vertical or horizontal. Vertical differentiation explains whether the authority is centralized or decentralized and the number of layers in a hierarchy. It can be flat or tall. Tall structure is commonly found in military. As the number of employees' increases, the number of management levels increases, and the structure grows taller. In a tall structure, managers form many ranks, and each has a small span of control. A flat organization refers is an organization with few or no management levels. We find hardly one or two levels between management and workers. The manager supervises employees less but promotes their involvement in the decision-making process, with strong belief in participative management.

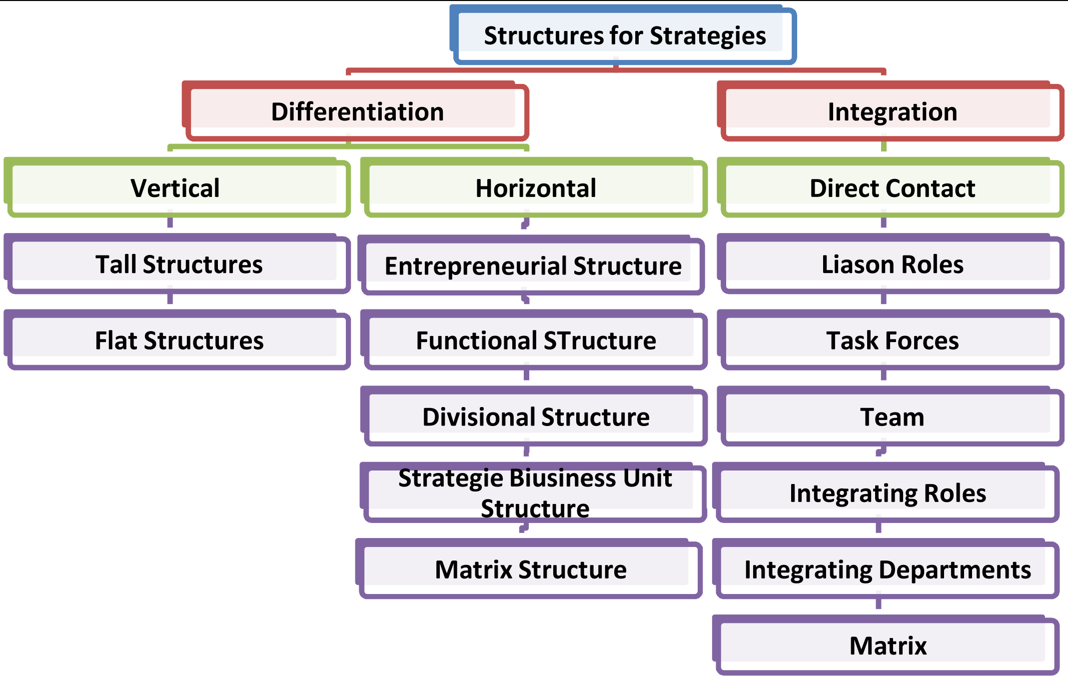

Figure 1.7: Structures for Strategies

Source: Sontakki et al. (2014)

Horizontal Differentiation is concerned with grouping of organizational tasks among various departments. Entrepreneurial structure is simplest and easiest to form. The owner of the business takes all the decisions. It is like a one man show. Rural enterprises are small, and mostly managed by skilled owner depending largely upon his/her resources, skills and capital for running enterprise.

A functional organization is one in which work is organized based on specialization. Thus, expert staff personnel pass instructions directly to line personnel without taking the route of for-mal command-chain. This form of organization was devised by F.W. Taylor, the father of Scientific Management. Functional Organizational Structure has developed from increasing complexity of business operations, par-ticularly in production department, and the need to have specialists to aid line personnel.

Functional organization in one form or the other exists in all business concerns, particularly at the top. The very division of the total activities of a business concern under production, marketing, finance and person-nel, is an example of functional organization. Functional Structure is concerned with divisions based on specialization. (the concept being taken from F. W. Taylor’s functional foremanship in his scientific management theory).(Tapsee, n.d.)

Functional Structure

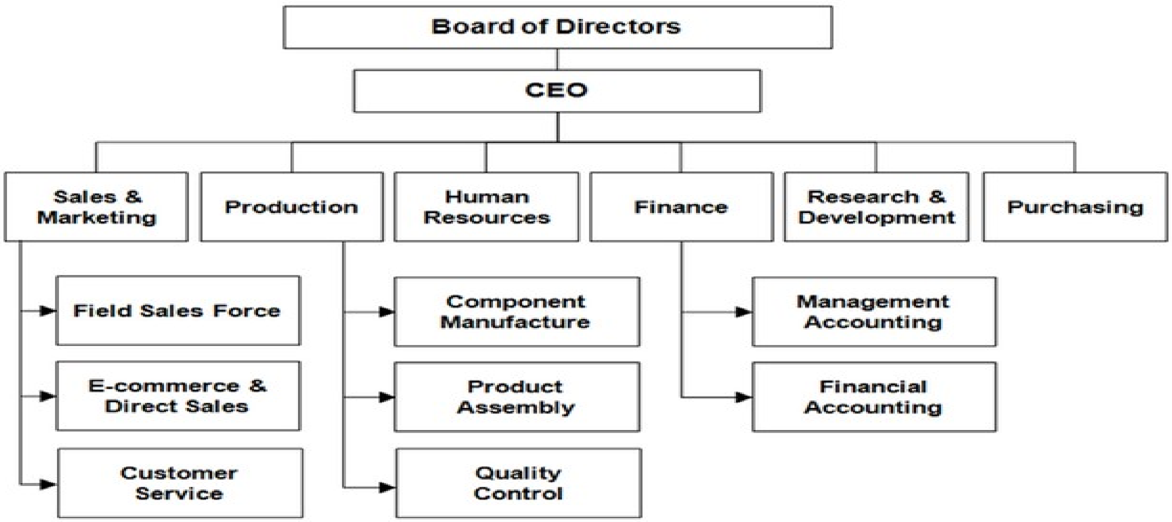

Figure 1.8: Functional Structure of Organization

Source: Sontakki et al. (2014)

Divisional Structure

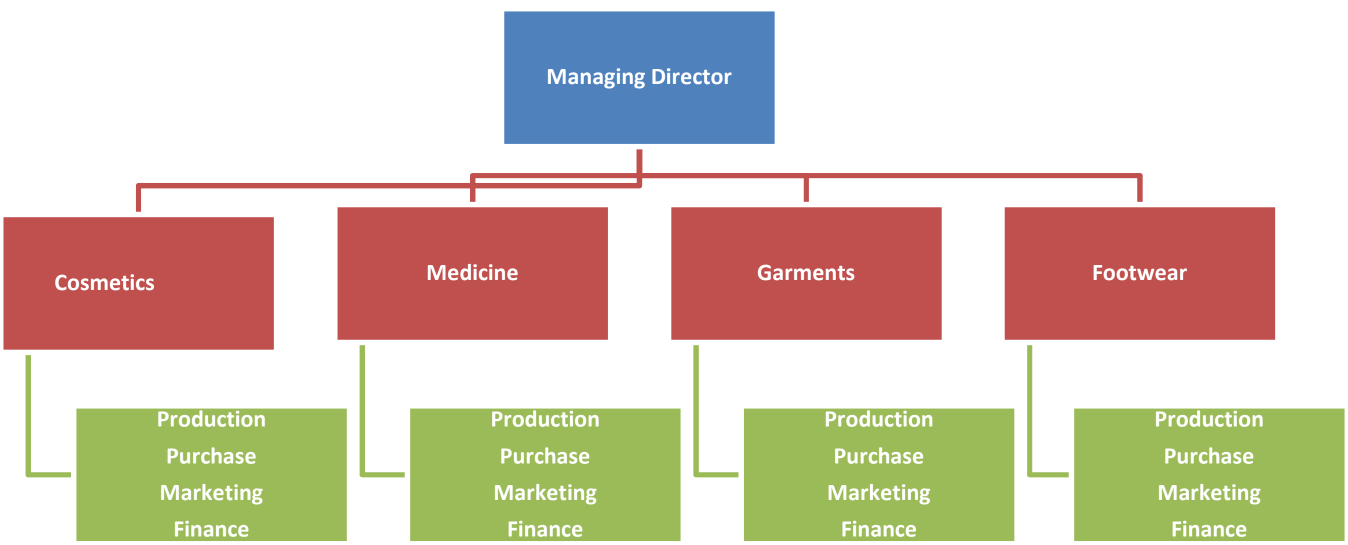

Figure 1.9: Divisional Structure of Organization

Source: Sontakki et al. (2014)

Divisional Structure suits to an organization which is very large in size and is producing more than one product. They must design so as to cope up with the complexity of different products. The activities related to one product are grouped under one division. Each division adopts a functional structure whose functions vary with the product in their product line.

Strategic business unit structure is a subset of an organization wherein the units serve as an autonomous business. It is independent in respect of operational functions. The top corporate officer assigns the responsibility of the business unit and to refine the implementation of strategy, bring in synergy and to guarantee effective control for higher growth prospects and profitability.

Check Your Knowledge

Question 1 – What are the features of Strategic Management?
Question 2 – Do SWOT analysis of RuPay Debit Card service launched by government of India?
Question 3 – Why is Vision, Mission, Objectives and Values of organization important?

To Do Activity

Discuss strategic Management for the case of BIOCON India Group.

1.3 Economic Environment in India

The economic environment refers to all the economic determinants such as liberalization, globalization, modernization, industrial policy, fiscal policy trade policy, imports & exports, financial market etc.that influence commercial and consumer satisfaction. The term economic environment indicates to all the external economic factors that affect buying behavior and purchasing patterns of customers and markets and thereby influencing the production of the business.

The Government of India declared a new industrial Policy system in July 1991 which was a big milestone in reforming Indian Economy. The features of this industrial policy system were as follows (IBEF, 2020):

- The Government relaxed licensing system and only six industries were made mandatory to take license-Liquor, Cigarette, Defense equipment, Industrial explosives, Drugs, Hazardous chemicals
- Only 2 industries of vital importance are reserved for public sector- Railways and atomic operations
- Disinvestment was conducted in case of many public sector industrial companies which were running in losses.
- Policy towards foreign equity partnership was extended from 40% to 100%. **Foreign Exchange Management Act (FEMA)** is enforced in the year 2000
- Approval without any restrictions were given for technology transactions with foreign firms
- Foreign Investment Promotion Board (FIPB) was established to support and channelize foreign financing in India.

Liberalization

The economic reforms stated at liberalizing the Indian business and trade from all redundant restrictions and limitations such as license-permit-quota system. The following steps were taken in liberalization of the Indian business

- Eliminating Industrial Licensing and Registration
- Freedom in determining the range of marketing activities
- Dismissal of restraints on the transportation of commodities and services
- Freedom in deciding the cost prices of commodities and services

Privatization

Privatization means permitting the private sector to set up industries that were previously reserved for the public sector. Under this policy, many PSUs were sold to the private sector as PSUs were running in losses due to political interference, no freedom to managers to work, underutilization of resources etc. The privatization of PSUs was inevitable to increase competition and efficiency. The following steps were taken for Privatization:

- Indian Govt. started selling shares of PSU's to public and financial institutions increasing the share of the private sector from 45% to 55%.
- Govt. has been selling out PSUs running in losses to the private sector.
- PSU's could not be able to achieve the objectives of industrialization and removal of poverty and hence the policy of contraction of PSU's was followed
- The number of industries reserved for the public sector was reduced from 17 to 2 i.e. Railway operations and Atomic energy

Present Indian Economy

India is emerging as the fastest growing economy in the world. It may take its position among the top three economic powers of the world over the next 10-15 years. It is due to the efforts of the Government.

Market size

India's nominal GDP growth rate is $11.326 trillion. India has over 4,750 technology startups and 3000 approximately new start-ups being founded in 2019 and would increase to 11000 by 2020.India's labor force is expected to increase by 160-170 million by 2020 as studied by NASCHOM based on rate of population growth, increased labor force participation, and higher education enrolment, among other factors. India's foreign exchange reserves increased to 454,490 USD Million in December 2019.

India's key exports are petroleum products, jewelry, pharmaceutical products, transport equipment, machinery and readymade garments to name but a few. On the other hand, India imports crude petroleum, gold and silver, electronic good, pearls and precious stones and many other things. Some of the top trading partners of India are China, UAE, Switzerland, Saudi Arabia, USA, and Qatar (Guardian News and Media Limited, 2016).

Recent Developments: Some of the important recent developments in Indian economy are as follows:

Table 1.2: Recent Development in Indian Economy

Particulars	Year	Impact
Exports from India	2019	Increased by 4.32 %
Nikkei India	2019	Expanded- PMI is 51.40
Mergers and Acquisitions (M&A)	2019	Increased by US$ 41.6 billion
Income tax collection	2018	Increased 2.50 lakh crores
Eight Companies' IPO	2019	Increased by 5509 crores
FDI inflows	2000-2019	Reached US$ 436.47 billion
Index of Industrial Production (IIP)	2019	Increased by 2 per cent
Consumer Price Index inflation	2019	Increased 3.18 per cent
Jobs created	2017	10.8 million
Ranking in the World Bank's	2017	77^{th} among 190 countries
Start-ups	Expected by 2025	1,00,000
Private investments	2018-19	Increase by 8.8 per cent
Total remittances	2018	Retained US$ 80 billion

Source : www.ibef.org/economy/indian-economy-overview

Government Initiatives

Prime Minister, Narendra Modi's recent initiatives like Make in India, Digital India and other tax and policy reforms have helped India in gaining confidence of foreign investors and multi-national companies. The Makein India initiative was launched to boost manufacturing sector, increase purchasing power of an average Indian consumer, boost demand, and all together develop country's GDP with better return on investment for companies. The Make in India initiative aims to take contribution of manufacturing sector to 25 percent from current 17 percent of the GDP. The Digital India initiative focuses on three core components: the creation of digital infrastructure, delivering services digitally and to increase digital literacy. Some of the recent initiatives and developments undertaken by the government are listed below:

Table 1.3: Recent initiatives taken by Government of India

Particulars	Purpose	Time/Place
Atal Community Innovation Centre (ACIC) Program	Community Innovation	Understand and unserved areas
National Institute for Transforming India (NITI) Aayog	To help India reach US $4 trillion economy	India by 2023
Spending to 2.5 percent of GDP	Public Health	India by 2025
Agriculture Export Policy	Doubling farmers income	Outlay Rs. 206.8 crore
Bharatcraft Portal	Market and sell the products	India in 2-3 years
Pradhan Mantri Awas Yojana (Urban)	Construction of 81 Lakh houses (4.83 lakh crore)	By 2-3 years
Village Development	Electrification	2018
Pradhan Mantri Sahaj Bijili Har Ghar Yojana (SAUBHAGYA)	Around 26.02 million households to be electrified	2019
Prime Minister's Employment Generation Programme (PMEGP)	Jobs created (an outlay of Rs 5,500 crore)	2020
Swachh Bharat Mission (Gramin)	Open Defecation Free (ODF)	2019
Invest Rs 7 trillion	Construction of new roads and highways	2020
Invest Rs 2.11 trillion	Recapitalize public sector banks	2020
Pblic section banks (PSBs) will be capital infused with Rs. 70,000	Allowing NBFCs to raise foreign debt	2019-2020
Incentives for labour intensive MSME sectors Pradhan Mantri Gram SadakYojana (PMGSY-III) (spend Rs 50, 250 crores)	Increased by 2 percent to build roads to boost rural connectivity	2015-2020 2020

Source: www.ibef.org/economy/indian-economy-overview

Road Ahead

India has set targets to be achieved by its economy in coming future, the table below:

Table 1. 4: Estimated economic goals to be achieved

Particulars	Estimations	Year
Gross domestic product (GDP)	US$ 6 trillion	2027
Infrastructure and reforms like demonetization and Goods and Services Tax (GST).	Revenue receipts to touch Rs 28-30 trillion	2019
Renewable sources to generate energy	to achieve 40 per cent of its energy from non-fossil sources	2030
Third largest consumer economy	triple to US$ 4 trillion	2025

Source : www.ibef.org/economy/indian-economy-overview

1.4 Technological Environment in India

India is the 3rd most technologically advanced country in the world. Tech giants like Facebook, Microsoft, and Apple are investing in the country. India is a key destination for outsourcing work in IT. With an advanced IT infrastructure and highly skilled IT workforce, India offers enormous opportunities for entrepreneurs to embark upon technological projects such as software development and upgrades, e-commerce, mobile apps, business solutions, and many more.

The main areas drifting towards mechanized and fully automated systems are energy production and food production. India planned to implement a national solar energy grid with a capacity of generating 20 Gigawatts of electricity by the year 2022. In agriculture and food production, technological advancements such as introducing new strains of crops genetically modified to resist certain crop diseases, to grow faster and yield more during harvest and to provide air cargo support to popularize farm exports which is a new program for encouraging innovation and entrepreneurship in agriculture. Startups in India are valued at US $1 billion or more as given below-

Table 1. 5: Funding and valuation of Startups in India

Start up	Funding ($) in Billion	Valuation ($) in Billion
Flipcart	3.14	15.2
Snapdeal	1.54	5
Olacabs	1.18	5
InMobi	320.6	2.5
Paytm	593	1.9
Mu Sigma	195	1.5
Quick	346	1.5
ShopClues	468	1.1
Zomato	223.8	1

Source: Wall Street Journal

The technology is fast changing than ever every day new technology takes over the old one. India's technology infrastructure is not very good, but government has laid down strong foundation to move forward in future.

Table 1.6: Future trends in technological advancements in India

Particulars	Purpose	Remarks
Analytics industry in India	To develop start-ups	Rising due to adoption of technology
Global start-ups	To capitalize on India's growth	startups through acquisitions (by Google & Alibaba)
Entrepreneurs	To create mini ecosystems within the country.	By providing mentorship, resources and funding.
Internet Access	To provide in all areas in the country	Through Government Policies

Source : www.ibef.org/economy/indian-economy-overview

Over the years, India faced many challenges and has overcome several threats and problems like the poor infrastructure, changing economic environments, and inefficiencies within the system in addition to cultural, religious and social barriers. The ecosystem has built-in more platforms for entrepreneurs to learn, grow and produce great companies than ever before. The rising middle class has also given rise to a new breed of entrepreneurs: young, educated, ambitious, smart, hardworking and driven. The country can shine and look forward for a better future.

Check Your Knowledge

Question 1 – Why non-economic environment is important part of business environment, explain with some example?

Question 2 – State significant changes brought in Indian business environment since 2014 to support entrepreneurship in rural areas?

Question 3 – How technology plays an important role within business environment?

To Do Activity

Company X (US origin) wants to launch reusable baby diapers in India, mention some components of economic, non-economic and technological environment to be considered most before launch of product.

1.5 Rural Product-Specific Challenges in Indian Environment

Rural Marketing Environment: It refers to the rural environment which surrounds an organization catering to the needs of rural customers. In other words, it is the sum total of external factors - tangible and non-tangible, controllable, and uncontrollable factors, it is complex and ever-changing. Scanning of a rural marketing environment is important to understand the strengths, assess the weaknesses, comprehend the opportunities and know the existing threats to develop a rural marketing mix and strategies. This will help to understand rural India which is changing daily. Such changes must be kept in mind by companies in order to succeed.

Need for Analysis of Rural Marketing Environment

1. For Survival - It is very important to keep a watch on rural marketing trends that are emerging very fast. Then only, we can cope up with the marketing changes and all current issues to tackle and survive in the rural areas.
2. Strategic planning through Environmental Analysis - It is very important to facilitate corporate strategic planning to the changing phases in environmental factors. After analyzing the strengths, weaknesses, opportunities and threats, the company should be ready with as many as possible –the alternate plans, programs, strategies and policies. The environmental analysis thus helps to prepare a shortlist of those opportunities which are relevant to the firm and which can be materialized.
3. For understanding the difficulties involved in a rural marketing environment - Rural Marketing Environment analysis is done by producers which is the process of gathering, filtering, and analyzing the data related to marketing in rural areas. This will help to understand the tasks and difficulties

involved in marketing so that it can be rectified as early as it can be to avoid last-minute hurdles by producers.

4. For the formulation of marketing strategy - The relevant information in relation to each element of the environment is gathered. Studies and important points are noted to understand the changes happening and design a suitable marketing strategy to be successful in rural markets.

Products and Services in Rural Marketing

According to Philip Kotler, a product is anything that can be offered to market for attention, acquisition, use or consumption that might satisfy a want or need. According to Philip Kotler, the marketing of services of any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything is known as service marketing. Products and services do have certain features in common, but when we talk about rural marketing environment, we need to understand the customer segment, their purchasing preferences, purchasing power, their priority, substitute of product/service we are about to launch and more importantly the values customers are looking for.

Table 1.7: Classification of services and products

Classification of products	Classification of services
Industrial Products • Raw materials • Fabricating materials and parts • Installations • Accessory equipment • Operating supplies	Services of commercial organizations • Housing • Household operations • Recreation and Entertainment • Personal Care • Medical & Health Care • Private Education • Business and Professional Services • Insurance, banking & other financial services • Transportation • Communication • Warehousing
Consumer Products • Durable goods • Non-durable goods • Convenience goods-Staple, Impulse, Emergency goods • Specialty goods • Shopping goods • Unsought goods • Generic goods • Branded goods • Customized goods	Services of Non- business Organizations • Educational • Cultural • Religious • Charitable • Social • Health • Political

Source: Baba et al. (2015)

Profile of Rural Consumers and Producers

It is of utmost importance to a marketer to treat rural market as a separate market as the demographic profile of rural consumer is quite different. The rural market is heterogeneous. The educational background, income levels, socio-cultural perspectives, brand awareness, product differentiation, market conditions etc. of a rural consumer is quite different from region to region and within the region also. Moreover, the profile of a rural consumer is changing drastically and catching up with Urban consumer. Villagers are very peculiar consumers. Their children are influencing their buying behavior. Clear distinction between urban and rural markets cannot be bifurcated in a clear-cut way.

Unlike urban producers and enterprises, entrepreneurs or commodity producers based in rural areas must face different set of hardships and issues while establishing and running their businesses. Rural producers need to understand the preferences of rural consumers first, then only they can capture market share and make their products/services.

An attempt is made to understand the profile of a rural consumer.

1. Traditional Outlook-Villagers have their own set of beliefs, attitudes, personality traits, buying patterns etc. They value old customs and traditions. They often resist changes.
2. Perception and influence- Villagers perceive the features of a product in a different way. For instance, buying groceries for a whole month is desirable in urban areas whereas it is avoided in rural areas, green color is associated to a community, etc.
3. Poor Marketing Communication- Awareness of different Products, brands, advertisements, brand ambassadors, non-availability of retail outlets etc. are very vague.
4. Value for Money- Villagers is very conscious in spending every pie on the products. They are over cautious. They never like to pay extra amount. They are very rational in purchase decisions.
5. Quality- They prefer quality goods without maintenance costs. They have poor knowledge of technology.
6. Realistic Aspirations- They would like to spend on the product if they see some additional benefits in it.
7. Attitude towards Prestige Products- They have a rational behavior. They would like to buy Prestige goods if they are within their limits of their budget.
8. Fear of being Cheated- They are cautious about their prestige. They buy products. If they feel that they are cheated, they cannot bear it.

Lifestyle of Rural Consumer

a) Rural Consumer is very religious- A marketer must tap the religious beliefs of rural consumer. It can be used in marketing mix especially in promotion of the products. For example, Punjab and Sind bank developed religious calendars and distributed. Some companies give religious gift chains which are kept safe with sanity by the rural consumers in their houses.

b) Rural consumers are hardworking people-They love to work hard. They work and keep things properly. They never like to replace things which can be done by them by machines. They are less likely to spend money on machines.

c) Conservative and respect for family values- A marketer should understand the conservative nature of rural folk while designing the promotional strategy of their products.

d) Preference to spend idle times- A marketer must cash their idle time by demonstrations during their meetings in the evenings.

Shopping Preferences of Rural Consumers

a) Preference for small and medium package- Rural folk buy in small quantities and prefer low price. This is because of low income and irregular source of income. Most of them are daily wage earners. Farmers are different from salaried people. A marketer can sell the products provided packing and pricing are modified as per the needs of rural consumer. Clinic shampoo sachets, Rs 5/- Parle G Biscuit packets etc are best examples which penetrated in the ruralmarket.

b) Role of Retailer- Rural Consumer often have personal touch with retailer as he gives every minute detail of the product and credit facility. Hence, retailer is the great influencer in buying decision.

c) Opinion Leaders- Rural consumer often consult others while buying products especially village elders. Now a days, children are also influencing the buying decision.

Check Your Knowledge

Question 1 – Write five differences between products and services?

Question 2 – What are the challenges faced by any enterprise for marketing of products in rural market?

Question 3 – Why it is important to understand rural business environment, customer preference and purchasing power of potential customers before launching any product/service?

To Do Activity

Consider the model of SEWA Bharat (https://sewabharat.org/), and draw a chart showcasing their products and services for rural and semi-urban segment.

Summary of the Chapter

The survival and success of any business depends upon its innate strength- the resources; physical, financial & human and its adaptability to the environment. Environment literally means the surroundings-the sum of all conditions, events and influences on it. Business environment is very complex and is surrounded by internal and external factors. These factors are related to mission, vision, objectives and strategies of business organizations. The environmental factors vary from country to country, even region to region. It is classified into two-economic environment and non-economic environment. The economic environment consists of fiscal policy, monetary policy, industrial policy, price and income equation, national income, per capita income, pace of economic development etc. The non-economic environment consists of social, cultural, technological, demographical, political, legal, national, international, rural, urban etc. In Today's business environment, an understanding of the complexity of different components is a must to analyze the strengths, weakness, opportunities and threats related to a business. It helps us in decision making. Strategic Management helps in anticipating environment changes and preparing the business to meet unexpected situations. It helps in developing, mission, vision, objectives and goals for the business. SWOT analysis helps in strategy formulation and strategy implementation through good leadership style, well designed organizational structure, developed corporate culture with ethics and values and adjusting and coping with organizational changes. All these are related to rural marketing environment wherein understanding rural consumer, products and services to be provided to rural consumers and their buying behavior are to be handled with utmost care. Then only rural markets can be captured.

Model Questions

1. What do you mean by Business Environment? What are the constituents/elements of Business Environment?
2. Explain the features and elements of economic environment in detail.
3. Discuss Non-economic environment with examples.
4. How a strategy can be formulated? What are the strategies been classified?
5. What are the approaches to Strategy implementation?
6. What are the leadership issues in Strategy implementation?
7. What are the different forms of organization structure? How are they important in Strategy implementation?
8. What are values? Discuss the various types of values
9. What is change management? Explain seven step model of change management.
10. Discuss the recent initiatives taken by the Government in setting the economic environment in our country.
11. Who is a rural consumer? What are the product specific issues he faces while purchasing a product/service?

Chapter 2 Contemporary Perspectives on Public policy

Introduction

The growth of any economy depends upon the strength of the financial system. A nation with a strong financial sector will definitely progress fast and steadily. Financial sector refers to all the categories of financial institutions which are a platform to those who are in need of funds and to those who are supplying funds. Business enterprises in India are closely linked with these financial institutions and markets. The financial system of a country consists of all those interdependent factors which promote, facilitate and regulate financial flows within an economy. These are

- Financial Intermediaries like banks, Non-Banking Financial Institutions (NBFIs) and other financial service providers.
- Promotional and regulatory organizations like Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI).
- Financial instruments like securities
- Facilitating Markets like Stock exchanges, bill market and call money market
- Laws and other regulations

Objectives

- To explain Indian Financial System
- To define and explain the meaning of monetary and fiscal policy and its various objectives
- To explain the role of monetary policy on the development of economy and business
- To explain the role of fiscal policy in the socio economic development of the nation
- To know and understand about corporate social responsibility
- To explain sustainable development

Structure

- Public Policy
- Monetary Policy
- Fiscal Policy
- Corporate Social Responsibility
- Sustainable Development

2.1 Public Policy

Public policy refers to governmental decisions; these are actually the result of activities that any government undertakes to achieve their aims, political, economical, developmental, and so on. One needs to understand that formation of any public policy needs collaborated effort of various departments of government, think tanks, civil societies, regulators and so on. Formulation and implementation of public policy involve a well-planned pattern or course of activity, with close-knit relations and interaction between the important governmental agencies viz., the political executive, legislature, bureaucracy and judiciary. (Krishan, 1983)

Robert Eye Stone terms public policy as - "the relationship of government unit to its environment."

Thomas R. Dye says that "public policy is whatever the government chooses to do or not to do"

Richard Rose says that "public policy is not a decision, it is a course or pattern of activity."

In simple terms, we can deduce the following four features related to any public policy in general:

a) Public policies are devised to achieve set goals of government in order to deliver benefits for the general mass.
b) Public policy is not stand alone in nature; rather it is an outcome of various actions performed and decision taken by government to achieve set targets in stipulated amount of time.
c) Public policies illustrate the government's concern and engage its action to solve any concerned problem; it is backed up by law and authority.
d) Public policy can be in any form like decisions, decree, ordinances, court decisions, executive orders etc.

Public policies have close relationship with government goals, objectives and decisions to be taken by government for delivering benefit to public at large. Different governments may have different ideology, and they set goals in convergence to those ideologies, and device policies to achieve those long-term outcomes. India being a democratic country with second largest population and many below poverty line, it is important for policy makers to

Public policy can be seen as general directions or standpoint and aims, laid down by any government to take decisions and fulfill their large future perspectives for the benefit of masses. Policy helps government in planning series of activities and can also be seen as series of decision taken to achieve ultimate goal. These series of decisions and activities are interlinked to achieve larger goal of various environment viz. political, business, economic, financial, etc.

Characteristics of Public Policy

Public policies should be seen under a holistic lens of mass benefit, we as a common citizen might not be able to see the larger goal of these policies, mainly due to microscopic observations of activities and decisions made at local level. For example, if a farmer's son is enjoying free primary education along with a mid-day meal served within school premises, he or other community members will be least bothered about its larger economic goal for the country. They may focus more on food a than education, or few others may focus more on education rather than thinking why government provide these two things free of cost. It is very difficult for families with low or limited literacy level to understand that the objective of free mid-day meals is to increase attendance and lower down opportunity cost of individual. It is rather near to impossible to make family understand the macroeconomic perspective of free education, which is linked to country's growth. Public policies follow certain common trends; a list below will make this simpler:

a) Formulating a public policy is always a complex process, as it is expected to serve large set of population. Country like India, where population is diverse, it makes this process more critical and complex.
b) Public policies are formulated, designed and amended by government departments. This involves participation of various departments for a common cause. This is challenging, as goals and aims of each department might differ or may find some common resonance with other, one need to collate different perspective and suggest a way forward to achieve a common goal.

c) Public policies are made for future, which remains unpredictable and dynamic. Many times, government's risk taking capacity affects formulation or implementation of policy.
d) Public policies generally focus on public interest at large. Even if a policy is made for interest of any particular industry of business stream, it doesn't loose focus on common man in medium to long term.
e) In general, public policy lays down directives without touching upon the detailed instruction, this gives a larger ambit to work with flexibility to plan at institutional level.

Types of Public Policies

Public policies can be classified into different types on the basis on their focus area, issues it resolve and segment to which it caters the most. Here we will discuss some;

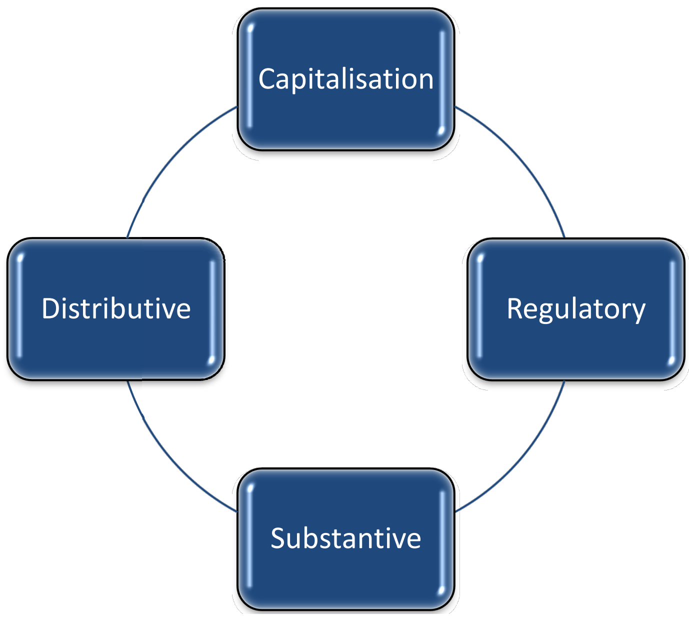

Figure 2.1: Different Types of Public Policy

Source: Ahuja (2005)

Capitalization – The policies under which central government provides financial subsidies to state and local government. These subsidies may also be granted to public enterprise. These policies do not cater to any needs of public welfare.

Regulatory – Regulatory policies are responsible for making regulations for various entities working on behalf of government. In India, we have regulatory bodies like IRDA, RBI, SEBI, etc. working as regulator of various important sectors.

Substantive – Under these public policies, efforts are made to resolve larger issues related to public welfare, economic stabilization, law and order, etc. These policies serve for larger purpose in society like poverty eradication, free education, inclusive growth, well-being of individuals at household level, etc.

Distributive – Public policies under this category are those which cater to specific segment of population like tribal people, women, adult, school children, etc. These policies generally include all public welfare programs like vaccination camps, adult education, safety nets, etc.

Before we move further to understand Monetary and Fiscal policy, it is important to understand the Indian financial system and its components in brief.

Indian Financial System

The Financial sector comprises of two inter related constituents- money markets and capital markets. The reforms and regulations in these two markets have contributed to the development of the nation as well as to understand the changing perspective of business environment. Financial sector in other words is financial intermediaries. They do function at a profit but not all are profit-centered.

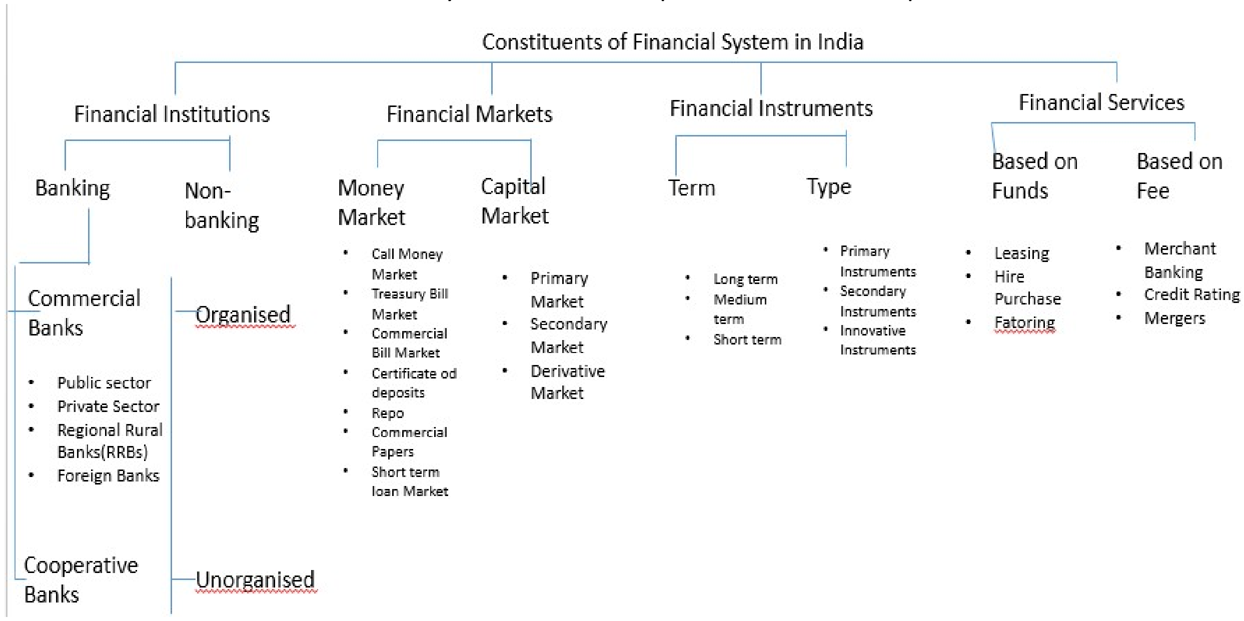

Figure 2.2: Constituents of Indian Financial System

Source: Ahuja (2005)

Financial institutions function in the interest of society with core values derived from country's economic and development policies. The structural positioning of these institutions determines the flow of funds and how they mobilize and distribute these funds that all depends upon how they are organized. For example, in olden days, money lenders would supply funds either from their savings or from their relatives, with limited area of operations and specific set of clients. The rate of interest would be varying depending upon the borrower and his collateral security. But when the concept of commercial banks came into existence, the scenario changed. They are governed by a set of rules and regulations in relation to national priorities. It is obvious that if the size of operations of the organized sector is large, then the flow of funds from savers to investors will be regular and smooth. This would contribute to the economic development of the country.

The constituents of Indian financial system changed over a period of time, with the changing nature of the demand for funds. Therefore, financial institutions have to come up with new avenues to meet the specific needs of demand segment. Commercial banks for priority sector, cooperative banks for rural sector, chit funds and nidhis for small firms, Leasing and Hire Purchasing for large companies are examples of how these institutions are catering to the needs of customers.

Check Your Knowledge

Question 1 – What do you understand by the term ‘Public Policy’?
Question 2 – How public policy helps in development of any country?
Question 3 – Why making a public policy is seen as tough and critical job?

2.2 Monetary Policy

The central bank (RBI in India) of a country is a regulator of Indian financial system and is concerned with various money matters. It organizes currency and credit in such a way that it fulfill the broad economic objectives of the country. It formulates and executes a monetary policy with clear cut goals.
Monetary Policy as defined by D.C. Rowan, states that - “it is a discretionary act undertaken by the authorities designed to influence a) the supply of money b) cost of money or rate of interest and c) the availability of money.”(Pragyandeepa)
Monetary policy is an important portion of the total economic policy of a country. It decides the supply of money in the country which has greater impact on the levels of income, employment and prices in an economy. It refers to the use of instruments within the control of RBI to influence the level of aggregate demand for goods and services. It operates through changing the cost and availability of credit and thus bringing changes in the assets pattern of credit institutions especially commercial banks.

Objectives of Monetary Policy

1. To speed up the process of economic growth
   Monetary Policy plays a very effective role in promoting and speeding up economic growth with a view to raising national income. It provides adequate credit to various sectors. The allocation of funds is made for productive sectors according to the priorities laid down in the growth plans and requirements of day to day development.
2. To control Inflation and Deflation
   Inflation and deflation are both dangerous for any country’s economy. Therefore, price stability needs to be maintained, generally through monetary policy. The controlled expansion of money supply is essential for growth with reasonable price stability in the country.
3. To stabilize the exchange rate
   The prices are the determinants of the internal value of money and exchange rates are the determinants of external value of money. Fluctuating exchange rates is undesirable. If the domestic price rises, exports fall, imports rise and the deficit of balance of trade increases, it all leads to depreciation of currency’s exchange value. Main objective of monetary policy is to keep exchange rates of currency stable.
4. To use as a contra-cyclical tool
   Expansion of money supply during depression and contraction of the money supply during inflation are effective ways to countercyclical pressures in the economy. Monetary authorities can judiciously use the volume of credit to be given to curb this menace.
5. To increase the rate of employment
   The monetary authorities can achieve and maintain full employment by matching the demand for money and supply of money at the level of full employment. Full employment of capital and labour is the prime objective of economic policy in general and monetary policy in particular.

6. To distribute credit equally

   Monetary policy should see that the credit and its distribution should be equitable and purposeful. The credit priority should be given to rural and backward areas.

7. To improve the standard of living of people

   The above objectives of monetary policy will definitely improve the standard of living of people in the country. The credit facility, full employment, etc are the indicators for a quality life.

Measures of Monetary Policy

In order to achieve the above objectives, the following measures have to be undertaken.

Measures of Monetary Policy

- Measures for Currency & Credit Expansion
  - ❖ Revision of Open Market Operations
  - ❖ Liberalization of the Bill Market Scheme
  - ❖ Financing Facilities to the Priority sectors
  - ❖ Refining & Rediscounting facilities
  - ❖ Establishment of various financial institutions
  - ❖ Deficit Financing
  - ❖ Anti-inflationary Fiscal policy
  - ❖ Allocation of Credit
- Measures for Controlling of Credit
  - Quantitative Measures
    - ❑ Bank Rate
    - ❑ Open Market Operations
    - ❑ Cash Reserve Requirements
    - ❑ Statutary Liquidity Ratio
    - ❑ Refinance Policy
  - Qualitative Measures
    - ❑ Regulation of Marginal Requirements of Loans
    - ❑ Regulation of Consumer Credit
    - ❑ Rationing of Credit
    - ❑ Credit Authorization Scheme
    - ❑ Directives
    - ❑ Moral Persuasion

Figure 2.3: Measures of Monetary Policy

Source: Paliwa (2010) & Ahuja (2010),

1. Measures of Currency & Credit Expansion: These measures help in meeting the developmental needs of the economy.

- ❖ Manage liquidity for smoothening open market operations, achieved by sales or purchase of government bonds from banks.
- ❖ Liberalize bill market[1] by providing short term loan to banks for managing their credit requirements. The Reserve Bank provided loans to commercial banks to meet their credit requirements and also included export bills to provide credit to exporters too. Bill finance is better than cash credit as they provide greater liquidity and profit.
- ❖ Financing for priority sectors such as Agriculture, Micro Small and Medium Enterprises, Education, Housing, Social Infrastructure, Renewable Energy, Cooperatives and Weaker sections like Small Marginal Farmers, artisans, village and cottage industries with a credit limit uptoRs. 1 lakh, beneficiaries of certain government sponsored schemes, etc. at differential interest rate is provided by RBI.

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[1]Bill market is the market for short-term bills of three months maturity helping short-term financial requirements of individuals, companies and the government.

- Refinancing and rediscounting[2] facilities is made available by RBI to individuals, corporations to strengthen overall financial system. Refinance boost the growth of SMEs (Small and Medium Enterprises), especially those which are currently facing credit crunch and also to help out the exporters through various types of refinance facilities like Export Credit Refinance Facility, Special Refinance Facility (SRF), etc.
- RBI also played vital role in establishing various financial institutions(as shown below) to provide medium and long term credit facilities for development.

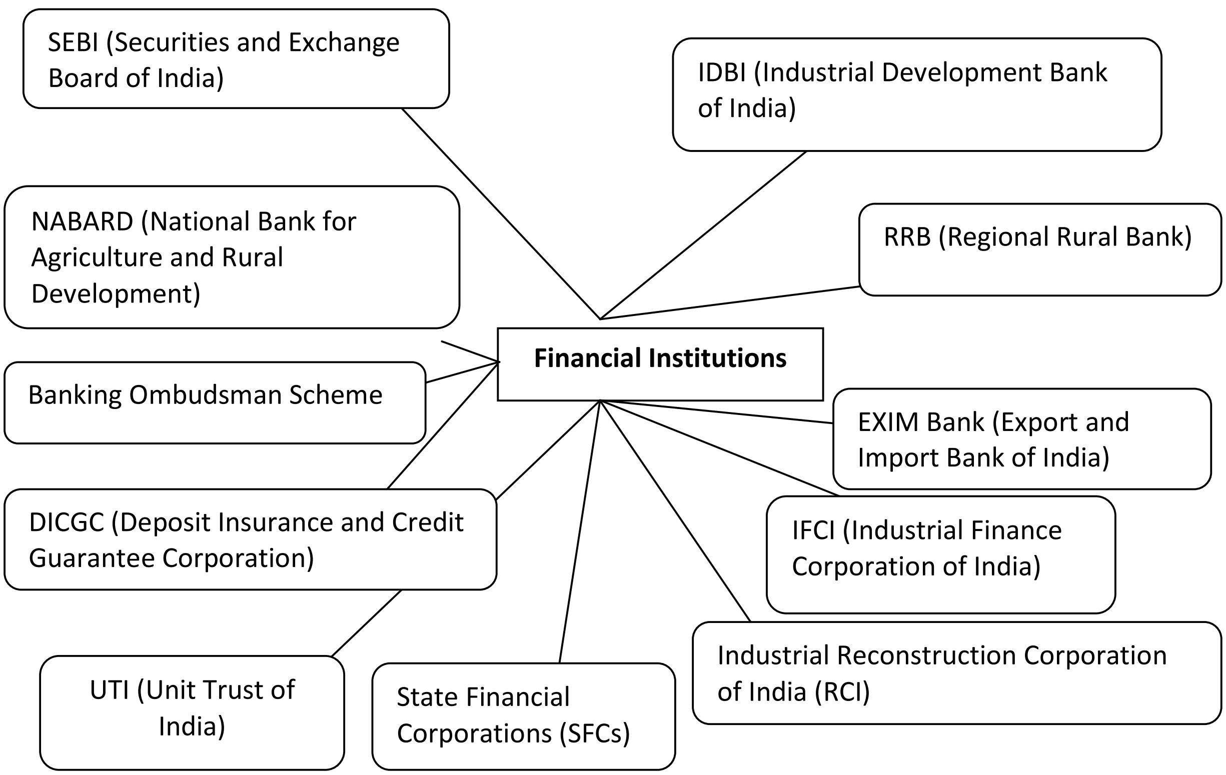


Figure 2.410: Financial Institutions in India

Source: Paliwa (2010) & Ahuja (2010)

- Deficit financing is also done by government to spend more money than collected revenue. The difference either collected by borrowing or minting new funds. Budget deficits may occur due to various reasons but it always attempt to regulate the economy by lowering tax rates or increasing government expenditures.

  Budget deficit = total expenditure – total receipts

  The Government adopts deficit financing. It borrows from the Reserve Bank. The interest paid by the Government to the Reserve Bank actually comes back to it in the form of profits.
- Anti-inflationary fiscal policies focus on positive, promotional and expansionary policy role of monetary policy. It makes adjustments in government expenditures, taxation, borrowing and

[2]Rediscount refers to financing provided by central banks to banks. When liquidity in the market is low, banks can raise cash by rediscounting.

debt management policies of the Government to manage credit facilities to trade, industry and commerce.

- ❖ The RBI allocates credit according to the priorities laid down in Plans. As per the statutory requirements, the public sector is given priority. This is done by providing minimum credit at concessional rates of interest and is ensured through selective credit control and differential rate of interest schemes. The private sector does not get credit directly from the RBI but through public financial institutions.

2. Measures for Controlling of Credit: The RBI has to be very careful in ensuring that the money supply is within the manageable limits. Otherwise it results in inflation which will ultimately affect the poor beings.

I) Quantitative Measures – These measures commonly adopted by Central Banks of all countries. These measures affect total quantity of credit in particular and the whole economy in general.

- ➢ Bank rate: It is expressed as the rate at which RBI lends money to commercial banks by discounting eligible bills of exchange. The bank rate is decided by the RBI. It is also called as discount rate. The current bank rate was maintained at 6.75 % p.a.The rate the RBI charges for providing money to other banks without any security for long period of time i.e. 90 Days is called as bank rate in simple terms. Bank rate is the source to the banks for fixing their interest rates, if the bank rate increases the interest rates increase, and vice-versa.
- ➢ Open Market Operations: It refers to sale and purchase of securities, gold and foreign exchange by Government. The RBI tries to regulate the economy either by increasing the money supply by buying government securities from banks and public or decreasing the money supply by selling government securities to banks. When increased, the money will be circulated and when decreased credit giving by banks decreases. Open Market operations are often done in government bonds in India whereas it is done in treasury bills in USA & UK.
- ➢ Cash Reserve Requirements: It is the direct and effective method of controlling credit. Commercial banks, in India, has to keep minimum percentage of their deposits as balances with the RBI which is called as cash reserve requirement. For example, if Cash Reserve Requirement (CRR as it is abbreviated) is 5 percent, a bank can lend maximum up to 95 percent of its total reserves. The more the reserve, the greater is the power vested to RBI to create credit and lesser is the power vested to banks to create credit. Presently, Cash Reserve Ratio in India, Monthly is set as 4.0 % in Jan 2020.
- ➢ Statutory Liquidity Ratio (SLR): Under section 24 of Banking Regulation Act, 1949, all the commercial banks have to maintain not less than 25 percent of their total demand and time deposit liabilities as Statutory Liquidity Ratio (SLR) which can be altered by RBI as and when required.It is to maintain a safety net for banks.
- ➢ Refinance Policy: Refinancing is paying off the original mortgage and creating a new mortgage to replace the original one. Refinance Policy changes from time to time. RBI refinance the commercial banks for giving credit. The RBI may permit banks to refinance on home loans, vehicle loans etc. or may offer credit finance upto 15 percent of the outstanding export credit. Dependence for refinance by Commercial banks on RBI has come down except in agricultural and rural credit.

II) Qualitative Measures –These measures refers to regulations of credit for specific purposes It is selective credit control too by which RBI control advances by banks. Some of the techniques the RBI adopts are given below-

- Regulation of Marginal Requirements on Loans: The RBI regulates the margin requirements on loans for purchasing or carrying securities. It fixes minimum margin which is calculated by finding the difference between market value of the security and the amount lent by banks on these securities. This regulation of margin is done to stop speculators from purchasing or carrying securities. We can otherwise say that fixing the maximum amount which the purchaser of securities may borrow against those securities. It is marginal requirements on loans. The RBI can bring in changes in these margins in between 20 percent to 100 percent.
- Regulation of Consumer Credit: The credit given to consumers on consumer durable goods is regulated By RBI to curb inflationary pressures in Indian economy. The consumer pays certain amount in cash as down payment and the balance amount is financed by banks through bank credit which is to be repaid back by the consumer. It may be carried out as monthly instalments over a period of time. The RBI controls consumer credit either by increasing the down payment or decreasing the number of instalments and vice versa.
- Rationing of Credit: It is another method of selective or qualitative control. The RBI here fixes the quota for member banks and their limits for the payment of bills. The RBI takes three measures. Firstly, if member banks seek more loans than the quota allotted to them then they have to pay higher interest than the prevailing interest rate. Secondly, the RBI imposes upper limit on the credit and thirdly it offers credit to the weaker sectors at lower internal rates.
- Credit Authorization Scheme (CAS): This selective measure was first introduced in the year 1965 wherein the commercial banks have to take prior authorization from RBI before sanctioning any fresh limit of Rs. one crore or more to a single borrower. The amount of this limit has been changing from time to time. It was Rs. 6 Crore in 1986 and is often progressively liberalized. It is promoting bill financing too. If large amount is needed by production sector, it need not take prior authorization if it is a genuine demand by that sector, instead post sanctioning scrutiny is done which is termed as Credit Monetary Arrangements (CMA).
- Directives: The RBI gives Directives to commercial banks so as to control credit. In 1956, the first directive is given to restrict loans to paddy and rice and later, many other commodities of common use were also restricted. Other directive was that the state agencies like FOOD Corporation of India and State Trading Corporation were exempted from using selective credit controls.
- Moral Persuasion: The RBI often uses this selective credit control by issuing periodical letters to banks urging them to control credit and by conducting regular meetings and discussions urging for their full cooperation in implementation of economic policy. The psychological impact is created by RBI for their involvement in credit control.

Check Your Knowledge

Question 1 – Define the term Monetary Policy?

Question 2 – Explain how monetary policies effect business environment for small and medium enterprises in India?

Question 3 – How monetary policies can be measured, explain in brief?

2.3 Fiscal Policy

Fiscal policy generally helps in adjustments made by a government in its spending levels and tax rates. These adjustments manage certain objectives like control of inflation, public expenditure, monitor nation's economy, etc. Fiscal policy is complementary to monetary policy and influences country's money supply (Kramer, 2019).

According to Prof D.C. Rowan, "the discretionary action by the government to change i) The level of government expenditure on goods and services and transfer payments and ii) the yield of taxation at any given level of output is Fiscal Policy " . In other words, the professor states that "it is the conscious attempts of government to achieve certain macro goals of policy by altering the volume and pattern of its revenue and expenditure and balance between them".

Objectives of Fiscal Policy

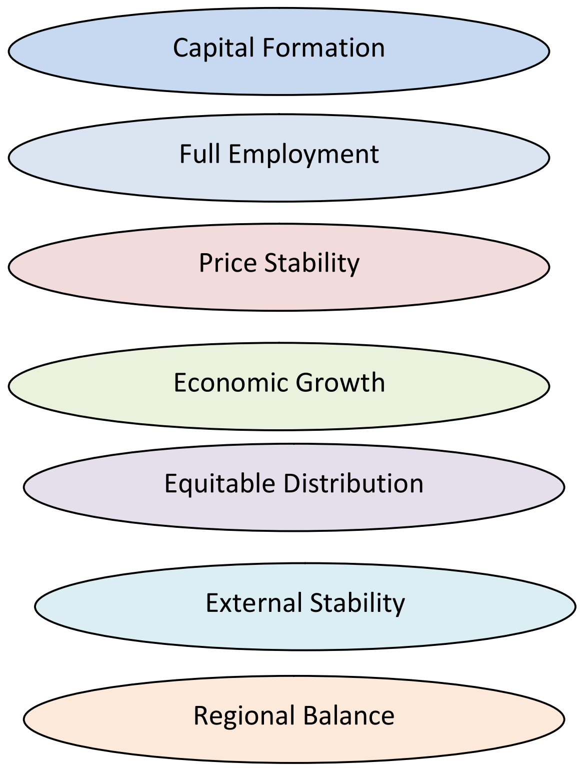


Figure 2.511: Objectives of Fiscal Policy

Source: Paliwa (2010) & Ahuja (2010)

1. Capital Formation: Fiscal Policy aims at raising the rate of capital formation in public sector and private sector to accelerate the rate of economic growth. The economy of India is trapped in vicious circle of poverty due to capital deficiency.
2. Full Employment: The main objective of any Government is to provide full employment i.e. manpower in a country who are ready to work at a prevailing rate without any problems. To achieve full employment, Government tries to increase public expenditure and also tries to

reduce tax. With this kind of set up, private sector gets incentive to spend more. Then the production increases in turn it increases employment.

3. Price Stability: When prices go on rising, the Government tries to reduce aggregate expenditure and decrease in demand and try to raise tax rates. Demand decreases due to extra purchasing power of public as there is plenty of supply of goods. Producers decrease their prices because of fear of stocks lying idle. When in case of deflation and depression, the Government increase public spending and try to decrease tax rates. Fiscal policy aims at price stability in case of inflation as well as deflation.
4. Economic growth: Fiscal policy plays an important role in raising the rate of capital formation, in mobilizing resources through taxes, savings, public debt etc., in encouraging private sector for investment and production, in giving incentives to raise the rate of savings in household and corporate sector, in eradicating poverty and generating employment, in reducing the inequalities of income and wealth and in encouraging export promotion through subsidies, concessions tax exemptions etc. Fiscal policy aims at economic growth.
5. Equitable distribution: Fiscal policy aims at reducing the gap between rich and poor. It tries to reduce the inequalities of income and wealth by means of progressive taxes, wealth tax, corporate tax, capital gain tax, Goods and Services tax etc. The money thus collected will be utilized for the welfare of the poor down trodden people.
6. External Stability: Any country has to minimize the external shocks. If it does so, their prospect for sustained growth increases. The problem of inflationary rise in price level and disequilibrium in its balance of payments affects the external stability of the country. Tax procedure is simplified, many reforms are done in Indirect taxes, reduction of rate of direct taxes is done, reducing fiscal deficit, reduction in public debt, disinvestment in public sector etc. are some of the measures taken by Government for achieving this objective.
7. Regional Balance: Fiscal policy of the country always tries to reduce the inequality in the distribution of income and wealth. It works in stopping the rich to become richer and richer and poor becoming poorer and poorer. Such disparities can be removed through progressive taxes on income and wealth, tax exemption, subsidies, grant etc. It is also trying to reduce the regional disparities through its various budgetary policies.

Table 2.1: Advantages and Drawbacks of Fiscal Policy

Advantages	Disadvantages
Capital Formation	Tax system is not elastic
Resource Mobilization	Non monetized sector
Incentives to private sector	Inadequate statistics
Encourages savings	Illiteracy
Poverty alleviation and employment generation	Limited sector
Reduction in inequalities of income and wealth	Delay in decision making
Export promotion	Huge investment with negative return in public sector

Advantages of Fiscal Policy

- **Capital Formation:** The capital formation is an indicator of economic development. It creates real assets such as machines, tools, factories, buildings, raw materials, fuels, etc., (whom we call capital goods). These capital goods are further used in producing more and more goods. Machinery, factories, transport equipment, bridges, power projects, dams, irrigation systems, etc. are to be strengthened for the economic development. Fiscal Policy plays a significant role in capital formation.
- **Resource Mobilization:** Fiscal policy of the country facilitates resource mobilization through taxation, public debt etc. This amount is used for financing various developmental projects. The extent of internal resource mobilization for financing plan increased from 70 per cent in 1965-66 to around 90 per cent in 2018-19.
- **Incentives to Private sector:** Fiscal policy aims at encouraging private sector in backward areas and export oriented industries. It gives incentives such as tax concessions, tax exemptions, subsidies etc. to achieve its overall objective. It facilitates for investment and production. It encourages imports too by giving tax concessions.
- **Encourages Savings:** The fiscal policy of the country concentrates more on savings and therefore is providing various incentives in household and corporate sector through various budgetary policy changes, including tax exemption or concession etc. to raise the amount of saving deposits. The saving rate increased from a mere 8.6 per cent in 1950-51 to 37.7 per cent in 2007-08 but decreased to 30.1 percent in 2019.

  Types of Saving Schemes in India

  - National Savings Certificate (NSC)
  - National Savings Scheme (NSS)
  - Public Provident Fund (PPF)
  - Post Office Savings Scheme
  - Senior Citizens Savings Scheme (SCSS)
  - Kisan Vikas Patra (KVP)
  - Sukanya Samriddhi Yojana (SSY)
  - Atal Pension Yojana

- **Poverty alleviation & Employment generation:** To eradicate poverty and generate employment, large amount of money is allocated to be spent on different schemes including such as Integrated Rural Development Programme (IRDP),JawaharRozgarYojana/Jawahar Gram SamriddhiYojana, Rural Housing – Indira AwaasYojana, Food for Work Programme, SampoornaGraminRozgarYojana (SGRY). The medium scale industries, small scale industries, handicraft industries and cottage industries are also encouraged. Industries in backward, rural and tribal areas are encouraged. Women Entrepreneurs are taken care of in providing financial assistance.
- **Reduction in Inequalities of income & wealth:** Fiscal policy of the country always tries to reduce inequality and tries to distribute income and wealth in equitable form among population. Such disparities can be removed through progressive taxes on income and wealth, tax exemption, subsidies, grant etc. It also tries to reduce the regional disparities through its various budgetary policies.

- **Export promotion:** The Fiscal policy works to promote export through its various budgetary policy in the form of concessions, subsidies etc. It can be witnessed when we see the growth rate of export which has increased from a mere 4.6 per cent in 1960-61 to 10.4 per cent in 1996-97 to 23.4 per cent in 2001-02.Export Promotion Schemes in India are Duty exemption & remission schemes, Advance Authorization Scheme, Advance Authorization for annual requirement, Duty Free Import Authorization (DFIA) Scheme, Duty Drawback of Customs/Central Excise Duties/Service Tax , Rebate of Service tax through all industry rates, EPCG SCHEME, Zero duty EPCG scheme etc.

Drawbacks of Fiscal Policy

- **Tax system is not elastic:** There is a huge tax evasion in India therefore it is very difficult to earn revenue from taxes.Tax evasion is done by underreporting income, falsifying income records, purposely underpaying taxes, claiming illegitimate or fake business expenses, claiming illegitimate dependents on a tax return etc. The IT department stated that very low percentage i.e. only 1.7% of the population paid income tax in the assessment year (AY) 2015-16.The impact of tax depends upon the elasticity of demand.
- **Non Monetized sector:** Major part of the Indian economy is non-monetized. Not all activities are awarded in money. Therefore fiscal policy is unaffected.
- **Inadequate Statistics:** India is a vast country with varied demographic profile. The data is not accurate and hence unreliable. This affects fiscal policy.
- **Illiteracy: Majority of the** Indians are illiterate. Most of the literates too do not understand various economic policies and their implications. They cannot analyze the importance of fiscal policy anf therefore evade taxes.
- **Limited sector:** Fiscal Policytouches few sectors only. Salaried people are overburdened with income tax though their income is limited whereas business people evade tax or pay less though their income is high.
- **Delay in decision making:** The Government has to approve fiscal policy. The file lies pending for months together without discussions to take decisions to implement or not. Such delay in decision making makes the policy ineffective.
- **Limitation regarding full employment:** When we talk about full employment, wage rate should increase which in turn increases price nullifying the production. The desire to get a job decreases.
- **Defective tax structure:** Fiscal policy since years has failed to provide a suitable tax structure for the country. Tax structure consists of direct taxes and indirect taxes. The productivity of direct taxes is meagre and negligible. The country totally dependent on indirect taxes.
- **Inflation:** Fiscal policy has totally failed to curtail the inflationary rise in price level. Demand-pull inflation came in to scene as volume of public expenditure on non-developmental heads increased and resulted in deficit financing. Cost-push inflation also is seen due to higher rate of indirect taxes. Added to this, is the problem of black money which is not curbed by direct taxes and is aggravating the problem of inflation in India.

- **Huge Investment with negative return in Public sector:** The low or negative return on capital invested around Rs. 4,21,089 crore in 2007 in the public sector units is a big concern for the Government of India. The Government has to keep huge amount aside to manage these PSUs. It creates a huge drainage of scarce resources of the country.

CHECK YOUR KNOWLEDGE

Question 1 – State 5 differences between Fiscal and Monetary policy?
Question 2 – State some drawbacks of fiscal policy?
Question 3 – Fiscal policy is advantageous for promoting private sector, explain it briefly?

2.4 Corporate Social Responsibility (CSR)

Mahatma Gandhi once said that, "The business enterprise is a trust and the businessman is a trustee and therefore there should be equitable distribution of income among employees, employers and the Society. It is not only the Government that is entrusted with the task of being just and humane as well as efficient and dynamic but also business enterprises".

Environment in general and Socio-economic environment in particular is ever changing. The concept of social responsibilities has gained full attention because the Preamble speaks about sovereign, socialist, secular, democratic republic India. Business is a part of society and therefore it cannot ignore social needs. Social responsibility of any business plays a vital role in the development of industrialization and economy especially in developing countries like India.

Social responsibility is a theory based on ethics and ideologies. All the constituents of society, be it Government, Corporations, Or Individuals have responsibility towards the betterment of Society. It can be Positive or negative. For Instance, charitable giving is positive social responsibility and refraining from contributing to environmental pollution is a negative aspect.

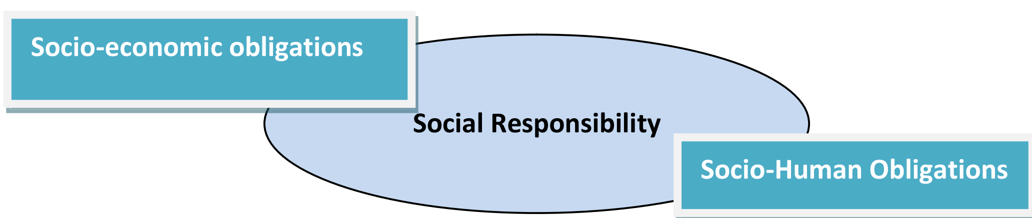


Figure 2.6: Obligations and Social Responsibility
Source: Ahuja (2005)

According to Keith Davis, there are two business obligations in order to be socially responsible. They are as shown in the figure above-

- Socio-economic obligations: include an obligation to create job opportunities, to curtail inflation, to maintain competition, to avoid hoarding, profiteering, to create brands, to produce quality goods at a lesser price, to provide health, safety and welfare measures to employees etc.
- Socio-Human Obligations: include an obligation to take care of human values and develop those values such as teamwork, morale, motivation, ethics, following code of discipline, punctuality, sincerity, trust etc.

The word social responsibility means the obligation and commitment of Board of managers to take necessary plans to develop the society keeping intact with organizational goals and their self-interest.

Figure 2.712: Stakeholders in CSR

Source: Ahuja (2005)

The scope of social responsibility of management includes six stakeholders-Suppliers, Regulators, employees, financial markets, customers and community who influence and are influenced by the activities of business organizations. Corporate Social Responsibility is a part of social responsibility which integrates social and environmental concerns of business operations and interacts with stakeholders. The concept of corporate social responsibility means that organizations have moral, ethical, and philanthropic responsibilities in addition to earning profits and comply with the law.

Features of Corporate Social Responsibility

Figure 13.8: Features of CSR

Source: Ahuja (2005)

1. Universal Concept: The concept of CSR is applicable to all types of organizations. These all organizations are supposed to think about benefits to be provided to society.

2. Never Ending Process: Business is a Socio-Economic institution. Apart from earning profits, business enterprises work on activities that would benefit the various constituents of the society.
3. Two way Commitments: The basic philosophy of CSR is that the business is a social entity with many stakeholders including employees, suppliers, customers, Government, Market etc. As all these stakeholders have their own rights and duties, so is the business. As and when business gains benefits from society, it has to give back to society as social obligation.
4. Ambiguous in nature: Any objective if it is quantified is clear and definite like economic objectives. Most terms related to social responsibility within business ambit are defined in vague and flexible way, which creates problem at the time of monitoring and evaluation.
5. Society-oriented: The elements of Environment such as Economic, social, political, demographical, cultural etc. differ from place to place, region to region, country to country etc. Therefore, business operating in a particular country has different social obligations from other country.
6. Multi-faceted:Business deals with various stakeholders, social obligations are different for each one of them. Each stakeholder has different expectation from business.
7. Voluntary Practice: It is certainly useful if any business practice voluntary social responsibility, but many see it as extra responsibility. Large businesses have to practice CSR as per the company's law. Social activities and support help business in building their brand image and create better position in market.
8. Legal Sanction: Modern businesses have changed a lot. Many Acts have come to protect the rights and interest of stakeholders of a business. Consumer Protection Act, Equal Remuneration Act, 1976,Investor Protection Measures Under Companies Act, 2013, Environment Protection Act,1986 et cetera are some of the Acts governing the interests of stakeholders like consumers, employees, shareholders, environmentalists respectively.

Legal Point for CSR

Section 135 of Companies Act deals with CSR related issues for businesses, here are some important features(MCA, 2013):

a) Every company having a net worth of rupees five hundred crore or more, or a turnover of rupees one thousand crore or more, or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.
b) The Board's report shall disclose the composition of the Corporate Social Responsibility Committee.
c) The Corporate Social Responsibility Committee shall:
    i. Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII
    ii. Recommend the amount of expenditure to be incurred on the activities referred to in clause (a); and
    iii. Monitor the Corporate Social Responsibility Policy of the company from time to time.
d) The Board of every company referred to in sub-section (1) shall,
    i. After taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the

company and disclose the contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

ii. Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company.

e) The Board of every company referred to in sub-section (1) shall,

i. After taking into account the recommendations made by the Corporate Social Responsibility Committee, approve the Corporate Social Responsibility Policy for the company and disclose the contents of such Policy in its report and also place it on the company's website, if any, in such manner as may be prescribed; and

ii. Ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company. Provided that the company shall give preference to the local area and areas around it where it operates, for spending the amount earmarked for Corporate Social Responsibility activities; Provided that if the company fails to spend such amount, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount(MCA).

Importance of CSR

1. To avoid unfair trade practices
   Unfair Trade practice is sometimes termed as “deceptive trade practice” or an “unfair business practice.” It includes misrepresentation of information like false claims made by telemarketers, false advertising.
2. To protect environment
   Conservation of natural resources is one of the most talked about topics today, and we know that businesses exploit natural resources for its profit. Businesses with weak environment conservation policy are threat to environment and generally lead to depletion of natural resources, pollution Global warming, generation of hazardous waste, and so on. Therefore, protection of environment is a must emphasizing the importance of social role of business.
3. To promote consumer rights
   Consumer has some basic rights such as right to safety i.e. protection from hazardous goods, right to be informed about products and services, right to choose among alternatives available, right to be heard in the court of law and so on. Business need to be reminded as and when required to protect consumer rights by doing its duties properly.
4. To avoid exploitation of workers
   Human resource is one of the major factors of production. Any organization tries to use the factors of production i.e. land,labour and capital to its optimum level. Labour is exploited in such a way that they are paid less for their work more, lack of other perks, poor working conditions, health, safety and welfare measures are minimized or neglected. All such activities needs enforcement of social role of business.
5. To promote small scale and cottage industries
   Existence of small scale and cottage industries are must for prosperity of large scale industries, these industries depend upon others for supply of raw materials, labour etc. Small scale industries are lifeline for overall economy, as it supports employment, increase inper capita income, optimal utilization of resources and so on. It is important for large scale industries to cooperate and not compete with small and medium scale industries.
6. To avoid interference of government
   The role of a government is regulatory and developmental. It regulates the economic activities

of business organizations to prevent socially restrictive business activities and concentration of economic power in public interest. The developmental role of the government is to develop infrastructure, transport and communication facilities, irrigation facilities and distribution of electricity and various other resources of energy. All these will help the business to prosper.

7. To make business understand its responsibilities
   Modern business is an entity dealing with socio economic aspects like profit making, social obligations and environmental concern. It is an organ in the society. It will be a win-win situation if society prospers because of business and business works for the society. It is mandatory for the business to shoulder its responsibilities apart from the rights to it by the society. To make the business understand its responsibilities, social responsibilities are enforced.
8. To balance responsibility with power
   Concentration of economic power has to be checked otherwise one more East India Company will come and rule the society. Big Business may control the market, prices, competition so on and so forth. They possess a vast amount of social powers and effect the social and moral values in the society. They possess large economic resources and hence they are expected to share more social responsibilities.

2.5 Sustainable Development

Sustainable Development is the process of economic development which emphasize on the quality of life of present and future generations without destroying natural resources and environment. Sustainable development has been defined in many ways. The Brundtland Report defines it as "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs. The Brundtland Commission stressed that we need to give a better living environment to the future generation just as we have acquired from our previous generations. It can be done through a systematic approach by renewing resources. The best example is using recycled materials for construction.(CEH, 2017)

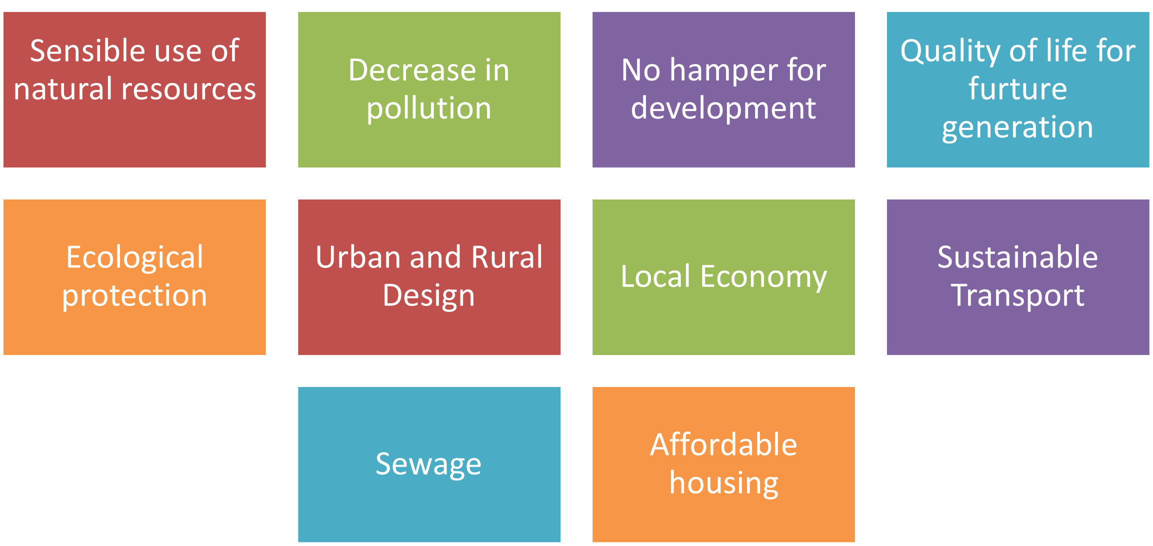


Figure 14.9: Features of Sustainable Development

1. Reasonable use of natural resources: The rational use of natural resources such as land, water, soil, plants and animals with a strong focus on the quality of life of present and future generations. Managing people and natural landscapes in land use planning, water management, biodiversity conservation, and the future sustainability of industries such as agriculture, mining, tourism, fishing and forestry help humanity to protect natural resources.
2. Decreased Pollution: The first concern of a sustainable environment reduces pollution as it affects human health. Contamination occurs in the trash. The best thing to deal with is its source only. This can be done by getting new jobs, doing things smarter, and promoting the whole service. Understanding how waste is generated and how to reduce, or prevent, is the need of the hour to reduce waste and protect the environment.
3. No developmental disturbances: Tropical or hydroelectric power plants that lead to climate change can be replaced by renewable energy sources such as 1) Solar energy is an efficient, inexpensive and environmentally friendly method, 2) Wind power is created by setting wind turbines in high winds natural resources into electricity for commercial or domestic use, 3) natural manure or compost can be used instead of chemical fertilizers to prevent soil erosion and soil pollution and 4) LPG sponsored as petrol in rural areas and CNG as fuel for urban vehicles can be a viable solution. All these efforts will help with sustainable development without hindering growth.
4. The quality of life of the next generation: Sustainable development emphasizes the “high quality” life of all survivors today and future generations in harmony with nature. Healthy living has such physical, mental, social and spiritual properties. The community must meet the needs and wants of the people. However, it is thought that this "good quality" life can only be maintained if we respect the environment and understand that the resources available are limited. After all, the concept of sustainable development justifies economic growth while protecting the environment and improving our health without affecting future generations.
5. Environmental protection: Conservation of biodiversity and environmental integrity should be at the forefront of environmental planning and decision-making. Response is required. Therefore, measures such as 1) those who cause pollution and waste must bear the costs of exposure, avoidance or mitigation, 2) consumers of goods and services must pay the cost of using natural resources and the final disposal of any waste and 3) environmental objectives must be achieved through frameworks to encourage building costs to build solutions and their responses to environmental problems.
6. Urban and Rural Design: Sustainable urban and rural development means improving the quality of life naturally, culturally, politically, institutionally, socially and economically in an environment that provides the best for future generations. Urban & Rural Design identifies seven C's - Context, Character, Selection, Connection, Art, Ownership and Collaboration. This is a combination of design processes and outcomes that will contribute to sustainable development.
7. Sustainable Transport: Sustainable Transport is assessed for the efficiency and effectiveness of transport and its impact on the environment and climate. The aim of this sustainable transport is to improve fuel efficiency, regulate vehicle emissions, use renewable energy to control harmful emissions of black carbon, introduce greenhouse gas emissions that reduce low carbon emissions, reduce public transport costs and reduce economic costs. Communities that successfully promote the sustainability of their transport networks such as fly overs, municipal trains etc.
8. Sewage: Sewage from households and industries must be managed properly. Therefore, physical, chemical and biological processes are introduced to remove waste from municipal wastewater which we call sanitation treatment. After this process, the water is tested and

released into the environment. During the process, we find a product that is produced, solid waste, or mud, called sewage sludge that is continuously treated to make it suitable for disposal or incorporation into land.

9. Affordable Housing: Affordable housing refers to small houses that are built using low-cost materials and are located in a cheap area along the city limits. The basic objectives of sustainable housing are to increase overcrowding, overcrowding and access to public transport, public and private facilities, integrated design, climate change and sun exposure. Affordable housing can be obtained when public participation in the process is undertaken and provided with Government funding.

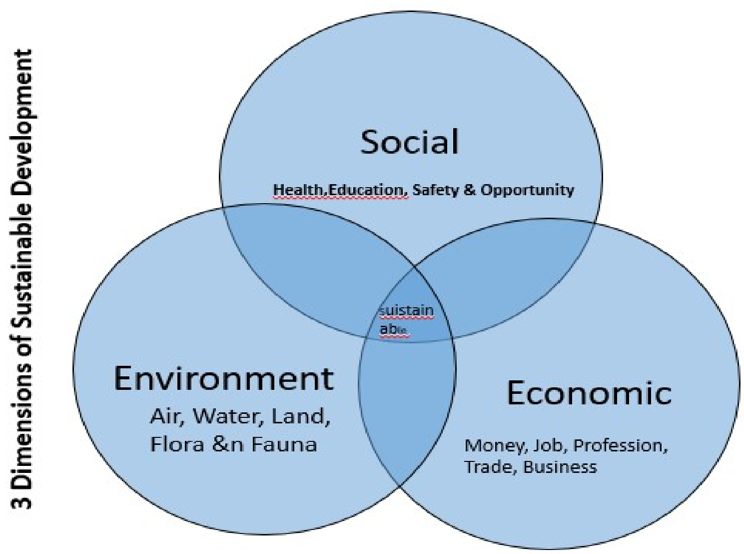


Figure 15.10: Three Dimensions of Sustainable Development
Source: Paliwa (2010) & Ahuja (2010),

Dimensions of Sustainable Development

Sustainable development requires balanced integration of three dimensions i.e. economic, social and environmental. Integration of these three dimensions is the need of the hour in policy making of Governments all over the world as there is a wide gap in incomes and other social gaps in society and the encroachment of boundaries, which is a big risk to humanity. The basic premise for integration is that the economic, social and environmental dimensions are interrelated and are indivisible parts of a whole system. People and the society in which they live are shaped by the economies and environment. Different elements of the environment provide important services to economies and to people.

1. Social Dimension
   One of the most talked about Sustainable Development goal suggested by UN is to Ending Poverty. Every country is working hard to make sure that poor people get equitable access to economic, health, education and technology resources. Although poverty is multi-dimensional and cannot be resolved with one or two steps/policy, but some basic factors contributing to poverty are low literacy level and improper implementation of relevant policies. Poverty leads to more environmental problems. Big families, improper waste disposal, unhealthy living conditions,

overexploitation of natural resources, floods, soil erosion, all together with insufficient knowledge about agricultural practices are some of the causes which puts pressure on environment. Providing education to people is must for Sustainable Development as it empowers them to critically examine and work towards a sustainable future. It helps people to develop knowledge, skills, values and behaviors needed for sustainable development. They examine sustainable development issues such as climate change and biodiversity and act as responsible actors to resolve challenges, respect cultural diversity and contribute to creating a more sustainable world. Health has become a more central concern in sustainable development. Health is directly proportional to productivity. Many health problems are due to pollution, noise, crowding, inadequate water and sanitation, improper waste disposal, chemical contamination, poisonings and physical hazards associated with the growth of urban settlements. The solution to all these lies in sectors concerned with environment, water and sanitation, agriculture, education, employment, urban and rural livelihoods, trade, tourism, energy and housing. Addressing the problems with best solutions for healthy life is key to ensuring sustainable development and sustained health improvements in the long term.(Bharadwaj, 2016)

2. Economic Dimension
   People criticized that the environment must be sacrificed for economic growth. Capitalistic attitude for easy money and short-term profits and ideological rigidity is increasing in leaps and bounds leading to environmental degradation. Environmental protection itself contributes to economic growth. Air pollution control technologies, sewage and water treatment facilities, solar cells and windmills, power electric cars etc. are some of the examples which are benefitting human health and result in far more economic benefit than economic cost. The practical problems of environmentally sustainable economic development can be handled with enlightened design, sustainability management and cutting-edge technology.

3. Environment Dimension
   The precautionary approach and human rights-based approach is undertaken by UN. Apart from that the following nine Safeguard Standards are considered for Environmental sustainability:

   - Sustainable management of Biodiversity, natural habitats, and living beings
   - Management of resources efficiently, effectively and economically, prevention of pollution and waste management
   - Safety of dams
   - Involuntary resettlement-project-related land acquisition
   - Indigenous people- Natives
   - Working conditions of employees
   - Preservation of cultural heritage
   - Gender equality and empowerment
   - Economic sustainability

The 2030 Agenda states all nations to “achieving sustainable development in its three dimensions—economic, social and environmental in a balanced and integrated manner”. Environmental Crisis refers to a situation when an environment fails to perform its basic function of life sustenance. The suitable situation is when resource extraction is less than the rate of resource generation and waste generated is low.

The Reasons for the Environmental Crisis are:

- Rapid Population Growth: It adversely affects the environment. The resources are limited but its demand increases. Such demand and supply conflict results in overuse or misuse of resources.
- Affluent consumption and production of goods and services: It is due to growth in economy. The consequences are generation of waste beyond absorption capacity of the environment.
- Mass production due to rapid Industrialization: It has led to deforestation, depletion of natural resources and Water contamination
- Urbanization: Massive migration of people from rural to urban areas created slum areas which is an extra burden on the existing infrastructural activities.
- Deforestation: Blindly and unconsciously cutting down of trees, clearing forest is adversely affecting the environment and causing many other problems.
- Increased Use of chemicals: Farmers and workers suffer health problems due to increased use of poisonous insecticides, pesticides, and chemical fertilizers.

CHECK YOUR KNOWLEDGE

Question 1 – Write a short note on your imagination of Sustainable cities of Future?

Question 2 – Why poverty eradication is one of the most critical issue in development of any country?

TO DO ACTIVITY

Create flow diagrams that illustrate the process of sourcing and generating energy from renewable and non-renewable sources.

Summary of the Chapter

The monetary and fiscal policies are important determinants which influence the behavior and performance of financial sector, encourage investment and production in priority sectors and discourage them in non-priority sectors and influences technological choice, investment and production patterns. There are measures of monetary policies- for currency & credit expansion and for credit control which is again divided into qualitative and quantitative methods. Quantitative methods are bank rate, open market operations and variable reserve requirements. Qualitative methods are selective controls related to distribution and direction of available credit supplies.

The Indian financial system comprises of financial institutions, financial instruments, financial services and financial markets. The Indian financial market consists of developed markets like credit market, money market, capital market, Foreign exchange market, debt market and derivatives market and undeveloped markets like household finance market, NBFC market and insurance market. The introduction of structural changes like free pricing of financial assets in all segments, relaxation of quantitative restrictions, removal of entry barriers, new methods of floatation of securities, better trading facilities, clearance and settlements, transparency and disclosure practices brought a gigantic transformation of financial sector in India.

The concept of social responsibility has gained a lot of importance due the dynamic nature of socio-economic environment. It helps in economic development and industrialization. Social responsibility is the obligation and commitment of businessmen to take steps to protect and improve the welfare of the society. The four groups that influence and are influenced by are shareholders, employees, customers and Society. There is increasing awareness of interdependence between business and its environment in the society. There are arguments for and against corporate social responsibility (CSR). But the benefits derived by CSR are far beneficial than its arguments against it.

Sustainable development need to bring together development and environment into a single set of goals such as reducing the depletion of natural resources, creating development without causing further harm to the environment, making environmentally friendly facilities and projects, eradicating poverty, promoting good health, providing quality education to all, providing clean water and proper sanitation, building up strong infrastructure, supporting inclusive and sustainable industrialization, incubating innovation, enabling access to affordable and clean energy and achieving gender equality.

Model Questions

1. Define Monetary and Fiscal Policy. Write the objectives of both the policies.
2. Critically examine the working of monetary and fiscal policy in India.
3. What are the measures to control credit taken up by RBI? Explain each one in brief.
4. Define Corporate Social Responsibility. Explain the features of CSR.
5. What are the arguments in favor of CSR? On what grounds it is criticized?
6. What are the challenges in achieving sustainable development and how can they be overcome?
7. Explain the dimensions of sustainable development? Are they all interdependent? Support your answer with examples.

Chapter 3 Planning and Reforms in India

Introduction

India at the time of independence was struggling with sluggish economy, and had to start from scratch to bring economic momentum. This was done by adopting a combined approach of market and state forces. Later in 1950 Planning Commission of India was established. The main objective of commission was to optimally utilize the available resources and plan accordingly for its economic progress. Our country learned from experience of socialist countries and adopted custom version of central planning suited for democratic framework. The first plan was adopted in 1950-51, till date India have completed twelve five-years plan in 2017, after which the present NDA government decided to discontinue five years plan. Now, we have three-year action plans, which is art of seven year action plan and 15-year vision document. Also, the planning commission is now replaced by The Niti Aayog; which launched first three-year action plan in April 2017.

Objectives

- To examine planning and reforms in India
- To examine and understand five year plans
- To explain the land reforms taken place in India
- To explain what is Liberalization and Globalization
- To explain major changes in policies
- To apprehend Green revolution
- To explain the evolution of public sector

Structure

- Introduction to Planning and Reforms in India
- Five Year Plans and Its Importance
- Land Reforms
- Economic Liberalization and Globalization
- Green Revolution
- Evolution of Public Sector

India was under British colonial rule for 190 years from 1757 AD till 1947 AD. They entered our country as traders with East India Company in the year 1600 AD. It was a backward underdeveloped country as there was a lot of exploitation. They looted a huge amount of resources, cottage industries and small industries were destroyed, 10 per cent of the total national income of India was taken away, monopoly of British in all trades and major industries was common. Other problems like low per capita income, unemployment, low capital formation, low level of investment, high death rates and conservative attitudes of Indians was common at that point. All these led to the stagnation, poverty and backwardness of the Indian economy. The struggle for Independence began with the aim to attain political and economic freedom. After attaining Independence, the need to set our country if felt. There were no entrepreneurs with a strong mindset who could use the natural resources to accelerate economic growth of our country. To remove mass poverty and improve the standards of people, the Government of India after independence initiated centralized planning as an instrument to develop economy. The Planning Commission was established identify nation's economic and other priorities, and to prepare five year plans accordingly. It gives directions in allocating resources both at the Centre and the states, in accelerating economic growth and in raising the standards of people.

3.1 Role of Planning in India

- Accelerating Economic growth: To break the vicious circle of poverty and to accelerate economic growth, economist and planners identified that the rate of savings and investments should be raised. The Private sector on its own cannot achieve it. Therefore, a need is felt by the State to intervene in increasing the resources, increasing the rate of savings and investments and the expansion of public sector. This emphasized the role of planning in accelerating economic growth.
- Priority to Industrialization: Mahalanobis growth model states that basic heavy industries and capital goods industries have to be developed and therefore the Government should allocate a higher proportion of investible resources to capital goods than to consumer goods industries. Private sector on its own would not be allocating huge investment in developing capital goods as they do business with the sole intention of earning more and more profits. Therefore, the role of planning and State intervention is felt to develop Industrialization.
- Developing Infrastructure: To bring about rapid economic growth, infrastructure like power, transport, communication etc.has to be developed. This will in turn help small industries to prosper. Huge investment is required to develop infrastructure. Private sector on its own hesitate to allocate funds for infrastructure development, hence the State and planning had an important role to play.
- Regulatory role: The Indian economy is a mixed economy. The role of private sector was given equal importance with public sector to achieve optimal allocation of resources among different industries. One of the objective of planning is to restrain the concentration of economic power in few big business houses. Therefore, industrial licensing controls were established.
- Eradication of mass poverty and Unemployment: The role of State and planning is felt to eradicate mass poverty and unemployment. In fifth, sixth and seventh plans, the planners opined that if growth rate of GDP was raised to 5 to 6 percent per annum, problems like mass poverty & unemployment cannot be handled in optimal way.Therefore, State and planners had to start food for work programmes, employment guarantee schemes etc. to help the poor and weaker sections of the society.

Post Reform Planning: The turning point of Indian economy is the 1991 crisis, which includes fiscal deficits and issues related to balance of payments. The policy of economic liberalization and privatization was adopted. Public sector is confined to few strategic industries only and private sector was slowed down by numerous bureaucratic controls. Now the question was on the role of State and planning arose post 1991- the era of privatization and liberalization. It was observed that their role is very important in the following ways

- Building Social structure and promoting human development
- Poverty Alleviation and employment generation
- Investment in Agriculture
- Regional Balance
- Protecting Environment

Main Objectives of Five Year Plans in India

The Industrial policy resolution of 1948 insisted the role of government in initiating and regulating the development process in the country. The constitution of India through its directive principles defines the socio economic objectives. The central government has to act accordingly and accepted to plan all the developmental programmes and set up Planning Commission in March, 1950. The commission is formed to plan for the balanced utilization resources in India.

The Main Objectives of Five Year Plans in India are

1. To obtain an annual average growth rate of nearly 5 per cent
2. To attain food self sufficiency
3. To increase Industrialization process
4. To establish a socialistic pattern of society
5. To expand Basic & heavy industries
6. To attain economic stability curbing inflation rate
7. To obtain social and economic justice
8. To establish balanced regional development
9. To expand public sector and improve its efficiency
10. To implement National Programmes for poverty eradication and generating employment
11. To facilitate import substitution and export promotion
12. To establish modernization and technological self-reliance

India has completed twelve five year plans. The Planning commission in 2014 was replaced by National Institution for Transforming India (NITI) Aayog by the then Prime Minister and noted Economist, Dr. Manmohan Singh to provide a critical, directional and strategical inputs to the development process. The status of the 12th Plan was in question due to the dissolution of the Planning Commission in 2014. The following table clearly states the main objectives-

Table 3.1: Main Objectives of Different Five Year Plans (1951-2012)

Plans	Duration of the Plan	Main Objectives
I	1951-56	Development of Agriculture & Irrigation
II	1956-61	Development of Large Scale Industries
III	1961-66	Self sufficient in food grains production
IV	1969-74	Steady growth, self –reliance, poverty alleviation
V	1974-79	Poverty Eradication & self - reliance
VI	1980-85	Poverty eradication by providing employment
VII	1985-90	Increase in food grain production & Productivity
VIII	1992-97	Human Resource Development
IX	1997-2002	Equality, Economic Growth with social justice
X	2002-2007	Equality, social justice, enhancement in the quality of human resources
XI	2007-2012	Inclusive growth
XII	2012-2017	Faster, sustainable & inclusive growth

Source: Paliwa (2010) & Ahuja (2010)

Review of Five Year Plans

It is very important to review all the five year plans in respect to the main objectives of the successive five year plans.

- Economic Growth: During first half of 20th century, the per capita and national income was minimal. Slowly it has increased in the second half of the 20th century.

Table 3.28: Status of Economic Growth in Five Year Plans

Plans	Duration of the Plan	Target	Actual	Remarks
I	1951-56	2.1	3.6	Increased
II	1956-61	4.5	4.1	Decreased
III	1961-66	5.6	2.8	Decreased
IV	1969-74	5.7	3.3	Decreased
V	1974-79	4.4	4.8	Increased
VI	1980-85	5.2	5.7	Increased
VII	1985-90	5.0	6.0	Increased
VIII	1992-97	5.6	6.8	Increased
IX	1997-2002	6.5	5.4	Decreased
X	2002-2007	8.0	7.5	Increased
XI	2007-2012	9.0	8.3	Decreased
XII	2012-2017	9.0	8.0	Decreased

Source: Planning Commission, Press release 31st May 2012 & www.jagranjosh.com

The following conclusions can be drawn from the above table with respect to already stated objectives-

i. The average economic growth rate during all the five year plans is 5.5 percent. This shows that there is a considerable increase in economic growth after independence.
ii. Agriculture has been considerably increased.
iii. Industrial growth has tremendously increased.
iv. The growth rate at later plans decreased from 2007 onwards.
v. Major changes are seen from Fifth Five year plan. The growth is very impressive when compared to the performance of developed countries.
vi. The Indian economy has seen the improvement in the shares of industry and service sectors in overall GDP as of developed country's economy. But the share of agriculture declined due to crop holidays and suicides of farmers.
vii. There is a drastic change in service sector as it contributed high percent in GDP of India.
viii. The true picture is that India could not transform its growth into development which would have improved the living conditions of people.

- Self-reliance: To attain the objective of self-reliant economy, the fourth five year plan emphasized import substitution and export promotion. The subsequent plans facilitated India to be self-sufficient in food grains and other important sectors. It is now fully self-sufficient in food. It is self-reliant in capital equipment with the growth ofiron and steel, machine tools and heavy engineering industries.
- Balanced Regional Development: India has a vast geographical differences – Himalayan range, coastal areas, north east areas, hilly areas, tribal areas, north and south areas, metropolitan, urban and rural etc. All these regions should be developed on equitable basis to achieve balance regional development. The Planning Commission has to plan for it and had planned in three ways to achieve BRD by
  i. Identifying the backward regions so as to distribute financial resources form Centre to States.
  ii. Developing backward regions through Special Area Development Programmes and
  iii. Promoting investment in backward regions.

It is observed that the rich states have grown very fast and that poor states has experienced a faster growth in population which nullified its growth. The private investment has been flowing in high income states where service sector, infrastructure and foreign collaboration were there. The states like Maharashtra, Gujarat and Tamil Nadu attracted more investment.

- Enhancement of employment opportunities: Right from the beginning of planning, eradication of unemployment was the center point of emphasis. Seasonal and disguised unemployment in agricultural sector is seen in India. The educated unemployment is now less than that was there before Eighth plan. Rural unemployment is more than uraban unemployment. Over all the plans and presently, the Government of India has introduced various employment generating programmes like Swarnjayanthi Gram SwarojgarYojana (SGSY), Prime Minister's Employment Generation Programme (PMEGP), Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Swarna Jayanti ShahariRozgarYojana (SJSRY), Pradhan Mantri Gram SadakYojana (PMGSY)etc.
- Reduction in Income Inequalities: The problem of inequality in the distribution of income and wealth has gained much importance in India throughout the planning period.There is a huge disparity of income right from 1950s. In 1980, the income disparities between the rich and poor has further widened as the richest 20 per cent and the poorest 20 per cent of the total

population accounted 76.3 per cent and only 1.4 per cent of the total income respectively. India's rich-middle-class-poor profile has change drastically during the past two decades (1991-2011). It is noted that process of economic development initiated in the economic planning in India during the last five and half decades help the rich became richer and the poor become poorer.

- Elimination of Poverty: Overall the plan period, the Government has introduced various schemes like providing food items and kerosene at subsidized rates, free education, rural and urban employment programmes, health and housing facilities etc. to eradicate poverty. But it is found that rural poverty is relatively more when compared to urban areas.
- Modernization: India has given importance to science and technology in order to modernize the industrial and agricultural set up of the country during its plan period. Green revolution, National Agricultural Policy, 2000 etc. were few agricultural strategies implemented to develop agricultural sector. Rapid growth of iron and steel industries, engineering industries etc. made steady progress. Indian economic planning gave emphasis to technological development from seventh plan onwards in the name of modernization.
- Inclusiveness and sustainability of growth: Till the end of tenth five year plan, India has not made a remarkable progress. The evils like poverty, unemployment, disparities in income, farmers' suicide cases etc. were predominant. Therefore, India came with eleventh plan with the objective of inclusiveness and sustainability of growth. Inclusiveness covers economic, social and cultural factors of development. It aims at providing economic benefits to weaker sections of society.The major elements of inclusiveness in India includes agricultural growth, employment generation & poverty reduction, reduction in regional and other disparities and achieving an equitable growth. Apart from elements, it has six targets to accomplish- Income and poverty eradication, education, health, women and children, infrastructure and environment.

Major Challenges of Indian Economy

Figure 3.1: Major Challenges in Indian Economy

Source : Paliwar (2010) & Ahuja (2010)

1. Public services like health care, banking facilities, public distribution services, transportation, law & order and education has to be provided to people in general and to poor in particular.
2. Improving the lives of farmers by providing them education, marketing facilities, credit facilities, crop insurance, irrigation facilities etc.
3. Making education more accessible and constant technological advancements in health care by embracing ICT is a must to transform these two sectors.
4. HRD is an interdisciplinary and integrated approach for the development of human resources through continuous and planned process by providing education, training, performance appraisal etc.
5. The policies regarding right to life includes right to clean environment, drinking-water and pollution-free atmosphere through legislations and judicial interpretations has to be developed very rapidly.
6. Good governance must be improved with aims of expansion of social opportunities and removal of poverty, securing justice, empowerment, employment and efficient delivery of services, removal of criminalization of politics and corruption.
7. The progress of the national economy will be the result of the growth of different regions-rural, urban, tribal, hilly, northeast, coastal etc. Therefore balanced regional development is the major challenge.
8. The urban challenges is creating environmental hazards therefore, India needs to face the challenge of ensuring sustainable livelihoods for rural people while reducing rural-urban migration.
9. Inclusive growth in a wide range of social, economic and geographical areas benefiting every section of society is the main challenge.
10. Women need to become aware of their rights, schemes and benefits that can help them to be empowered. Eliminating discrimination against women and empowering them to seek equality in every sphere of life is the major challenge.

Table 3.39: Achievements and Failure of Planning

Achievements	Failure
Net domestic product, per capita income, savings and investment increased	Poverty in rural areas is prevailing
Self-sufficient in basic, capital goods and consumer goods industries	Unemployment increase
Self-sufficient in food grains	Inequalities of income is witnessed
Industrial diversification	Land ownership in few hands
Transport, irrigation, telecommunications developed	Regional disparities exists
Development in education sector	
Trained scientific and technical manpower developed	
Extensive space exploration	

Source: Paliwar (2010) & Ahuja (2010) National Institution for Transforming India(NITI) Aayog

National Institution for Transforming India(NITI) has been formed in place of Planning Commission which is discontinued in the year 2014. Planning commission was abolishes because of following reasons(NITI AAYOG)-

- Globalization is adopted by India
- Demographic profile of Indians changed drastically
- New Indian States are formed and existing states have changed a lot
- Private sector is transformed and playing a crucial role in Indian economy,
- The introduction of ICT
- Integration of Indian business with global markets has changed significantly

The Government of India established NITI on 1 January 2015 to provide Inter-Ministry coordination and better Centre-State coordination by providing strategic, directional and technical advice in the development process of the country.

Nature of NITI(Niti Aayog)

1. Partnership of Centre & Indian States: Planning commission was one way flow of policy i.e. from Centre to States whereas NITI is a partnership between Centre & States wherein both collaborate for each other's' development.
2. Think-tank: NITI provide directional and policy inputs and technical advice to Centre & States in designing strategic and long term policies and programmes for the Government of India.
3. Cooperative Federalism: The belief that strong states make a strong nation is strengthened by following cooperative federalism- mutual cooperation in addressing their issues.
4. Integrating with main Plan: It helps in formulating village level plans and integrating with the main plan of Central Government.
5. Benefits to all stakeholders: It always tries to benefit all stakeholders in the society adequately.
6. Collaborations: It will support entrepreneurs through knowledge sharing, innovation and entrepreneurial support through collaborations.
7. Resolutions: It acts as a bridge for resolutions between inter-sectoral and inter-departmental issues to facilitate growth & development.
8. Feedback: It monitors and evaluates the implementation of various programmes and feedback is taken to improve and upgrade and build capacities.

Objectives of NITI

- To involve states in forming a common vision by recognizing the priorities, sectors and strategies for national development.
- To promote cooperative federalism by providing support to the states on continuous basis.
- To recognize village level plans and coordinate them with higher level plans.
- To incorporate national security in economic policies and strategies.
- To benefit all sections of society from economic progress
- To frame a strategic plan, implement and monitor it and the feedback taken to make corrections for the progress of the nation.

- To encourage partnerships between key stakeholders in education and research institutions nationally and internationally.
- To form a quality circle of experts, practitioners and partners to share and support entrepreneurship, innovation and knowledge.
- To assure the world that India is an active player in global issues.
- To involve nonresident Indians in the development process
- To encourage good governance through ICT.
- To foster entrepreneurial, scientific and intellectual human capital

Organizational Structure of NITI

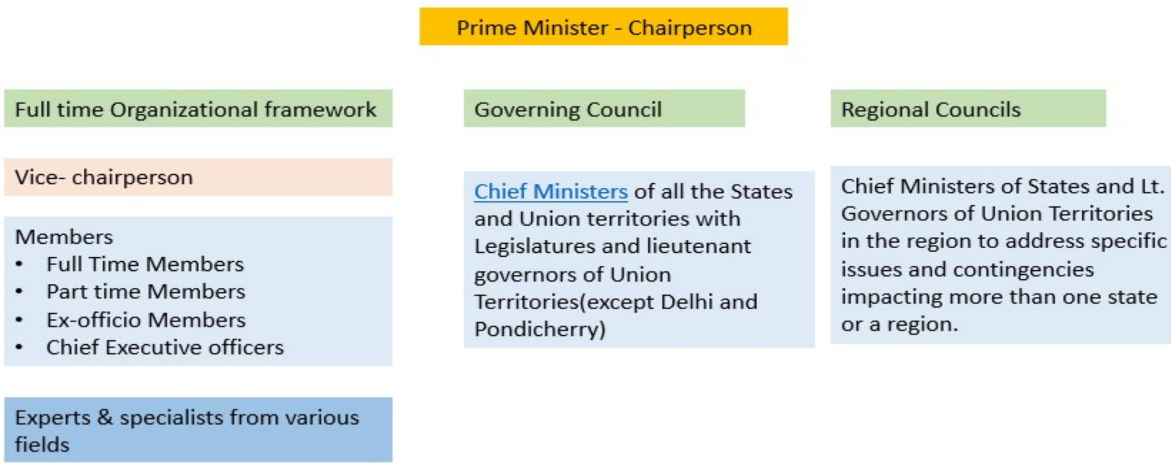


Figure 3.2: Organisational Structure of NITI Aayog

Source : niti.gov.in

Functions Of NITI

NITI 's functions can be divided into four main heads(Niti Aayog).

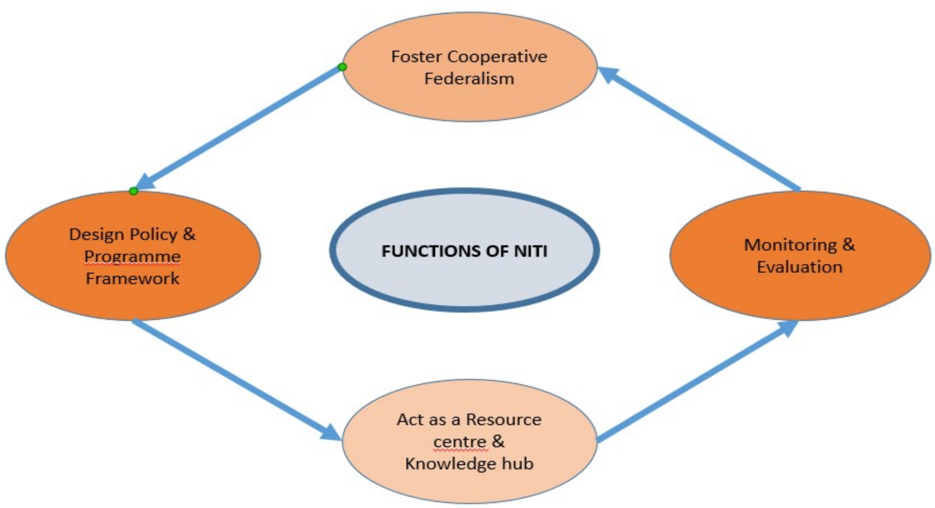


Figure 3.3: Functions of NITI Aayog

Source :niti.gov.in

NITI aayog is working towards increasing the involvement of States in decision making process by promoting cooperative federalism, it also promotes innovation, knowledge and entrepreneurial support in overall ecosystem with the help of experts. It is also instrumental in incorporating National security in economic strategy and policy, formulate the strategies at village as well at higher level for large level integration, upgrade technology to speed up policy implementation and design monitoring and evaluation framework to keep track on progress.

Test Your Knowledge

Question 1 – Explain different techniques of Planning?
Question 2 – Write a short note on Planned Vs Unplanned economy?
Question 3 – Why five year plan in India is discontinued?

To Do Activity

Make a group of three participants and divide the work as follows: Labour, Capital and Land. Village X is a tribal village on the border of Bihar and West Bengal with 410 families and 2000 population. Due to seasonal floods the village faces several problems. Try to imagine the opportunities and threat for Labour, Capital and Land. Also, suggest ways to improve livelihoods of village.

3.2 Land Reforms in India

Land is the main source of livelihood to many people in rural India. The British introduced Zamindari and Ryotwari system which created a class of absentee landlords who exploited the peasants. It lead to concentration of economic power in the hands of the few. All this destroyed land, agriculture and industry before Independence era. By the time India attained Independence, India inherited 1) a semi-feudal agrarian structure with small land holdings of tenure arrangements, 2) control of land was in the hands of few landlords, 3) imbalances in man & land relationships between businessmen, farmers and labourers, and 4) No landlord or farmer was interested in improving agricultural productivity.

Land Reforms refers to efforts to rearrange and redistribute the ownership and regulation of land in India by the Government. It is in other words, government providing land from landholders to landless people for agriculture or special purpose. It safeguards the interests of landless households, small and marginal farmers by redistributing the land. It focuses on economic and non-economic changes to be brought to land for the development of agriculture. After Independence, land reforms are introduced for reconstruction of rural economy, keeping equity and social justice at its core.

The three main elements of Land reforms are mentioned in figure below:

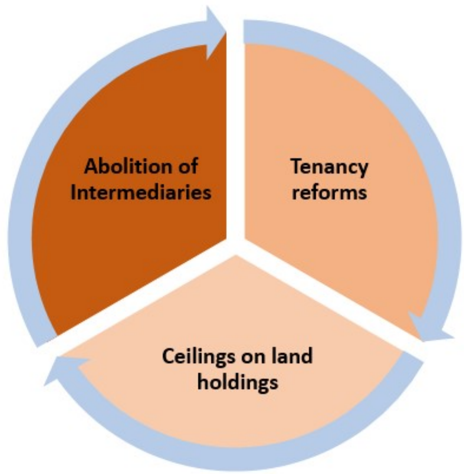


Figure 3.416: Elements of Land Reforms

Source: TSBIE

Objectives of Land Reforms

The Planning Commission in 1951 explained the objectives of land reforms as follows-

- To protect the tenants from landlord's exploitation
- To remove semi-feudal agrarian structure inherited from British rule
- To give provisions to tillers regarding security of their tenure
- To provide equity with social justice to rural population
- To ensure land ownership to landless and weaker sections of rural population
- To improve agricultural production by the process of creating new land from oceans, seas, riverbeds or lake beds.
- To ensure direct access and relationship between government and cultivators
- To assure rational use of limited land resources

Policies for Restructuring Agrarian Relations

After Independence, Planning commission focused on land reforms to increase agricultural production by abolishing intermediaries and to form an egalitarian society. In the first five year Plan, the agricultural sector showed striking improvement- the food grains target exceeded by 3.3 million tons and in second five year plan, it increased to 78 million tons and also gave importance to the abolition of landlord-tenant nexus and the importance of imposition of ceilings on landholding, 89 million tons in third five year plan. The fourth five year plan introduced green revolution which improved high yielding varieties of wheat, rice, cotton and jute. Each of India's five year plans since 1951 emphasized on land reforms summing its objectives as:

1) To remove semi-feudal agrarian structure
2) To create such policies to improve high levels of efficiency and productivity in agrarian economy.

Table 3.410: Measures under Land Reform

Land Reforms Measures		
1. Abolition of Intermediaries	2. Tenancy Reforms • Regulation of Rent • Security of Tenure • Ownership Rights	3. Ceilings on Land Holdings • Consolidation of Land Holdings • Cooperative Farming

1. Abolition of Intermediaries: The Zamindari system was introduced by British General Lord Charles Cornwallis through Permanent settlement Act in 1793in provinces of Bengal, Bihar, Orissa and Varanasi. Zamindars, Tahsildars and Inamdaars were the owners of large parts of land who used to collect heavy rent amounts from cultivators. They used to pay fixed land revenue to British Government. They go on increase the rent amounts. They never paid attention to improve productivity. This system has created imbalances in land ownership and the gap of rich and poor increased. Soon after Independence, the Government of India accepted the recommendations given by Kumarappa committee to abolish Zamindari system and other intermediary systems. It provided a balance of power. Zamindari Abolition Act took away surplus lands from Zamindars. The land is provided to farmers and they came in direct contact with the State.
2. Tenancy Reforms: A tenant is a farmer who leases land from the owner and cultivate it. He is a cultivatorbut not an owner. He pays rent as stated by landlords which was always very high. Landlords used to exploit them by taking away the produce at lesser prices often. The Government of India has introduced the following measures to protect such tenants. These are
   - Regulation of tenant: The first step taken in this reform is to fix the rent to one fourth or one fifth of the total produce. It decreased the scope of increasing the rent by landlords. Land rents were not same in all the states. The possession of land was still in the hands of few landlords. Though the legislation has favored the farmers but still exploitation was prevailing. They were used when landlords were interested to cultivate. The Tenancy Protection Act was introduced to protect the occupancy tenants from eviction. They were given the right to purchase the land.
   - Security of Tenure: State governments introduced many security laws to protect the tenants from ejections as follows-
   - Landlords as they wish cannot eject tenants from their land
   - Landlords can take land from their tenants only when they want to cultivate themselves
   - If the landlord takes away land for self-cultivation, he has to provide a part of land to tenant for cultivation.
   - Ownership rights: Few state governments introduced laws to transfer ownership of land to the tenants. Kerala and West Bengal successfully enacted the law comparatively due to the communist government at that time. Though a good initiative to be appreciated but it was not satisfactory.
3. Ceilings on Land Holdings: Ceiling refers to a fixed statutory limit on the maximum land that a family can hold under its ownership. Any surplus over the mentioned ceiling is taken away by

the Government to distribute it to the landless and marginal farmers. The Ceilings on Land holding Act was introduced since 1960 in different states. Much progress is not seen. Only 23 lakh acres was declared surplus over ceiling. The Act was diluted by Malafide & Binami transfers. To overcome this, a meeting of chief ministers was held in 1972. The following guidelines were adapted-

- Ceiling limit decreased 10-18 acres for good land, 18-27 acres for second class land and 27-54 acres for hills and desert areas as the limit.
- Family of 5 members is the base for ceiling. If extra members are found, then each member will be allowed land in such a manner that the land does not exceed twice their ceiling limit.
- The Act provided exemptions to public religious and educational organizations, any land held by the BhoodanYagnya Committee, nationalized banks, cooperative banks and cooperative farming societies organized by weaker sections.
- The compensation given to surplus land will be less than market value.
- SCs and STs. Are given priority while distributing the surplus land.
- The Act does not come under the purview of civil courts.

The below table shows that 73.66 lakh acres of land is declared surplus in 2001 and it shows state-wise distributed land as follows-

Table 3.5: State-wise details of the implementation of ceiling laws (up to September 2001) (In Acres)

S.No.	States/UTs	Declared surplus	Taken possession of	Distributed to individual beneficiaries	Total no. of beneficiaries	Total area in litigation
1.	Andhra Pradesh	799663	641655	582319	540344	147631
2.	Assam	613400	575337	545870	445848	38461
3.	Bihar	415447	390752	306964	379528	NA
4.	Gujarat	227404	160768	139822	32209	69764
5.	Haryan	107487	103017	102123	29228	4599
6.	Himachal Pradesh	316556	304895	6167	6259	8072
7.	Jammu & Kashmir	455575	450000	450000	450000	NA
8.	Karnataka	268478	161834	122709	33410	129244
9.	Kerala	139548	96253	66669	156568	30353
10.	Madhya Pradesh	298763	260323	186942	74705	79475
11.	Maharashtra	739533	670247	642359	140621	31605
12.	Manipur	1830	1685	1682	1258	NA
13.	Orissa	179248	167201	156747	139186	12993
14.	Punjab	223115	105834	104232	28574	24591
15.	Rajasthan	610965	569173	461300	81574	79698
16.	Tamil nadu	200243	190751	179683	142347	9492
17.	Tripura	1995	1944	1598	1424	59
18.	Uttar Pradesh	374125	341464	258698	294062	50118
19.	West Bengal	1380525	1291407	1055191	2601432	192079
20.	D&N Haveli	9406	9305	6851	3353	NA
21.	Delhi	1132	394	394	654	183
22.	Pondicherry	2326	1185	1046	1427	1050
	Total	**7366764**	**6495424**	**5379366**	**5584011**	**909467**

Source: Ashokvardhan

Reasons for Poor Performance of Land Reform Programmes

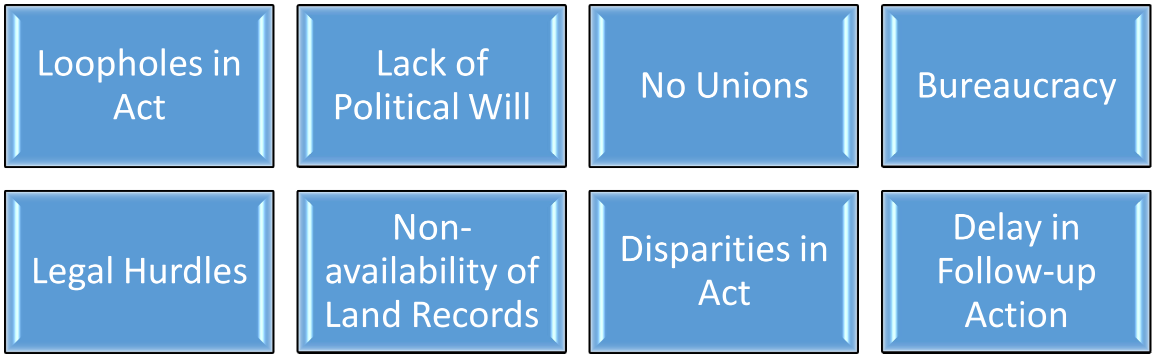


Figure 3.5: Reasons for Poor Performance of Land Reform Programmes

Loopholes in the Act: Big Landlords employed many means to evade the law, like registering own land under in the name of close or distant relative, shuffling tenants around different plots of land to refrain from any incumbency rights and using financial and political power to retain their land.

Lack of Political will: The slogan was 'land to the tiller'.The landlords do not want to lose their land and hence used their political power to partially redistribute land to landless labourers. The political leaders did not show much interest in the implementation of the Acts so as to favour big landlords.

No Unions: Marginal and small farmers were ignorant and illiterate. They were not aware of benefits of these Acts. Moreover there were no unions to represent their demands before landlords and the Government.

Bureaucracy: The Bureaucracy featured with corruption, nepotism and redtapism inherited from colonial rule did not show any interest to implement the Acts wholeheartedly to help the poor farmers.

Legal hurdles: Landlords approached courts challenging one or the other reform taking advantage of loopholes of the Act as they do not want to lose their land.

Non-availability of land records: Land records are not properly maintained since decades. This became a hurdle in implementing the Act.

Disparities in the Act: As they felt the need to improve agriculture, the state governments enacted the Act as per their requirements without uniformity. This led to disparities in the Act.

Delay in the follow up Action: The surplus land identified is not totally taken away by the government and whatever is taken is not distributed totally. Apart from that, the farmers were not given credit and other inputs though ownership is transferred to them.

3.3 Economic Liberalization and Globalization

The Indian economy was based on socialistic pattern of industrial development until early eighties. The role of government was more. State intervention in the economic activities is an inescapable part of the obligations of present day governments to redress economic imbalances, to safeguard the interests and welfare of the community as a whole, to plan for overall rapid progress and prosperity and to undertake and execute schemes and projects vital to the needs of the nation. Being mixed economy, private sector coexisted. The economy was not totally socialistic. The Government took initiatives to liberalize the working of industry and the manner in which they were given finances. This was done in the year 1984. However, the major thrust of liberalization process came in to being when the then Finance Minister, Dr Manmohan Singh announced new Industrial policy on 24^{th} July 1991.

Objectives of Liberalization Measures

- To speed up the rate of industrial development
- To ensure better utilization of capacity
- To gain economies of scale
- To reduce the loopholes in procedural implementation of policy
- To coordinate for the development of backward areas
- To ensure import substitution and export promotion
- To ensure healthy competition

Components of Liberalization

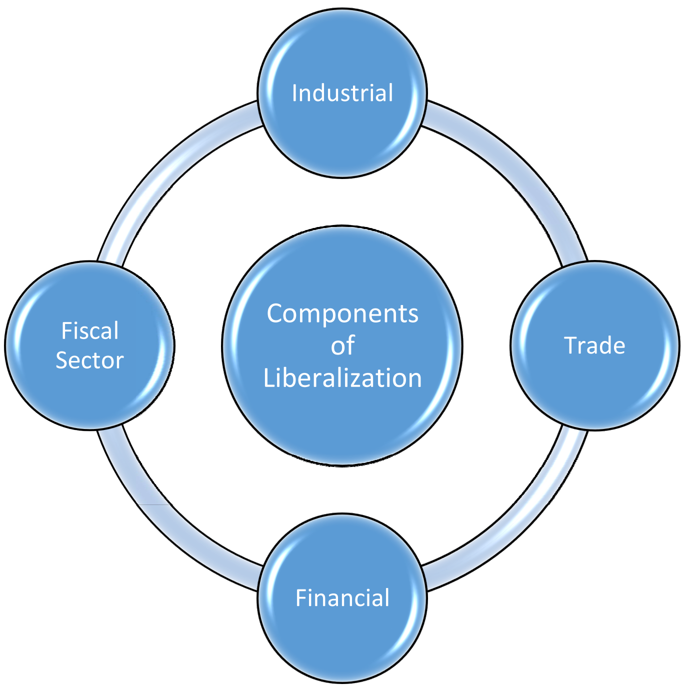


Figure 3.617: Components of Liberalization

Source: TSBIE.(2015)

1. Industrial Liberalization: Industrial Liberalization refers to free from direct or physical control imposed by the government in relation to working of industries such as
   - Removal of Industrial Licensing system
   - Limiting the reservation of public sector
   - Easy access to foreign technology
   - Removal of restrictions on expansion
   - Liberalizing Foreign Direct Investment (FDI)

2. Trade Liberalization: Trade liberalization is the removal or reduction of restrictions or barriers such as tariffs (duties and surcharges) and nontariff barriers (licensing rules and quotas) on the free exchange of goods between nations. This is done through
   - Removal of Import licensing
   - Rationalization of tariff policies
   - Adoption of flexible exchange rate
3. Financial Liberalization: Financial Liberalization ensures reduction of any sort of regulations on the financial industry of a country. This is done by
   - Reforms in banking sector
   - Reforms in capital market
   - Reforms in insurance
4. Fiscal sector reforms: Fiscal sector reforms mean raising the rate of savings and investments enhancing the productivity of public expenditure. This can be done through
   - Raising the rates of savings and investments
   - Growth in the Economy
   - Improvement in literacy
   - Improvement in GDP

Measures of Liberalization

Table 3.611: Measures of Liberalization

• **Exemption from Licensing**	• **Minimum economic capacities**
• **Relief to FERA & MRTP companies**	• Development of backward areas
• **Delicensing**	• Incentive for export promotion
• **Re-endorsement of capacity**	• Small & ancillary units
• **Broad branding**	

Exemption from Licensing: The exemption limit of licensing is the measure for liberalization of Non – MRTP & Non-FERA companies. It was Rs 3 crores in 1978 and then enhanced to Rs 5 crores in 1983. It was increased to Rs 55 crores to those industries which were located in non-backward areas and Rs 50 crores in backward areas in 1988-89.

Relief to FERA & MRTP companies: This measure is used to expand industrial production and to promote exports as follows-

- In 1985, the asset limit of companies under MRTP Act was increased from 20 crores to 100 crores so that 112 companies would come out of the purview of this Act.
- The MRTP companies were allowed to start new industries of national importance & import substitution industries without the approval of Government in May 1983.
- The MRTP & FERA companies were given permission to freely manufacture 83 high technology items.
- The MRTP & FERA companies were given permission to freely manufacture items which are not in the reserved list of small scale sector or public sector
- Special facilities and concessions were given to companies to set up industries in backward areas.

Delicensing: The Government delicensed 28 categories of industries and 82 bulk drugs industries which do not fall in the purview of MRTP & FERA Acts, which do not produce reserved items of small scale industries and which are not located in urban areas. They require only registration with the secretariat.

Re-Endorsement of Capacity: this measure is announced in April 1982 to achieve maximum capacity utilization. In 1986, this measure was liberalized to those industries which achieved 80 percent capacity utilization. There by 26 industries were permitted for automatic re-endorsement capacity.

Minimum Economic Capacities: The Government introduced this measure to encourage large scale economies in 1986. In 1989, 108 industries were specified in Minimum Economic Capacities.

Development of backward areas: On January 30, 1986, the Government delicensed 23 industries and later 49 industries for MRTP & FERA industries located in backward areas. To attract industries in backward areas, 100 growth centres were set up, income tax reliefs were announced under section 88 HH, 80I of IT Act for the period of 10 years and 8 years respectively.

Incentives for Export promotion: Under Industrial policy & EXIM policy, many concessions such as exemption under section 21 & 22 of the Act o 100 percent export oriented industries which are set up in free trade zones.

Small scale & Ancillary Units: The investment limits of small scale units and ancillary units enhanced to 55 lakhs & 45 lakhs respectively in 1985 from 20 lakhs & 25 lakhs respectively in 1980. Nearly 200 items were made available to medium & large scale sector.

Broad Branding: In 1984, this measure is introduced to encourage production & to adjust their product mix depending upon their market demand. The industries were classified into broad categories which will enable them to manufacture any item if it does not exceed their overall licensed capacity.

Economy of India under Liberalization

The impact of liberalization on the economy of India is as under

1. Customer-oriented market: As the restrictions on capacity creation and capacity utilization are removed by the government, industries started manufacturing goods keeping in mind the demands of the customer. Shortage of goods is reduced. More number of goods are supplied due to various reasons like competition, reduction in cost, advancement in technology, quality improvement and customer orientation. Total freedom is given to industries to produce what they want, to expand and diversify their activities. Control on price fixation is removed. Investments started pouring in. Therefore, industries enjoyed freedom and started attracting customers by introducing many new schemes.
2. Global Competition: Those companies who could face the competition will only survive. The competitive environment among Indian companies, among Indian & foreign companies and among multinational companies made the economy more open. The companies to withstand tough competition has to adopt latest technology and have a reservoir of resources. Then only they will survive else they will be out of the market. Therefore competition now a days has become global.
3. Corporate Vulnerability: Corporate vulnerability is a state of condition which is caused due to dependencies on time, on functions and relational dependencies in a supply chain. Much pressures of global competitions are on Multinational Indian companies. The fear of takeovers,

subordinate position in joint venture, unequal battle among competitors, financial weakness etc. is among Multinational Indian companies. For Instance, one of the hostile takeover was between London-based industrialist Swaraj Paul and two Indian companies -- Escorts Limited and Delhi Cloth Mills (DCM) Limited in 1983, when he pick up their shares from the stock market. His hostile threat sent shockwaves in Indian business world.

4. World class technology: Companies started adopting world class technology to face the global competition. They started investing in Research & Development programmes, training programmes etc. Many pharmaceutical companies started investing in R & D department and increased their investment from 2 percent to 12 percent. Companies started spending huge amounts on training their employees to face the cut throat competition.
5. Change is inevitable: Change is a must to adapt to new environment created by liberalization. Companies have to change their age old policies to new policies from time to time to beat the competition.
6. Human Resource Development: Human resources is one of the major resource to develop any country in general and any company in particular. Companies are dynamic and hence need trained and educated employees. Before 1991, Indian companies were managed by untrained personnel. Present market conditions demand people with competence skills and training. Therefore, Indian companies felt the need for human resource development.
7. Marketing Concept: Before 1991, companies followed selling concept i.e. to produce first and go to market later whereas presently companies are following marketing concept i.e. produce after thorough market research by knowing what exactly the customer want.
8. Threat to Public Sector: The losses of public sector were made good from special funds from Budgets before 1991. After 1991, public sector has to utilize their resources efficiently, effectively and economically to survive otherwise they have to face disinvestment or privatization.
9. Liberal external trade: New Industrial policy made external trade more liberal. Indian companies joined export business to face global competition as well as to earn more profits and were successful too. They increased their turnover more than the double by establishing export division. For example, Reliance Industries, Vardhman textiles, Tata Motors, Sun pharma industries, Aravind Mills, Bajaj International Private Limited etc.
10. Massive entry of Multinational companies: Due to new policy, the emergence of multinational companies is seen in abundant. Their economic command over economic resources and their enviable possession of managerial skill and technology have provided them with a unique opportunity to influence not only the process of socio-economic development in host countries like India but also to impregnate indelibly the pattern of international relationship. They became ambitious and thought to settle permanently enjoying oligopolistic power. As a matter of fact, MNCs have become a vital economic reality of the new economic order of modern economic development.
11. Future oriented approach: Indian companies should start afresh. To compete with MNCs, Indian companies should adopt latest technologies, new approaches, dynamic leadership, composite organizational structures, new strategies, etc. All the failures are to burnt and learn lessons from them to start a new beginning with new endeavor, future oriented approaches and dynamic leadership.

Test Your Knowledge

Question 1 – Write short note on Liberalization?

Question 2 – How liberalization helped India in economic development?

Question 3 – Describe the measures taken by India for liberalization?

Globalization

Globalization is a term often used with Liberalization & Privatization. This is not just an economic term but covers all facts of life-political, social and cultural. There are many changes in International environment as well as in Indian national policies that made this topic more important. The EXIM policy 1992-97 laid stress on better technology, greater investment and more efficient production balancing imports and exports for a favorable trade between countries. It also emphasized on creating a framework for globalization in India's foreign trade.

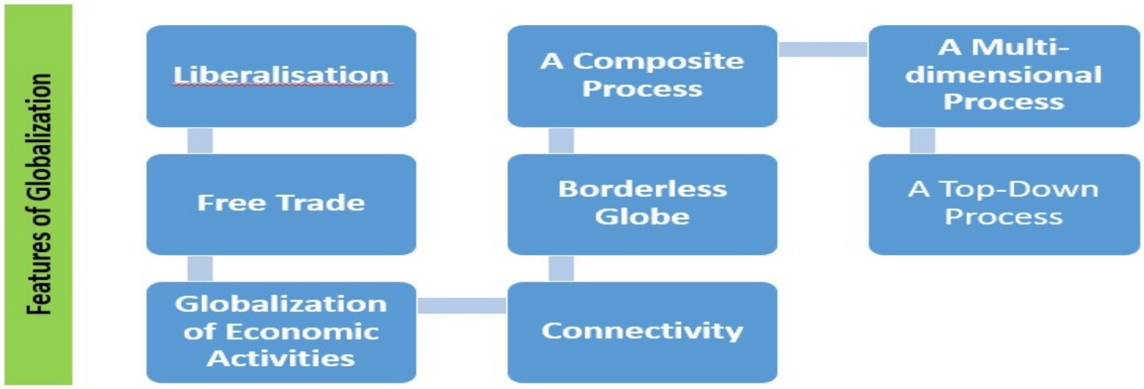
In simple economic terms, Globalization refers to the process of integrating nations removing all the trade barriers to form a huge big market. In popular sense, it is referred to as multi-plant operations viewing the world as one market thereby minimizing national boundaries, raising capital and markets wherever possible to earn more and more profits.

JagdishBhagwathi defined globalization as "integration of national boundaries into one international economy through trade, direct foreign investment, short term capital flows, global worker's flow and flow of technology".

Deepak Nayyar defined globalization as "the expansion of economic activities acrosspolitical boundaries of countries. It is a process of economic integration increasing open markets and increasing economic interdependence among countries in the world economy. "

Features of Globalization

- It refers to free access to the markets in the world without any form of restrictions- physical (quota) or fiscal (tariff) or any other governments.
- Qualitative and standardized products are marketed all over the world.
- Globalization helps to acquire quality raw materials, latest technology and cheap finance at less cost.
- Free mobility of managerial personnel and entrepreneurs result into mergers, takeovers and structural regrouping in countries across the world.
- Connectivity develops between one society and another, and between one country and another through international transmission of knowledge, literature, technology, culture and information.



Source: TSBIE (2015)

Figure 3.718: Features of Globalization

Causes of Globalization

1. Profitability: International business is more profitable than domestic business. That is why many companies go global. It is seen in many cases that companies earn 100 percent profits in international markets and losses in domestic markets. There are more financial benefits apart from profitability such as economies of scale and optimum utilization of capacity.
2. Reduction in cost of Production: Companies go global for various reasons such as availability of cheap raw materials, cheap labour, cheap processing cost etc. For Instance, Petroleum and mining industries for cheap raw materials to Arab countries, Some to African countries for cheap labour and some to China for cheap processing costs.
3. Reduction in time and distance: World is termed as global village. It has shrinked to a small village like due to flow of ICT, speedy transportation, flow of finances and rapid technological changes. This has reduced time and distance among the countries. Therefore companies are going global.
4. Foreign Markets: Companies looks for opportunities in foreign markets and therefore gets attracted to do business there realizing that their domestic market are no longer beneficial. For instance, Japan has flooded U.S market with automobiles and electronic goods as their domestic market could not absorb their produce. Asian countries are developing countries with growing population and income. There is a high potential as Asians have become the biggest consumers in the world.
5. Lack of demand in Domestic Markets: The population and income of a country are the primary factors that the business looks for to do business. U.S market is fully tapped as their population growth is very negligible. Their domestic market does not have demand for their products and hence they are looking towards Asia as it has biggest consumers. When the domestic market cannot absorb their production, they are forced to search for foreign markets.
6. Nationality of the Companies: Factors like political instability, government policies and regulations etc. affect the decision of the companies. They move to places where political stability is there, incentives are given, positive support to export is given etc.
7. Liberalization: India was highly protected country before 1991. Liberalization policy in India increased the competition from foreign & domestic companies which made the companies to think and go global.

8. Benefits of Globalization: Global business helps the companies to improve their domestic business and image of the country. Foreign exchange earnings helped the companies to import skilled personnel, technology, capital goods, other resources etc. which was unimaginable before.
9. High TECH industries: These industries spend a lot in Research & Development. Therefore they look for markets to increase their sales and go global.
10. Business Policy & Strategic Management: Some companies are truly global as their focus is on growth, healthy competition, and diversification and to gain the benefits of globalization.

Strategies for Globalization

1. Exports: The most traditional method of doing international business is exporting. Companies are producing goods in one country and selling them in other countries. They export when underutilized capacity exists in the country and the cost of production in the domestic market is substantially lower than producing the goods in the foreign markets. It can be done directly or indirectly. In direct exporting, the producer himself sells internationally whereas in indirect exporting, he appoints middlemen or cooperative organizations to sell internationally.
2. Licensing & Franchising: There are two easy ways to enter foreign markets- Licensing & Franchising. Licensing means allowing a licensee in one country to use intellectual property, logo or design of licensor of another country in exchange for fees which maybe a lump sum amount, ongoing royalties or a percentage of the licensee's sales. For Instance, McDonald's is a licensee to use the images and characters such as Spiderman etc. of popular films.
   Franchising is a type of licensing that allows franchisee (independent identity) to use business model of franchisor (the parent company). Franchising allows another business to replicate entire business model of parent company in exchange for fees. For example, McDonald's is a franchisor, selling franchise rights to independent individuals to start McDonald's restaurants.
3. Contract Manufacturing: This is a common practice in global business. In this strategy, a company makes a contract with foreign firm either to manufacture or assemble the goods. It then sells the goods in the foreign markets.
4. Management Contracting: In this strategy, the international firm provides managerial skills to the company in foreign country for a fee. For instance, many hotels in Asia operate under management contracting to easily obtain economies of scale, a global reservation systems, brand recognition etc.
5. Fully owned Manufacturing facilities: The firms establish fully owned manufacturing facilities in foreign markets to have long term and substantial gains. They make their physical presence appear there and maintain substantial market there. A number of factors like trade barriers, difference in the production and other costs encourage the establishment of production facilities in the foreign markets.
6. Assembly operations: In this strategy, product to be sold in foreign market is assembled in foreign market itself. Sometimes the product to be sold in domestic market is assembled in foreign market.
7. Joint Ventures: This is a very common strategy to enter into foreign markets. Joint venture is an association of companies to share management and ownership. It can take any form such as licensing, contract manufacturing or management contracting.

8. Mergers & Acquisitions: It is an entry strategy as well as expansion strategy. In this method, the company takeover a company in the foreign country to access a new technology or patent right. This reduces competition.
9. Strategic alliance: Instead of competing with each other, the companies form alliances with their competitors to expand into a new market, improve its product line, or develop an edge over a competitor. T It is an arrangement between two companies to undertake a mutually beneficial project retaining their independence.
10. Counter Trade: Countertrade is like an international barter trade in which goods or services are exchanged for other goods or services rather than for hard currency. This trade is more common in developing countries with limited foreign exchange or credit facilities.

Table 3.7: Merits and Demerits of Globalization

Merits	Demerits
International market for companies	Loss of jobs in developed countries
Wider range of products to choose for consumers	Threat of spread of communicable diseases
Increase in flow of investments	MNCs may rule the globe
Faster flow of information	Colonization may be formed
Technological development	

Impact of Globalization on Economy

Agriculture: Agriculture is the main occupation in India. Many rural population depend on it. It is the mainstay of rural Indian economy around which socio-economic privileges & deprivations revolve. Any change in its structure is likely to have an impact on the standard of living of rural people and social equity. Globalization enhanced this sector in the following ways-

- Accelerated the growth of agricultural production at a faster rate than ever before.
- Demand for horticulture and livestock on the domestic level increased rapidly.
- An increase in the farming area of high-value commodities
- Increases agriculture’s potential to enhance food security through multipliers to the non-tradable, massive, employment-intensive rural sector
- Raising the standard of living of people
- Poverty Eradication
- Assuring food security
- Providing market for the expansion of industry & services
- Contributing a lion’s share to the national economic growth

Industrial Sector: Globalization means removing trade barriers between nations and the integrating all the economies of different countries by way of financial flow, trade in goods and services, and corporate investments. The effects of globalization on Indian industry are seen during early 1990s when the government opened the market for foreign investments. Globalization enhanced this sector in the following ways-

- Huge Foreign investments flowed into the industry especially in the BPO, pharmaceutical, petroleum, and manufacturing industries.
- Helped to reduce the level of unemployment and poverty in the country

- Brought highly advanced technology
- Competition increased and therefore quality goods were produced
- Fast progress is witnessed. A country which could not produce a small needle is now in a position to make satellites.

The negative impact of globalization on Indian industrial sector is as follows-

- The consumer preferred to buy the foreign goods because they felt that they are better goods.
- The profit of pharmaceutical, manufacturing, chemical, and steel industries had decreased.
- The number of required number of employees decreased. Labor problem occurred. Many lost their jobs.

Financial sector: The financial sector in India is organized in the form of banks, financial organization, markets and services and unorganized such as money lenders, chit funds etc. Major reforms were brought in this sector during economic liberalization. This has opened doors to foreign competitors to enter into Indian market. Innovations in global financial sectors have taken place. Globalization enhanced this sector in the following ways-

- All the international banks and firms offering financial facilities are given the reputation as Most Favored Nation (MFN) by the financial sector of India.
- Permits 51% foreign endowment in fiscal advisory, issuing, hiring, business enterprise capital, business banking and non-banking credit firms.
- Various financial institutions and regulatory bodies transformed conservative nature of this sector to modern and dynamic one.
- Innovative products are designed to suit the needs of prospective investors
- Cluster of innovations are affecting the areas of financial services such as primary accounts, payments, capital markets, investment management and insurance.

Exports and Imports: Indian companies are major players in globalization through international expansion right from steel to Bollywood, from cars to IT etc. They are setting themselves as powerhouses of tomorrow's global economy.

Check Your Knowledge

Question 1 – Examine the obstacles to globalization in India?
Question 2 – How Globalization impact Indian agriculture?

To Do Activity

Ask the students to get the brand name of all the objects in their house. Then discuss about the countries/regions where these objects were made, why these objects were made overseas, who made profits by selling these objects, who suffers or is exploited and why do you think our economy is set up in this way?

3.4 Green Revolution

Green revolution began in India in 1960s to increase agricultural production by using modern agricultural techniques. It was third agricultural revolution and marked its appearance in the third five year plan. In the latter half of second five year plan, the government of India invited a team of experts sponsored by Ford Foundation to suggest ways to increase agricultural production and productivity. The need is felt because there was stagnation of production and the demand for food grains was increasing. The team submitted its report entitled “India’s Food Crisis and steps to meet it” in April, 1959. This report suggested increasing agricultural production by using modern inputs like credit facilities, fertilizers, marketing facilities etc. The Government based on these suggestions started a pilot project in seven districts –West Godavari in Andhra Pradesh, Shahabad in Bihar, Ludhiana in Punjab, Rajpur in Madhya Pradesh, Tanjavur in Tamil Nadu, Aligarh in Uttar Pradesh and Pali in Rajasthan is selected and introduced Intensive Area development programme (IADP)to grow rice, wheat and a millet using modern inputs. Later, in 1965, 114 districts were selected for this programme and labelled it as Intensive Agricultural Areas Programme (IAAP).

Norman Borlaug, a Mexican, is the "Father of the Green Revolution", receiver of Nobel Peace Prize in 1970 saved over a billion people from starvation. He along with his associates developed high-yielding varieties (HYV) cereal grains which was adopted by many other countries. These HYV seeds require irrigation facilities and extensive use of fertilizers, pesticides and insecticides. As a result, the production of wheat per hectare in Mexico rose to record level from 5000 to 6000 kg in 1965. Likewise, the production of rice, wheat and millets increased.

The term "Green Revolution" was first used in a speech by William S. Gaud, an administrator of the U.S. Agency for International Development (USAID), on 8thMarch 1968. Growing more food grains with HYV seeds, fertilizers and irrigation is termed as Green Revolution in simple terms.

Impact of Green Revolution On Indian Economy

The following are the significant impacts of Green Revolution in India-

1. Improvement in food grain production: India, at the time of its independence, was an agricultural dependent economy in dismal condition because of various reasons such as the lack of investment, a dearth of technology, low yield per acre etc. Therefore, the Indian government took initiation to introduce the Green Revolution. Due to adoption of HYV seeds technology, there is a considerable increase in the production of food grains.The production of wheat increased from 11 .1 million tonnes in 1960-61 to 80.86 million tonnes in 2008-09.
2. Improvement in per acre yield: The Green Revolution increased the total agricultural output. It also increased the per hectare yield. For instance, wheat production per hectare yield increased from 757 kg/hectare in 1960 to 2100 kg/hectare by 1990.
3. Way to Self-sufficiency in food grains: After the green revolution, India was less dependent on imports of food grains. As the above figures clearly shows that India now has enough production for the population and enough stock in case of emergencies. Finally, India was on way to self-sufficiency rather it started exporting its agricultural produce.
4. Employment: Green revolution increased area under crops, production of food grains and agricultural productivity. This technology enhanced diverse job opportunities created by multiple cropping. Labour intensive crops like rice, sugarcane, potato, vegetables and fruits increased the number of jobs in this sector. There was a fear that commercial farming i.e use of tractors,

machinery etc. would leave labour force jobless. Instead there was a rise in rural employment. New jobs were created because of agriculture supporting industries such as irrigation, transportation, food processing, marketing etc.

5. Benefits to the farmers: Green revolution has improved the economic conditions of the farmers. Jobs created and their incomes increases. Their standard of living improved. They are surviving and prospering. Agriculture is always a lucrative occupation and now is a big industry. They shifted to commercial farming from traditional farming. There is a change in their attitudes. They are readily adopting to latest techniques of production.
6. Improvement in Exports: There is an increase in volume of agricultural exports due to its low import content, low cost of labour, favourable climatic conditions, and low unit cost of inputs. The total value of agricultural and allied exports of India has increased from Rs. 6,295.2 crore in 1991- 92 (nearly 9.2 per cent of country's total exports) to Rs. 77,783 crore (10.59 per cent of country's total exports) in 2008-09. India is in a position to export at least 2 million tonnes of rice annually. Most of the restrictions on agricultural exports have been removed by new economic policy since 1991-92 such as lowering of import duties on capital goods especially on greenhouse equipment and plant and machinery necessary for food processing industries, easy availability of credit etc. which helped agricultural exports.

To Do Activity

Question 1 - Discuss the recent developments in the Agricultural sector in India

Question 2 - Assess the successes and Failures of the Green Revolution

3.5 Public Sector

Public sector enterprises constitute a major segment of industrial activity in India. They are also referred as state enterprises or Government enterprises. These enterprises are formed with the basic objective of speeding up the industrialization of the country.

According to the Bureau of Public Enterprises, "Public enterprises are the outcome of the conscious policy of the government to accelerate the pace of economic growth and to achieve certain socio-economic goals stated in industrial policy resolutions covering basic and strategic industries like steel, coal, minerals & metals, petroleum, heavy engineering, chemicals, fertilizers, pharmaceuticals etc.. on one end and on other end, consumer services, tourist services, financial services, development of small scale industries etc. they operate under monopoly/monopoly conditions/competitive conditions. Sick units are taken over by public enterprises from private sector to protect employment."

Definition of Public Sector

According to experts of International centre for public enterprises (ICPE), Yugoslavia, A Public Enterprise is an organization which is

- Owned by public authorities-Central, State or Local to the extent of 50 percent or more
- Controlled by Top management of owning public authorities
- Established to achieve a definite set of public purpose which is multi-dimensional in nature

- Placed under a system of Public accountability
- Engaged in activities of a business character
- Involved in basic idea of investment & returns
- Making outputs in the shape of goods and services

Objectives of Public Sector

- To accelerate the pace of Industrialization in the country
- To build required infrastructure for economic development
- To generate resources for economic development
- To create job opportunities
- To promote redistribution of income and wealth
- To promote Balanced Regional Development
- To assist the development of small scale and ancillary industries
- To promote import substitution, save and earn foreign exchange for the economy
- To act as a counter veiling force and build tough competition to private undertakings
- To gain control over the commanding heights of the economy

Growth of Public Enterprises

The public sector was started after Independence to develop the economy rapidly as it became inevitable for the State to intervene in economic activities. The industrial policy of 1948 and 1956 clearly stated to expand public sector. This sector has grown very fast which can be seen in the following table which includes data related to manufacturing and non-manufacturing units owned and managed by central government only-

Table 3.7: Growth of Central Public Sector Undertakings

Year	No. of units	Capital employed(in crores)
1951	5	29
1961	47	948
1991	236	1,02,083
1998	236	2,04,054
2001	230	2,74,198
2002	230	3,24,632
2007	244	4,21,089

Source: Economic survey (1995-96) & Public Enterprises Survey (2001-02)

These undertakings

- Account for one fourth of GDP
- One third of our exports
- Account for more than 70 % of the workers employed in organized sector
- Contributed to import substitution
- Reduced imbalances in regional development
- Contributed to transformation as a fast developing & fairly industrialized country
- Earned international reputation. (BHEL, ONGC, Air India)
- Reservoir of managerial talent
- Listed in Fortune international's 500 large companies (IOC,SAIL,ONGC)

Performance of Public Undertakings

It is very difficult to assess the performance of public undertakings as some of the objectives conflict with other out of multiple objectives. However, an attempt is made to assess by Economic survey & business world Jan 1997 which is shown in the following table-

Table 3.8: Profitability of PSUs

Particulars	1990-91	1994-95	1995-96
No. of profitable enterprises	123	130	-
No. of loss making units	111	-	-
ROI %	4.50	2.2	4.5
Gross profit to capital employed %	10.9	-	-
Gross margin to capital %	17.9	-	-
Net Profit to capital %	2.2	-	-

Economic survey & business world Jan 1997

The poor performance and losses of PSUs seemed no justification to exist. But 120 enterprises which include petroleum, power, service and agro-based enterprises have been earning profits. The reasons for poor performance of PSUs are as follows-

- Huge gap between project formulation and project implementation due to problems of land acquisition, procurement of equipment, and civil work.
- The selection of location and investment decisions in some projects was proved wrong like in Nagaland paper project, Salem steel plant etc.
- Foreign financing in fertilizer sector ruined its operations.
- Serious imbalances were created in generation capacities and transmission networks in power sector.
- Delay in allocation of resources
- Delay in filling top level vacancies
- Undue political interference
- Huge inventories
- Problems from Trade Unions
- Poor functional autonomy
- Unutilized capacities

Therefore, the need is felt to improve public sector as it has to occupy dominant position in the country. The following suggestions have been made to improve PSUs-

- Political interference should be reduced and there must be a balance between autonomy and accountability of PSUs
- Holding companies should be formed for groups of PSUs. Administration should be in the hands of Government and management should be left Holding companies.
- Sick units should be left to die a natural death.
- PSUs must be allowed to work in areas where there is competition.
- Memorandum of understanding between PSU and the government is to be made so that a proper balance between accountability and autonomy is maintained.

Privatization of Public Sector in India

Arguments in favor of Privatization

- The Government should leave those areas where private sector can perform better. It should enjoy its promotional and regulatory role.
- The accumulated losses of PSUs compel the government to increase tax and decrease the development expenditure. Tax is a burden on public. Private sector perform well. Therefore the government should not impose heavy taxes.
- Government should concentrate on priority sectors and relieve consumers from indifferent attitude of Public sector. Privatization of certain sectors reduces the budgetary burden on the public.
- Road transport can be privatized in a systematic way. There is no justification of harassing passengers and burdening the public with the losses they incur.
- The government has no moral right to impose tax burden or financial burden on public by running inefficient and unnecessary enterprises.

Arguments against Privatization

- Transfer of the part of shares to public financial institutions is not true privatization.
- There is no clear view, strong determination and political view of privatization by the government. It is just flattering.
- The process of disinvestment should ensure greater competition through more dispersed ownership. But it is in novice stage without concrete efforts to disperse the sales widely.
- There are irregularities in the disinvestment of PSUs. Privatization lack of transparency which creates a feeling of unfair dealing.

Whatever are the arguments, privatization by itself does not guarantee success. The government should try to achieve accountability.

Check Your Knowledge

Question 1 – Which is better a public sector enterprise or private sector enterprise?
Question 2 – How PSUs foster rural development?

Summary of Chapter

Every nation has its economic planning in some degree with its own methods of implementation. It is considered as the most systematic method for redressing all economic pitfalls. India adopted economic planning as the directive principles of its constitution demands for social equity. India chose for economic and social development in which it plays a pro-active role in deciding “what, how, how much, where, whom” in economic and social activities of the nation in par with respecting private property and market. India being a mixed economy, adopted for democratic planning to achieve a high and sustained rate of growth, improvement in standard of living of people, removal of poverty & unemployment and self-reliant economy. All these are determined by the Five year plans. Twelve Five year plans are completed and from the state of underdeveloped country, our country is developing country. Agriculture is the backbone of India and land is the main source of livelihood for a majority of the rural population. The land was highly concentrated in the hands of few landlords before and after independence. The need is felt to redistribute the land to protect the interests of landless farmers by bringing in land reforms. The three main constituents of land reforms in 1951 are i) abolition of intermediaries ii) tenancy reforms and iii) ceilings on land holdings. Green revolution in India began in 1960s through the application of modern agricultural techniques. The use of High yielding varieties seeds, irrigation facilities, fertilizers, pesticides, insecticides etc. is called as Green Revolution. It was introduced in a total area of 1.89 million hectares and later extended to 78.4 million hectares in 1998-99. Public sector is state owned enterprises formed to accelerate the pace of economic development and changes in political ideology. Some PSUs like ONGC, BHEL earned surplus whereas many PSUs performed very poorly. There were many constraints for the poor performance such as political interference, huge inventories, trade unionism, unutilized capacities, tight regulations etc. To accelerate the pace of development and increase the efficiency and profitability of PSUs, India favored privatization and in new industrial policy, 17 reserved industries were reduced to 8 and the shares of PSUs were disinvested. This was a part of market oriented reforms. With four objectives-facilitate disinvestments; protect employee's interest, broad based ownership and augment revenue receipts for the government, India determined the extent of disinvestments in PSUs and the modalities and process of disinvestment. The total realization from disinvestments till July 2007 was Rs. 41,608.58 crores.

Model Questions

1. Discuss economic planning and explain its importance in a underdeveloped country.
2. Explain the objectives of planning in India in relation to five year plans.
3. What are the achievements of India after implementing all twelve five year plans?
4. Critically examine land reforms in pre-independence and post-independence India.
5. What are the major land reforms measures taken in India?
6. Discuss the impact of liberalization on Indian Economy.
7. What do you mean by Globalization? What are its advantages and disadvantages?
8. Explain various strategies of globalization.
9. Critically examine the impact of green revolution on Indian economy
10. What are the measures required to improve the productivity in agriculture sector?
11. Why do we need Public sector? Explain how public sector contributes to economic development of a nation.
12. Explain the causes of failure of public sector and why India has decided to go for disinvestment?

Chapter 4 - Macroeconomics Indicators

Introduction

Business firms take into consideration macroeconomic indicators such as rate of economic growth, the magnitude of employment generation, extent of unemployment existing, rate of inflation, foreign exchange rate of national currency, balance of payments etc. while taking important business decisions. The study of all these indicators and their trend is indicative of overall economic environment of the country. Economic environment is a component of overall environment under which business firms operate. It consists of all economic factors like economic system, economic planning, economic structure, and trends in macroeconomic indicators, government economic policies, international economic environment, business fluctuations which affect the business decisions of firms.

Objectives

1. To understand macroeconomic indicators
2. To know about national income and its impact on economic growth
3. To explain about consumption and investment
4. To explain the concept of inflation and its impact on economic growth
5. To explain the concept of business cycle and its phases
6. To have a clear understanding about socio-economic indicators

Structure

4.1 National Income

4.2 Consumption and Investment

4.3 Inflation

4.4 Business Cycle

4.5 Socio-economic Indicators

Business involves economic activities like transforming raw materials into products, supplying these products in the market and exchanging these products with the customers for money. All these economic activities are performed with the objective of maximizing profit. While performing these activities, they face difficulties like availability of resources-land, labour, capital, organization, etc. The resources are limited but economic activities to earn profit are unlimited. Hence, a businessman has to make decisions regarding what to produce, how much to produce, where to produce and how to produce. They allocate limited resources in such a way that the maximum output is obtained; cost is minimized to maximize profits. The business considers economic and non-economic factors to make decisions. The economic factor which has a bearing on the decisions are economic system, economic planning, economic structure, economic policies, macro-economic variables etc. Macro-economic variables have to be considered while taking decisions by business firms. The important among them are rate of economic growth, the magnitude of employment generation, extent of unemployment, rate of inflation, foreign exchange rate and balance of payments of the nation.

Economic Growth: It is an increase in real national output which is due to increase in the quality and quantity of resources and improvement in technology of a country. In other words, it is an increase in the value of goods and services produced by every sector of the economy of a country. It is measured by measuring Gross Domestic Product (GDP) of a country.

According to Micheal P Todaro, “Economic growth is a steady process by which the productive capacity, of the economy is increased over time to bring about rising levels of national output and income”.

According to Simon Kuznets, “Economic growth is a long term process wherein substantial and sustained rise in real national income, total population and real per capita income takes place”.

Determinants of Economic growth

1. Rate of saving of the country
2. Capital-output ratio (stock of capital divided by output)
3. Rate of growth of labour force
4. Rate of growth of technology

World Bank employed measures of economic growth in its World Development Reports forcomparing growth in developed and developing countries. In India, Planning Commission, Central Statistical Organization (CSO) and Reserve Bank of India (RBI) measures economic growth on the basis of GDP. The table below shows an interesting feature that the economic growth of developing nations is higher than the developed nations. But in the past decades, it was reverse and remained static for a long time. The per capita income and levels of living of people of developed countries is high. To summarise, the developing countries have to speed up the process of economic growth to enjoy better living standards.

Table 4.1: Comparison of Developed and Developing Economies: Selected Indicators

Country	Population (millions)	GNP Per Capita (US Dollars)	Growth rate of GNP		
Developed Countries	2004	2004	1980-90	1990-2000	2000-04
U S A	293.7	41,440	3.0	3.5	2.5
Australia	20.1	27,070	3.5	3.9	3.5
UK	59.9	33,630	3.2	2.7	2.3
Canada	32	28,310	3.4	3.1	2.6
Japan	127.8	37,050	4.1	1.3	0.9
Developing Countries					
India	1080	620	5.8	6.0	6.2
China	1296.2	1500	10.2	10.6	9.4
Pakistan	152.1	600	6.3	3.8	4.1
Bangladesh	139.2	440	4.3	4.8	5.2
Sri Lanka	19.4	1010	4.2	5.3	3.7

Source: World Bank, World Development Report,2006

The Concept of Economic Development – The New View

Economic Development and Economic growth were used as same till seventies. But the distinction is made in later seventies. Economic Development is a wider concept than economic growth. Economic growth is necessary but not sufficient condition of economic development. Economic development means an increase in living standards, development in all spheres, improvement in self-esteem, freedom and a greater choice.

Features of Economic Development

1. It refers to economic growth and also progressive changes in the socio-economic structure of a country.
2. It is a multi-dimensional phenomena
3. It shoes and explains both quantitative and qualitative changes in an economy.
4. It is guided by Government at initial stages to usher development process.
5. It indicates an improvement in the quality of life of the people.
6. It is linked with an increase in income as well as well-being of the society.
7. It is a long-term process of 20-25 years span as social changes, economic changes and institutional changes takes long time.
8. It is the main concern in developing countries
9. It works for social changes like better jobs, availability of food, better health and education, living standards and environmental concerns.
10. It is measured based on computation of composite indices like reduction in poverty, human resource development, standard of living etc.

Objectives of Economic Development

1. High Rate of growth: All the developing countries are focusing on the high rate of growth. Since Independence, India in its five year plans had given primary importance to higher growth of real national income.

2. Economic Self-reliance: It is one of the main objectives of India's five year plans since its inception in 1951. The food grains were imported from USA to meet the domestic demand at the beginning of planning. Likewise, to accelerate the process of industrialization, capital goods like heavy machinery, technical know-how etc. were imported.
3. Social Justice: There is a huge gap between the rich and the poor. It is the responsibility of the government to redistribute the income and wealth of the country among different sections of the society in equitable form. The four aspects of social justice taken in five year plans are
    - Removal of regional disparities
    - Decentralization of economic powers
    - improving the standard of living of backward & depressed classes
    - Adhering to democratic principles in political structure of the country

   All the sections of the society are uplifted through various programmes like land reforms, redistribution of land to landless farmers, generating employment opportunities, tax structure etc. Specific programmes are taken up to reduce the regional imbalances. All this is to achieve an equitable socio-economic development of the country.
4. Modernization: Indian economy was backward and feudal before independence. After Independence, the planners and policy makers aimed at modernizing India by modifying the structural and institutional set up of the country. They introduced scientific techniques of production, facilitated the process of industrialization, expanded banking and non-banking financial institutions, Information Technology sector, infrastructure development etc.
5. Economic stability: The Inflation rate has to be controlled to attain economic stability. After second five year plan, the level of prices was going on increasing. To curb this, the planners tried to stabilize the economy by properly controlling the increasing trend of price level. But, the progress is not satisfactory. The inflation rate is increasing. Now that the objective of economic development is n0n-inflationary self-reliant growth with social justice.
6. Inclusive growth: It is observed that the benefits of economic growth is not equally shared among all the sections of the society. The inclusive growth stresses inclusiveness of excluded marginalized sections of the population whose share in the total income remained relatively low. For instance, just 2 to 3 percent of the national income is received by the bottom 20 percent of the population. If they get at least 5 to 10 percent of national income, we term it as inclusive growth.

Macro-Economic Indicators

Macroeconomics is a branch of economics which deals with factors effecting entire economy and how these factors interact with economy. It talks about employment status, rate of growth, money supply, inflation, government expenditure and so on. It also deals with total consumption, savings, investment, the overall output and how these variables shift over time. (Businessjargons)

1. National Income: The first indicator of economic development as some economists have taken is national income. The sum of all goods and services produced in a country over a period of time say annually is termed as national income. The yard stick is that the higher the national income the higher is the economic development and vice versa. Accordingly the world is divided into developed and developing countries.
2. Per Capita Income: Per capita income is measured by dividing the totalincomeof a country by its total population. Some economists used per capita as measuring rod to assess economic

development. The increase in per capita shows the increase in economic growth of the country and not economic development as economic development includes all the spheres of life apart from per capita income.

3. Physical quality of Life Index (PQLI): Physical Quality of Life Index (PQLI) is developed by Morris D. Morris to assess physical quality of life which is a non-economic indicator. This includes three indicators- life expectancy, infant mortality and literacy. Increase in PQLI means increase in facilities like health, food, sanitation and education. The increase in PQLI in any country shows that there is economic development. Citizens are good. Per capita does not show this.
4. Human Development Index (HDI): Human resource Development in modern times is given due importance. Human Development Index is a modern indicator of economic development. It is a statistical tool to measure social and economic dimensions of country which takes the following factors – Income for better living, education and life expectancy.
5. Gender related Development Indicator (GDI): It is same as Human Development Index with a slight difference of adjusting gender inequalities in the level of achievement in three factors of HDI - Income for better living, education and life expectancy.Gender Empowerment Measure (GEM) is the measure which assess gender inequalities in the following three ways-
    - Men's & Women's participation in political system of the country based on the calculation of number of seats in the Parliament as Member of Parliament (MP) for political participation and decision making.
    - Men's & Women's participation in legislative system of the country based on the calculation of number of positions as legislators, senior officials, managers and the number of professional and technical positions.
    - Men's & Women's earned income indicating their power over economic resources.
6. Social Progress Index (SPI): This index is developed based on the writings of Amartya Sen, Douglass North and Joseph Stiglitz. It is published by non-profit Social Progress Imperative. This Index takes into account 54 indicators in the area of basic needs of humans, foundations of well-being and opportunity to progress. This helps us to know the extent to which the nations are providing social and environmental needs to their citizens.
7. Multi-dimensional Poverty Index (MPI):This Index is introduced in the year 2010 measures those many deprivations faced by the most severely disadvantaged people of a nation. It takes into account a poor person who is multi-dimensionally poor i.e. he/she should be deprived of atleast 33 percent of weighted indicators. This Index is closely associated to Millennium Development Goals target.
8. Economic Growth: It is explained in the beginning of the unit. It measures the annual growth in GDP,GNP and GDP per capita.

4.1 National Income

Income of an individual is the base to know the consumption level, investment and standard of living in a specified period of time. A country has large number of individuals. To measure the overall consumption level, investment and standard of living of all the individuals in a country, it is very essential to calculate the overall income generated in an economy. One such measurement is National Income. It refers to the money value of all the final goods and services produced in a country during a specified period of time. It is the aggregate output or income or activities generated. It denotes the overall health of the economy. It is the summary of economic performance of the whole country.

Business organizations are supposed to know consumption level and investment level as they determine the overall demand for goods and services, profitability, production capacity and production efficiency of the economy. The fluctuations in business or economic activities, consumption level and investment level can be determined by measuring national income. The movements in national income represent business fluctuations and various phase of business cycle termed as recovery, expansion, slowdown and recession. Hence, business organizations closely watch and note down the related aggregate economic activities so that they incorporate in their planning, production and strategic decisions.

There are terms like Gross Domestic Product (GDP), Net Domestic Product (NDP), Gross National Product (GNP) and Net National Product (NNP) are used in National Income Accounts. The collection and analysis of this data is called National Income Accounting. While estimating, Economists use two types of variable i.e. flow variables (variables estimated over a period of time) and stock variables (variables estimated at a particular point of time). Almost all the countries in the world are maintaining official national income account in their own forms. In India, the Central Statistical Organization (CSO) publishes National Account Statistics (NAS) and in US, Bureau of Economic Analysis (BEA) publishes National Income & Product Account (NIPA).

Uses of National Income Estimates

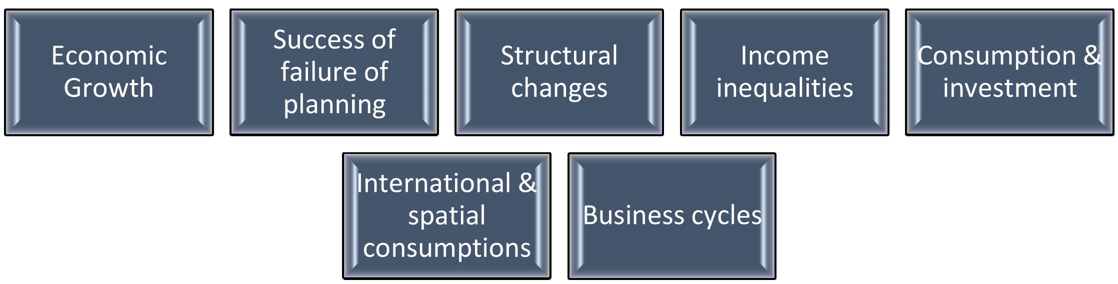


Figure 4.1: Uses of National Income Estimates

National income helps in deducing various facets of economy, let's discuss in brief:

1. Economic growth: When the production of goods and services increases, we state that there is economic growth. Growth can be measured in nominal terms or in real terms. Calculating growth in terms of nominal terms may not give the true picture as it takes into account the price and quantity which often changes. It may not tell the well-being of a society. Therefore, the real national income is estimated by taking into account the constant price. This gives the clear picture of economic growth.
2. Success or Failure of Planning: Economic planning is undertaken to know the economic growth of a country. At the beginning of every five year plan, the planners set the targets of output and the rate of economic growth. After completion of the term, the actual performance is compared to the already set targets. If the target is not achieved, the government takes measures to acquire it. The data of national income in terms of sectoral and overall output help in assessing the planning.
3. Structural changes: Economists had divided the economic activities as under-

Table 4.2 : Sectoral Classification of Economic Activities

• Primary- Agriculture and allied activities • Secondary-Manufacturing electricity, gas and water supply construction • Tertiary- Trade, Transport, Communication, financial, building community, social, personal services	• Agriculture- Agriculture and Allie activities • Industry- Secondary-Manufacturing, electricity, gas and water supply construction • Service Sector- Trade, Transport, communications, financial, banking community social, personal series

All the sectors primary, secondary and Tertiary depend on one another. The higher share of agriculture in GDP represents the earlier stages of development. As the economy transitioned from agrarian to industrial to service oriented sectors, structure the demand for industrial products increases. This change in income contribution bring structural and then in employment and professional services; shifting from unskilled to skilled labour force.

4. Income Inequalities: The income of all individuals is not same due to difference in age, gender, qualifications, experience, etc. Therefore, the total income generated by the country may not be distributed equally. Such income inequalities is found in regions, states or countries. This has substantial impact on saving and investment and economic growth. Large inequalities will slow down the process of development.
5. Consumption & Investment: The data over the years on commodity wise expenditure like people spending on food, clothing, rent, medical, education etc. help to compare the changes in consumption pattern of the people of a country. This also helps to design products according to consumer preferences to meet the demand and supply accordingly.
6. International & spatial comparisons: National Income data can be used to compare the economic performance, living standards and economic structure of various countries. The table below shows the list of top ten countries by GDP per capita in terms of nominal values and PPP for the year 2008.

Table 4.312: Top 10 Countries – Per Capita Income (in US$)

Top 10 countries – Per Capita Income					
Rank	Country	GDP ($) Per capita	Rank	Country	GDP(PPP) ($) Per capita
1	Luxemburg	11,3044	1	Qatar	85,868
2	Norway	95,062	2	Luxemburg	82,306
3	Qatar	93,204	3	Norway	53,451
4	Switzerland	67,385	4	Singapore	51,142
5	Denmark	62,626	5	Brunei	50,117
6	Ireland	61,810	6	United States	46,859
7	Iceland	55,462	7	Switzerland	42,783
8	United Arab Emirates	54,607	8	Ireland	42,539
9	Sweden	52,790	9	Netherlands	40,431
10	Netherlands	52,019	10	Iceland	40,025
Source: IMF(2009), World EconomicOutlook Database,April					

7. Business Cycles: National income is the aggregate business activities taking place in an economy in country over a specified period of time. This data which shows the movements in the levels of growth rates of national income is used to measure the various phases of business cycles-expansion, slowdown, recession and recovery.

Understanding Money Flow

To understand this, let us start with barter system; which pertains exchange of one commodity from other. Barter system was in place and help producer of one commodity to receive another commodity, which he do not possess or produce. This system helped in distribution of commodity among different producers. The story changed when money was invented and exchange of commodity was replaced by money, with standardization of commodity which can be bought by money. Availability of money, production of commodity and its demand helped economy keep going.

Money flow between household and enterprise

Any household can be defined as a basis entity which supplies land, labour, capital and entrepreneurship to enterprises; further to this it also consumes goods and services produced by these enterprises. Two of these households may be different, means one household can consume something which is being produced by other household and vice versa, now here the trade is done with a tool called money, which is easily transferrable and comparatively the calculation of goods/services consumed to goods/service produced in terms of money is easy when compared to calculation of national consumption and national production.

Money flow between household, enterprise and financial sector

Taking the previous discussion forward, now let us assume that enterprises and households want to save money for managing risks in coming future, or invest money for better returns in business or in assets. Financial institutions play an important role in managing supply for money. If enterprises are in need of money to invest and produce more goods, to satisfy large demand base, financial institutions will offer better rate on saving deposits to household. Higher rate of interest in saving will attract more households to put their money in financial system, which can further be used to lend small and medium sized enterprises; this keep the economy roll.

Money flow between household, enterprise, financial sector and government

Taking the previous discussion a step further, let us assume that government also play a role in money flow. Financial institutions offer rate of interest for saving deposits to households, to make financial system competitive, government issues long term bonds, which are highly secured and benchmark the rate of interest for any commercial bank, this support the overall financial system of the country, giving bond holders a minimum guarantee of return. Government also changes rate of direct and indirect taxes on income, sales, property etc. to control liquidity in market.

Although the money flow explained above looks simple, government is generating revenue with the help of direct and indirect taxes, export income, etc. and then spending for the welfare of population, in the form of subsidy, infrastructure, etc. This may look easy in theory but is far critical than we expect. Let us take an example of village which is near the bank of river Ganga, and every year flood sweeps away the area. The primary income generating activity for people living here is farming, but limited to one crop cycle as compared to two in the nearby village. Secondary income generation activity can be accessed at the time of flood by migrating to nearby towns and cities. Now, the village have resources, may be limited to 9 months in a year, and government want to build a dam to control floods. Government need to spend money for this area, knowing it well that the revenue from this area cannot commensurate with the expenditure. But, government has to work for inclusive growth and give access of basic infrastructure to all, without discretion.

It is not easy to control all the four stakeholders at one time, government plays a role of policy maker and regulator, financial intermediaries support in matters related to finance, enterprises help in transforming resources to more valuable resources by value addition, capital, labour or land, while household support all these three in various dimensions as consumers, customers, employee, tax payer, and so on. A good policy and business environment can transform an underdeveloped nation to developing and then to developed nation, while a bad policy and non-supportive business environment can wreck the whole country.

National Income – Relationship with Rural Business Environment

In previous chapter we have understood that business environment helps in establishing small and medium enterprises in rural as well as urban areas. It is responsibility of policy makers to develop policies focusing on development of enterprises based in rural areas, this is due to the fact that more than half of India's population live in rural areas and because of low employment opportunities these areas see high rate of migration, pertaining to pressure on urban infrastructure.

If we want our country to achieve inclusive development, it is very important that large contribution of country's income should come from rural areas. Figure below helps us in understanding the relationship between national income and rural business environment.

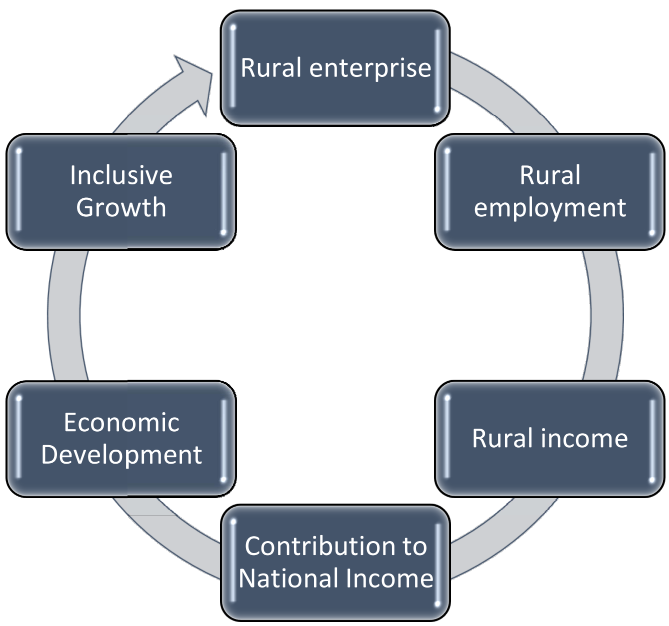


Figure 4.2: National Income and Rural Business

It is evident that countries with higher national income, spend more amount of money in sectors and areas from where contribution is most. So, if we take a holistic view, it is in nation's interest to strengthen rural business environment and foster local development to trigger large level sustainable growth model.

Check Your Knowledge

Question 1 – What are macroeconomic indicators and how are they useful in assessing business environment of any country?
Question 2 – What steps should be taken to increase rural contribution in national income?
Question 3 – Can we deduce that higher national income means higher economic growth? Explain?

4.2 Consumption and Investment

Consumption means the use of goods and services to satisfy human wants. In other words, it is using the utilities that goods and services possess. It does not mean destruction of goods. The use of free goods like air, sunshine, water etc. does not come under consumption because we do not pay price for them. It is to be understood here that in Economics, the use of goods and services for which we pay price come under consumption.

Features of Consumption

1. Consumption is the use of utilities of economic goods and services.
2. The consumption of few goods are over when they are used once for example cotton turned as yarn.
3. Few goods are durable in nature and hence are used many times for example television, refrigerator etc.
4. Consumption of some goods are quick and some very slow over a period of time.

Types of Consumption

1. Direct Consumption: When the person consumes food, uses clothes to wear, car to travel, he gets direct enjoyment. The use of these consumer goods by the consumers is called as direct consumption.
2. Indirect Consumption: The use of producer's goods or capital goods such as machinery, raw materials which do not give direct satisfaction is called as indirect consumption. These goods are used to produce final goods which will then satisfy human wants and needs.
3. Wasteful consumption: The materials wasted due to fire accidents, floods etc. are called waste consumption.

Importance of Consumption

1. It creates basis for production: The basic question is what to produce, when to produce, how much to produce and for whom to produce. All these questions can be answered when we can know what the consumer actually wants through surveys. The goods are produced to satisfy the needs of the consumers. Therefore, consumption is the basis for production.
2. It is end of all production: Goods are produced to consume. The basic purpose of production is to supply consumer goods to satisfy human wants. Thus, consumption is the beginning as well as the end of all production.

3. It determines the level of employment: The level of employment in a country depends on consumption. If consumption increases, demand for goods increases then production increases. Ultimately employment increases.
4. It leads to technological improvements: When consumption increases, the demand for goods will increase. Therefore, producers always try to find new ways, new products etc. So, Consumption is the base for technological development.
5. It makes labour more efficient: When consumption increases, production increases. The producers opt for large scale production and large scale production gives scope for better division of labour lowering the costs of production, low prices etc. Labour efficiency will also increase.
6. It determines the level of economic activity: Keynes emphasized the importance of consumption in determining the level of economic activity in the country. It is the deficiency of consumption that it is responsible for under employment. Consumption does not increase with the level of income, hence full employment cannot be maintained. This also affects trade cycles under capitalism.
7. It determines standard of living: The consumption of necessaries, comfort goods and luxury goods shows the standard of living of people.

The Concept of Consumption Function

The demand for goods depends upon its price and the consumption of a community depends upon the level of income. In other words, consumption is a function of income. The rise in consumption in response to a given increase in income depends upon the marginal propensity to consume. Marginal propensity to consume depends on various factors like price level, interest rate, stock of wealth, and other subjective factors. In simpler word, marginal propensity to consume means – “It states that increase in personal consumer spending depends upon increase in disposable income of individual/s, the proportion of disposable income which individuals spend on consumption is known as propensity to consume.”(Chappelow, 2020)

Determinants of Propensity to Consume

Propensity to consume can be broadly categorized into two factors, i.e. Subjective and Objective factors. Subjective factors are internal to economic system, and determine the form of consumption function. These can be further categorized into individuals and business firm. While objective factors are external factors, which are not under control.(Varun)

Subjective factors include savings done by individuals and business. Individuals and enterprises save for different reasons. People save to handle unforeseen crisis of future, these include illness, unemployment, accidents, etc. Savings are not only for handling crisis but also done for future expenses, activities like education of children and self, marriage or other function in family, purchase of home or other personal asset, etc. Savings are also used as means to demonstrate power, show higher social status, develop political background, and so on.

Subjective factors include savings done by businesses too. Business save due to various other factors, which are directly related with their core objective of their own existence, including expansion of business, making more profits, create more returns for their investors, investing in future projects, strengthening reserves and surplus to handle and crisis in future, etc. We can see that how purpose of savings is different for individuals and business enterprises.

Determinants of Propensity to Consume

Subjective Factors	Objective Factors
1. People Save • For unseen contingencies • For expected future needs • For investment • For Social Status (wealth in accumulated) • For speculative projects • For business projects • For their heirs and children • For misery instincts and habits	• Changes in the prices • Fiscal Policy • Rate of Interest • Stock of wealth (real and financial assets) • Credit conditions and Consumer indebtedness • Income distribution • Windfall gains and losses • Change in Expectation
2. Business Firms Save • For expansion • Fr liquidity • For successful management • For financial products	

Investment

When a person buys shares, bonds or debentures of a public limited company from the market, he is said that he made an investment. It is not real investment but just a financial investment.If investment is made to create a new addition to the stock of physical capital such as plant, machinery, trucks, new factories etc. which creates income and employment is called real investment. In other words, real investment we mean the addition to the stock of physical capital. In Economics, investment means the new expenditure incurred on addition of capital goods. Net investment raises the level of aggregate demand which brings about addition to the level of income and employment.

Table 4.4: Types of Investment

Business fixed Investment	Residential Investment	Inventory Investment
• Investment in the machines, tools and equipment that the businessman buy for use in further production of goods and services is business fixed investment.	• The expenditure incurred by people on constructing or buying new houses or dwelling apartments for living or leasing out for rent is Residential Investment	• The change in the inventories or stocks of raw materials, semi-finished goods , finished goods with the firms is Inventory Investment.

Interested individuals and others in economic ecosystem are free to buy and sell investment products like stocks, gold etc. in open market or in stock exchange; this may involve brokers, financial institutions or may be none. Brokers and financial intermediaries charge small amount of charge for this services. Money can be used to earn more money; like deposit may earn interest, investment in stocks can help in earning dividends or in capital appreciation, investment in assets may also earn capital appreciation and so on. The ever changing nature of market gives consumers, investors and voluntary savers different opportunities to invest their money and earn more. If investments are planned properly, individuals and enterprises can certainly manage regular income, capital appreciation for future needs. Let us now take a brief look at different types of investment(Shodhganga):

a) Economic Investment
This refers to addition of goods and services which are used to produce other goods and services, and result in capital stock of the society. When capital stock increases, it means increase in buildings, plants, equipments and inventories over and above goods and services that already existed.
b) Commitment Investment
It refers to money invested for satisfying personal requirements and doesn't expect any kind of capital growth, mainly due to its consumption nature. In this investment, return is in the form of consumption satisfaction of completion of desire.
c) Financial Investment
Financial investments refers to investments which are made for future returns, investor choose best option in all available options. These options include stock, bonds, real estate, mortgages etc.

Importance of Investment

In past investment was something talked among rich individuals and businessmen, but the common baseline is availability of some extra funds out of disposable income after satisfying all needs and desires. This available fund was used by individuals and businesses to earn more money by investing in activities or assets having possibility to multiply money. Investors always seek for opportunities where calculated risk and expected returns can be traded off, the appetite of taking risk is what make the difference, high risks may lead to higher returns.

But in today's world, investment is discussed in every household, thanks to liberalization of banks and opening up of markets for individual investor. People from developing countries enjoy better income and better disposable part of it, this disposable income is either spent in market, saved in financial institution, possession of assets, or any activity which looks promising for future increment. Following is the list of factors which made investment decision important:

a) Increase in number of earning members from each family, increases income and hence savings
b) Tax policies, specially incentive dominated guide investors to put money in certain investment products
c) Markets now have attractive investment options to attract all kind of investors
d) Financial markets are made attractive through large advertisement campaign
e) Innovative financial product to lower down financial risks and increase chances of higher return

Elements of Investment

Any investor decides about his/her investments on the basis of certain criteria, these are mentioned in the figure below:

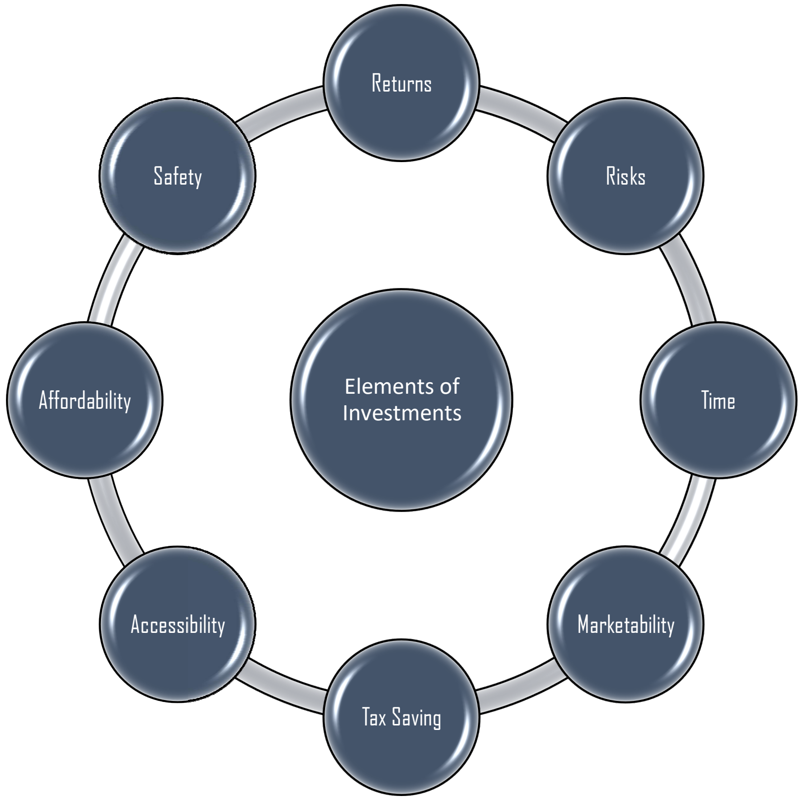


Figure 4.3: Elements of Investments

Investors buy or sell financial assets to reap better returns. The return on investment includes capital gains (or loss) and current income as a result of rise and fall in stock or asset price. Any investor should have good understanding on risk and return, securities returns are based on the fact that risky stocks have probability to fetch higher return. Low risk securities are basically stable and in high demand, which resist their move and result in low rate of return. While risky stocks are unstable, with constantly changing demand and supply of stocks, give more chance of movement and hence better chance of earning through return.

Time is also an important factor, considered by investors while purchasing assets and stock. Long term investors expect stable rate of returns, while short term investors believe in quick return and sometime choose to sell stocks even at losses. There are certain assets which are easily available to investors, while some are not well marketed. A sale of investment product is also affected by affordability and accessibility, while others are marketed in a way that it will help save taxes.

Keynes's Investment Multiplier Theory

It explains the cumulative effects of changes in investment on income via their effects on consumption expenditure. In other words, changes in investment will lead to changes in consumption through income. Keynes's investment multiplier thus attempts to measure the final change in income as a certain multiple of the initial cause, namely change in investment.

When income increases, the consumption increases but not so by the same ratio. We can assume an average individual and generalize for the entire community. The community's propensity to consume will decrease with an increase in income. What is not consumed is saved, the marginal propensity to save is the inverse of marginal propensity to consume. The investment multiplier is connected with the change in investment on consumption expenditures and related to marginal propensity to consume or inversely, marginal propensity to save.

Relationship of Consumption and Saving with Investment

Individuals receive income in the form of salary, wages, interest, rent, profits, etc. This income is used for purchase of household goods, over and above consumption can go to savings and investment. Decisions related to spending are focused more on improving standard of living, which is influenced by following parameters (Shodhganga):

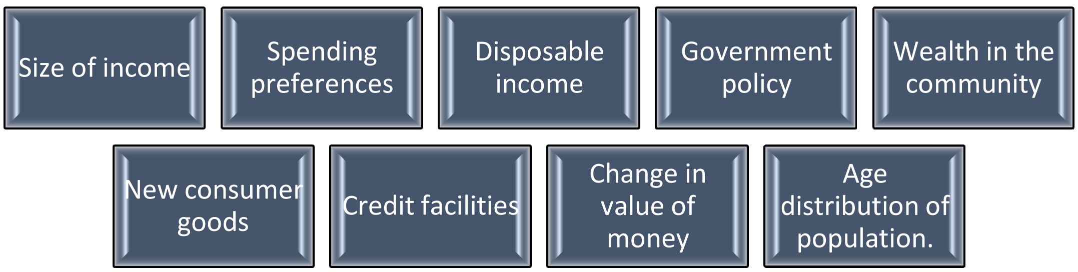


Figure 4.419: Influencers of Spending Decision

Savings depend upon ability and willingness of individuals or households, where it is dependent largely upon level of income and scope of expenditure. People living in vulnerable situation have limited income source and hence cannot save any amount of money, which give rise to vicious cycle of poverty. It is difficult to say that all individuals or household having same income will save equally, as saving and expenditure depend upon one's preferences. Other influencers for more and less savings can be government policy, political stability, strong market, various opportunities for different risk and return appetite, economic understanding and so on.

Check Your Knowledge

Question 1 – What are features of consumption?

Question 2 – How rural consumption and rural income effect rural business environment?

Question 3 – How investment is linked with rural growth?

To Do Activity

Consider any village near you (in close vicinity) and try to list out investments made by government in past 5 years. Also make a matrix how it effected the local income and savings among household. Try to find out if government investment made positive impact on household savings.

4.3 Inflation

Different economists define and understand inflation in different ways as it appears to each one of them. Most of the people understand inflation as a substantial and rapid general increase in the level of prices and consequent devaluation in the value of money over a period of time.

Harry Johnson defines "inflation as a sustained rise in the price".

Crowther defines "inflation as a state in which the value of money is falling i.e. the prices are rising".

Pigou, "Inflation exists when money income is expanding more than in proportion to increase in earning activity".

Ackley, "Inflation is a persistent and appreciable rise in the general level or average of prices".

From the above definitions, we can understand that most of the economists agree that inflation is a "persistent" and "appreciable" increase in the general level of prices.

A moderate rate of inflation is desirable for the economy which varies from countries to countries and from time to time. The desirable rate of inflation can be determined on the basis of the rise in price that is contributed as follows

- Optimistic economic outlook generating employment and increasing production
- Promoting savings and investment

It is suggested that 1-2 percent inflation in developed countries and 4-6 percent inflation in less developed countries is considered as desirable limit. But in the following conditions, it is not considered as inflationary-

1. Price rises when composition in GDP changes: During economic growth, low-price goods like agricultural products decreases and high-price goods like computers, cars increases. This rise in price is not inflation.
2. Price rises due to improvement in quality: In case of colour TV sets, the qualities such as remote control system, multi-channels, recording, internet connection, HD facility etc. are improved. This will increase cost of production which in turn increases the price of colour TVs. This rise in price is not inflation.
3. Price rise/fall due to increase/decrease in demand/supply: Reasons like crop failure, strikes, epidemic, lockdowns etc. may rises the price because of sudden increase in demand or sudden decrease in the supply of the commodities. This short-run rise in price is not inflation.
4. Price rise after depression or recession: Prices may rise during the phase of recovery after short-run depression or recession to reach their normal level. This rise in prices in not inflation.

Methods of measuring Inflation

1. Computing change in price index numbers: The following formula is used to measure the rate of inflation through the changes in Price Index Numbers (PIN)

$$\text{Rate of Inflation} = \frac{PIN_1 - PIN_{t-1}}{PIN_{t-1}} \times 100$$

2. Comparing the change in GNP Deflator: The GNP deflator is the ratio of nominal GNP in a year to the real GNP of that year.

$$\text{GNP Deflator} = \frac{\text{Nominal GNP}}{\text{Real GNP}}$$

Hence, percentage change in GNP deflator between any two continuous years gives the rate of inflation.

Table 4.5: Inflation Rates in India

Inflation Rate in India			
Year	Inflation rate	Year	Inflation rate
2002	4.31	2008	8.32
2003	3.81	2009	10.83
2004	3.77	2010	12.11
2005	4.25	2011	8.87
2006	5.79	2012	9.3
2007	6.39	2013	10.92

Source:Economic Survey

Effects of Inflation

1. Production and growth: Producers invest and produce more when prices start rising anticipating profits in the future. This will increase production, income and employment till full employment level. If producers increase investment at full employment, it will lead to severe inflationary pressures. So production is adversely affected in the following ways-
   - Resources are not allocated properly: Producers, in anticipation of profits shift their production from essential goods to non-essential goods. In this process, the resources are not properly allocated.
   - Changes in transactions pattern of producers: Inflation makes the producers to hold a smaller stock of real money for contingencies which are not expected. They spend their time and energy in converting money into stock/financial/real assets. Some resources are wasted.
   - Volume of Production decreases: Inflation brings uncertainty as producers spend a lot on inputs and produce more anticipating the rise in the price level. This affects volume of production.
   - Inferior quality goods are produced: Inflation creates seller's market. Then the producers produce inferior quality goods and adulterated goods and sell at higher prices.
   - Hoarding and Black Marketing: Anticipating a rise in their products in the near future, producers hoard stocks of their products. Thereby create false scarcity of goods. Later they sell in the black market at higher prices.
   - Propensity to save decreases: People need more money to buy goods and services when prices increases. They do not save money during such situations. Decrease in savings decreases investment which hinders capital formation. Hence, production gets decreased.
   - Foreign capital is reduced: The rising costs of materials and other inputs stops foreign investors to invest in the country. This reduces foreign capital.

- More speculations: Producers indulge in speculation of various types of raw materials required for production instead of focusing on productive activities.

2. Effects of inflation on different stakeholders:
    - Debtors and Creditors: Debtors borrowed money when the value of money was less. They return the same amount but in real means they are paying less in terms of goods and services. Thus the burden of the debt is reduced and debtors gain. This situation is when the prices are rising.
      Creditors lose because they get back the same amount of money which they lent but in real terms they received very less as the value of money has fallen. This situation is when the prices are rising. In other words it is the redistribution of real wealth in favour of debtors at the cost of creditors.
    - Salaried Employees: White-collared employees like professors, doctors, lawyers lose during inflation because their salaries are slow to adjust.
    - Blue-collared workers: Wage earners like laborers may gain or lose during inflation because their wages depend upon the speed with which it adjust to rising prices. They gain when their unions represent the issue and paid without time lag between their wages and rise in prices. It is vice versa when there is time lag. They lose.
    - Fixed income groups: During inflation, fixed income group like pensioners, unemployed insurance receivers, recipients of interest and rent, holders of fixed interest bearing securities, debentures and deposits lose because they receive fixed payments.
    - Investors: They gain during inflation. Business increases when prices rise and business earn profits. They get more dividends on equities.
    - Businessmen: Producers earn profit when they sell their goods in stock as their value increases with the rise in price. Traders also gain in the short run. Holders of real estate's also gain because the prices of landed property increases faster than the general price.
    - Agriculturists: Landlords during inflation lose as they get fixed rents. Peasant proprietors gain as the prices of their farm products increase more than the cost of production. Landless agricultural workers lose because their wages are not increased, unions are not there, rise in consumers goods and so on.
    - Government: As a debtor, the Government gains because the interest rates on government bonds are fixed and not raised though the prices increase. The government then levies less taxes to service and retire its debt. Tax payers of the government are high income groups and also the creditors of the Government because they have the government bonds. The real value of their assets decline and the real value of their liabilities also decline during inflation.
3. Balance of payments: When prices rise more rapidly in home country, domestic products become costlier than foreign products. Then imports gets increased and exports fall. As a result, the balance of payments become unfavorable to home country. This is when the country follows a fixed foreign exchange rate.
4. Monetary system gets collapsed: The value of money continues to fall if inflation persists and is out of control. This collapses the monetary system of the country as it happened in Germany after World War I.

5. Social Issues: Inflation creates problems like widening the gap between rich and poor, strikes by workers, dissatisfaction among common people, hoarding, black marketing, speculation, adulteration, corruption, inferior quality goods etc. These are socially very harmful.
6. Political Issues: Inflation creates chaos in the economy. People and political parties (opposition parties) resort to agitations and protests. Sometimes, it may lead to downfall of the Government.

Types of Inflation

Table 4.7: Types of Inflation

Types of Inflation		
▪ Creeping Inflation ▪ Walking Inflation ▪ Running Inflation ▪ Galloping / Hyperinflation	• Excessive Inflation • Cost Inflation • Deficit Inflation • Flight Inflation	• War-time Inflation • Post-war Inflation • Peace-time Inflation
• Open Inflation • Repressed Inflation	• Profit Inflation • Foreign-trade induced Inflation	• Comprehensive Inflation • Sporadic Inflation

1. Creeping Inflation: When prices rise by 1 percent per annum or within a range of 10 percent over a decade, it is Creeping Inflation. This does not disrupt the economic balance of a country.
2. Walking Inflation: When prices rise by more than 10 percent and within a range of 30 to 40 percent over a decade or by 30 to 40 per cent per annum, it is Walking Inflation. This presents a warning signal for the galloping inflation.
3. Running Inflation: When prices rise by 100 percent over a decade and more than 100 per cent per annum, it is running Inflation.
4. Galloping Inflation: When prices rise by fits and starts, it is difficult to measure its magnitude. The price rise every moment and there is no limit to the height to which prices might rise. This is hyperinflation or Galloping Inflation.
5. Excessive Money Supply Inflation: There is excessive of money supply in relation to the availability of real goods and services, it is Excessive Money Supply Inflation.
6. Cost Inflation: It occurs when money incomes expand more than real productivity. When inflation occurs due to rise in factor prices, it is called Cost Inflation.
7. Deficit Inflation: When the government budget contains heavy deficit financing in budget through creation of new money, the purchasing power in the community increases and prices rise. This is deficit Inflation.
8. Flight Inflation: This refers to the relationship between money supply and goods, where there is a flight from the currency, reflecting increased velocity of spending.
9. War-time Inflation: Due to war, government expenditure increases and is unproductive in nature, the price rises. It is War-time inflation.
10. Post-war Inflation: Immediate after the war, the prices rise as there is no production etc., it is Post-war Inflation.
11. Peace-time Inflation: The price rises during normalcy after war and as a result expenditure by government increases because of long gestation period projects.

12. Comprehensive Inflation: When prices of every commodity throughout the economy rise, it is Comprehensive Inflation.
13. Sporadic Inflation: The average of a group of prices rise because of increases in individual prices due to abnormal shortage of specific goods, it is sporadic inflation.
14. Open Inflation: When the government does not attempt to prevent a price rise the inflation, it is said to open inflation.
15. Repressed Inflation: When the government interrupts a price rise, it is repressed / suppressed inflation.
16. Profit Inflation: It is a unique category of inflation. It is the rise in profit levels of companies. It is associated with price growth from century.
17. Foreign-trade Induced Inflation: It is caused by factors pertaining to the balance of payments. There are export-boom inflation, Import price hike inflation and key currency inflation.

Table above shows different reasons of inflation. These factors are categorized into three parts

Table 4.8: Causes of Inflationary Trends in India

Causes of Inflationary Trends in India		
Monetary Factors	**Non-Monetary Factors**	**Structural Factors**
• Increase in Public Expenditure • Huge Planned Investment • Black Marketing • Tax Evaders • High Commodity Taxation	▪ Population growth ▪ Inadequate growth of agriculture ▪ Natural calamities ▪ Hoarding and speculative activities ▪ Imports ▪ Unfair trade practices ▪ Non-utilization of installed capacities	▪ Over-expansion of Money supply ▪ Expansion of Bank credit ▪ Deficit Financing

Monetary, Non-monetary and Structural factors.

Control of Inflation

Inflation can be controlled through various monetary, fiscal and other measures. Sometimes it is important for regulators, government and the central bank to control inflation.

Table 4.9 Measures to control inflation

Control of Inflation		
Monetary Measures	Fiscal Measures	Other Measures
▪ Quantitative Measures 1. Bank Rate 2. Open Market Operations 3. Variable reserve requirements	• Public Expenditure • Taxation • Public borrowing and debt	• Price control & rationing • Wage policy • Output adjustment
▪ Selective Measures 1. Regulating consumer credit 2. Higher margin requirements 3. Directives, moral suasion, publicity, and direct action		

1. Bank Rate: It is the rate at which the central bank of the country provides financial help to the commercial banks and other financial institutions. To curb inflation, the bank rate is increased by the central bank. This makes the investment less attractive and discourages consumption expenditure on durable goods which decreases the demand.
2. Open Market operations: To reduce the money supply in the country, the central bank sell the government securities in the open market. There should be sufficient demand for these securities and sufficient stock of government securities and a developed secondary market.
3. Variable reserve requirements: The central bank may direct the commercial banks to maintain a larger proportion of cash reserve with the central bank. This reduces lending by banks.
4. Regulating consumer credit: During inflation, consumer credit is controlled by increasing the down payment amounts and decreasing the payment period of credit on selective basis.
5. Higher Margin requirements: To restrict the demand for credit, the banks and financial institutions may ask for higher margin requirements.
6. Directives, moral suasion, publicity and direct action: The central bank gives directives to stop the expansion of credit else take action by interfering directly.
7. Public expenditure: Government expenditure directly curtails the aggregate demand for goods and services. It reduces subsidies, wages, and other expenses and postpone new projects to do this.
8. Taxation: Imposing new taxes or raising the existing ones reduces the purchasing power of the people and generates resources to the Government.
9. Public borrowing debt: Government borrowing transfers funds from the private sector to public sector and reduces private sector demand for commodities.
10. Price control and Rationing: The government directly control the prices of sensitive commodities to curb inflation. It should have sufficient number of essential goods for rationing.
11. Wage policy: The Government may control wages/salaries for a period of time. This may reduce their purchasing power of the people.
12. Output adjustment: The Government may directly regulate the allocation of resources. Output can be shifted from production of less inflation sensitive goods to more inflation sensitive goods.

4.4 Business Cycles

Business cycle or trade cycle is a very complex economic phenomenon. It is one of the important characteristic of free or capitalistic form of economy. This phenomenon is so complex that many economists tried to explain this but is unable to give a comprehensive and satisfactory explanation. The business cycle is associated with frequent fluctuations in economic activity. Different economists defined business cycle in different ways as follows-

Haberlec defined business cycle as “an alternation of periods of prosperity and depression of good or bad trade”.

Gordon defined business cycle as “recurring alternation of expansion and contraction in aggregate economic activity, the alternating movements in each direction being self-enforcing and pervading virtually, all parts of the economy”.

Keynes defined, “business cycle is composed of periods of good trade characterized by rising prices and low employment percentage alternating with periods of bad trade characterized by falling prices and high unemployment percentages”.

Features of Business Cycles

1. They occur periodically but not with some phases like expansion, peak, contraction or trough.
2. They do not cause changes in any single industry or sector but in all industries and sectors of the economy.
3. Fluctuations in the business cycle in all variables like level of production, employment, investment, consumption, level of price and rate of interest.
4. Fluctuations in the consumption of durable goods defer during the course of business cycle.
5. There is no much variations in the consumption of non-durable goods as households maintain great stability in consumption.
6. During recovery phase, businessmen places more orders for goods whose production picks up and encourages investment in capital goods.
7. As Profits fluctuate, the businessmen cannot make forecast of economic activities during the occurrence of business cycles.
8. Business cycles are international in character. If recession starts in a country, it spreads to other countries too. For instance, Depression in USA & Great Britain in 1930 adversely affected the other countries too.

Phases of Business Cycles

Business cycles represents the ups and downs in economic activities. They are reflected by the fluctuations in aggregate economic magnitudes like total production, investment, employment, prices, wages, bank credit etc. These ups and downs show different phases of business cycles as follows-

1. Expansion of economic activities
2. Peak of boom or prosperity
3. Recession , the downtrend
4. Trough, the bottom of depression
5. Recovery and expansion

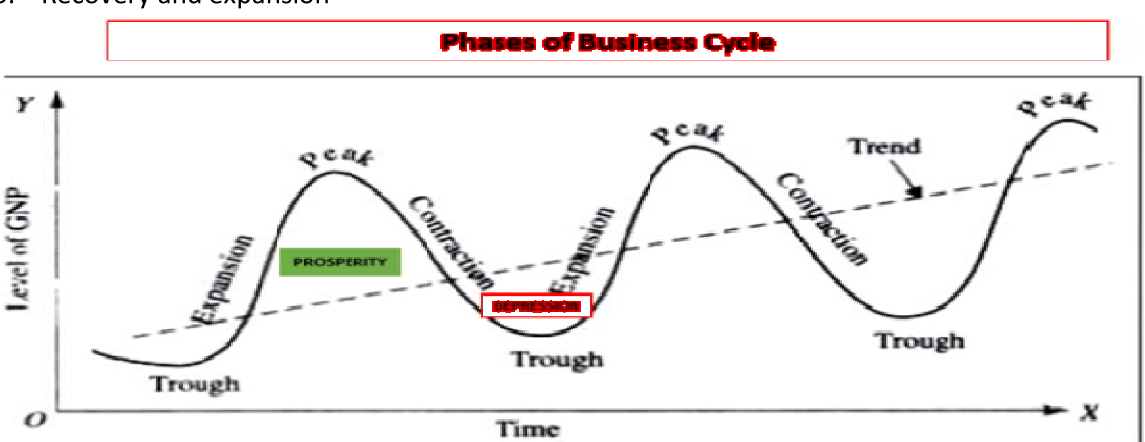


Figure 4.4: Phases of Business Cycle

1. PROSPERITY: Expansion and Peak: This phase in the initial stage is characterized by following features-
    - Rise in national output, consumer and capital expenditure, prices of raw materials and finished goods, level of employment, inventories
    - Debtors pay off debts
    - Bank advances increases
    - Expansion of credit
    - Idle funds is utilized for productive purposes
    - Purchasing power flows continuously

    In the later stages, it is characterized by

    - Inputs start falling.
    - Labour market and input markets become seller's market
    - Input prices increases and subsequently output and employment increases
    - Cost of living of consumers increases
    - Demand for new houses fall
    - Demand for cement, iron and steel, labour , automobiles, furniture etc. comes to halt
    - This phase is Peak phase.
2. Turning point and Recession: Once the economy reaches peak phase, demand is at halt. This phase is characterized by
    - Demand starts decreasing in some sectors
    - Producers continue to maintain existing levels of production and investment unaware of the above fact.
    - There exists a gap between demand and supply-supply exceeds demand.
    - Inventories gets piled up
    - It starts in one industry but slowly spreads to other industries
    - Producers give up future investment plans
    - Orders of inputs are cancelled
    - Demand for labour does not increase
    - This is the turning point and the beginning of recession
    - Demand for inputs and input prices (wage, interest, rentetc.) gradually decrease
    - This causes demand recession
    - Now, Producers lower the prices to part away with their inventories and financial obligations
    - Consumers anticipating further decrease in prices postpone their purchases.
    - The gap between demand and supply further grows leading to irreversible recession.
    - Decline in investments, income and consumption
    - Production and employment decline leading to decline in both consumer and capital goods.
    - Borrowings for investment, bank credit, stock prices decreases
    - Unemployment increases
    - Here, the process of recession is complete

- When growth rate falls below the steady growth line as shown in the diagram above, the economy enters into the phase of depression

3. Depression and trough: This phase is characterized by
    - Economic activities decrease down their normal level
    - Negative economic growth is seen
    - Level of national income and expenditure decreases rapidly
    - Prices of consumer and capital goods decline
    - No jobs to workers
    - Debtors are in bad condition to repay their debts
    - Banks have more cash balances as demand for bank credit is low and nil
    - Investments are not attractive and profitable
    - The phase of trough is reached as all the economic activities are at the bottom of depression.
    - Weaker firms are out of the market now
    - The process of depression is complete

4. The Phase of recovery: The factors that reverse process differ from business cycle to business cycle. When the economy hits the bottom and stays there for some time, it marks the end of pessimism and beginning of optimism. There is always a self-correcting mechanism in a free economic system through price mechanism. When prices fall, the prices of inputs also fall faster than the prices of finished goods i.e. some profitability generated in input market gets strengthened in commodity market. Investment and employment increases. Demand for consumer and capital goods increases. Bank credit is easily available. Price level increases. The phase of recovery starts now and is characterized by
    - Investment and renovation programmes by some firms start
    - Construction activities increases
    - People plan for new house construction
    - Employment in construction sector increases
    - Wages increases and so does consumption expenditure
    - Businessmen speed up production process
    - Investment increases
    - The economy enters the phase of expansion and prosperity

Check Your Knowledge

Question 1 – Write a short note on a) Inflation b) Business Cycle
Question 2 – How can inflation be controlled, take examples of steps taken by Indian government.
Question 3 – Explain the business cycle of any rural product of your choice.

4.5 Socio-Economic Indicators

Socio-economic indicators are the indicators to assess the social and economic development within a community or area or society or a specified population. Some of the indicators are rate of employment, poverty status, education levels, distribution of income, crime rates and life expectancy. We shall discuss socio-economic indicators like employment, income distribution and poverty in India.

1. Employment and Unemployment in India:

   A person when engaged in a job either in agriculture, business, service or profession, is called as an employed person. The structure of employment can be better understood by dividing it as – sectoral distribution of employment, employment in organized and unorganized sector, and rural and urban employment.

   Sectoral distribution of employment: An economy is divided into

   - Primary sector: Agriculture and allied activities like forestry, fishing, dairy, mining and quarrying
   - Secondary Sector: Manufacturing, electricity, gas, water supply and construction
   - Tertiary Sector: Services like trade, transport, storage, communication, financial,social and personal services

The above table shows that there is decrease in primary sector except in mining, In secondary and tertiary sectors, there is increase in employment.

Employment in organized and unorganized sector: The unorganized sector is very large in India. Agriculture, mining, construction, trade, transport, communication, social and personal services are all unorganized whereas manufacturing, electricity and financial services are put in organized sector.

It is clear from the above table that the growth rate in public sector decreased and private sector increased.

Rural and urban employment: Most of the employment is in agriculture and allied activities and in urban areas, employment is in organized secondary and tertiary sectors.

Unemployment in India: Unemployment is defined as unemployed person should have basic these three qualities like-

- He is not working – full-time, part-time or temporarily
- He is ready to work
- He searched for work for last four weeks.

Types of unemployment

1. Open unemployment means that the unemployed is paid until he finds a new job.
2. Seasonal unemployment means periodic unemployment created due to seasonal variations – weather
3. Disguised unemployment means some part of labour force is left without work or is working without interest his productivity is almost zero.
4. Industrial Unemployment means that the industrial sector is unable to absorb the growing population with a job/work.

5. Technological Unemployment means that the individuals lose their jobs due to technological progress.
6. Educated Unemployment means that large number of educated people do not get jobs.

Causes of Unemployment in India

1. Jobless growth: The rate of economic growth is very low and hence is not genrating employment. The Industralization created labour displacing production techniques and hence jobless growth is seen.
2. Increase in labour force: Demographic factors affect a lot. Mortality rate declined, population increased. Social factors like educated women started competing with men. We see disguised unemployment is seen in rural areas and open unemployment in urban areas.
3. Inappropriate technology: Use of latest technology, substituting labour for production techniques etc. resulted in unemployment. Policies should have been on labour intensive techniques. As unskilled labour is abundant, selection of technology should be very careful and appropriate.
4. Improper Education system: India's educational policy has now started aiming at developing human resources. Since years, it was just following Macaulay's education policy which created only clerical jobs. There is a long way to develop human resources.
5. Neo-liberal economic policies: Because of these policies, income inequalities have increased leading to problems in demand and unemployment.
6. Inadequate economic planning: Small and cottage industries were neglected. Agricultural sector is growing slowly and the industrial sector which is avenue of new jobs was itself growing at a very low speed. Service sector was a baby which was crawling. All are not taken in the way they have to be planned in economic planning.
7. Weak manpower planning: Balancing manpower among various regions was very difficult. The educated and skilled people are scattered and not uniformly distributed.
8. Rapid population growth: Population increased in leaps and bounds. It added to the unemploymnet problem and reduced the resources for capital formantion.

Measures to Solve Problem of Unemployment

1. Volume of work is to be expanded: The opportunities to work have to be expanded. Wage-employment and self-employment has to be created for large labor force in all three sectors-primary, secondary and tertiary.
2. Raising capital formation: First priority must be given to capital formation. Production of capital goods to produce consumer goods and services has to be encouraged.
3. Improvement in Production mix: Combination of labor-intensive and capital intensive technologies of production has to be chosen.
4. Special Employment programmes: Such programmes for landless agricultural labourers, marginal farmers, village artisans, tribal people, and people living in hilly areas are to be taken up by providing assets like animals, sewing machines, hand/power driven looms etc., or the supply of infrastructural facilities like marketing, credit etc.
5. Manpower planning: Appropriate skills have to be given to unemployed youth through proper education and training.

Poverty

Poverty is a giant barrier for economic development. Though there a huge economic growth (about 9 per cent), poverty is still pervasive in almost all parts of the country. In rural areas, it is more.

The definition of poverty is defined in many ways. Some based on income, some on consumption, purchasing power parity. Such definitions are complex and conflicting. An attempt is made as of other countries to define poverty using a sustenance food standard. It is defined in terms of consumption or spending per individual for a basket of essential goods over a period of time. This helped to develop two different poverty lines for rural and urban areas. Poverty line is nothing but the level of income to meet the minimum needs. It is the amount of money needed to meet basic needs. It is Rs.26/- per day in rural areas and Rs. 32/- per day in urban areas. The poverty line definition is based on purchasing power parity basis, i.e. 1.25 dollars per day by World Bank.

Who is poor?

- Landless farmers
- Self-employed artisans
- Women headed households with limited assets and earning opportunities.
- People with limited skills and education and doing casual work seasonally.
- Socially excluded, depressed groups like tribal, nomads etc.
- Victims of decreasing traditional occupations, collective sustenance systems etc.)

The Statistics of Poor in India

50% of Indians don't have homes	70% don't have toilets	35% of households don't have tap connection	85% of villages don't have a secondary school	Over 40% of these same villages don't have proper roads connecting them.

Figure 4.5: Statistics of Poor in India

Causes of Poverty

Over-population: Struggle for the Existence and survival of the fittest. Due to over population, land for cultivation, employment for income, health for survival, education etc. cannot be provided, They end with fights for food, clothing and shelter fighting for available limited resources in the country.

Illiteracy: When proper education is not taken up by people, they lack employable skills, lack awareness of avenues of job, lacks intellectual capacity to make any decisions- living, financial, social cultural etc.

Gender inequality: Though there are improvements in removing gender inequalities in this 21st century, still women are paid less than their male counterparts, girls are not given priority while providing education, their health and safety measures are minimal, and they cannot inherit the ancestral property. They are meant for marriage and producing offspring.

Economic inequality: Unequal distribution of wealth creates many problems. Rich become rich and poor become poor. Political parties try to develop their areas others are denied of basic infrastructures that are critical to the development and they have to contend with the little resources available which results in poverty and many socio-economic problems.

Natural Causes: Environmental and geographical factors like Floods, earthquakes, and droughts causes many problems like loss in their businesses, decrease in sources of income, and loss of shelter, poor agricultural harvests etc. These factors may lead to poverty.

Labor exploitation: Unethical business practices like labor exploitation, less pay more work, poor working conditions, curbing unionism etc. are all done to make huge profits by businessmen resulting in poverty.

Resistance to change: Poverty is caused if people of a country refuse to welcome new and visionary leaders who will strive to bring socio-economic development with their plans. Resisting change such as women empowerment, human resource development, foreign direct investment, disinvestment, etc. can also cause poverty.

Unorganized Loans at higher interest rates in rural areas: Landlords and large business houses give loans at higher interest rates and with a collateral security which will kill off small businesses of debtors. They also encourage consumerism which creates several financial problems for poor people living in rural areas. Unorganized loans can leave the borrower's financial condition worse.

Wastage of resources: Consumerism is very common now-a-days. Resources are either underutilized or unutilized by government agencies and individuals which may lead to poverty. People who are initially rich can also become poor through wasteful expenditure.

Effects of Poverty

In technical terms poverty is always a cost center or liability for any government, government spend large amount of its revenue to support poor living in the country. On one hand poor need more resources and on the other they add less to country's income, the labour resources remain untapped for rural communities to large extent. In simpler terms poverty hinders economic growth of a country, increase crime rates, cause of malnutrition, create other health problems, reason of low morale and self-esteem, it create stress and so on. It has been observed that poverty in itself is more critical for women.

It is the responsibility of government to make such policies, which can control and further reduce poverty in the country. Making sustainable business environment is one of the important steps towards eradicating poverty. Rural ecosystem need a positive push to optimally utilize its resources and add to local economy, this also help in establishing local enterprises.

Poverty can be controlled by taking following steps

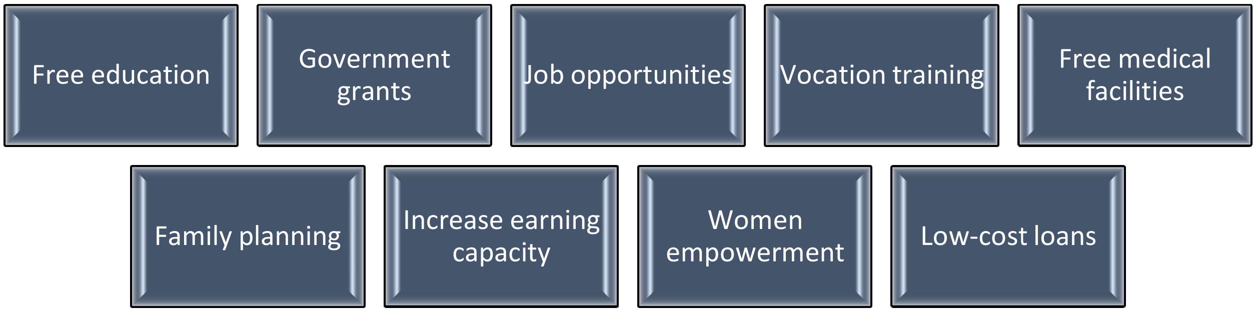


Figure 4.6: Steps to reduce poverty

To reduce poverty, some other steps can also be taken like starting labour-intensive manufacturing in rural areas including Construction, Textile, Clothing, Footwear etc.These units should be promoted as it has more potential to provide jobs to millions of unemployed people who are left with no jobs after quitting agriculture.All steps taken to reduce poverty should focus on inclusive growth strategy, which includes all sections of beneficiaries and ensures equitable benefit to all. This will reduce disparities in income.Vocational Training and skill development courses should be introduced for youth and active poor, so that they can increase their income and come out of poverty using their skills and labour force. The rich should be taxed heavily and poor should be given subsidies and concessions.The Government should devise plans to give equal opportunities to all in education, health benefits, social and economic benefits through various acts.

Check Your Knowledge

Question 1 – Define poverty?
Question 2 – Mention some steps taken by government since 2014 to eradicate poverty?
Question 3 – How is poverty bad for rural business environment?

Summary of the Chapter

Business firms take into consideration macroeconomic indicators such as rate of economic growth, the magnitude of employment generation, extent of unemployment existing, rate of inflation, foreign exchange rate of national currency, balance of payments etc. while taking important business decisions. The study of all these indicators and their trend is indicative of overall economic environment of the country. Macro-economic indicators like national income, consumption, investment, inflation, business cycles, socio-economic indicators like employment, income distribution, poverty are to be studied in order make proper decisions. The aggregate value of all goods and services produced within a country over a specified period of time say annually, in other words, the sum of wages, profits, rents, interest, and pension payments to residents of the country. The National Income of a country can be measured by three approaches1. Expenditure Approach 2. Income or Factor Income Approach 3. Value added or Net Product Approach. The demand for a good depend upon its price and the consumption of a community depends upon the level of income. In other words, consumption is a function of income. The rise in consumption in response to a given increase in income depends upon the marginal propensity to consume. Marginal propensity to consume depends on various factors like price level, interest rate, stock of wealth, and other subjective factors. It can be understood by understanding 1) Linear

Consumption function and 2) Non-linear consumption function. When a person buys shares, bonds or debentures of a public limited company from the market, he is said that he made an investment. It is not real investment but just a financial investment. If investment is made to create a new addition to the stock of physical capital such as plant, machinery, trucks, new factories etc. which creates income and employment is called real investment. In other words, real investment we mean the addition to the stock of physical capital. In Economics, investment means the new expenditure incurred on addition of capital goods. Net investment raises the level of aggregate demand which brings about addition to the level of income and employment.

Types of Investment 1.Business fixed Investment2. Residential Investment3. Inventory Investment. Crowther defines “inflation as a state in which the value of money is falling i.e. the prices are rising”. The effects of inflation are unemployment, income inequalities, crime, etc. The remedies to curb inflation is creating jobs in all sectors, controlling population, inclusive growth etc. Business cycle or trade cycle is a very complex economic phenomena. It is one of the important characteristic of free or capitalistic form of economy. This phenomenon is so complex that many economists tried to explain this but is unable to give a comprehensive and satisfactory explanation. The business cycle is associated with frequent fluctuations in economic activity. The phases of business cycles are 1. Expansion of economic activities 2. Peak of boom or prosperity, 3. Recession, the downtrend, 4. Trough, the bottom of depression and 5. Recovery and expansion. The socio-economic indicators like unemployment, income inequalities and poverty are to dealt with structural transformation of the economy and strategic planning.

Model Questions

1. What do you understand by macroeconomic indicators? Discuss each indicator with examples.
2. What precautions should be taken while estimating national income by various methods?
3. Explain the difference between Gross National Product (GNP) and Net National Product (NNP).
4. Discuss the difficulties in estimating national income.
5. Explain the main components of national income.
6. What is Consumption function? Explain the formula.
7. What is Investment function? Explain the formula.
8. What do understand by inflation? Explain different types of inflation.
9. What effect does inflation have on purchasing power?
10. Write the meaning of business cycle. Explain different phases of business cycle.
11. If business cycles were really inevitable, what purpose would macro policy serve?

Chapter 5 - Legal Framework

Introduction

Business and Society are closely inter-related with each other and there is a great interaction between the two. Business influences the various components of the society and society affects business. Business has to adapt to its internal and external environment. The key factors of business environment consist of various micro and macro-environment components. Businesses on day to day basis directly deal with various controllable and adaptable components of micro-environment. The factors of macro-environment are uncontrollable and need proper monitoring and adaptation by business. Among various such factors are Political and Legal Environment. The political and legal systems are established on the ideologies and values which are directly related to the economic and social goals. There is centrally planned economic system to safeguard the interests of customers and society. The Government may enact legislation i.e. laws to regulate the conduct of business. The businessmen have to abide by various laws enacted by the Government. This chapter deals with various legal frameworks to be complied by any business entity to remain legal within law of land. Legal environment play an important role in establishing the long term mission and vision of entrepreneurial ecosystem in any country.

Objectives

- To examine legal framework and legal procedure for carrying out business
- To explain the concept and formation of company under Companies Act, 2013
- To explain the Foreign Exchange Management Act, 1999
- To examine various issues related to Consumer Protection Act, 1986& 2019

Chapter Structure

5.1 Legal Framework- Legal Procedure

5.2 Companies Act 2013

5.3 Foreign Exchange Management Act (FEMA), 1999

5.4 Consumer Protection Act, 1986 & 2019

Introduction to Legal System

The political and legal systems work to achieve the economic and social goals. To achieve these goals, the Government enact legislation i.e. laws to regulate the conduct of business. The businessmen have to abide by various laws enacted by the Government. The Political-legal environment has a large influence on the business. It provides a framework within which the business is to function and get success by facing the challenges brought out of political and legal framework. In India, the political environment consists of three important political institutions-

Political Environment		
Legislature	Executive	Judiciary

Figure 5.1: Political Institutions

1. Legislature: This is the most powerful institution. The powers vested with this institution are
    a. Making policies
    b. Making laws
    c. Budget approvals
    d. Executive control and
    e. Act as a mirror of public opinion.

   Business needs a protective legal environment. All the investment decisions are to be taken adhering to the laws of the country. The business should follow laws in every aspect from its inception till the winding up. The laws should check that the business not only earn profit in a justified and fair manner but also the interests of all the stakeholders of the society. And also ensure that the profits are distributed to the society.

2. Executive: According to Musselman and Hughes, "Government is the centre of political authority having the power to govern those it serves".
   The role of Government is plan, organize, direct and control the business activities. The laws enacted by legislature should be implemented properly to attain the objectives with which the law is formulated. The implementation is taken care by Executive. India has federal set up i.e. the powers and functions are divided between central and state governments and are described in the constitution.

3. Judiciary: The Judiciary looks into the matter that the executives are working in accordance with the general rules laid down by the legislature. The legal disputes of business are solved by Judiciary. The disputes such as between employers and employees, between employer and employer, between employers and public and between employers and the Government.

5.1 The Relationship between Business and Government

According to Dimock "The two most powerful institutions in society today are business and Government, where they meet on common ground amicably or otherwise together they determine the public policy both foreign and domestic for a nation". This can be understood in a better way with the help of following diagram:

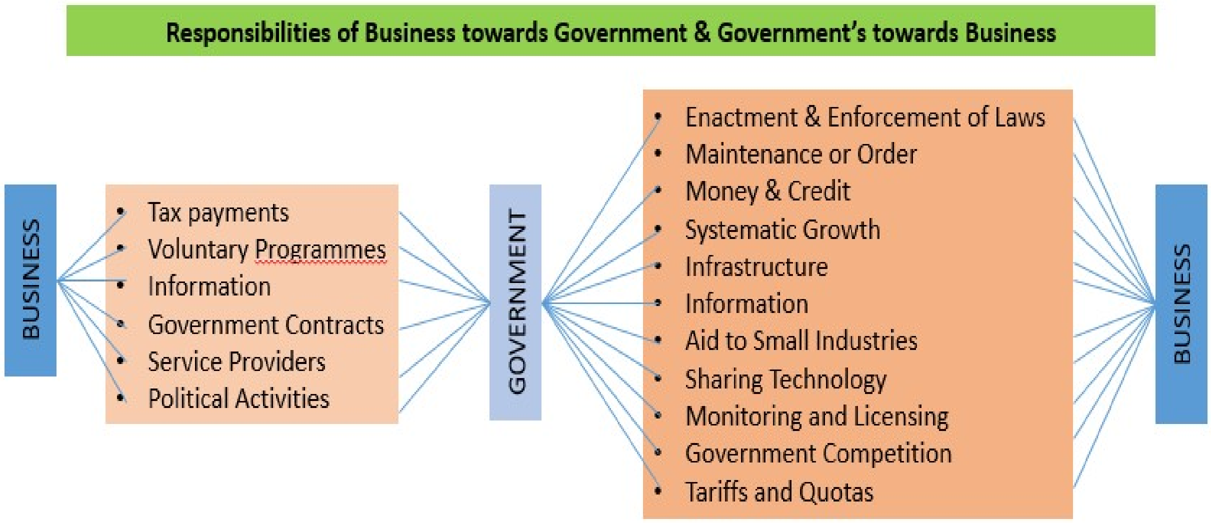


Figure 5.2: Responsibilities Sharing Between Government and Business

Source:Cherunilam, F. (2017)

Responsibilities of Business towards Government

- Tax payments: The basic responsibility of business is to pay taxes to Government regularly as it is the main source of revenue. Apart from that, the businessman has to deduct income tax of their employees and deposit the same in the Government Treasury.

- Voluntary Programmes: The business should join hand-in-hand with the Government for the welfare of the Society. It should cooperate on voluntary basis to organize and implement various programmes like-

    - Sponsoring welfare, health, safety and security programmes
    - Cultural growth
    - Environment Protection programmes
    - Promoting Education, Research and Development
    - Population Control Programmes
    - Financial Aid and other aids in connection with natural disasters, Covid-19, epidemic diseases, droughts, floods etc.
- Information sharing: Businesses understand ground realities, knowledge and experience regarding the Government policies implemented. They present their ideas, facts and problems before the decision makers. They when needed argue to make changes in the policies or laws. They may do it individually and collectively.

- Government Contracts: The businessmen fill the tenders for Government projects like road and rail construction, metro, dams, etc. They are supposed to complete the projects according to required specifications and standards of the Government.

- Service Providers: Some Businessmen are given the opportunity to be the members of advisory boards in committees and in delegations to go abroad and study the prospects of business in those countries. They provide service to the Government by presenting reports of their visits.

- Political Activities: Some businessmen contribute monetary benefits t political parties especially during elections. They contest as independent candidates in the elections. They through lobbying may secure legislation in favor of business.

Responsibilities of Government towards Business

- Enactment & Enforcement of Laws: The Government enact and implement many economic and business laws for the smooth functioning of the business system. It also provides Judiciary system to settle any disputes arising between employers, employees and Government bodies.

- Maintenance or Order: The duty of Government is to maintain Law and Order and protecting the rights and property of the people. Thus, provides a peaceful atmosphere to businessmen to carry out its activities.

- Money & Credit: The Government regulates money and credit for the smooth functioning of the business. It also protects the value of rupee in terms of other currencies.

- Systematic Growth: There are limited resources which have to be utilized fully without exploiting the interests of stakeholders. The Government through centrally planned economic system and federal set up make sure that balanced regional development, full employment and stable economy is achieved.

- Infrastructure: It is the responsibility of the Government to provide basic infrastructure like transportation, banking, warehousing, power, finance etc. for the development of business.

- Information: The information which are necessary to the development of business such as economic policies, economic plans, and amendments in business related laws, Sensex etc. are to be provided by the Government. It also provide scientific and technological developments' information.

- Aid to Small Industries: The Government studies the problems faced by small industries and according provide assistance and aids to them to develop. The aids may be related to finance, marketing, infrastructure, technical etc.

- Sharing Technology: The Government through its Research and Development department discovers new technology. This should be shared with private businessmen to be used for commercial purposes.

- Monitoring and Licensing: The Government bodies should monitor the day to day activities of the business to ensure that they provide quality goods at reasonable prices and make available the stock wherever and whenever necessary at different locations. They prohibit hoarding, black marketing, smuggling etc. They issue licenses to competent businessmen to carry out useful business activities.

- Government Competition: The Government creates an atmosphere of competition with private sector so that quality goods, reasonable prices, continuous supply of goods, healthy competition etc. are ensured in the market.

- Tariffs and Quotas: The Government ensures the protection of indigenous industries by providing subsidies, concessions and various other incentives. It uses Tariffs and Quotas to protect business from foreign competitions.

Business Laws in India

Table 5.1: Business Laws in India

Business Laws in India	
• Indian Contract Act of 1872	• Workmen's Compensation Act of 1923 (amended in 2000)
• Negotiable Instruments Act (1881)	• Trade Unions Act, 1926
• Banking Regulation Act of 1949	• Industrial Disputes Act of 1946
• Competition Act of 2002	• Consumer Protection Act, 1986
• Limited Liability Act in 2008	• Standards of Weights & Measures Act of 1956
• Companies Act of 2013	• Foreign Trade (Development and Regulation) Act of 1992
• Payment of Wages Act of 1936,	• Arbitration and Conciliation Act (1996)
• Industrial Employment Act of 1946,	• Service Exports from India Scheme (SEIS)
• Industrial Disputes Act of 1947,	• Export Promotion Capital Goods Scheme
• Payment of Bonus Act of 1965,	• Foreign Exchange Management Act of 1999
• Payment of Gratuity Act, 1972	• The Information Technology Act of 2000
• Building and Other Construction Workers Acts of 1996	

Check Your Knowledge

Question 1 – How business and government are complimentary to each other?
Question 2 – During COVID -19 pandemic, what legal steps related to taxation and loan moratorium period have been taken by government, towards making business environment conducive?
Question 3 - Discuss various laws prevailing in India for carrying out rural business?

5.2 Companies Act 2013

The laws related to companies are placed in Companies Act, 1956. The Companies Act, 1956 was amended in 2013 and now it is Companies Act, 2013. This Companies Act, 1956 is a consolidation of existing laws, statutory rules and certain principles incorporated from the decisions of the courts in England and India. The first bill on company law was passed in 1850 and made it as an Act called Joint

Stock Companies Act, 1850. The Government of India, after Independence, formed a committee of 12 members to make recommendations so that it suits to the Indian Environment and for the codification of company law. The committee submitted a comprehensive report on all aspects related to companies and thus came the Act, The Companies Act, 1956.

Companies Act 1956 explains in detail about

- Steps and procedure for the formation of a company,
- Company Management- Appointment of Directors, Powers, Duties, Liabilities, Remuneration, Removal etc.
- Company meetings and resolutions
- Winding-up of a Company-Procedure
- Latest Amendments

The Company law in India is regulated by the Companies act 2013 which regulates the companies which are registered under this Act. Previously, it was regulated by the Companies act 1956 which used to regulate the companies registered under that Act.

Objectives - The Companies Act, 2013

- To encourage Entrepreneurship and create job givers rather than job seekers
- To create dynamic environment in the formation and maintenance of companies
- To create accountability, transparency and good governance
- To facilitate innovation in doing business providing the best to all its stakeholders
- To curb fraud by taking strict action
- To set up various authorities, bodies and panels to look into business matters more efficiently, effectively and economically
- To ease formalities of approvals and compliances

Meaning and Definition of the Company

Company is the combination of the Latin words 'Com' which means "with or together" and 'Pains' which means "bread". In this sense, a company is a group of persons who have come together and who are taking pains to earn bread- livelihood. A company is an association of persons which is constituted for the attainment of a common objective. It is one of the type of business organization wherein the capital is collected from various sources and managed by few individuals for earning profits and which is generally shared among all the investors. According to Sec 2(20) of the Companies Act, 2013, "a company is a company formed under Companies Act, 2013 or under any of the previous laws relating to companies".

Features of a Company

- Artificial Person in the eyes of Law: A company is an artificial or legal person as of a natural person with all rights and duties. It is intangible as it does not possess physical attributes such as height, weight etc. It is a person in the eyes of law.
- Separate Legal Entity: A company registered under the Companies Act, 1956, or 2013 or prevailing any previous law becomes a separate body in its registered name. It is treated as a separate legal entity apart from its members. This privilege is not for sole proprietorship and partnership.

- ❖ Limited Liability: The liability of members of a company is limited to the extent of the value of shares subscribed by them. Their private property is not liable to discharge the liabilities of the company.
- ❖ Perpetual Succession: The survival of the business will not be affected by death, insanity or insolvency of any of its members. The company has perpetual succession and continues to exist as a body corporate in the eyes of law as far as the minimum number of members continues in the company.
- ❖ Right to contract and sue: A company can enter into contracts with third parties to conduct business on its own name. It may sue the other persons in court of law for its claims and can be sued by others.
- ❖ Transferability of shares: The shares are movable property and are transferrable subject to certain conditions provided by the Act.
- ❖ Common seal: A company prepares an official seal and is used as its signature. It is affixed on all contracts entered by the company. It should be attested by responsible officer. It is used to authorize all official documents through its agents.
- ❖ Limitations of Actions: The powers, actions and objects of the company are clearly mentioned in its memorandum of association. The company cannot go beyond this.
- ❖ Management: The ownership lies with the shareholders and management lies in the hands of elected representatives of the shareholders. Thus ownership and management are separate. The members get profits and need not get engaged with the management functions. It is looked after by Board of directors.
- ❖ Capital of the company: The capital of the company is known as share capital which is divided into small units called shares. The shares are of different types based on the needs and desires of the investors such as preference shares and equity shares.
- ❖ Separate property: The members do not have the right to claim ownership of the company's property during the lifetime of its existence or during its winding up.
- ❖ Profit: A company is formed to earn profits and also to accomplish some social goals. The profits is shared between the shareholders.
- ❖ Winding up: A company is created by law i.e. formed in accordance with the provisions of the Act, carries its affairs according to law and in case it goes for winding up then it should also be according to law.

Lifting the Corporate veil

Under "Lifting the corporate veil" concept, any company is treated as distinct individual who had not played any role as of human agency to cheat the company. The human agency will be identified, picked up and will be punished. In other words, when directors or officials commits frauds, illegal activities or they go beyond the scope of its documents- Memorandum and Articles of the company, the doctrine of lifting of corporate veil is introduced. It collects the data, scrutinizes the human agency behind the crime scenes to find out the real culprit committing such offences.

Categorization of Companies

Companies can be categorized on the basis of its incorporation, liability, number of members, type of control, ownership pattern, listing of shares and some other types. Individuals decided type of company on the basis of their preferences, business environment, future mission and suitability as per

stakeholder preferences. Companies are also formed differently to utilize maximum benefits from policies, regulators and new government schemes.
For example, currently government is promoting new ideas under Atal Innovation Mission, through its incubation centers. All incubates try to align their business proposals and mission to support inclusive growth through innovative and scalable ideas.

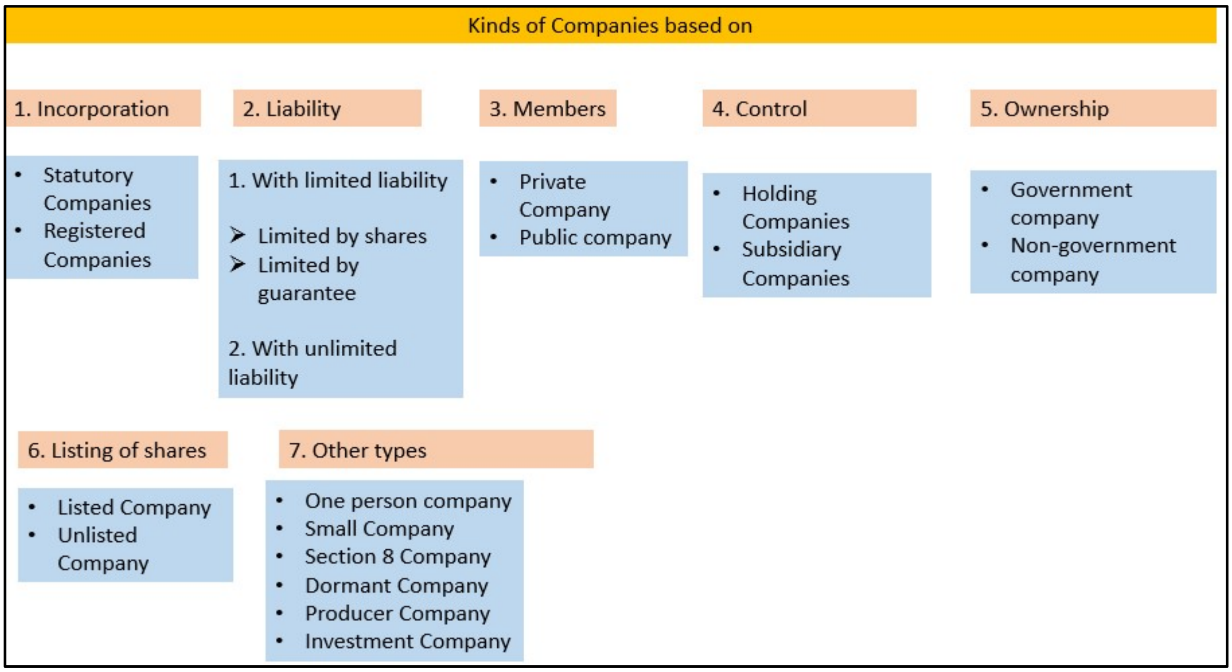


Figure 5.313: Different Types of Companies in India

Source: Jain & Sherlekar (2018)

Kinds of Companies

1. Companies based on Incorporation: They are of two types
   - Statutory Companies: These companies are formed by a special act of the Legislature and these are mostly related to public utilities such as railways, gas, electricity etc. Some examples are Reserve Bank of India, Life Insurance Company, State Bank of India, Unit Trust of India.
   - Registered Companies: The Companies which are established and registered under the Companies Act, 2013 or under any of the earlier Companies Act are Registered Companies. Some examples are Healthcare (India) Private Limited, Info Solutions private Limited etc.
2. Kinds of Companies based on liability: They are of two types
   - Companies with limited liability: Limited liability means that the liability of an investor is limited to the amount he is investing in a company. In other words, the investor is not personally liable for the business debts and liabilities. In case of winding up of the business, his liability is limited to the unpaid amount of agreed contribution by shares or otherwise. These companies are of two types-
     - ➢ Companies limited by shares: The liability of the members of the company is limited to the unpaid amount on the shares. This is the same during existence or winding up

of the company. These are very common companies seen either in the form of public or private company.

    - Companies limited by guarantee: These companies are especially formed for the purpose of promotion of arts, science, culture, charity, sports, commerce or so on. The liability of its members are limited. They may or may not have share capital. They must specify the amount they wish to contribute to the property of the company. This will help us to determine the liability of the members of the company.

- Companies with Unlimited liability: Unlimited Company is a company without limited liability. According to the Act, an incorporated company can be established with or without any limited liability by seven or more members. They may or may not have share capital. They should have their own Articles of Association. It can be a public or private company. Each member of the company is held accountable for the debts and liabilities of the company.

3. Kinds of Companies based on the members: They are of two types
    - Private Company: According to Section 2(68) of Companies Act, 2013, a private company means a company which
        a) Restricts the transferability of its shares
        b) Prevent any invitation to the public from subscribing shares or debentures
        c) Can have a maximum of 200 members
        d) Can have a minimum of paid-up capital of any amount
    - Public Company: A company other than private company is Public company. It means a company which
        a) Does not limit the number of members to 200
        b) Does not restrict the transferability of its shares
        c) Does not prevent any invitation to the public from subscribing shares or debentures
4. Kinds of Companies based on the Control: They are of two types
    - Holding Company: When a company owns 20 % share capital or more than it of another company, the controlling company is called as Holding Company. It has a separate legal entity. The share capital signifies the total share capital i.e. both equity shares + preference shares as against the nominal value of just equity shares under the previous act.
    - Subsidiary Company: A company is subsidiary to another company when a control over Subsidiary company is exercised by Holding Company. According to Section 2(87) of the Act, a subsidiary company means a company in which holding company
        a) Regulates and controls the composition of Board of Directors
        b) Controls more than 50 per cent of total share capital by itself or by combining one or more of its subsidiary companies.
5. Kinds of Companies based on the Ownership: They are of two types
    - Government Company: It is one in which at least 51 per cent of the paid-up capital is held by Central or State governments or partly by both governments or partly by on e or more state governments. A company which is subsidiary to it is also a government company. These companies are all regulated and controlled by the Company Act. Some of the examples of this type of companies are Air India, Hindustan Petroleum, all nationalized banks etc.

- Non-Government or Foreign Company: Section 2(42) of the Companies Act, 2013 defines a foreign company as any company incorporated outside India which
  a) Does business in India either by itself or through an agent or physically or electronically
  b) Does any business in any other manner in India
6. Kinds of Companies based on the Listing of shares: They are of two types
   - Listed Companies: A company is listed in different stock exchange in India or outside India to be traded in stock exchanges is called as listed companies. They make an agreement with stock exchanges following and adhering all the guidelines to be called listed in the stock exchanges.
   - Unlisted Companies: A company whose shares are not listed in stock exchanges and that the shares are not available to general public for trading. An unlisted company can be a public or private limited company.
7. Other Kinds of Companies: They are
   - One Person Company: According to Section 2(62) of the Companies Act, 2013, one person company (OPC) means a company which has only one person as member. This concept introduced by this act enabling entrepreneurs who are sole proprietors to enter into a corporate. In other words, OPC is a hybrid of sole-proprietor and company form of business organizations.
   - Small Company: This kind of company is based on capital and turnover. According to Section 2(85) of the Companies Act, a small company is a company whose
     a) paid up share capital of which does not exceed fifty lakh rupees or more than ten crore rupees,
     b) Turnover does not exceed two crore rupees or one hundred crore rupees.
   - Section 8 Company: All the companies do not work for profits only. Some companies work for charitable and non-profitable objectives. Such companies are referred as Section 8 Company under Section 8 Companies Act. They promote various fields like art, science, commerce, research, sports, charity, religion, social welfare, environment protection etc. They use their profits for their cause. They do not pay dividends to their members.
   - Dormant Company: It is registered under the companies act. It does not carry out any significant accounting transaction. It carries out a future project or hold an asset or any intellectual property. It can apply to ROC to obtain the status of a dormant company.
   - Producer Company: It is a hybrid between a private limited company and a cooperative society. It is done to get the benefits of both cooperative society and a company i.e. goodness of cooperative society and efficiency of corporate set-up. It has unique elements of both. It carries out the following activities-
     a) All production related activities of its members
     b) All processing related activities of its members and
     c) All manufacturing activities, selling of machinery, equipment or consumables to its members.
   - Investment Company: A company which is engaged in business of investing the pooled capital of investors in financial securities. It is engaged in the management, sale and marketing of investment products to the public. It makes profits by buying and selling shares, property, bonds, cash, other funds and other assets.

Formation of a Company

Promotion

- Promoter
  - Functions
  - Types
- Promotion – steps
  - Discovery of Business opportunities
  - Assembling
  - Financial Planning

Incorporation

- Selection of type of Company
- Appointment of Directors
- Selection of the name of the proposed company
- Submitting the Application for Incorporation
  - Memorandum
  - Articles
- Documents
- Particulars of Subscribers
- Registered office of the company
- Issue of certificate of incorporation

Capital Subscription

- Minimum Subscription
- Allotment of share
- Capital structure
- Public companies' capital subscription-steps
  - SEBI Approval
  - Filing of Prospectus
  - Appointment of bankers, brokers and Underwriters
  - Minimum Subscription
  - Application to Stock Exchange
  - Allotment of shares

Commencement

- Public & Private not having Share Capital
- Public & Private having Share Capital
- Procedure for obtaining this certificate
  - Declaration by the Director
  - Consequences of not filing the required declaration
  - Application for certificate
  - Issue of Certificate

Figure 5.414: Steps in Formation of a Company

Source:Jain & Sherlekar (2018)

Step 1 – Promoting a Company

A company comes into existence by a process called as Incorporation or formation of a company. Once it is incorporated, it becomes separate entity from investors and employees of the company. The first step to form a company is promotion and a person takes the initiation to persuade others to contribute capital before it is incorporated and that person is called promoter. The stages for formation of the company are four- Promotion, Incorporation, capital subscription and commencement of business as shown above.

Promoter: He is the person who takes various steps in setting up of a business organization. According to Gutman and Dougall, "Promoter is the person who assembles the men, money and the materials into a going concern".

According to Section 2(69) of the Companies Act, 2013, "Promoter is a person

a) Who has been named as such in a prospectus or is identified by the company in the annual return referred to in the section 92; or
b) Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
c) In accordance with whose advice, directions or instructions, the Board of Directors of the company is accustomed to act.
Provided that sub-clause (c) shall not apply to a person who is acting merely in a professional capacity.

Functions of a Promoter/Entrepreneur

Promoter should be ready to take risks while starting and running a company. These risks should be managed well during the course of action to minimize loss and remain competitive in the market. It is his/her responsibility to plan for a sustainable and profitable project. This project is based upon the resources available and how much value can be added to those for profit generation, demand in market and customers' preference to spend money on similar or substitute products. Promoters also plan for financing the company, the main idea is to keep cost of capital low and make sure that in long term there is no loss for promoter and other stakeholders. Promoter also plan for human resource, profit utilization, research and development, governance, other managerial functions and overall strategy to run the company and make it profitable in long run.

Step 2 – Incorporation of Company

The Incorporation is the second stage which means the process of giving birth to a new company. This is a legal stage by which promoter undertakes various steps to get the company registered with Registrar of Companies (ROC). The formalities include:

- Selection of type of company: As per Section 3(1) of the Companies Act, 2013, a company can be established for any lawful purpose by-
  - Two or more persons for establishment of private company
  - Seven or more persons for establishment of public company
  - One person establishment of One Person Company
- Appointment of Directors: The next step is appointing required number of directors in the proposed company. For instance, one director for One Person Company, two for Private Company and three for public limited companies.
- Selection of Name of the proposed Company: The directors should apply for the name of the company which has to be approved by ROC(Registrar Of Companies) of the state where it is to be established in e-form INC 1 with the prescribed fee of Rs.1000/-. The application should be digitally signed by the director and it should be uploaded on the MCA 21 portal.
- Submitting the application for Incorporation: The proposed name should reflect the object of the company adhering to the guidelines of Ministry of Corporate Affairs. This application is valid for 60 days from the date of application. The promoter applies in e-form INC 7 along with necessary documents within the above said period. If he fails to file, it is lapsed and the promoter have to reapply. The necessary documents to be attached with the application are
  - Memorandum of association (MoA): It is the most important document continuing fundamental rules related to the constitution and scope of activities of a company.
  - Articles of Association (AoA): This is another important document required along with the application, consisting of rules, regulations and by-laws for its internal management and to fulfill the objectives of MoA.
- Other Documents: These includes declaration by CA, CA and CWA that all formalities are duly filled in, affidavit by first directors that they were never convicted for any offence in the previous 5 years, specimen signature and latest photograph of subscribers to MoA thoroughly scrutinized by bankers or notary and consent to act as directors and disclosure of interest in the company by the directors
- Particulars of Subscribers: The details of individual subscribers including their name, surname, address, nationality, etc. If the subscriber is corporate/company, then details

including Corporate Identity Number (CIN), name, address of registered offices, etc. are required.

- Registered offices of the company: The Company in its memorandum should mention the registered office located in the state with full address within 15 days of its incorporation. The company can submit online in e-form INC 22 of its registered office giving all details with any of the documents such as title document of the premises, rent receipt or copy of lease, authorization from the owner who permitted the premises, the utility bills like water bill, electricity bill, gas bill or so.
- Issue of Certificate of Incorporation: The Registrar of Companies examines all the above documents and if satisfied issues a certificate of incorporation along with a unique Corporate Identification Number (CIN) to the company. This certificate is dated, registered and signed by Registrar. This is the proof that the company is incorporated. Once incorporated, the name and details of directors are displayed on the MCA website. If the company having share capital wants to start the business, then it has to obtain a separate certificate of commencement of business according to Section 11 of the Companies Act, 2013.

Step 3 - Capital Subscription

The third step in the formation of the company is raising capital for the activities connected with the production or marketing or assembling of goods and services. A private company can start the business immediately though it does not have share capital. But a public company cannot start the business unless minimum subscription as mentioned in the prospectus has been subscribed. The allotment money should be in cash and is received. The allotment of shares should be properly made. For Capital subscription, the directors have to prepare and file either prospectus or statement in lieu of prospectus with ROC. The following amendments are made-

- The new Act extended minimum subscription condition to all securities i.e. shares or debentures
- A complete ban on issue of shares at a discount
- Public offering for the issue of global depository receipts

The following steps are taken to raise capital of public companies-

- SEBI Approval
- Filing of Prospectus
- Appointment of Bankers, Brokers and Underwriters
- Minimum subscription
- Application to Stock Exchange
- Allotment of shares

The companies based on share capital are divided into two

a) Public and Private Companies not having share capital: These companies can start its business activities immediately after getting the certificate of incorporation from the concerned ROC.

b) Public and Private Companies having share capital: These newly incorporated companies cannot start its business activities immediately after getting the certificate of incorporation from the concerned ROC. They should obtain certificate of commencement of business before commencing the business or exercise of borrowing powers. The procedure to get this certificate is as follows-

- Declaration by the Director: The director has to file a declaration stating that
    - ✓ The value of shares agreed by every subscriber to memorandum has paid and
    - ✓ The paid-up capital of the public company is not less than 5 lakhs on the date of making this declaration
      (or)
    - ✓ The paid-up capital of the privatecompany is not less than 1 lakh on the date of making this declaration

  The company has filed a verification of its registered office as mentioned in Section 12(2) with ROC.
- Consequences if the above declaration is not filed:
    - ✓ Penal Provision: If the company fails to comply the requirements as stated above, the company is liable to a penalty of Rs. 5000/- and the officer who is in default is liable to penalty of Rs. 1000/- for every day during which the default continues.

Removal of Name from Register of companies: When no declaration is filed within 180 days of the date of incorporation and if registrar believes that the company is not carrying out any business, he may remove the name of the company from the ROC.

Step 4 - Commencement of business

Application for commencement of business: The Company has to file e-form INC 21 with the following documents attached to it. These are

- E-form INC 10 of specimen signature which is already submitted with INC 1 form at the time of incorporation
- A declaration on a stamp paper of Rs 20/- signed by the directors prior to commencement of business
- Resolution in the Board meeting stating that the company received subscription money in full and the amount will be deposited in bank account of the company.
- If it is non-banking financial company (NBFC), certificate of Registration issued by RBI is to be attached.
- Optional attachments such as Bank Account Statement, Minutes of the First Board Meeting duly signed by Directors can be attached Issue of Commencement of Business Certificate. If the Registrar finds that e-form INC 21 along with all attachments and related compliance are all in order and correct, he approves it and then issues Certificate of Commencement of Business or Trading Certificate.

Check Your Knowledge

Question 1 – Write three differences between public and private company?
Question 2 – Mention key laws and regulations that govern company law in your jurisdiction?
Question 3 – Registering a startup under Limited Liability Company is beneficial, explain with logic, why or why not?

To Do Activity

Find two NGOs, one FPO and a new social enterprise in your vicinity, try to get the following documents from them:

a) By-laws
b) Article of association
c) Memorandum of understanding
d) Incorporation certification
e) Details of directors, and
f) Commencement of business certificate

Make a short note on the kind of information available in these documents and how is it different for different organizations viz. NGO, FPO & Social Enterprise.

5.3 Foreign Exchange Management Act

Foreign exchange transactions were regulated by Foreign Exchange Regulation Act (FERA), 1973 in India. This Act was regulated to prevent the outflow of Indian currency and to regulate certain aspects of business activities outside the country by Indian companies and in India by foreign companies. The objectives of FERA, 1973 were to regulate:

- Certain payments
- Dealings in foreign exchange and securities
- The transactions affecting foreign exchange indirectly
- Import and export of currency and bullion
- Holding of immovable property outside India
- Employment of foreign nationals
- Holding of immovable property in India by NRIs
- Foreign companies
- Conservation of foreign exchange resources and utilize for development

The FERA act 1973 was for the whole country. All Indians, inside or outside were covered under this Act. This Act was ineffective and was not suitable to the changes in economic policies in 1990s. The need for the careful use of foreign exchange was recognized. There was the demand for less aggressive and soft law in gentle language. Thus, came a new Act called Foreign Exchange Management Act, 1999 (FEMA).

It is very important to know the differences between FERA & FEMA which is as under-

Table 5.2: Difference between FERA, 1973 and FEMA, 1999

Differences between FERA & FEMA		
Basis for Difference	**FERA, 1973**	**FEMA, 1999**
Meaning	An act to regulate payments & foreign Exchange	An Act to facilitate external trade, payments & forex market
Enactment	1973, old	1999, new
Sections	81	49
Reason to introduce	When foreign exchange reserves were low	When foreign exchange reserves were satisfactory
Approach	Rigid towards forex transactions	Flexible towards forex transactions
Residential Status	Residential Status is determined by citizenship	Residential Status is determined when the person stays in India for more than 6 months
Violation	Criminal offence	Civil offence
Penalty	Imprisonment	Fine & Imprisonment(if fine not paid in time)

The economic policy of liberalization of 1991 introduced by Dr. Manmohan Singh opened gates for foreign investment in many sectors. The RBI constituted Tarapore Committee to study on full convertibility of rupee on capital account. The committee recommended many drastic changes in the present legislation that regulate foreign exchange in the country. Due to this, FERA was replaced by FEMA in the country.

The objectives of FEMA, 1993 in India are

- To facilitate external trade and payments
- To promote an orderly development and maintenance of foreign exchange market

The Act is extended to the whole of India. It extends to all branches, offices and agencies outside India owned and controlled by a person residing in India or inside India owned and controlled by NRIs.

Features of FEMA

- Dealings In Foreign Exchange
- Holdings of Foreign Exchange
- Current Account Transactions
- Capital Account Transactions
- Export of goods and services
- Relations and Repatriation of Foreign Exchange
- Exemption from Realization and Repatriation in certain cases

- Dealings in Foreign Exchange: The rules and regulations permitted by RBI in dealings in Foreign exchange by People is explained very clearly that no person shall
    - Deal in foreign exchange with any unauthorized person
    - Make payment to any person residing outside India in any manner
    - Receive any amount from unauthorized person residing outside India in any manner

- Enter into any financial transaction as consideration for an asset outside India by any person

➢ Holding of Foreign Exchange: No person shall hold, own, possess or transfer any foreign exchange or immovable property located outside India

➢ Current Account Transactions: RBI for public interest can impose restrictions on current account transactions. Any person can sell or withdraw foreign exchange from an authorized person if it is a current account transaction.

➢ Capital Account Transactions: RBI for public interest can impose restrictions on capital account transactions. Any person can sell or withdraw foreign exchange from an authorized person if it is a capital account transaction. The RBI consulting Central government specify-

- Permissible classes of capital account transactions
- Admissible limit of foreign exchange for those transactions

The RBI may prohibit, restrict or regulate the following-

- Transfer or issue of any security by a person residing outside India
- Transfer or issue of any foreign security by a person residing outside India
- Transfer or issue of any security by branch, agency or office of a person residing outside India
- Any borrowing or lending in foreign exchange in any manner-form or name
- Any borrowing or lending in foreign exchange in any manner-rupees, form or name between person residing in India and person residing outside India
- Deposits between person residing in India and person residing outside India
- Export, import or holding of currency
- Transfer of immovable property outside India by a person residing in India other than a lease not less than 5 years
- Acquisition or Transfer of immovable property outside India by a person residing outside India other than a lease not less than 5 years
- Giving guarantee for any debt or so in two situations- (i) by a person residing in India and owed to a person residing outside India (ii) by a person residing outside India

Transactions related to immovable property, investments, currency, establishment of office/branch/agency etc. are all regulated, prohibited and restricted as per the provisions in the Act for the smooth functioning of Indian Economy.

➢ Export of goods and services: Every exporter of goods shall

- Furnish to RBI all true and correct particulars of goods and ascertained value of goods and if not ascertained, he should calculate expecting the prevailing market conditions outside India.
- Furnish information to RBI for ensuring realization of sale proceeds

➢ Relations and Repatriation of Foreign Exchange: If the amount of foreign exchange is due or accrued to any person residing in India, he will ask for that amount within specified period by taking necessary steps to realize and repatriate to India.

➢ Exemption from Realization and Repatriation in certain cases: They are

- Possession of foreign currency by any person up to such limit specified by RBI
- A person or Class of persons holding or operating up to such limit specified by RBI
- Foreign exchange received or acquired before 8th July, 1947 or any income arising which is held by person if the RBI gives permission
- Foreign exchange by way of gift or inheritance or income arising as said above up to such limit as specified by RBI
- Foreign exchange received by legitimate means up to such limit as RBI may specify
- Any other such receipts in Foreign exchange as the RBI may specify

Authorized Person under FEMA

1. If a person applies for authorization by filling properly the application, then RBI will authorize the person as authorized person to deal with foreign exchange. He may be called as authorized dealer, money changer, off shore banking unit or any other manner which RBI feels fit.
2. The authorization will not be oral but in writing and is subjected to the conditions thereof in the Act
3. The RBI has full authority to revoke authorization if it is satisfied that
    - It is in public interest to do so or
    - If authorized dealer failed to accomplish the conditions for authorization. He will be given reasonable opportunity to make representation in the matter
4. An authorized dealer shall comply with all the directions of RBI as and when it gives in his dealings in foreign exchange.
5. If an authorized person undertakes any transaction on behalf of any other person, then he shall make such declaration that the information provided comply with the provisions of the Act. If it is not there, he will report the same to RBI.
6. If the person purchases foreign exchange for a purpose written in declaration and submitted to authorized person but does not use for that purpose, then he shall be deemed to have committed contravention of the provisions of the Act.

Reserve Bank's Powers to issue directions to Authorized dealer

- The RBI may, for the purpose of securing compliance with the provisions, rules, regulations, notifications or directions of FEMA act, give to the authorized dealer any direction regarding payment or doing or stopping from doing any act related to foreign exchange.
- The RBI may, for the purpose of securing compliance with the provisions, rules, regulations, notifications or directions of FEMA act, give to the authorized dealer to furnish information in such manner as it deems fit.
- If the authorized dealer contravenes any provisions, rules, regulations, notifications or directions of FEMA act given by RBI, then he is liable to penalty which may extend to 10000/- rupees and contravention continues, then an additional penalty which may extend to two thousand rupees for everyday during which the contravention continues.

  Powers to Reserve Bank to Inspect Authorized Dealer

    1. The RBI may at any time inspect any office of the authorized dealer's office for the purpose of:
        - ✓ Verifying the correctness of information provided by the authorized dealer to RBI

- ✓ Obtaining information which is not provided by the authorized dealer to RBI on being called upon to do so
- ✓ Securing compliance with the provisions of the Act

2. The RBI can ask authorized dealer if he is a person and if it is a company, director, officer, partner to provide books, accounts and other documents in their custody for inspection.

Contravention and Penalties

1. If any person contravenes provisions, rules, regulations, direction, notification, or order under this Act, then is liable to a penalty upon adjudication up to thrice the total amount involved in such contravention if the amount can be calculated and if it cannot be calculated it is up to two lakh rupees. If such contravention continues, the penalty is extended to 5000/- rupees during the contravention continue every day after the first day.
2. Any Adjudicating Authority after imposing penalty finds that any foreign exchange in respect of which the contravention has taken place shall be confiscated to the Central Government and directed to bring back that to India or retained outside India as per directions made in this behalf.

Directorate of Enforcement

For the purpose of this Act, The central government shall establish a Directorate of Enforcement with a Director and other officers as Officers of Enforcement. There may be Special Director of Enforcement, Additional Director of Enforcement, and Deputy Director of Enforcement and Assistant Director of Enforcement. They are asked to exercise the powers and discharge the duties conferred or imposed on them under this FEMA Act.

Power to Search, Seize

The Director of Enforcement and other officers shall take up investigation of contraventions under this Act. The Central Government may also authorize any officer in Central Government, State Government, and RBI to investigate any contravention. These officers will not be below the rank of undersecretary to the Government. All the officers are asked to exercise the powers and discharge the duties conferred or imposed on them under this FEMA Act.

Check Your Knowledge

Question 1 – How is FEMA different from FERA?

Question 2 – Why it is important for a regulator to keep check on money given by foreign agency to any Indian company or NGO in the form of debt, equity or donation?

Question 3 – Does getting donations from NRIs into Indian company registered under Section 8 of company's act require any separate permission or license, if yes name it and explain its features?

5.4 Consumer Protection Act, 1986

In modern marketing concept, the consumer is the king. The needs, wants, taste, fashion, likes & dislikes, and expectation of a consumer is studied and analyzed by the marketers to prepare the strategy to compete with one another in this competitive dynamic environment of business. Due to development of trade and commerce, new and innovative consumer goods are floating in the market. A well-organized sector of manufacturers, traders, service providers came to existence affecting the relationship between the marketer and consumer. Due to heavy competition, there is a race in the market to sell their products making vigorous efforts on promoting their products through advertisements, free gifts, discounts and other means. Sometimes the promotion techniques especially advertisements are so fake and misleading that the protection of consumers is significantly affected. Though there are many Acts like Sales of Goods Act, 1930, Indian Contract Act, 1872, Code of Civil Procedure, 1908, etc. to protect the consumers and take stringent action against adulterated and substandard goods, very little efforts are done and achieved for consumer protection.

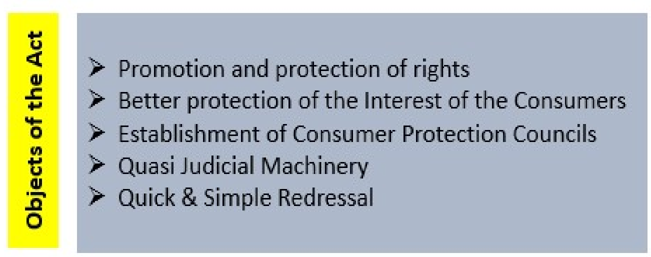
Thus, the need is felt to provide relief to the consumers and to protect and safeguard the interest of the consumers. The result is the enactment of CONSUMER PROTECTION ACT, 1986 (COPRA).

According to Consumer Protection Act, 1986, “An act to provide for better protection of the interest of consumers and for that purpose to make provision for the establishment of consumer councils and other authorities for the settlement of consumer’s disputes and for matters connected therewith is Consumer Protection Act, 1986 68 of 1986) dated 24th December, 1986.”

The Act is extended to whole of India and applied to all goods and services as provided by Central Government by notification.

Table 5.3: Objectives of Consumer Protection Act, 1986

Source: Writinglaw.in(2017)



Objectives of the Consumer Protection Act, 1986

- Promotion and protection of rights: They are
  - ✓ Right to be protected against goods which are dangerous to life and property
  - ✓ Right to be informed about the goods in detail such as quality, quantity, price etc.
  - ✓ Right to be assured about prices
  - ✓ Right to be heard in forums that the consumer interest are received with due consideration
  - ✓ Right to seek redressal against unfair trade practices
  - ✓ Right to consumer education
- Better protection of the Interest of the Consumers
- Establishment of Consumer Protection Councils
- Quasi-Judicial Machinery
- Quick & Simple Redressal

Table 5.4: Scope of the Act
Source: Writinglaw.in (2017)

Scope of the Act
1. The Act is extended to whole of India 2. The Act id divided into 4 chapters and 31 sections 3. The Act applies to all types of goods and services, public utilities and public sector undertakings 4. This Act deals with all types of complaints relating to goods, unfair trade practices. 5. This Act does not consider a suit pending in civil court i.e. it will not be heard in consumer court.

Definitions under the Act

Table 5.5 Various Definitions under Consumer Protection Act
Source: Writinglaw.in (2017)

Section	Word	Definition
2(1)(a)	Laboratory	Recognized by Central, State Government and any organization set by Central,/State Government to test goods whether they suffer any defect
2(1)(aa)	Branch office	Any establishment as said by opposition party Any establishment carrying activities as of head office
2(1)(b)	Complainant	A consumer/voluntary consumer association registered/ Central or State Government/ one or more consumers/ legal heir in case of death of consumer
2(1)(c)	Complaint	Any allegation in writing that Unfair & restrictive trade practice is done Goods bought suffer defects Services hired suffer from deficiency in any respect Excess price charged Goods hazardous to life
2(1)(d)	Consumer	Buys any goods for a consideration paid/promised/partly paid/partly promised/deferred payment User of goods other than buyer for a consideration paid/promised/partly paid/partly promised/deferred payment Used goods with the approval of that person
2(1)(e)	Consumer dispute	A dispute where the person against whom a complaint has been made, denies the allegations contained in the complaint
2(1)(f)	Defect	Any fault, imperfection, shortcoming in quality, quantity, purity, potency, substandard in relation to goods

Section	Word	Definition
2(1)(g)	Deficiency	Any fault, imperfection, shortcoming , inadequacy in quality, quantity, purity, potency, substandard in relation to services
2(1)(h)	District Forum	Consumer Disputes Redressal Forum established under clause (a) of section 9
2(1)(i)	Goods	As explained in the Sales of Goods Act, 1930 (3 of 1930)
2(1)(j)	Manufacturer	Manufactures/assembles/put mark on goods manufactured by other manufacturer
2(1)(jj)	Member	President & a member of National/State commission / District forum
2(1)(k)	National Commission	National Consumer Disputes Redressal Commission established in official Gazette
2(1)(l)	Notification	Notification published in official gazette
2(1)(m)	Person	A firm whether registered or not/a Hindu undivided family/a cooperative society/other association registered under Societies Registration Act,1860 or not
2(1)(n)	Prescribed	Prescribed by rules by State/Central Government

Section	Word	Definition
2(1)(nn)	Regulation	Regulations made by the National Commission under this Act
2(1)(nnn)	Restrictive Trade Practice	Which brings manipulation of price/conditions/delivery/affect flow of supplies in relation to goods including delay in supply, qualitative services as condition precedent in relation to goods and services
2(1)(o)	Service	Services in relation to banking, insurance, transport, processing of electrical 7 other energy, lodging, housing, entertainment, amusement, news or other information
2(1)(oo)	Spurious goods and services	Goods and services which are claimed to be genuine but actually they are not
2(1)(p)	State Commission	Consumer Disputes Redressal Commission established in a state

Section	Word	Definition
2(1)(q)	Trader	A person who sells or distributes any goods for sale includes manufacturer thereof
2(1)(r)	Unfair Trade Practice	Which brings manipulation of price/conditions/delivery/affect flow of supplies in relation to goods including delay in supply, qualitative services as condition precedent in relation to goods and services Falsely representing goods and services/ warranty or guarantee/in advertisements/materially misleading etc. (refer Act for detailed definition)

5.5 The Consumer Protection (Amendment) Act, 2019

There are many changes in business world. The economic policies of 1991, Liberalization, globalization and Privatization, service sector development, online marketing, online payments etc. are the factors which make the businessman to think, analyze and take decisions to be successful. The study of consumer behavior is important as they change very fast. All such changes forced to rethink about Consumer Protection Act, 1986. Many amendments were made. Recently, the Parliament of India repealed and replaced it with **The Consumer Protection (Amendment) Act, 2019.** The Act was notified in the official Gazette on 9th August, 2019.

Table 5.6: Features of Consumer Protection (Amendment) Act, 2019

Source: Writinglaw.in(2017)

FEATURES OF THE CONSUMER PROTECTION (AMENDMENT) ACT, 2019

- Establishment of the Central Consumer Protection Authority (CCPA)
- Rights of consumers
- Prohibition and penalty for a misleading advertisement
- Consumer Disputes Redressal Commission
- Legal representatives can complain

Features of the Consumer Protection (Amendment) Act, 2019

Establishment of the Central Consumer Protection Authority (CCPA)

This institution is headed by Director-General. This authority promotes, protect and enforce the rights of consumers. They look into matters which affects the interests and rights of consumers. They regulate cases related to violation of consumer rights, misleading advertisements and unfair trade practices. They have the right to impose penalty on the persons who violated the rights of consumers. They pass orders to recall goods or withdraw services, reimbursements of cash paid by consumers and stopping the unfair trade practices. They have an investigation wing which enquires about violations of rules and take necessary actions.

Rights of consumers

The important six rights are Right to be heard, Right to Information, Right to choose, Right to safety, Right to seek redressal and Right to consumer education

Prohibition and penalty for a misleading advertisement

The CCPA have the power to impose fine and 2 year imprisonment for misleading and false advertisements on manufacturer. If the offence is misleading advertisement, the fine of Rs. 50 lakh and imprisonment of 5 years would be imposed. For instance, advertisement of Maggi noodles claiming to be fast food option and healthy food for children had more monosodium glutamate (MSG) and lead. Its manufacturer, Nestle was taken to consumer court by the Government. The court ordered an FIR against celebrities-Madhuri Dixit, Amitabh Bachhan and Priety Zinta for acting in the ads of Maggi for a fee.

Consumer Disputes Redressal Commission

These are established at three levels- District, State and National. The complaints taken by these commissions are related to overcharging and deceptive charging, unfair or restrictive trade practices, sale of hazardous goods and services, sale of defective goods and deficiency in providing services. The National CDRC, State CDRC and District CDRC will hear the complaints more than 10 crores , one crore but less than 10 crores and up to one crore respectively.

- ❖ Legal representatives can complain: In case of death of a consumer, his legal representative can pursue complaint.

Consumer Protection Council

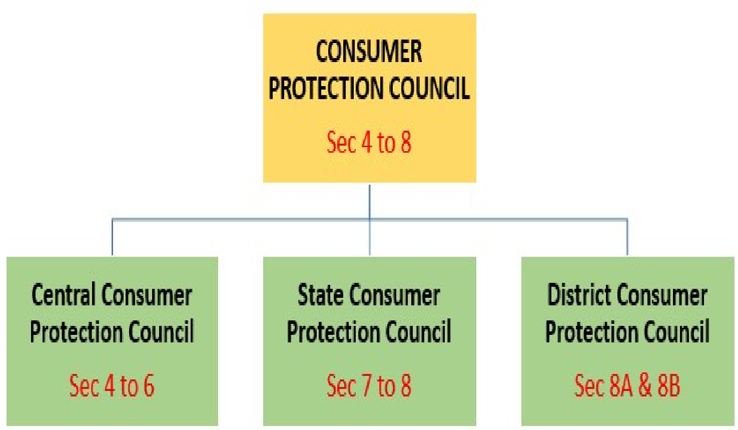


Figure 205.5: Structure of Consumer Protection Council

Source: Writinglaw.in (2017)

The Consumer Protection Councils are established to protect and promote the interests of consumers. They are advisory bodies established at three levels-Central, State and District.

Table 5.7: Various Consumer Protection Councils at Central, State and District Level

Particulars	Central consumer protection council	State consumer protection council	Central consumer protect council
Establishment	Sec4(1) By notification w.e.f. such date as may be specified in such notification by central government.	Sec 7 By notification w.e.f. such date as may be specified in such notification by state government.	Sec8- A(1) By notification w.e.f. such date as may be specified i such notification by centra government.
Composition	Sec 4(2) Chairman – Minister of consumer affairs. Members – officials / non officials/ experts prescribed by central government.	Sec 7(2) Chairman – Minister of consumer affairs in the state.. Members – officials / non officials/ experts prescribed by state government.	Sec 8- A(2) Chairman – collector of th district.. Members – officials / non officials/ experts prescribe by state government.
Procedure for meetings	Sec 5 One meeting in a year. Sometimes as and when necessary. Time place and agenda is decided by CCPC. Procedure for meeting is decided by CCPC	Sec 7(3) & 7(4). Two meetings in a year. Sometimes as and when necessary. Time place and agenda is decided by SCPC. Procedure for meeting is decided by SCPC	Sec 8-A(3) & 8-A(4). Two meetings in a year. Sometimes as and when necessary. Time place and agenda is decided by Collector. Procedure for meeting is decided by Collector
Objects	Sec 6 Right to safety. Sec 6(a)- to strengthen the safety standards of consumer goods. Right to information. Sec 6(b). to provide information about quality, purity and standard of products prior to purchase. Right to choose. Sec 6(c). to have access to a variety of goods and serices. Right to be heard. Sec 6(d). to provide redressal machinery that ensures quick and easy redressal. Right against exploitation. 6(e). to seek redressal against unfair trade practices. Right to consumer education. Sec 6(f). to make consumer aware about their rights and redressal machinery	Sec 8 To protect the rights as mentioned in CCPC of the consumers within the state. All the rights from sec 6(a) to sec 6(f)	Sec 8-B To protect the rights as mentioned in CCPC of the consumers within the district. All the rights from sec 6(a) to sec 6(f)

Problems of Consumers

1. Ignorance of consumer rights: Most of the consumers in India are ignorant of all the six rights mentioned above. They are unaware of the fact that the matter could have been taken to redressal machinery when they are cheated by the seller. The Government is taking many initiatives to educate consumers about their rights through "Jago Grahak Jago", celebrating consumer day, curriculum in schools, colleges and universities etc.
2. Stereotype approach of avoiding legal action: A layman consumer has a stereotype approach for a legal action against the other party. He lost faith in judicial system of our country because of many flaws in this system. To curb this approach, the Government incorporated the Consumer Protection Act to provide quick and speedy redressal to consumer grievances. The remedies are:
   - ✓ As per the Act, the admissibility of complain shall be decided within 21 days of complaint received.
   - ✓ Likewise, every complaint shall be decided within 3 months from the date of notice by opposite party
   - ✓ Complaints can be made through registered consumer association registered either under MRTP Act, 1987 or Bureau of Indian Standards (Recognition of consumers, Association) Rules, 1991.
3. Unaware of Standards of quality: The consumer is unaware of standards of quality such as ISI mark for electrical goods, Agmark for food items, FPO certification for fruits etc. Before buying the consumer must satisfy himself about the standards of quality of the goods and then buy.
4. Avoiding Cash receipts: The ignorant consumer, in order to bargain will make lame excuses to the seller not to give cash memos/receipts. This is not a good act. He should act judiciously and take cash receipt or cash memo or invoice bill or guarantee card for the goods he is purchasing. The bill/receipt will be the proof in case of any discrepancy.
5. Legal bindings of printed T & Cs: The Terms and Conditions (T & Cs) written at the end or back of the receipt should be carefully read though they might be written in very minute letters. If the consumer signs without reading, it is implied that he had read. He is legally bound by the terms and conditions. For instance, if what is printed on the guarantee card of a pressure cooker holds the liability of the manufacturer only for repairs, the court extends the penalty of repairs but if the cooker caused damage to the person, the court extends penalty for that loss too.
6. Harassment due to delay in decisions: The consumer experiences a long gestation period involved in the judgement process. Sometimes he gets fed up and withdraw the complaint. So to avoid this, the Act has provided three-tier redressal machinery to ensure quick redressal of consumer grievances. The remedies are-
   - ✓ As per the Act, the admissibility of complain shall be decided within 21 days of complaint received.
   - ✓ Likewise, every complaint shall be decided within 3 months from the date of notice by opposite party
   - ✓ Complaints can be made through registered consumer association registered either under MRTP Act, 1987 or Bureau of Indian Standards (Recognition of consumers, Association) Rules, 1991.
   - ✓ If an early complaint is dismissed as withdrawn to make a fresh complaint, then that complaint is maintained and not barred

7. Problems of postponement: The cumbersome procedure – preferring an appeal, hearings, delaying in decision-giving, postponements etc. make the consumer to avoid making an appeal. To provide expeditious hearing of appeal, quicker decisions and restriction of adjournment, the Act has the following remedies
    - ✓ Dispose the appeal within 90 days if it is appealed in State or National commission
    - ✓ No adjournment unless cause and reason for adjournment is in writing before the commissions.
    - ✓ Orders for the costs occasioned by the adjournment
    - ✓ If the case is disposed after the period so specified (adjournment), the time and reasons are recorded in writing.
8. Problems relating to filing a complaint: Fear of cumbersome procedure, the consumer hesitate to file a case. But in this Act, it is made very simple. He can put the case by himself, he need not hire a lawyer, no court fee has to be paid and moreover the decisions taken will be quick. It takes less time than an ordinary civil court.

Jurisdiction concerning money-the claim exceeds one crore

- ❖ Territorial Jurisdiction- it shall be instituted by this commission if any dispute is pending, State commission taken up case not within its jurisdiction, if state commission does not exercised its jurisdiction and if exercised illegally.
- ❖ Procedure in relation to complaint: u/s 22
    - Manner in filing a complaint
    - Procedure on admission of complaint
    - Relief available to consumer
- ❖ Appeal u/s 23: The following provisions for appeal by the aggrieved party against the National Commission ------
    - The appeal against the order of the National commission lies to Supreme Court
    - The appeal can be made within 30 days from the date of order of National commission.
    - The person making appeal has to deposit 50 % of decreed amount or 50000 rupees whichever is less.
- ❖ Constitution of Benches: Sec 20 (1A): The Bench shall constitute with President with one or more members. The decisions will be taken by the bench on the basis of majority's opinion.
- ❖ Administrative Control: Sec 24(B): It has control over State Commissions in the following way-
    - Asking for periodical return regarding the institution, disposal, pendency of cases
    - Instructions to adopt uniform procedure in hearing of matters, English translations of cases in any language, grant of copies of documents
    - Looking in to the functions of State Commission

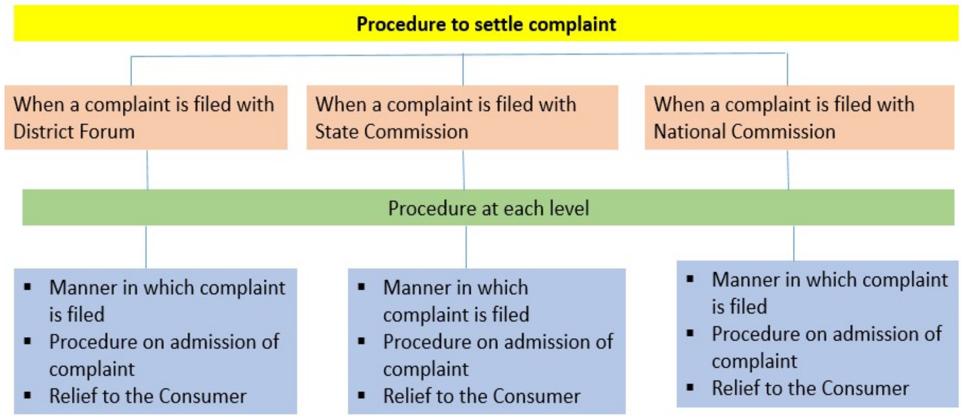


Figure 5.6: Procedure to Settle Complaint

The Procedure to settle complaints of consumers at all levels- District, State and National level are almost similar. We shall take understand one and the same can be applied to the other two commissions. Manner in which complaint is filed: The questions have to be answered to know the manner in which the complaint is to be filed by an aggrieved party. The questions are

i. Who can file a complaint?
ii. Where to file a complaint?
iii. How to file a complaint?
iv. Decision of District Forum/State Commission/National Commission either to accept or reject a complaint.

(i) Who can file a complaint? A complaint regarding goods sold, agreed to be sold, delivered and services hired or agreed to be hired may be filed with District Forum, State and National commissions by the following-
- A person who is a consumer
- Any recognized consumer association
- One or more consumers by taking permission fromDistrict Forum, State and National commissions
- The State or Central Government

(ii) Where to file a complaint?

Value of goods and services	Where to file a complaint
If value of goods & services < Rs. 20 lakhs	- District Forum
If value of goods & services Rs. 20 lakhs-<one crore	- State commission
If value of goods & services > Rs. One crore	- National commission

(iii) How to file a complaint? A prescribed fee before District Forum, State and National commissions has to be paid as follows-

Relief Claimed for goods & services	Prescribed fee by Demand Draft
Upto Rs. One lakh	Rs.100/-
Rs. One lakh to Rs. 5 lakhs	Rs.200/-
Rs. 5 lakhs to Rs.10 lakhs	Rs.400/-
Rs. 10 lakhs to Rs.20 lakhs	Rs.500/-

An application with all the details of goods / services found defect must be written. The bill must be enclosed. Signature of the complainant must be there. Five copies must be taken. Three must be submitted, one to the opposite party and one with the complainant.

(iv) Decision by Forum /commissions to accept or reject the complaint: Right to be heard is there. Hence, rejection is not at all the question.

Procedure on admission of complaint: (Here we are taking Forum to understand this point) The District Forum Shall:

- Refer to the opposite party within 21 days from the date of admission directing him to give explanation within 30 days or 15 days can be extended more by the permission from Forum
- If the opposite party denies the allegations, then the Forum proceed in the manner in clauses (c) to (g) under the Act.
- If the complainant alleges a defect, Forum collects sample and sent to laboratory and gets report within 45 days and the period can be extended by the permission from Forum.
- Testing fee is collected from complainant
- The report will be sent to the opposite party
- The opposite party or complainant to submit in writing their objections on the report made by laboratory
- The Forum gives order under section 14.
- Expeditious hearing of complaint: A complaint will be decided within 3 months. A complaint will be decided within 5 months if the samples are to be tested in laboratory.No adjournment will be given unless reasons and cause given is satisfied by Forum. After adjournment period, the case is disposed, then the reasons and causes are recorded in writing. If Forum feels it is necessary to dispose early, it may pass an interim order.

- Relief to the Consumer: They are
  - The opposite party may direct to remove the defect pointed by complainant or laboratory
  - Replacement of similar new goods without defects
  - Award compensation and punitive damages for any loss or injury suffered due to negligence of the opposite party
  - Removal of defects or deficiencies in services
  - Order not to offer hazardous goods for sale
  - Order to stop the manufacture of hazardous goods

- If many consumers are affected, then the Forum0 may work out to pay the amount which will be not less than 5 % of the value of defective goods sold
- If misleading advertisements are causing damages, then the Forum directs opposite party to issue corrective advertisement
- Make order for sufficient costs to the parties affected

Issues to be taken care of while granting relief to the aggrieved party

- The proceeding will be conducted by President and at least one member of the Forum. If the member present in the first proceeding is unable to attend the other proceedings, then the President with another one member can proceed from the stage at which it was last heard.
- Every order passed by the Forum should be signed by President and the member/members who have conducted the proceedings otherwise it is invalid before the court of law.
- If there are differences between President and members, then the majority is law i.e. majority opinion will be considered u/s 14(2A) of the Act.
- The minimum amount of sum to be payable to consumers shall not be less than 5 % of the value of defective goods sold.
- The amount will be credited in favor of such person and utilized in such a manner as prescribed by the Act.

Check Your Knowledge

Question 1 - Discuss the jurisdiction of various forums for the purpose of Consumer Protection Act, 1986.

Question 2 - Collect two cases from Registered Consumer Association in your District and make a report of it.

Table 5.8: Difference between Consumer Protection Act 1986 and 2019

Source: Writinglaw.in(2017)

Basis of difference	Consumer Protection Act,1986	Consumer Protection Act,2019
Scope of law	All goods and services for consideration and excluded are free and personal services	All goods and services including telecom, housing construction, and all modes of transactions (online, teleshopping, etc.) for consideration. Excluded are same as 1986 Act- free and personal services
Unfair trade practices	Includes practices like false representation, misleading advertisements	Apart from false representation & misleading advertisements , failure to issue a bill or receipt; refusal to accept a good returned within 30 days; and disclosure of personal information given in confidence, unless required by law or in public interest are included
Product liability	No Provision	Claim for product liability can be made against manufacturer, service provider, and seller. Relief can be obtained.
Unfair contracts	No Provision	Six contract terms which may be held as unfair is listed
Central Protection Councils (CPCs)	CPCs promote and protect the rights of consumers established at the district, state, and national level.	CPCs are advisory bodies for promotion and protection of consumer rights & are established at the District, State and National Level.
Regulator	No Provision	Establishes the Central Consumer Protection Authority (CCPA) to promote, protect, and enforce the rights of consumers and may issue safety notices; pass orders to recall goods, prevent unfair practices, and reimburse purchase price paid; and impose penalties for false and misleading advertisements.
Pecuniary jurisdiction of Commissions	District: Up to Rs 20 lakh; State: Between Rs 20 lakh and up to Rs one crore; National: Above Rs one crore.	District: Up to Rs one crore; State: Between Rs one crore and up to Rs 10 crore; National: above Rs 10 crore.
Composition of Commissions	District: Headed by current or former District Judge and two members. State: Headed by a current or former High Court Judge and at least two members. National: Headed by a current or former Supreme Court Judge and at least four members.	District: Headed by a president and at least two members. State: Headed by a president and at least four members. National: Headed by a president and at least four members
Appointment	Selection Committee (comprising a judicial member and other officials) will recommend members on the Commissions.	No provision for Selection Committee. Central Government will appoint through notification.
Alternate dispute redressal mechanism	No Provision	Mediation cells will be attached to the District, State, and National Commissions
Penalties	If a person does not comply with orders of the Commissions, he may face imprisonment between one month and three years or fine between Rs 2,000 to Rs 10,000, or both.	If a person does not comply with orders of the Commissions, he may face imprisonment up to three years, or a fine not less than Rs 25,000 extendable to Rs one lakh, or both.
E-commerce	No Provision	Defines direct selling, e-commerce and electronic service provider. The central government may prescribe rules for preventing unfair trade practices in e-commerce and direct selling.

Summary of the Chapter

Business and Society are closely inter-related with each other and that there is a great interaction between the two. Business influences the various components of the society and society affects business. Business has to adapt to its internal and external environment. The political and legal systems are founded on the ideologies and values which are directly related to the economic and social goals. For example, there is a combination of public and private sectors in mixed economy as followed in India. There is centrally planned economic system too to safeguard the interests of customers and society. The Government may enact legislation i.e. laws to regulate the conduct of business. The businessmen have to abide by various laws enacted by the Government. In India, the political environment consists of three important political institutions- Legislature, Executive and Judiciary. The powers vested with Legislation are 1. Making policies, 2. Making laws, 3. Budget approvals, 4. Executive control and 5. Act as a mirror of public opinion. The implementation of laws are taken care by Executive. India has federal set up i.e. the powers and functions are divided between central and state governments and are described in the constitution. The legal disputes of business are solved by Judiciary.

The laws related to companies are placed in Companies Act, 1956. The Companies Act, 1956 was amended in 2013 and now it is Companies Act, 2013. According to Sec 2(20) of the Companies Act, 2013, "a company is a company formed under Companies Act, 2013 or under any of the previous laws relating to companies". It is defined as a voluntary association of persons which is an artificial person which is having a separate legal entity with an everlasting succession, a common seal, a common capital divided into transferable shares and limited liability. There is some human agency involved in running a company. If the human agency is working with honesty and integrity, it is well and good for the company. But if it has ill motives to cheat the company, the courts then pierce the corporate veil and look at the persons who cheated for their own benefits. There are many kinds of companies based on incorporation, control, shares, members, liability, ownership, one person company and so on. A company comes into existence by a process called as Incorporation or formation of a company. Once it is incorporated, it becomes separate entity from investors and employees of the company. The first step to form a company is promotion and a person takes the initiation to persuade others to contribute capital before it is incorporated and that person is called promoter. The stages for formation of the company are four- Promotion, Incorporation, capital subscription and commencement of business.

The economic policy of liberalization of 1991 introduced by Dr. Manmohan Singh opened gates for foreign investment in many sectors. The RBI constituted Tarapore Committee to study on full convertibility of rupee on capital account. The committee recommended many drastic changes in the present legislation that regulate foreign exchange in the country. Due to this, FERA was replaced by FEMA in the country. The objectives of FEMA, 1993 in India are to facilitate external trade and payments and to promote an orderly development and maintenance of foreign exchange market.

In modern marketing concept, the consumer is the king. A well-organized sector of manufacturers, traders, service providers came to existence affecting the relationship between the marketer and consumer. Due to heavy competition, there is a race in the market to sell their products making vigorous efforts on promoting their products through advertisements, free gifts, discounts and other means. Sometimes the promotion techniques especially advertisements are so fake and misleading that the protection of consumers is significantly affected. Though there are many Acts like Sales of Goods Act, 1930, Indian Contract Act, 1872, Code of Civil Procedure, 1908, etc. to protect the consumers and take stringent action against adulterated and substandard goods, very little efforts are done and achieved for consumer protection. Thus, the need is felt to provide relief to the consumers and to protect and safeguard the interest of the consumers. The result is the enactment of CONSUMER PROTECTION ACT, 1986 (COPRA). The six rights the consumers enjoy are right to be heard, right to information, right to choose, right to seek redressal, right to safety and right to education. The three tier consumer dispute redressal machinery at district, state and national levels are established to promote and protect the interests of the consumers. The procedure to settle a complaint is very simple and the relief is given to the aggrieved party.

Model Questions

1. What are the compliance requirements to do business in India?
2. What are the legal requirements to start a small business in India?
3. Define Promoter. What are the various types of Promoters?
4. Discuss the process of incorporation of a company as per the Companies Act, 2013.
5. What are the various stages in the capital subscription stage of company formation?
6. Discuss the process of obtaining a trading certificate for a company in detail.
7. Write a note on scope of Consumer Protection Act, 2013.
8. Distinguish between Consumer Protection Act, 1986 and Consumer Protection Act, 2013.
9. Discuss the problems of consumers and rights of consumers
10. Write the procedure for filing complaints.
11. Explain the manner in which complaint is made.
12. What are the jurisdiction of the various Forums/commissions for the purpose of the Consumer Protection Act, 2013?
13. What are the penalties, where a person fails to comply the order passed by District Forum or the commissions?

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Editors' Profile

Dr W G Prasanna Kumar

Dr. W G Prasanna Kumar, Chairman, Mahatma Gandhi National Council of Rural Education (MGNCRE), holds Ph.D in Education with basic degree in Social Work and Master's Degree in Sociology, Public Administration and Political Science. He also has professional education in Environmental Economics, Public Relations, Communication, and Training and Development. Under his leadership MGNCRE has done instrumental work in building rural resilience including rural community engagement and Nai Talim - Experiential Learning.

The several areas of functional work envisaged and implemented successfully by Dr. W G Prasanna Kumar include Curriculum Development Programmes, Course Material Preparation, Faculty Development Programmes, Workshops, Roundtables, Rural Immersion Training Programmes, Swachhta Action Plan Activities, Community Engagement Programmes, Rural Management Programmes, Nai Talim Programmes, WASH Volunteerism Programmes in collaboration with UNICEF and UBA Activities.

The national initiative of reviving Mahatma Gandhi's ideas of Nai Talim, spearheaded by Dr. W G Prasanna Kumar, has met unprecedented success at both national and state levels. The primary objective of this initiative is to promote Gandhiji's ideas on Experiential Learning, Nai Talim, Work Education and Community Engagement, and mainstreaming them in School Education and Teacher Education Curriculum & Pedagogy. The pilot developmental project is a product of intensive workshop based interactions and consultations with Departments of Education in Universities in India, National Council of Educational Research and Training (NCERT), and State Council of Educational Research and Training (SCERTs) across all Indian States/UTs. He considers this initiative as a great tribute to Mahatma Gandhi.

Dr. W G Prasanna Kumar has been instrumental in developing MGNCRE's state-of-the-art e-Learning Centre with infrastructure for conferencing and training facilities which include training programs, skill building sessions and workshops with facility for video linking the entire country and sharing online educational resources for rural community engagement and development. The compilation, development and nationwide release of Swachh Campus and Jal Shakti Manuals are his major contributions to Higher Educational Institutions. These Manuals have been directed by the Ministry to be put into usage by Higher Education Institutions including Universities, Colleges and Polytechnics in developing strategies, action plans and implementation plans for water conservation on the campuses and in the villages with which the campuses are engaged with in National Service Scheme (NSS), Swachhta Action Plan (SAP) and Unnat Bharat Abhiyan (UBA).

As Professor and Head, Centre for Climate Education and Disaster Management in Dr. MCRHRD Institute, he conducts several capacity building and action research programmes in climate education, disaster management and crowd management. He has handled many regional, national and international environmental education programmes and events including UN CoP11 and Convention on Biological Diversity and Media Information Management on Environmental Issues.

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Dr K N Rekha, is a PhD Graduate from IIT Madras. She has 14 years of experience in training and education Industry. She works at Mahatma Gandhi National Council of Rural Education (MGNCRE), Hyderabad as Senior Faculty. She is involved in curriculum development on Rural Management and Waste Management. Prior to this, she worked as a researcher at Indian School of Business, Hyderabad, a short stint at Centre for Organisation Development (COD), Hyderabad. She has co-authored a book on "Introduction to Mentoring", written book chapters, peer reviewed research papers, book reviews, Case studies, and caselets in the area of HR/OB. She also presented papers in various national and international conferences. Her research areas include Mentoring, Leadership, Change Management, and Coaching. She was also invited as a guest speaker at prominent institutions like IIT Hyderabad.

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