

BUSINESS

All economic activities in the production and distribution of goods and services intended to make profit on the one hand and to provide goods and services to the society so as to enhance standard of living of people.

Business can be classified as:

- Industry
- Commerce

Industry

- Activities connected with raising, producing or processing goods.

Commerce

- Trade and auxiliaries to trade.
- Trade, transportation, banking, warehousing and insurance (activities relating to sale, exchange and transfer of goods and services).

Role of Business in Economic Development (Goals)

- Economic Objectives i.e., generating profit
- Social objectives
- Human Objectives i.e., satisfaction of employees
- National objectives
- Global objectives i.e., targeting foreign markets

Role of Business

1. Provides Employment
2. Promotes Growth
3. Provides Tax Revenue to the Exchequer
4. Utilization of Natural resources
5. Utilization of Human resources
6. Makes Innovation
7. Creating utility and economic value
8. Employees satisfaction and Development
9. Maintaining and protecting Ecology

Changing concept of business

- Traditional Concept of Business _ Profit Concept of Business. Profit maximisation

“We are in business not for steel making, not for shipbuilding, not for construction of buildings but for earning profit”. (Franklin G Morse)
- Profit _cum service concept
 - Better product
 - At a competitive price
 - In a dynamic society

Contd.

- Modern Concept _ (*Profit through service*)

Business as a social system

Maximize the interest of the nation and its
economy

Objectives of contemporary business

- Profit
- Growth
- Employee satisfaction and Development
- Quality Products and services
- Market Leadership
- Innovation
- Service to society
- Corporate Citizenship
- Productivity
- Creation and retention of customers

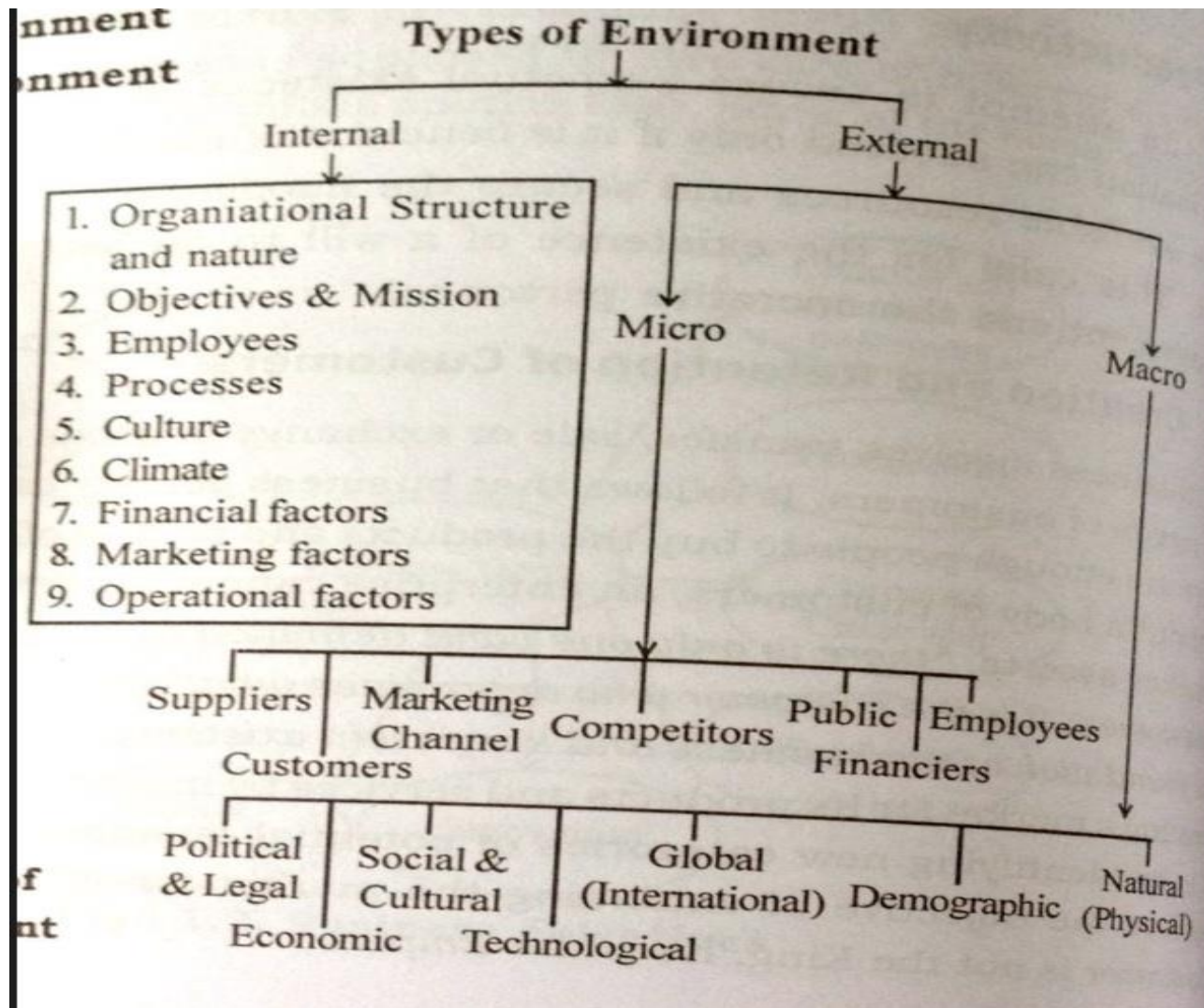
Business environment

It refers to those aspects of the surroundings of business enterprise, internal or external, which affect or influence its operations and determine its effectiveness. It consists of the totality of all factors within or outside the control of individual business firms.

Importance of the study of B. E

- Helps organisation in developing broad strategies and long term policies
- Helps to study competitor's strategies
- To study dynamic environ. And to be dynamic
- To foresee the impact of socio and economic changes and to change accordingly

Constituents of business environment



Factors of B E.

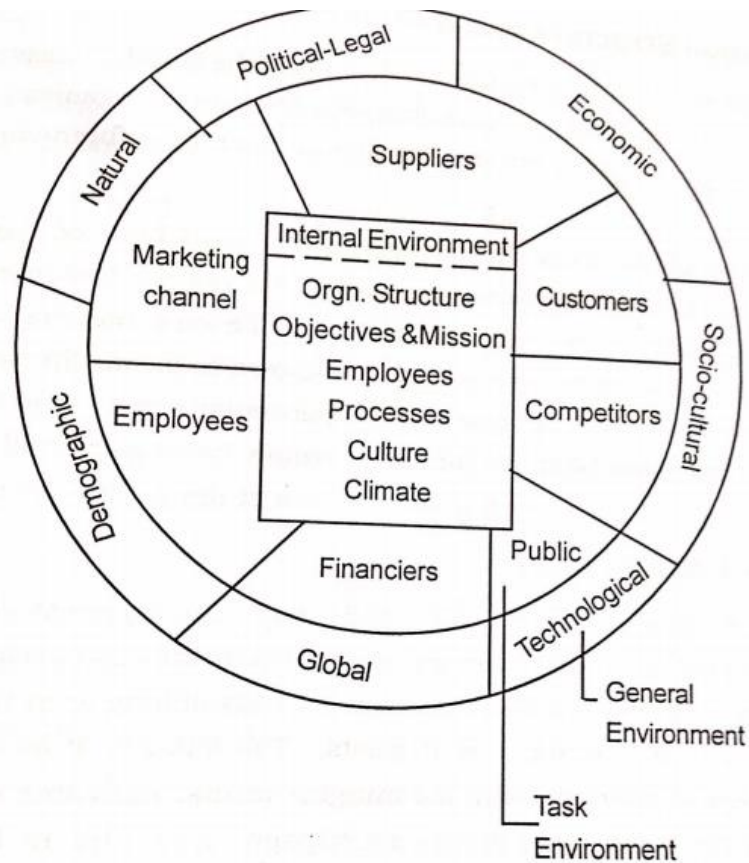


Fig. 1.4 Organisation and its environment

External environment

- All the forces and conditions outside the organisation that influence the organisation and its behavior .
- They are uncontrollable factors.
- It comprises of:
 - i. Micro environment/task environment/operating environment
 - ii. Macro environment

Micro environment

- The forces close to the company that affect it's ability to serve its customers
1. Suppliers = Firms and individuals who provide resources needed by the co.
 2. Customers = Monitor customer sensitivity.
Individuals ,Producers, Retailers, Govt. agencies, international buyers

3. Competitors

4. Marketing Intermediaries

Middlemen, Physical distribution firms,
marketing agencies, financial
intermediaries...etc.

5. Company = various functional areas

6. Public

7. Regulators

Macro environment

- Also Known as *General Environment* and *Remote Environment*.

It is not a collection of organisations but a myriad of interrelated forces. They can be categorised into the following elements:

1.Economic Environment:

Factors which give shape and form to the economic activities. It consists of three factors:

- i. Economic Conditions: Nature of the economy, stage of business cycle , economic resources, level of income...etc.
- ii. Economic Policies: Industrial policy, trade policy, forex policy, monetary policy, fiscal policy...etc.
- iii. Economic systems: Free market economy, centrally planned economies, and mixed economies.

2. Political –Legal environment

- It is the back ground of laws and regulations within which business conducts its affairs. It is made up of laws and pressure groups that influence and constrain various organisations.

3. Social and cultural environment

- It is the social and cultural fabric that affects the behaviour of both people and their organisations.

4. Technological environment

- It consists of those factors related to knowledge applied, and the materials and machines used in the production of goods and services that have an impact on business.

5. Demographic environment

- A business is interested in demography ie, the study of population. Population means its various dimensions— Growth, age, sex, educational standards etc.

6. global or international environment

- Those global factors relevant to business such as WTO principles and agreements, declarations or protocols, economic and business conditions, sentiments in other countries....etc.

7. Natural environment

- It consists of factors such as climate, air, land, water resources, fisheries, minerals, rainfall, forests, port facilities...etc.

Controllable factors

INTERNAL ENVIRONMENT

1. Organisation structure and nature

- The composition of the board, professionalization of management, the degree of decentralization, delegation, organisational rules.

2. Objectives and mission

- Business philosophy, priorities, Mission
— Long term vision of what it seeks and the reason why it exists.

3. Employees

- Characteristics of Human Resources like skill, quality, morale, commitment, attitude etc. could contribute to the strength and weakness of an organisation.

4. processes

- A. Coordinating: Maintaining proper relationships between individuals, jobs, work groups, departments
- B. Decision Making: Selection of best course of action
- C. Communicating: Transmitting organisational information to its members.

5. Organisational culture

- It is the collection of shared beliefs, values, attitudes, language and reactions to the environment that give meaning to an organization's processes.

6. Organizational climate

- Prevailing conditions that reflects an organization's overall character. It is a set of properties of the work environment, perceived directly or indirectly by the employees, that is assumed to be a major force in influencing employee behavior.

7. Financial factors

- Availability, usage and management of funds and all allied aspects.
- Sources of funds – Capital structure, borrowings, credits, reserves....Etc.
- Uses of funds – capital investment, acquisition of fixed assets, dividend distribution...etc.
- Management of funds – financial accounting & budgeting, cost control and reduction, tax planning & control...etc.

8. marketing factors

- Relating to the 4 Ps
Product – Variety, differentiation, packaging...etc.
Pricing –
Promotional tools – Sales Promotion, advertising, public relations etc.
Place – Marketing mix, marketing channels, co.image, Marketing MIS.

9. Operational factors

- Factors related to Physical assets and facilities like Factors related to production capacity, technology, logistics, automation...etc.
- Factors related to the operation and control system like material supply, inventory , production planning
- Factors related to R& D and technology capabilities, like product development

Social responsibility of business

- Social responsibility means the obligations of an organisation to protect and enhance the society within which the organisation operates.
Responsibilities towards who contribute their labour, capital , skill, entrepreneurship and other tangible materials for the success of business operations.

Need for social responsibility

- To ensure viability of business – to retain its existing social role.
- To fulfill long run self interest
- To establish better public image
- To avoid govt. regulation or control
- To avoid class conflicts
- To convert resistances into resources

Dimensions of Social responsibility

- Towards owners
- Towards Employees
- To customers
- To Society
- To Government
- To Creditors and Suppliers

1. To owners

- Reasonable rate of return on Capital
- Committing funds in the best possible manner
Committing funds in the best possible manner
- Building good corporate image
- Ensuring good corporate governance practices

2. To Employees

- payment of fair and reasonable wages
- Provision of just N best working conditions
- Establishment of fair work standards and norms
- Provision of various labor facilities
- arrangements for the proper training and education of workers
- offering of job security and promotion opportunities
- Mechanism for redressal of grievances of employees
- Improving the QWL.

3. To Customers

- Goods must be appropriate standard and quality
- Avoid deceitful and false Advt.
- Provide good and services satisfying consumers with various economic background
- Not indulging in anti social activities like black marketing, hoarding, profiteering etc.
- Ensure adequate supply of goods particularly during shortages
- Prevent the creation of monopolies
- Provide after sale services

- Fairly wide distribution of products among all section of consumers
- Provide sufficient information about the products
- Provide an opportunity for being heard and to redress genuine grievances of consumers
- Disseminate useful information to consumers about the Company, new products and services, new uses of existing products

4. Accountability to Society

- Providing employment opportunities to the socially handicapped and weak sections of the community
- Measures to prevent environmental pollution
- Taking appropriate steps to conserve scarce natural resources
- Setting up of new industrial units in backward and less developed regions
- Assisting in overall development of locality
- Providing relief to victims of natural calamities
- Providing safe livable communities with good housing and transportation

- Promote social institutions like education, hospitals, sports, recreational organisations, religious institutions.
- Making contribution to furthering social causes like promotion of education, AIDS Control
- Prevention of slum development, waste disposal
- Improving the physical environment and developing human resources
- Promoting community welfare, building public parks with playground,

5. Responsibility to Govt.

- Conduct business in a law abiding manner
- Pay taxes and dues
- Desist from corrupting public servants
- Not to make any attempt to buy political support by money or patronage
- Maintain fair/honest trade policies and practices
- Stimulate economic growth in accordance with the national priorities

6. Responsibilities to Creditors

- Provide accurate information regarding the financial health of the organisation
- Ensuring a reasonable price for the articles supplied and make prompt payment to the suppliers
- Ensure a prompt payment of interest to lenders
- Promoting a healthy atmosphere where creditors, suppliers and other interest groups are treated as partners in a co operative endeavour.

AREAS OF SOCIAL RESPONSIBILITY

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1. Ecology and Environmental Quality

- a) Pollution clean up and prevention
- b) Dispersion of industry
- c) Land use and beautification

2. Consumerism


- a) Truth in lending, advertising, and business
- b) Product warranty and service
- c) Control of harmful products

3. Community Needs

- a) Use of expertise for local problems
- b) Aid with health-care facilities and education
- c) Service in voluntary groups

4. Governmental relations

- a) Restrictions on lobbying
- b) Control of business through political action

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5. Minorities and Disadvantaged Persons
- a) Training of unemployed
 - b) Equal employment opportunity
 - c) Locating plants and offices in minority areas
 - d) Purchasing from minority businesses

6. Labour Relations
- a) Improved occupational health and safety
 - b) Provision of day care centres
 - c) Options of flexible working hours

7. Shareholders Relations

- a) Public seats on Board of Directors
- b) Improved financial disclosure

8. Corporate Philanthropy

- a) Financial Support for arts and culture
- b) Special scholarships and gift to education
- c) Financial support for assorted charities

Arguments 'for' Social Responsibility

- Public Expectations
- Long run viability
- Public image
- Better Environment
- Avoidance of Govt. regulation
- Business has the resources
- Long run self interest of business
- Prevention is better than cure
- Problems can become profits

Arguments 'Against' Social Responsibility

- Profit maximisation
- Burden on society
- Lack of social skills
- Lack of Broad support
- Milton Friedman's views
- ✓ Economic
- ✓ Legal
- Theodore Levitt's views (Domination of Business values on Social values)

SOCIAL AUDIT

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SOCIAL AUDIT

- Social performance of an organization in contrast to its economic performance
- Started in USA in 1950s
- Different definitions-different yardsticks
- It can be defined as a commitment to systematic assessment and reporting on some meaningful definable domain of company's activities that have a social impact.

DEFINITION



- "Social Audit is a process in which, details of the **resource**, both **financial and non-financial**, used by public agencies for development initiatives are shared with the people, often through a public platform. Social Audits allow people to enforce **accountability** and **transparency**, providing the ultimate users an opportunity to **scrutinize development initiatives**."

VISION FOUNDATION

What globally is known as "**People's Audit or Public Audit**" , in India we call it "**Social Audit**".



- Broadly, this process of Social Audit involves, the following components, i.e.,
 - a) Availability of information / details of the resource, financial and non-financial, used by public agencies for development initiatives,**
 - b) Organising the ultimate users / beneficiaries / people,**
 - c) Scrutiny of the information by the end users.**
- Foundation of Social Audit is **INFORMATION AVAILABILITY**--- as people can ask questions only when they possess the requisite information regarding the subject

SCOPE OF SOCIAL AUDIT



- Assessing the **physical and financial gaps** between needs and resources available for local development.
- **Creating awareness** among beneficiaries and providers of local social and productive services.
- **Increasing efficacy and effectiveness** of local development programmes.
- **Scrutiny** of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
- Estimation of the **opportunity cost** for stakeholders

SCOPE OF SOCIAL AUDIT



- Allow people to **enforce transparency & accountability**.
- Promote dialogue and deliberation to promote **public-private partnership**.
- Increase **public participation at all stages** of public policy & budget cycle.
- Identify, control and report irregularities & **prevent abuse** of funds and power.
- **Measure the impact** of policies/programs.
- Enable citizens to **exercise their rights**.

BUSINESS ETHICS

- Business ethics is a branch of applied ethics, which examines various ethical or moral issues that may arise in a commercial environment. It studies how a business conducts its operations in order to find out ethical and unethical behaviours.
- It covers a set of guidelines, principles and moral standards which govern the transactions of a business.

Nature of Business Ethics

- It is a set of moral principles applied in commercial world
- Guidelines for acceptable behavior in the strategy formulation and day to day operations of business concerns
- It examines various ethical or moral issues that may arise in a commercial environment
- It evaluates moral obligations of a business towards its different stakeholders

FUNCTIONAL AREAS OF ETHICS IN BUSINESS

PRODUCTION ETHICS

- Adulteration
- Production of harmful products
- Inferior components and raw materials
- Lack of information to customers on side effects
- unsafe and unhealthy packaging
- ignoring environmental stds.

Marketing and Sales Ethics

- Unfair pricing strategies
- Creation of monopoly
- Dumping
- Non disclosure of substantial risks
- Deceptive communication
- Poor after sales services
- subliminal advertisements (not sufficient enough for conscious perception)
- Obscene advertisements
- Unhealthy competition

Human Resource Management Ethics

- Low salary and wages
- Unsafe working conditions
- Discrimination
- Child labor
- Employee raiding

Finance and Accounting Ethics

- Embezzlement of cash
- Window dressing
- Creation of secret reserves

Research & Development Ethics

- Use of animals for testing the products
- Inaccurate and incomplete testing of products
- Patent and copyright infringements

Miscellaneous Ethical Issues

- Bribery And Extortion
- Insider Trading
- Theft and disclosure of trade secrets
- Unfair related party transactions

Importance of Business Ethics

- Strong support from the employees
- Easy mobilization of finance
- Strong customer support
- Reduced litigations
- Low rate of complaints
- Good governance
- Environment friendly products
- Fair use of natural resources

- Avoids unhealthy competition
- Inculcates moral values in business
- Better business relations

Factors influencing Business Ethics

1. Internal factors influencing ethics:

- Organizational culture
- Nature of business leadership
- Moral insight of the employees

2. External factors influencing business ethics:

- Society
- Legal system
- Political system
- Industry
- Ethical behavior of competitors