

Lesson 1

BUSINESS AND ITS ENVIRONMENT

NATURE OF BUSINESS

Business may be understood as the organized efforts of enterprise to

supply consumers with goods and services for a profit. Businesses vary in size,

as measured by the number of employees or by sales volume. But, all businesses

share the same purpose: to earn profits.

The purpose of business goes beyond earning profit. There are:

- It is an important institution in society.
- Be it for the supply of goods and services
- Creation of job opportunities
- Offer of better quality of life
- Contributing to the economic growth of the country.

Hence, it is understood that the role of business is crucial. Society cannot

do without business. It needs no emphasis that business needs society as much.

BUSINESS TODAY

Modern business is dynamic. If there is any single word that can best describe today's business, it is change. This change makes the companies spend substantially on Research and development (R & D) to survive in the market.

Mass production and mass marketing are the norms followed by business enterprises. The number of companies with an annual turnover of Rs.100 crore each was only three in 1969-70. The figure has gone up by hundreds these days.

Today's business is characterized by diversification, which may be:

Concentric Diversification - It refers to the process of adding new, but related products or services.

Horizontal Diversification - Adding new, unrelated products or services for present customers is called horizontal Diversification.

Conglomerate Diversification - It refers to adding new and unrelated products or services.

Going international is yet another trend followed by modern business houses.

Business houses are exposed to global competition, which argues well for consumers. Also occupying a major role is science in the global economic scenario.

BUSINESS IN 21ST CENTURY

Large organizations, with a large workforce will not exist. They will be 'Mini' organizations. Business during the 21st century will be knowledge-based, tomorrow's manager need not spend his time on file pushing and paper-shuffling.

Information technology will take care of most of that work. Organizations will become flat. Linear relationship between the boss and manger and authority flowing downwards and obedience upward will disappear. Employees will have no definite jobs. Most of the jobs will last for two to five years. Remuneration will depend on one's contribution to organization.

BUSINESS GOALS

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

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

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

Technological Environment

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

Economic Environment

There is close relationship between business and its economic environment.

Business obtains all its needed inputs from the economic environment and it absorbs the output of business units.

Political Environment

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

Natural Environment

Business, an economic pursuit of man, continues to be dictated by nature. To

what extent business depends on nature and what is the relationship between the

two constitutes an interesting study.

Global or international Environment

Thanks to liberalization, Indian companies are forced to view business issues

from a global perspective. Business responses and managerial practices must be

fine-tuned to survive in the global environment.

Social and culture Environment

It refers to people's attitude to work and wealth; role of family, marriage,

religion and education; ethical issues and social responsiveness of business.

ENVIRONMENT – BUSINESS RELATIONS

Business is the product of the technological, political-legal, economic, social –

cultural, global and natural factors amidst which it functions. Three features are

common to this web of relationship between business and its environment.

- There is symbolic relationship between business and its environment and

among the environmental factors. In other words, business is influenced

by its environment and in turn, to certain degree, it will influence the

external forces. Similarly, political-legal environment influences

economic environment and vice versa. The same relationship between

other environment factors too.

- These environmental forces are dynamic. They keep on changing as

years roll by, so does business.

- The third feature is that a particular business firm, by itself, may not be

in a position to change its environment. But along with other firms,

business will be in a position to mould the environment in its favor.

IMPORTANCE OF ENVIRONMENTAL STUDY

The benefits of environmental study are as follows;

- Development of broad strategies and long-term policies of the firm.

- Development of action plans to deal with technological advancements.
- To foresee the impact of socio-economic changes at the national and international levels on the firm's stability.
- Analysis of competitor's strategies and formulation of effective counter measures.
- To keep oneself dynamic.

ENVIRONMENTAL ANALYSIS PROCESS

The analysis consists of four sequential steps:

Scanning

It involves general surveillance of all environmental factors and their

interactions in order to:

- Identify early signals of possible environmental change
- Detect environmental change already underway

Monitoring

It involves tracking the environmental trends, sequences of events, or streams of

activities. It frequently involves following signals or indicators unearthed during

environmental scanning.

Forecasting

Strategic decision-making requires a future orientation. Naturally, forecasting is an essential element in environmental analysis. Forecasting is concerned with developing plausible projections of the direction, scope, and intensity of environmental change.

Assessment

In assessment, the frame of reference moves from understanding the environment- the focus of scanning, monitoring and forecasting – to identify what the understanding means for the organization. Assessment, tries to answer questions such as what are the key issues presented by the environment, and what are the implications of such issues for the organization.

Lesson 2

CORPORATE GOVERNANCE, SOCIAL RESPONSIBILITY AND

BUSINESS ETHICS

CORPORATE GOVERNANCE

Corporate failures and widespread dissatisfaction with the way many corporate

functions have led to the realization, globally, of the need to put in place a

proper system for corporate governance.

Corporate governance is concerned with holding the balance between

economic and social goals and between individual and communal goals.

The governance framework is there to encourage the efficient use of

resources and equally to require accountability for the stewardship of

those resources.

The aim is to align as nearly as possible the interest of individuals,

corporations, and society. The incentive to corporations and to those who

own and manage them to adopt internationally accepted governance

standards is that these standards will help them to achieve their corporate

aims and to attract investment.

The incentive for their adoption by states is that these standards will strengthen the economy and discourage fraud and mismanagement.

RELEVANCE

At least three reasons have triggered off concern in corporate governance in our country.

- Since 1991, the country has moved into liberalized economy and one of the victims of the market-based economy is transparent fair business practice. Several instances of mismanagement have been alleged, with some well-known and senior executive being hauled up for non-performance and /or non-compliance with legal requirements.

- Both domestic as well as foreign investors are becoming more demanding in their approach towards the companies in which they have invested their funds. They seek information and want to influence decisions.

- Interests of non-promoter shareholder and those of small investors

are increasingly being undermined. Several MNCs have sought to

set up 100 percent subsidiaries and transfer their businesses to

them .In many cases, there was no thought of consultation with

non-promoter shareholders.

In this context, some norms of behavior to ensure responsive behavior

are of great help. Hence, corporate governance.

FOCUS

Corporate governance is concerned with the values, vision and visibility. It is

about the value orientation of the organization, ethical norms for its

performance, the direction of development and social accomplishment of the

organization and the visibility of its performance and practices.

Corporate management is concerned with the efficiency of the resources use,

value addition and wealth creation within the broad parameters of the corporate

philosophy established by corporate governance.

IMPORTANCE

- Studies of firms in India and abroad have shown that markets and investors take notice of well-managed companies, respond positively to them, and reward such companies, with higher valuations. In other words they have a system of good corporate governance.
- Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection.
- Corporate governance prevents insider trading.
- Under corporate governance, corporates are expected to disseminate the material price sensitive information in a timely and proper manner and also ensures that till such information is made public, insiders abstain from transacting in the securities of the company.
- The principle should be 'disclose or desist'. Good corporate governance, besides protecting the interests of shareholders and all other stakeholders, contributes to the efficiency of a business enterprise, to the

creation of wealth and to the country's economy.

- Good corporate governance is considered vital from medium and long term perspectives to enable firms to compete internationally in sustained

way and make them, not only to improve standard of living materially

but also to enhance social cohesion.

PRE-REQUISITES

A system of good corporate governance requires the following:

- A proper system consisting of clearly defined and adequate structure

of roles, authority and responsibility.

- Vision, principles and norms, which indicate development path,

normative considerations, and guidelines and norms for performance.

- A proper system for guiding, monitoring, reporting and control.

SOCIAL RESPONSIBILITY

Social responsibility is the obligation of decision-makers to take actions, which

protect and improve the welfare of society as a whole along with their own

interests. Every decision the businessman takes and every action he

contemplates have social implications.

Be it deciding on diversification, expansion, opening of a new branch, and

closure of an existing branch or replacement of men by machines, the society is

affected in one way or the other. Whether the issue is significant or not, the

businessman should keep his social obligation in mind before contemplating any

action.

ARGUMENTS FOR SOCIAL RESPONSIBILITY

- Business has to respond to the needs and expectations of society.

- Improvement of the social environment benefits both society and

business.

- Social responsibility discourages additional governmental regulation and

intervention.

- Business has a great deal of power, which should be accompanied by an

equal amount of responsibility.

- Internal activities of the enterprise have an impact on the external

environment.

- The concept of social responsibility protects interests of stockholders.
- Social responsibility creates a favorable public image.
- Business has the resources to solve some of society's problems.
- It is better to prevent social problems through business involvement than

to cure them.

ARGUMENTS AGAINST SOCIAL RESPONSIBILITY

- Social responsibilities could reduce economic efficiency.
- Social responsibility would create excessive costs for business.
- Weakened international balance of payments
- Business has enough power, and social involvement would further
increase its power and influence.
- Business people lack the social skills necessary to deal with the problems
of society.
- Business is not really accountable to society.

SOCIAL STAKEHOLDERS

Managers, who are concerned about corporate social responsibility, need to identify various interest groups which may affect the functioning of a business organization and may be affected by its functioning. Business enterprises are primarily responsible to six major groups:

- Shareholders
- Employees
- Customers
- Creditors, suppliers and others
- Society and
- Government.

These groups are called interest groups or social stakeholders. They can be affected for better or worse by the business activities of corporations.

SOCIAL RESPONSIVENESS

Social responsiveness (SR) is “the ability of a corporation to relate its operations and policies to the social environment in ways that are mutually beneficial to the

company and to society”.

In other words, it refers to the development of organizational decision processes

whereby managers anticipate, respond to, and manage areas of social

responsibility. The need to measure the social responsiveness of an organization

led to the concept of social audit.

The social responsiveness of an organization can be measured on the basis of the

following criteria:

- Contributions to charitable and civic projects
- Assisting voluntary social organizations in fund-raising
- Employee involvement in civic activities
- Proper reuse of material
- Equal employment opportunity
- Promotion of minorities
- Direct corporate social responsiveness investment

- Fair treatment of employees
- Fair pay and safe working conditions
- Safe and quality products to consumers
- Pollution avoidance and control

BUSINESS ETHICS

The two issues - an organization's social responsibility and

responsiveness- ultimately depend on the ethical standards of managers. The term ethics commonly refers to the rules or principles that define right and wrong

conduct. Ethics is defined as the " discipline dealing with what is good and bad

and with moral duty and obligation". Business ethics is concerned with truth and

justice and has a variety of aspects such as expectations of society, fair

competition, advertising, public relations, social responsibilities, consumer

autonomy, and corporate behavior in the home country as well as abroad.

TYPES OF BUSINESS ETHICS

Moral management

Moral management strives to follow ethical principles and precepts, moral

managers strive for success, but never violate the parameters of ethical standards.

They seek to succeed only within the ideas of fairness, and justice.

Moral managers follow the law not only in letter but also in spirit. The moral management approach is likely to be in the best interests of the organization, long run.

Amoral management

This approach is neither immoral nor moral. It ignores ethical considerations.

Amoral management is broadly categorized into two types – intentional and unintentional.

- Intentional amoral managers exclude ethical issues because they think

that general ethical standards are not appropriate to business.

- Unintentional amoral managers do not include ethical concerns because

they are inattentive or insensitive to the moral implications.

Immoral management

Immoral management is synonymous with “unethical” practices in

business. This kind of management not only ignores concerns, it is actively

opposed to ethical behavior.

NEED FOR BUSINESS ETHICS

- Ethics corresponds to basic human needs. It is human trait that man

desires to be ethical, not only in his private life but also in his business.

These basic ethical need compel the organizations to be ethically

oriented.

- Values create credibility with public. A company perceived by the public

to be ethically and socially responsive will be honored and respected.

The management has credibility with its employees precisely because it

has credibility with the public.

- An ethical attitude helps the management make better decisions, because

ethics will force a management to take various aspects- economic, social,

and ethical in making decisions.

- Value driven companies are sure to be successful in the long run, though

in the short run, they may lose money.

- Ethics is important because the government, law and lawyers cannot do everything to protect society.

ETHICAL GUIDELINES

- Obeying the law: Obedience to the law, preferably both the letter and spirit of the law.

- Tell the Truth: To build and maintain long-term, trusting and win-win relationships with relevant stockholders.

- Uphold human dignity: Giving due importance to the element of human dignity and treating people with respect.

- Adhere to the golden rule: "Do unto others as you would have others do unto you"

- Premium Non-Nocere: (Above all, do no harm)

- Allow Room for participation: Soliciting the participation of stakeholders rather than paternalism. It emphasizes the significance of

learning about the needs of stakeholders.

- Always Act When You Have Responsibility: Managers have the responsibility of taking action whenever they have the capacity or adequate resources to do so.

TOOLS FOR ETHICAL MANAGEMENT

- Top management commitment: Managers can prove their commitment and dedication for work and by acting as role models through their own behaviors.

- Codes of Ethics: A formal document that states an organization's primary values and the ethical rules it expects employees to follow. The code is helpful in maintaining ethical behavior among employees.

- Ethics committees: Appointment of an ethics committee, consisting of internal and external directors is essential for institutionalizing ethical behavior.

- Ethics Audits: Systematic assessment of conformance to organizational ethical policies, understanding of those policies, and identification of

serious deviations requiring remedial action.

- Ethics training: Ethical training enables managers to integrate employee

behavior in ethical arena with major organizational goals.

- Ethics Hotline: A special telephone line that enables employees to

bypass the normal chain of command in reporting their experiences,

expectations and problem. The line is usually handled by an executive

appointed to help resolve the issues that are reported.