Visit us at www.himpub.com/manual/pcb089
for FREE Online Instructor and Student Manual

16th Revised Edition

Essentials of BUSINESS ENVIRONMENT

(Text, Cases & Exercises)

K. Aswathappa

Himalaya Publishing House
ISO 9001:2015 CERTIFIED

ESSENTIALS OF BUSINESS ENVIRONMENT

(Text, Cases & Exercises)

K. Aswathappa
M.Com., Ph.D.
Former Director,
Canara Bank School of Management Studies,
Bangalore University, Bengaluru.

Himalaya Publishing House
ISO 9001:2015 CERTIFIED

First Edition	:	**1988**
Second Edition	:	**1991**
Third Edition	:	**1994**
Fourth Edition	:	**1995**
Fifth Edition	:	**1996**
Sixth Revised and Enlarged Edition	:	**1997**
Reprint (Twice)	:	**1998, 1999**
Seventh Revised and Enlarged Edition	:	**2000**
Eighth Revised and Enlarged Edition	:	**2006**
Ninth Edition	:	**2007**
Tenth Edition	:	**2008**
Eleventh Revised Edition	:	**2011**
Twelfth Revised Edition	:	**2014**
Thirteenth Revised Edition	:	**2016**
Fourteenth Revised Edition	:	**2017**
Edition	:	**2018**
Fifteenth Revised Edition	:	**2019**
Edition	:	**2020, 2021, 2022**
Sixteenth Revised Edition	:	**2023**

Published by : Mrs. Meena Pandey for **Himalaya Publishing House Pvt. Ltd.,**
"Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai - 400 004.
Phone: 022-23860170, 23863863; **Fax:** 022-23877178
E-mail: himpub@bharatmail.co.in; **Website:** www.himpub.com

Branch Offices :

New Delhi : "Pooja Apartments", 4-B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi - 110 002.
Phone: 011-23270392, 23278631; Fax: 011-23256286

Nagpur : Kundanlal Chandak Industrial Estate, Ghat Road, Nagpur - 440 018.
Phone: 0712-2721215, 2721216

Bengaluru : Plot No. 91-33, 2nd Main Road, Seshadripuram, Behind Nataraja Theatre,
Bengaluru - 560 020. Phone: 080-41138821; Mobile: 09379847017, 09379847005

Hyderabad : No. 3-4-184, Lingampally, Besides Raghavendra Swamy Matham, Kachiguda,
Hyderabad - 500 027. Phone: 040-27560041, 27550139

Chennai : No. 34/44, Motilal Street, T. Nagar, Chennai - 600 017. Mobile: 09380460419

Pune : "Laksha" Apartment, First Floor, No. 527, Mehunpura, Shaniwarpeth (Near Prabhat Theatre), Pune - 411 030.
Phone: 020-24496323, 24496333; Mobile: 09370579333

Cuttack : Plot No 5F-755/4, Sector-9, CDA Market Nagar, Cuttack - 753 014, Odisha. Mobile: 09338746007

Kolkata : 3, S.M. Bose Road, Near Gate No. 5, Agarpara Railway Station,
North 24 Parganas, West Bengal - 700109. Mobile: 09674536325

DTP by : **Rajani Jadhav.**

Printed at : Geetanjali Press Pvt. Ltd., Nagpur. On behalf of HPH.

Preface to the Sixteenth Edition

Essentials of Business Environment has been recently released after considerable delay. I regret the delay.

The following story will tell how external environment can play havoc on business fortunes.

Teamwork during Uncertainty – A COVID-19 Story

As a team leader in an MNC, everything was going well for Vivek. He starts his day in the office at 10 a.m. His day gets busy with meetings, client interactions, training programmes, collaboration and networking with co-workers, and he will be back home by 8 p.m. Everything changed in a span of few days with the fear of COVID-19 spreading across the nation. One of his team members got infected with COVID-19 and unfortunately lost his life. The team was devastated. This impacted the morale and motivation of everyone in the team. As the company decided on work-from-home for all its employees, Vivek's team felt relieved from the fear of infection, but there was a lot of ambiguity. This new work model unfamiliar to many, thus, created communication barriers, conflict, social loafing/cyber loafing and hyper-connectivity resulting in loss of team synergy, motivation and job satisfaction.

Vivek realized that the work has to go on in spite of the challenges. Web conferencing with Skype was scheduled. He explained the team about the importance of resilience and business continuity in the face of the crisis. He reminded them the purpose of the team and the reason for the existence of each member, and how their contribution can make a difference to the team and to the entire organisation. The team decided to use technology to the optimum to collaborate and communicate. MS Teams was used for team collaboration, Zoom for web conferencing, Miro supported brainstorming and ideation, Mural for virtual facilitation and Trello for project and task management. Virtual coffee with the team boosted the moral of the agile team.

Vivek addressed the importance of authenticity and empathy during the turbulent time. He offered virtual learning nuggets to develop competencies within the team. He addressed the fears and vulnerabilities of the team members. He considered different team member personas and used meeting formats and technology formats accordingly. The productivity of the team increased during the remote working. Finally, the team is back to office post lockdown. The excited team members thanked Vivek for his exemplary leadership.

Content Changes Following are the additions to different chapters –

Chapter 2: A critical view of business environment and strategic management.

Chapter 3: Is globalization fading out.

Chapter 5: FDI is not only inward oriented but also outward oriented. An analytical view.

Chapter 7: India is playing a major role around the world in promoting technology.

Chapter 12: Impact of COVID-19 on all areas of business.

Chapter 17: Public sector continues to be a major player in economic development. A critical view.

Chapter 18: Privatization has become almost irrelevant.

Chapter 19: MSME sector continues to have relevance though big firm occupy major role in the economy.

Chapter 20: First time labour laws have been amended. A critical view.

Chapter 23: Among all areas of infrastructures, it is railways which play significant role in movement of people and goods.

Chapter 28: Indian farmers have achieved a significant role in getting farm laws in their favour. A critical view.

Chapter 34: Social responsibility has been legalized and this has significant impact on the way huge profits have been swindled by the rich private sector.

Chapter 36: Though attempts have been made often to formalize social audit but success is not encouraging.

Acknowledgements

I thank the following for their help in bringing out the 16th edition:

- Dr. G. Sudarsana Reddy, Professor, Department of Commerce, Tumkur University, Tumakuru.
- Mr. Harshvardhan, Vasanth, Founder and M.D., Wind Chimes Technology Services for providing logistic supports. D. Shivarudrappa, Retired Professor in Commerce, V.V. Pura College of Commerce, Bengaluru.
- Mrs. Shyamala and Mrs. Sudha for the enthusiastic and consistent support.
- Dr. P.V. Padmaja, Principal, Malleshwaram Ladies' Association Academy for Higher Learning for her support and encouragement.
- Publishers of HPH for their sustained interest in the book.

K. Aswathappa

dr_k_aswathappa@yahoo.com

Preface to the First Edition

Business, it is said, is a product of environment. The nature of business; location of a business enterprise; the product to be manufactured or service to be rendered by the business unit; size and volume of operations of the firm; the price to be fixed and other related factors relating to the business unit are determined by the environment within which the business operates. Though business is the creation of its environment, the influence of the former on its external forces is equally significant. If certain industries, for example, have been delicensed or if investment limit of business houses has been raised for the purpose of categorising them as large industrial undertakings, it is the result of business lobbying rather than sudden self-realisation on the part of politicians or government agencies. Similarly, technological environment compels business to adopt new ideas and new methods of production. Business in turn invests crores of rupees on research and development for new innovations. Thus, there is symbiotic relationship between the business and its environment.

The environment of the business may be divided into political, economic, technological, socio-cultural and natural factors. How each of these factors influences and is influenced by the business is a fascinating subject, a knowledge of which is essential for business managers, politicians, government officials, academicians and the general public. Universities and management institutes all over the country have done a right thing in including the subject business environment in their curricula for M.Com., MBA and diploma courses in management. It is the M.Com. and MBA degree holders who would occupy important positions in business houses tomorrow. A knowledge of the business environment will enable them to place every issue related to business in its proper perspective and make a sound decision to solve the problem.

Unfortunately, not many books are being written on the subject business environment and those that are available confine themselves to the discussion of the influence of political, economic and social factors on business. Technological, cultural and physical factors, though equally significant, are ignored for reasons not known.

Essentials of Business Environment is a comprehensive book which covers the discussion of all the environmental factors in greater detail. As will be seen in the subsequent pages, the book is divided into five sections discussing political, legal, economic, technological, socio-cultural, and natural factors in that order. Of particular significance is the discussion on socio-cultural environment wherein the influence of Indian cultural ethos on business is commented upon tracing each aspect from the very early days to the contemporary period. The discussion throughout the book is simple and logical, punctuated with illustrations and anecdotes drawn from contemporary business houses.

In preparing the text for this book, I have consulted several books and journals which have been acknowledged at appropriate places. I have also received invaluable suggestions from many luminaries. Though it is difficult to thank all of them individually, it is my pleasure to express grateful thanks to Dr. S.V.S. Rao and Prof. Venkatakrishnappa, the former for offering comments on cultural environment and the latter on important legislations. I also thank Prof. O.R. Krishnaswamy, Prof. K. Hanumanthappa and Dr. P.N. Reddy whose elderly advice has been of immense use to me.

I thank Mr. D.P. Pandey of Himalaya Publishing House Pvt. Ltd. for having published this book.

I request the esteemed readers to offer their criticisms and suggestions for further improvement of this book.

K. Aswathappa

Contents in Brief

Contents

PART – E

PART – G

PART A

Chapter 1: Understanding the Nature of Business

Chapter 2: Environment and Strategic Management

Chapter 1

UNDERSTANDING THE NATURE OF BUSINESS

CHAPTER OUTLINE

What is Business?

— *Scope of Business*
— *Characteristics of Today's Business*
— *Business Goals*
— *Critics of Business*

LEARNING OBJECTIVES

After reading this Chapter, you should be able to:

1. *Understand the nature and scope of business*
2. *Shortlist characteristics of contemporary business*
3. *Define vision, mission and goals of business*
4. *Describe the criticisms against business*

The Indian economy has been witnessing ups and downs. Till 2011, it was boom period and then there was lean phase. However, since 2014, the economy has been on the upswing. Managing business during ups and downs is indeed challenging. New challenges need new strategies. Before evolving new strategies, manager needs to be knowledgeable about the nature of business.

NATURE OF BUSINESS

Business may be understood as the organised efforts of enterprises 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. Large organisations such as Steel Authority of India Limited (SAIL) and Tata Steel count their employees in the hundred thousands and their sales revenues in thousands of crores. But most businesses in our country are small units – independently owned and managed and employing fewer than twenty employees each.

Business may be understood as the organised efforts of enterprises to earn profit. Business may be small or big in size, but all of them aim at making profit.

Whether a business unit has one or two people working at home, 10 operating in a retail store, 1000 employed in a factory, or 100,000 operating in multiple units spread across the country, all businesses share the same purpose: ***to earn profits***.

The purpose of business goes beyond earning profit. It is an important institution in society. Be it for the supply of goods and services; creation of job opportunities; offer better quality of life; or contributing to the economic growth of the country and putting it on the global map; the role of business is crucial. Society cannot do without business. It needs no emphasis that business needs society as much.

Doing business is no longer about just selling a product. It also means a change in the perspective of selling. The pandemic of COVID-19 has redefined a lot not just in people's perspectives, but in the nature of doing business itself.

SCOPE OF BUSINESS

The scope of business is vast. The various different activities that bring raw materials to the factory and the end product from there to the market constitute business.

The scope of business is indeed vast. Let us assume that you have decided to buy an automobile. Behind your purchase, there is the supplier of raw materials; there is the manufacturer who converts these raw materials and other inputs into usable vehicles; there is the dealer who makes the vehicles available at places convenient to you; there is the transport agent who assists in moving materials to the manufacturing plant and vehicles from plant to the market; there is the banker to finance various activities; there is the advertising agency which tells you about the vehicles, where and how they can be procured; there is the insurance agent which assumes risks on your behalf; and a host of other activities. Not only an automobile, even a simple item such as a ball pen necessitates a long chain of activities so as to make your purchase possible.

The multitudinous activities involved in bringing raw materials to the factory and the end product from there to the market constitute a business. In other words, business includes all activities connected with production, trade, banking, insurance, finance, agency, advertising, packaging and numerous other related activities. Business also includes all efforts to comply with legal restrictions and government requirements and discharging obligations to consumers, employees, owners and to other interest groups which have stakes in business directly or indirectly.

The above description gives us an impression that a business unit is essentially involved in converting raw materials into more useful products. There are many other organisations such as IT firms, software developers, banks, risk absorbers, ad agencies, malls, e-commerce firms, data economy participants, cab aggregators and a host of others which do not indulge in physical conversion process but are businesses nevertheless. These are called service organisations whose share in our economy exceeds that of the manufacturing sector.

What is important and what needs emphasis in the term '*business*' is that all the above activities are being organised and carried on with an important purpose, viz., earn profit by supplying goods and services to consumers to satisfy their felt needs. Thus, people occupy a central place around whom, by whom and for whom business is run. Business is people.

No wonder the principles and practices of managing a business are finding their place in non-business organisations too. Take an NGO (non-profit organisation), a hospital, or a B-School, you find designations of individuals like Vice-President, executive, and corporate and business practices like TQM and re-engineering being replicated. These and similar other organisations do not claim to work for profit but what all they do, do reflect business functions. They are justified in doing so. Competition among them is so severe, that they need to professionalise their practices if they were to survive and prosper.

CHARACTERISTICS OF CONTEMPORARY BUSINESS

When we describe the characteristics of today's business, we keep in our mind the Indian business. The Indian business has some interesting and unique features such as — transition, bigger role for government, competition, dominance of small businesses, opportunities, globalisation, technology, and lack of trust (See Fig.1.1).

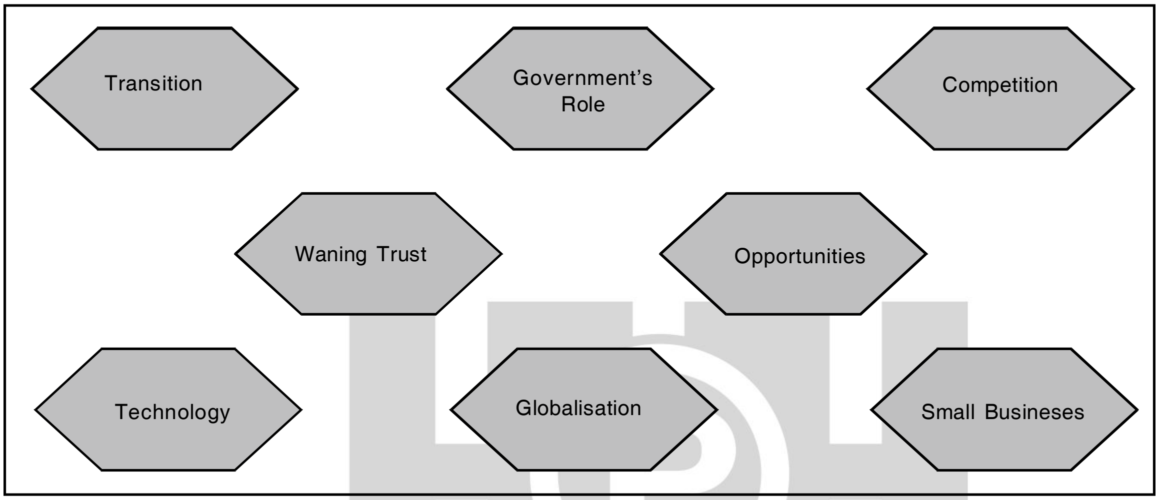

Figure 1.1

Characteristics of Indian Business

Business in Transition: For a long time, business in India was conducted in sheltered markets covering up inefficiencies, low productivity and high cost. Then came 1990s which lifted all protectionist measures. This followed by increased globalisation, changed the scenario altogether. The Indian business leaders find totally a new environment characterised by competition, both from within and from foreign businesses. Those who are competent are able to survive and those who fail are perishing. A typical business leader finds himself or herself sandwiched between the compulsions of the new business environment and of the old practices of doing business. But there is no escape for him or her — he or she should shift himself or herself from the left of the following continuum and move to the other end as shown in Fig. 1.2.

A typical business person is sandwiched between the compulsions of the new business environment and of the old practices of doing business.

Considering what is happening in the Indian business scenario, one can conclude that enterprises have indeed shifted to the right of the continuum and are even going beyond.

Businesses have made huge profits and by one estimate, 60 per cent of India's 200 leading companies are looking to spend their new found wealth on foreign acquisitions and investments.

Indian companies are well poised to acquire firms atleast for two developments. First, many Indian companies are part of a group of companies like Aditya Birlas or Tatas. They can leverage group assets to complete deals that would be difficult for any individual company. One or more of the group companies can lend or take equity position in the company that is attempting to make the acquisition, or the entire group's assets can be offered to raise debts.

Second, Indian companies have historically had very high debt-equity ratios. This implies that Indian entrepreneurs can live with debt levels that many Western companies would find uncomfortable. Earlier, companies in India borrowed from nationalised banks whose mandate was to support country's economic growth. Thus, they were not aggressive with respect to interest rates, debt collection, or valuation and revaluation of collateral. Now, they are tapping global financial markets to fund their deals, and these lenders are more exacting. High leverage increases risk. Nevertheless, the historical easy attitude towards debt facilitated these acquisitions.

Figure 1.2

Model of Economic Management in India

Old	New
Closed economy	Open economy
Self-reliance	Integrate with world markets
State-led economic growth	Market-determined economic growth
Import substitution strategies	Export-oriented strategies
Frequent state interventions	Selective and effective state interventions
Political administered prices	Market-determined prices at large
Not much concern for deficits	Contain all kinds of deficits
Development by inflationary process	Deflationary monetary and fiscal policies
Dominance of PSUs	Withdrawal from the area of private interest
Restriction of FDI and MNCs	Inducement to FDI and MNCs
Restriction on currency movement	Liberalisation of restrictions
State controlled interest rates	Deregulation of interest rates
State controlled credit	Credit policy reforms
Underdeveloped capital market	Reforms in capital market
High tax rates	Tax reforms

Competition benefits rival firms by defining new ways of doing business, helping build new capabilities, building new customer satisfaction standards, making business executives become proactive.

Pressure of Competition: As stated above, Indian businesses are competing among themselves and are exposed to rivalry from foreign firms. Competition though unwelcome to managers, is a boon to customers. Look at the experience of buyers and users in India. Recollect the scenario about 20 years back. Businesses enjoyed virtual monopoly and this advantage they used to squeeze customers. Scarcities, high prices and low quality were the order of the day. One had to wait for 6 to 7 years to get a phone connection, 3 to 4 years to have a cooking gas connection, 8 to 10 years to get a new two-wheeler released and the list goes on.

The scenario is a contrast today. The customer has several options. He or she can pick and choose. 'Customer is the king' was a mere slogan earlier. Now it is being practised. For the first time, the officer at the counter of an office of LIC greets you with a smiling face, the clerk in a bank addresses you politely as Sir or Madam, and for your surprise the cashier at the counter of a water supply board greets you politely and for your shock and disbelief, the conductor in a local transport bus is now the embodiment of politeness and smiles.

Competition benefits the consumer as has been proved in our country. Government of India should have realised this fact long before and, instead of enacting numerous consumer legislations in the name of protecting consumer interests, could have allowed competition to play its free role.

Not that competition benefits only consumers. It benefits even the rival firms. Competing firms benefit from having strong domestic and foreign rivals.

Competition, for example,

— defines new ways of doing business,

— helps build new capabilities,

— builds new customer satisfaction standards, and

— makes business leaders become proactive.

Immense Opportunities: Though Indian business faces stiff competition, it also has plenty of opportunities which can be exploited to one's advantage. BPO, Call Centres, IT, ITEs, wealth management, risk management and private banking are the new names that are doing rounds in business.

But the real opportunities lie in the traditional sector, viz., industry. Globally competitive manufacturing can be done in India. In diverse sectors — pharmaceuticals, chemicals, textiles, metals, refining, cement, auto and ancillaries, India has factories doing well and even exporting large portions of their output. Many MNCs look at India as export-base. Suzuki and Hyundai perceive India as a car club. ABB plans to make India a global sourcing base for some of its products.

India has potential to emerge as the second global manufacturing base after China. In its report 'Made in India', McKinsey and Co. has stated that the second and much bigger wave of manufacturing outsourcing is yet to come. The first wave was $460 billion and consisted of low technology products like toys and garments. The second wave would reach $1.6 trillion and will include high technology sectors like automotives, engineering and chemicals. When the second wave comes, the beneficiaries will be India or China, or both.

Some examples of companies seizing opportunities are worth recollecting. Toyota Kirloskar's Bidadi's plant, near Bangalore, has the highest yield of steel plates in the Asian operations of Toyota. This means that the Indian engineers and their innovations are able to make more money out of steel than elsewhere in the vast Toyota world. Ford's Sriperambadur plant, near Chennai, is at the top among all Ford's plants worldwide, in terms of production efficiency. The plant now exports engines and panels to South Africa among others. Bajaj Auto's new plant at Chakan is world class. Tata Motor's Nano is perhaps the cheapest new car in world in terms of developmental expenditure. Tata Steel has emerged as one of the lowest-cost manufacturers of steel in the world. Jindal Stainless recently bagged an order to supply coin blanks to Monnaire De Pari — the French national mint. This means that some 7.5 bn Euro coins will use Indian stainless steel.

Commodity business is another area where Indian companies are in a stronger position. L.N. Mittal in Steel, Ambanis in Polyester, K.M. Birla in Viscose Fibre, and Bharat Forge in forgings are only some names that come to one's mind while we talk about the commodities stage (See Table 1.1).

Business in commodities has fallen during the last two years. Major fall has been in oil. Fall in oil price has benefited India. The country has been bearing heavy import bill on oil. With the dip in the oil bill, India is able to save on foreign exchange.

Table 1.1

Commodity Czars

Company	*Product*	*Annual Capacity*	*Rank*
Mittal Steel	Steel	70 million tonnes	1
Birla Viscose	Viscose fibre	251,850 tonnes	1
Basell (Chatterjee/Access)	Polypropylene	8 million tonnes	1
Reliance Industries	Polyester	1.8 million tonnes	1
Hero Cycles	Cycles	5.2 million units	1
Essel Propack	Laminated Packaging	4 billion units	1
Bharat Forge	Forgings	102,900 tonnes	2
Moser Baer	Optical media storage	2.5 billion units	3
Hero Honda	Two-wheelers	2.6 million units	1
Jubilant Organosys	Pyridine	22,500 tonnes	2
Orchid Chemicals	Cephalosporin	1,100 tonnes	5

What makes Mittal, Birla, Ambanis and the others command such enviable positions? Three reasons explain their commanding positions. *First,* the low cost of production. *Second* is the confidence these entrepreneurs have — confidence derived from their increased competitiveness and global outlook. *Third,* countries that were traditionally centres of manufacturing are finding their competitiveness eroded by other low-cost countries, and are therefore opting out of the race. In Europe, for example, a number of small auto-component manufactures are selling out and are being taken over by the likes of Bharat Forge.

Modern business necessitates globalisation. Technological innovation, crumbling trade barriers, FDI, information explosion, changing lifestyles and demand for new products are the triggers of globalisation.

Globalisation: Going international is yet another trend followed by modern business houses. Political boundaries are no barriers to business. Production facilities are being set up in different countries and products are being sold through a global network. Gradually, business houses are exposed to global competition which augurs well for consumers.

In fact, internationalisation or globalisation is fast becoming imperative for modern business due to technological innovations; crumbling trade barriers; global flow of capital and technology; information explosion; intensity of market competition; changing lifestyles and the demand for new products. The success achieved by China and other Asian countries has demonstrated that imaginative and supportive economic and trade policies — domestic and external, accent on technological innovation, product design, quality, price, marketing strategy and infrastructure back-up play a vital role in carving a niche in the international business arena. Internationalisation of business is a means of sustaining a strong domestic base in terms of technology, product, market and the capital over a longer period.

Globalisation, however, is under fire. The economic meltdown all over the world has cast doubts on the future of internationalisation. Across the globe, countries are no more interested in further liberalisation of world trade. There is a frontal attack on trade liberalisation and a tendency to revert to protectionism. Globalisation will be discussed in greater detail in subsequent chapters.

Technology: Business is characterised by increasing use of technology. The impact of technology on business is pervasive. The way production function is organised; the way products are marketed; the way employees are hired and motivated; the way finance function is carried on; and the way managers and subordinates communicate with each other — all are influenced by technology. Because of its significance, we have devoted a full section to discuss the various dimensions of technology.

Waning Trust in Business: Trust in business is waning and the trend is getting accentuated thanks to the economic crisis witnessed as of now. This is so because of unlawful and unethical practices indulged in by businesses. Collapse of Satyam, Enron and Lehman Brothers has further eroded credibility of businesses. The Edelman Trust Barometer found that 62 per cent of adults in 20 countries trusted businesses less (in 2008). A recent study of trust in professions found that businesses and banks came lost along with politicians. A low-trust environment makes it difficult for business to function. For an individual company, loss of trust leads to higher transaction costs, lower brand value, and greater difficulty in attracting, retaining and managing talent. For businesses in general, loss of confidence in judgement-based systems of corporate governance could result in the imposition of rules-based systems, potentially increasing compliance costs and reducing flexibility.

What business should do? The most imperative thing to do is to regain trust of all the stakeholders and more effectively manage relationships with them. Business executives need to demonstrate to civil society that they understand popular and political concerns related to executive compensation, risk management, and the treatment of employees facing lay-offs.

Regaining trust also implies dispelling the notion that the business of business is only to enhance shareholder value. Broadening the list of key stakeholders to include employees, customers, suppliers, competitors, press, unions, government, and civil society will help companies rebuild their credibility.

In European and Asian companies, this multi-stakeholder approach is already visible. But it will be a challenge for US and UK companies, which have historically been more shareholder-centric in their decision-making, compensation practices, and performance management.

Role of Government: Contrary to popular understanding, government's role in business continues to stay and is going deeper. Look at what happened to Ford's subsidiary in Mexico. President of the US expressed disapproval and even held a veiled threat at Ford for having set up a plant in Mexico. Ford wound up the plant and relocated it in the US.

The US president is planning to renegotiate NAFTA terms and if it happens, consequences for Mexico and the US would be profound. The president has expressed very strongly that a wall bordering Mexico would be erected soon. Recently Britain walked out of the Europe. Coco-Cola is not able to sell its coke in North Korea and Cuba. Not that the Cola does not want to sell its soft drink in the two countries. Respective governments have banned entry of the coloured drink. Signs of protectionism are seen all over the world.

Not that the role of government in business is sought to be exemplified for wrong reasons. Governments in many countries have played dynamic role in raising their economies from underdeveloped to developed status. India is one shining example. What was once a poor and an underdeveloped economy three decades ago is now rich and fastest growing economy. China is another example for dynamic role of a government. Rulers in China, though communists by ideology, became mere capitalists and threw red carpet welcome for MNCs. The government has lifted millions of Chinese from poverty and squalor. Today China is the second largest economy in the world.

Predominance of Small Businesses: Contrary to popular belief, modern business is not characterised by only huge conglomerates. In fact, majority of today's business are small in size and low in scales. For example, of 800,000 companies in India (only 11,000 are listed), as many as 70 per cent are family owned and controlled and which tend to be small sized units. 87 per cent of employment in manufacturing is in firms with fewer than 10 employees each. Globally, 85 per cent of companies in OECD countries are family centred. Small firms carry inherent strengths as well as debilitating weaknesses, as Chapter 19 shows.

Prosperity of a nation does not depend only on large MNCs, evidenced by Germany. Among all the European countries, Germany is the only country which is prospering and the credit for this goes to the dynamic role of small and medium enterprises. Same is the story with Canada and Denmark also.

Numbers wise, small units may dwarf large corporations. Visibility, globality, scales, and other dimensions-wise conglomerates are at the forefront. MNCs and large domestic firms are always in the news but rarely are written and read about the challenges and struggles faced by the owners of small and medium business units. Another trend witnessed is that the number of daughters becoming board members or CEOs is rising.

Besides small businesses numerically overtaking large firms, family owned businesses outnumber in emerging markets as shown in Fig. 1.3. As seen from the Figure, 70 to 80 per cent of the businesses in India are family owned. Same trend is seen in other developing countries too.

A growing number of family-owned businesses in emerging markets could hit $1 billion in sales in the years from 2010 to 2025.

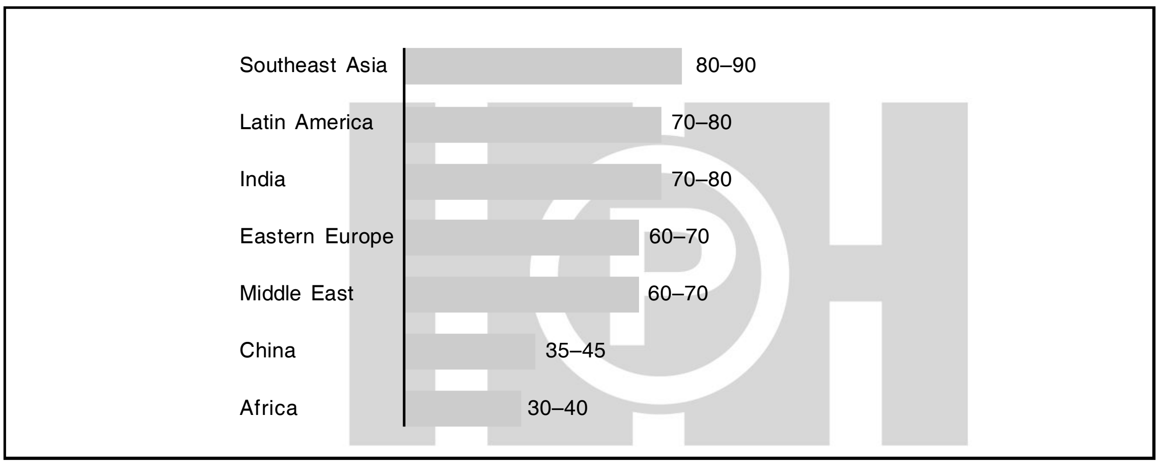

Figure 1.3

Share of Large Companies that are Family Owned

BUSINESS OBJECTIVES

Before we describe business objectives, it is desirable to be clear about related concepts, *viz.*, vision and mission.

Vision is a broad and hazy explanation of why the firm exists and where it is trying to march ahead. Vision is a beacon of light.

Vision: A vision is a broad explanation of why the firm exists and where it is trying to lead. The vision provides the point of reference on the horizon — a beacon of light. The vision seeks to answer the following questions:

Where do we go from here?

What changes lie ahead in the business landscape?

What differences will these changes make to the company's present business?

The vision gives the organisation a sense of purpose and a set of values that unite employees in a common destiny. The most effective vision is the one that inspires, and this inspiration often takes the form of asking for the best, the most or the greatest. It may be the best service, the most rugged product, or the greatest sense of achievement, but it must be inspirational. The vision of Infosys is —

"To be a globally respected corporation that provides best-of-breed business solutions, leveraging technology, vendors and society at large."

Mission: A mission statement outlines the fundamental purpose of the organisation. A vision becomes tangible as a mission statement. If the vision statement answers the question "Where do we go from here?", the mission statement answers "What is our business?".

Mission statement seeks to give a definite meaning to vision. If vision seeks to answer the question "where do we go from here", mission answers "what business we are in right now?"

A mission statement typically gives the organisation its own unique identity, business emphasis, and path for development. A mission statement incorporates four elements:

1. Customer needs, or **what** is being satisfied.
2. Customer groups, or **who** is being satisfied.
3. The company's activities, technologies, and competencies, or **how** the firm goes about creating and delivering value to customers and satisfying their needs.
4. The company's concern for survival, its **philosophy**, its self-concept and its concern for public image.

As stated above, mission statements are highly personalised — unique to the organisation for which they are developed. It is, therefore, normal that different firms in the same industry shall have different mission statements. The mission statement of Tata Motors is different from the mission statement of Toyota Kirloskar.

The mission statements of some companies are as follows:

"To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large" (Infosys).

"Ford Motor Company is a world leader in automotive and automotive-related products and services as well as in newer industries, such as aerospace, communications, and financial services. Our mission is to improve continually our products and services to meet our customers' needs, allowing us to prosper as a business and to provide a reasonable return for our stockholders, the owners of our business."

Objectives

Mission statements are more specific than vision statements, but are not to be taken as concrete directions for action. Objectives render mission statements more concrete. In other words, mission statements seek to make a vision more specific and objectives are attempts to make mission statements more concrete. In short, they are compatible to each other. Objectives, therefore, represent the operational side of an organisation. (Read Box 1.1 for a jinxed case of failed objectives and forgotten mission). We focus on objectives here.

BOX 1.1: FAILED OBJECTIVES AND FORGOTTEN MISSION

ET&T was set up in 1974 with a very small capital base of ₹ 50 lakh only. This was raised in 1985 to ₹ 5 crore, which was also not a very substantial amount in relative terms. The activities were being funded mainly by borrowing from other public sector undertakings and the Government of India. The number of employees is less than 500.

Objectives and Performance

To understand the true nature and large dimensions of ET&T's intended role in India's nascent electronics industry in the past two decades, one must look at its Memorandum of Association, which had spelt out the following objectives among others:

— to import and distribute in India electronic goods in short supply;

— to promote exports of all types of electronic products, and to explore and develop new markets abroad;

— to undertake techno-commercial negotiations with foreign organisations, in order to identify, locate, modify and standardise electronic plant and equipment for use in India;

— to locate proper technical know-how for production and development of electronic goods and infrastructure, and import these from abroad; and

— to promote joint production ventures with foreign enterprises.

The CAG sums up ET&T's performance *vis-a-vis* these basic purposes (read mission) as follows:

....The corporation has confined itself primarily to trading activities, by importing certain electronic equipment (mainly television picture tubes), selling kits of electronic items like TV sets, and undertaking limited exports of Indian electronic goods....

'Very little was done for achieving objectives like development of the Indian electronics industry through import of technical know-how, techno-commercial negotiations with organisations abroad, joint production ventures, and diversification of exports of Indian electronic goods'.

It may be stated that a typical business unit seeks to achieve more than one objective and there are always restraints to the attainment of some objectives. Objectives vary with the passage of time. Objectives common to most contemporary businesses are explained here (Also see Fig.1.4).

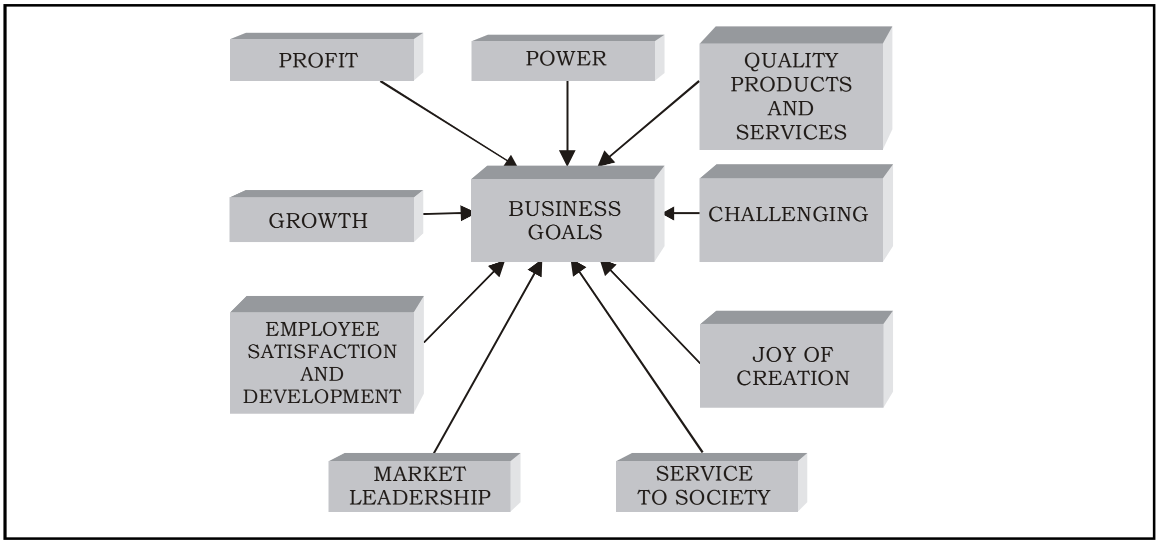

Figure 1.4

Business Objectives

Profit: Making profit is the primary goal of any business enterprise. Profit is the excess of income over expense. Profit is the main incentive, motivator, strong sustainer, judicious allocator of resources, objective indicator of productivity and a solid basis for growth, expansion and survival. Profit enables a businessman to realise his other objectives too.

Not all enterprises are interested in making profits. For example, hospitals, schools, charitable institutions and government agencies are not basically concerned with the acquisition of profits. The non-profit enterprises customarily rely on gifts, endowments, receipts from money raising projects, subsidies or taxes for sustenance. The basic objective of these establishments is the provision of a service which is socially desirable and useful (See also Box 1.2).

BOX 1.2: INSTITUTE OF EXCELLENCE

The Indian Institute of Management, Ahmedabad (IIMA), was set up in 1962 to pioneer professional management education in the country. It was set up with the support of the Government of India, the Government of Gujarat and industrialists of the city of Ahmedabad. By 1990, IIMA was widely regarded as one of the foremost institutions of its kind in the Third World. It had trained nearly 19,000 Indian managers, and nearly 4,000 doctoral and MBA students had graduated from it. Its faculty had written some 2,000 Indian management cases, nearly 3,000 technical notes and papers, and 600 books and research monographs. Very early in its history, IIMA decided that it was going to be a school of management, not just of business management. In other words, it was committed to bring professional management not just to the Indian corporate sector but also to such nationally important sectors as agriculture, rural development, health, education, energy, transportation and banking. In the nineties, it was committed to making contributions to such areas of management as strategic sick industries and their rehabilitation, pioneering and innovative entrepreneurship, the globalisation of Indian corporate management and the formulation and implementation of industrial policy. A national poll in 1991 indicated it to be the most highly regarded of all management institutions in India. And it is too well known that IIMA is a non-profit organisation.

In profit-making enterprises, profit should not be the end in itself. Profit should be the beginning — acting as seed money for more products, more plants, more dividends, more tax payments, more jobs and more opportunities. Profits should promote the well-being of all... the rich and the poor; privileged and less privileged; consumers and producers and investors and non-investors. Ignoring this and over-emphasising profit may bring early death to an enterprise. For instance, wrote George R. Terry, "*promoting only products with high margins (to earn profits), ignoring research, and failing to provide working conditions satisfactory to employees, may in the ultimate, bring about the demise of an enterprise.*"

A business must live long to serve the society and for this it needs to earn profit year on year. Existence of an enterprise will be justified only when it is useful to society. It should answer itself one fundamental question: How has the society become different because of its (business unit) existence?

Growth: Growth is another primary objective of business. Business should grow in all directions over a period of time. An enterprise which remains stagnant for long is presumed to suffer from an organic defect.

The strategies adopted to achieve growth are:

(a) add more products/markets;
(b) diversify into new areas;
(c) integration — forward or backward;
(d) increase market share;
(e) expand markets or
(f) cut down costs and increase productivity.

Business confers enormous power on owners and endows them with vast resources. Business executives make and unmake political parties and political leaders.

Power: Business houses have vast resources (in the form of money, materials, men and know-how) at its command. These resources confer enormous economic and political power on owners and managers of business ventures. Next to the Prime Minister and Chief Ministers, perhaps, it is the business people who enjoy considerable clout in our country. Some businessmen mince no words in expressing the desire that they want more power. The late Aditya Birla used to assert that he built his empire to get more power.

Several enlightened businessmen have used their power for the good of society. One such illustration in our country was J.N. Tata, who passed away in 1904. He was a pioneer in industry, research, health care, art, literature and in many other areas. His name inspires awe and respect. It is hard to imagine what would have happened to the industrial map of our country if J.N. Tata had not been born in 1839 in a family of Parsi priests in Gujarat. "*He was above all a patriot*", wrote *The Times of India* (April 13, 1912) "*who made no public speeches. To his mind, wealth and the industry which led to wealth, were not ends in themselves, but means to an end, the stimulation of the latent resources of the country and its elevation in the scale of nations*."

Employee Satisfaction and Development: "*If you want to plan for a year, plant corn. If you want to plan for 30 years, plant a tree. But if you want to plan for 100 years, plant men*" — so goes a Chinese proverb. Business is people, said we, in the beginning of this chapter. Caring for employee satisfaction and providing for their development has been one of the objectives of enlightened business enterprises.

Concern for employees continues to be an important orientation of management, contrary to the expectation that human element will lose its significance thanks to automation. In fact, quality of personnel is considered to be one of the hallmarks of best managed and highly respected companies.

The Tatas are a legend in pursuing this objective. Either in implementing labour welfare measures, constituting safety and security measures, or in providing training and development facilities, the name of Tatas should be mentioned first.

Quality Products and Services: Providing quality products and services is yet another objective of business. Those who insisted on and persisted in quality survived competition and stayed ahead of others in the market. Persistent quality of products earns brand loyalty, a vital ingredient of success. Hindustan Unilever is flourishing mainly because of the quality of its products. Some of its products like Liril, Vim, Lifebuoy, Surf, Rin, Sunlight, Signal, Close-up, Lux, Rexona, Pears and others have become household names throughout the country. These products are accepted by buyers as safe, of high quality and reasonably priced. Behind its quality products, Hindustan Unilever has an excellent Research and Development (R&D) set-up and a high degree of professional management. The company is sitting pretty and is almost invincible.

There are other business people who believe in quick money. Quick money comes through short-cuts. These are the people who give us razor blades which fail to give us one smooth and neat shave, bulbs that do not give at least 100 light hours of service, leaky taps and adulterated goods. Such enterprises will not survive for long and should not survive also.

Market Leadership: To gain market leadership is another objective of business. To gain and retain market leadership is extremely difficult in these days of severe competition. Nevertheless, such factors as innovation, quality, cost, supply and after-sale service keep a firm ahead of others. Hindustan Unilever, Asian Paints, Bharti Airtel, and TCS are but some names that come to one's mind while talking about leadership.

Challenging: Business offers vast scope and poses formidable challenges. Success in a business venture smacks of the abilities of individuals who own and failure betrays their inability and incompetence. The worth of an individual is tested more in business than in any other profession.

For Ratan Tata running business was a challenge. Confessed Tata in an interview thus: "I have asked myself this quite often. I don't have monetary ownership in the company in which I work and I am not given to propagating the position I am in. I ask myself why I am doing this and I think it is perhaps the challenge. If I had an ideological choice, I would probably want to do something more for the uplift of the people of India. I have a strong desire not to make money but to see happiness created in a place where there isn't" (See also Box 1.3).

BOX 1.3: STORY OF XEROX

The story of Xerox has an old-fashioned, even a 19th century ring — the lonely inventor in his crude laboratory, the small, family-oriented company, the initial setbacks, the eventual triumph, gloriously vindicating the free-enterprise system.

The story flashes back to 1938 and a second-floor kitchen above in a bar in Astroia, Queens, which was being used as a makeshift laboratory by an obscure 32 year old inventor, named Chester F. Carlson. The son of a barber of Swedish extraction, and a graduate in physics of the California Institute of Technology, Carlson was employed in New York in the patent department of P.R. Mallory and Co. In quest of fame, fortune and independence, Carlson was devoting his spare time, trying to invent an office copying machine, and to help him in this endeavour, he had hired Otto Kornei, a German refugee physicist. The fruit of their experiments was a process by which, on October 22, 1938, after using a good deal of clumsy equipment and producing considerable smoke and starch, they were able to transfer from one piece of paper to another the unheroic message "10-22-38 Astoria." Thus, photocopying was born.

The idea of photocopying was then taken over by one Mr. Joseph C. Wilson of the Haloid Company which was manufacturing photographic papers. Overshadowed by the giant in the field, namely, Eastman Kodak, and dispirited by the Great Depression, Haloid Company was desperately looking for a new product which would bail the firm out of trouble. The idea of photocopying inherited by Carlson was a godsent opportunity to Haloid Company. Not that the company could reap fortunes out of the idea immediately. For several years, sleepless nights were spent and millions of dollars were poured in to further improvise the idea of Carlson. Only in 1950's, the real breakthrough was achieved and from then onwards, it was smiles all the way to the bank for everyone associated with the Haloid Company, which was subsequently named as Xerox Corporation. It was indeed joy of creation for both Carlson, the inventor as well as for Joseph Wilson, the developer.

(See **Business Adventures** by John Brooks.)

Joy of Creation: It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services for the benefit of customers.

Although it may be too difficult to list all the products and services that business houses have provided us till now, it is interesting to mention that in the coming two or three decades, the following will receive considerable attention from researchers and business people:

- Readily available artificial human organs, except the brain.
- A means of transportation without an automobile, perhaps an individual flying machine.
- Drugs to cure or prevent cancer and the common cold.
- A pocket sized personal/business computer, i.e., a laptop or palm computers.
- Clothing that can be cleaned by placing it in a 'cleaning chamber' for one minute.
- A synthetic material to replace wood.
- A simple injection to determine the sex of an unborn child.

Will there be a greater joy to a businessman coming out with a drug which can cure cancer? Its availability in the market will be of immense benefit to those who need it.

Service to Society: Business is a part of society and has several obligations towards it. Some of them are:

(i) providing safe and quality goods at reasonable prices;
(ii) providing employment;
(iii) patronising cultural and religious activities;
(iv) maintaining and protecting ecology; and
(v) supporting less privileged sections of people in society like Scheduled Castes and Scheduled Tribes, the physically handicapped, women and children.

Services of society is the main objective of a non-profit-making enterprise. Profit-making enterprises cannot afford to have service as the primary objective. It will be a secondary objective.

Good Corporate Citizenship: Good corporate citizenship implies that the business unit complies with the rules of the land, pays taxes to the government regularly, maintains ecology, discharges its obligations to society and cares for its employees and customers.

Bending rules of the land, evading tax payments by under-invoicing exports and dubious tax-planning; cornering licences at the cost of others; adulteration of quality products; and indulging in other unethical practices may earn money. But such practices hardly speak highly of corporate citizenship. The Tatas are a contrast to the general trend. Unethical practices are anathema to the Tatas. The best way to substantiate this claim is to quote J.R.D. Tata. "*This factor has also worked against our growth. What would have happened if our philosophy was like that of some other companies which do not stop at any means to attain their ends. I have often thought of that and I have come to the conclusion that if we were like these other groups, we would be twice as big as we are today. What we have sacrificed is a 100 per cent growth*."

CRITICS OF BUSINESS

The discussion till now has reflected the positive side of business. There is also the negative side to it and the critics are not lagging behind in pointing out the shortcomings. The criticisms are many, but all are based on one idea, viz., people in business place profits before enduring values such as honesty, truth, justice, love, devoutness, aesthetic merit and respect for nature. Specific criticisms are the following:

1. Business activity has a corrosive effect on a range of cherished cultural values.
2. Business dehumanises and exploits workers.
3. Business harms interests of consumers.
4. Business degrades nature and the environment.
5. Business has destroyed handicraft and rendered artisans jobless.
6. Business causes scams and scandals.
7. Business multiplies needs and makes people greedy and avaricious.
8. Business leaders bend rules, cut corners, bribe officials and challenge existing authority.

Business is being criticised for several reasons such as – dehumanisation and exploitation of workers, denting cultural fabric of a society, scams and scandals, degradation of natural environment and the like.

Is business that bad? Has not business benefited society? Has it not built factories, provided jobs, saved lives and invented new things to the needy? Has not business promoted positive cultural values such as imagination, innovation, organised co-operation, hardwork and orderly life? Has business not improved the standard of living of people? Has it not lifted millions of people from poverty, ignorance, squalor and disease? Has business not brought the entire globe closer? Answers to all these and other questions are on the affirmative.

A wide range of critics differ in the nature of their attacks and their prescriptions to eliminate perceived ills. For our purpose, there are five groups of critics. (See Fig. 1.5).

Activist Reformers: This group comprises individuals and groups who accept and respect the basic legitimacy of the business system, but find flaws and try to rectify them. The philosophy of the activist reformer is exemplified by consumer Gandhi-Ralph Nader, who accepts American capitalism in its democratic setting but sees an imbalance of power between the people and the plutocracy. For 30 years, Nader has worked to redress this imbalance by building an organisation of public interest groups through which he and his followers pressure business houses and the government to accomplish reforms.

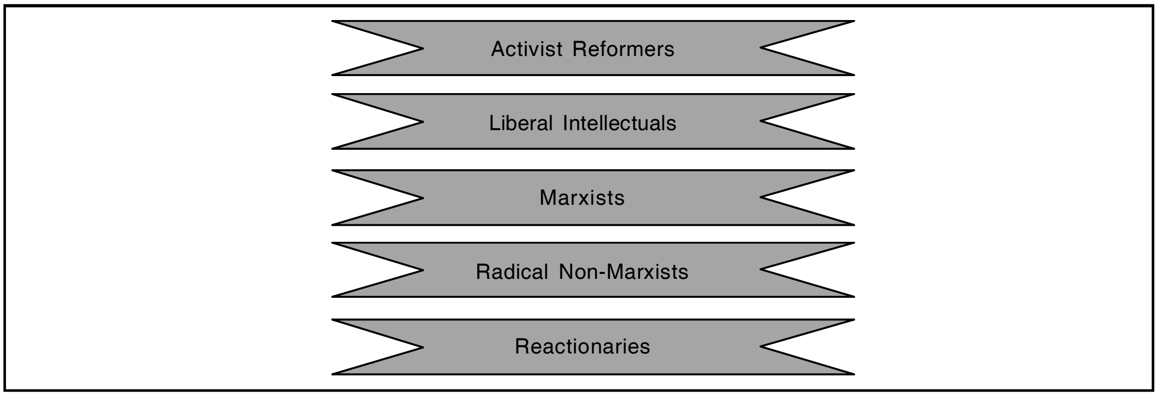

Figure 1.5

Business Critics

Activist reformers use a variety of tactics to make business houses follow fair business practices. Common tactics include negotiation, letter writing, speeches, lobbying legislatures and regulatory agencies, research and editorial writing.

Liberal Intellectuals: This group is comprised of thinkers who share a broad approach to social problems which they express with their pen rather than with the sword of criticism. This group believes that *(i)* human rights should be protected and enhanced, *(ii)* there is need to restrict corporate power, *(iii)* social arrangements can be improved through reforms, and *(iv)* government should be used to correct problems in society. Liberal intellectuals have a basic faith in democratic capitalism, but they find blemishes and suggest remedies consonant with their ideology. The writings of intellectuals with these broad beliefs have, over the years, been a source of great insight and timely ideas for reform.

Several great thinkers belong to the liberal intellectuals group. Galbraith, for instance, has written numerous books over 40 years advocating greater government control of business to reverse the loss of consumer sovereignty that results from the growth of large corporations. Similarly, in his 1956 book, *The Organisation Man*, sociologist, William H. Whyte, Jr., argued that big organisations produced undesirable conformity in employees.

Marxists: These critics reject current institutional structures and demand replacement with a collective state. Unlike reform-oriented critics, this group believes that the faults of capitalism cannot be ameliorated through gradual reforms. Basic institutions such as free market and private capital must be swept away.

Inspired by their intellectual progenitor, Karl Marx, these critics held sway over the world for a long time. But today, their influence is waning. The overthrow of Marxist governments in Eastern Europe in 1989 and 1990 and the deteriorated economies of the former Soviet republics have blunted the appeal of their critique. Though the movement is moribund, to dismiss it might be premature.

Radical Non-Marxists: The great economist E.F. Schumacher, who wrote *Small is Beautiful*, is one of the radical non-Marxist critics. Schumacher believes in restructuring the economy by limiting or ending growth. The radical non-Marxist critics argue that industrialisation is seriously endangering stable social and environmental existence on this planet. Materialism, competition, tireless labour and individualism which are hallmarks of an industrial society are to be replaced by moderation, group harmony, co-operation and leisure.

Reactionaries: Reactionary critics assail corporations for responding to liberal critics, going too far in the direction of non-market social responsibilities, or taking political and moral stands that conflict with conservative positions. Milton Friedman, for instance, rebukes business houses for undertaking social responsibility activities that depart from its traditional economic role.

We need not cite any body to bring criticisms of business to sharp focus. Business people are known for defaulting loans raised from banks; hoarding black money; owning villas in London and New York; squander money on marriage celebrations and birthday bashes; indulge in unethical practices and a host of other unacceptable practices. There is a huge trust deficit and public support for them is waring.

Can we do without business? No. we need business as much as it needs us. This is to be understood and appreciated by both.

TIDBITS

- Changing times compel alliances on market leaders. In automobile industry, alliances are more common. For example, alliance between Toyota and Suzuki. Both are unlikely partners as Toyota is the second largest car maker in the world, whereas Suzuki is ranked 10th. Yet in terms of seeking scale and technology, the alliance sounds logical.

  In early March 2017, another alliance was being formed in Germany. Volkswagen AG, the world's largest carmaker, signed a memorandum of understanding with Tata Motors to jointly develop auto components and vehicles for India and beyond.
- In Fig. 1.1, we missed out an important attribute of modern business-speed. It is difficult to list out all instances where speed plays a great role. A few of them however are the following:

  A customer downloads an app from Apple every millisecond. The firm sells 1,000 iPhones, iPads or Macs every couple of minutes. It whips through its inventories in four days and launches a new product every four weeks. Manic trading by computers and speculators means the average Apple equity changes hands every five months.

  In 1913, Henry Ford's reinvention of the assembly line cut the time it took to make a car from 12 hours to 90 minutes. Alfred Sloan, who ran General Motors as President and then Chairman from 1923 to 1956, invented "dynamic obsolescence" - using a flurry of new products to whip up demand and make existing models seem out of date. Honda took this idea to an extreme; in 1981-82, it launched 113 models of scooters in 18 months. Japanese firms pioneered flexible supply chains and reorganised factory floors in the 1970s and 1980s—eking out efficiency gains by eliminating delays.

STRATEGIC PRACTICE EXERCISE

Which of the following are strategic and Why?

i) Business has immense opportunities now than ever before.
ii) A typical company faces severe competition.
iii) Business is losing trust and is becoming suspect.
iv) Good corporate citizenship is the sole aim of business.
v) Any progressive company will have well drafted vision.

COMPREHENSION TEST

Which of the following statements are against your thinking? Why?

i) The main business of business is business.
ii) Competition is good for business growth.
iii) Non-profit organisations should earn profit in their own good.
iv) Business creates scandals and scams.
v) Reliance Industries is known for good corporate citizenship.

QUESTIONS

1. What is business? How does business of today differ from that of four to five decades ago?
2. What are business objectives?
3. "Profit making is the primary goal of any business enterprise." Yes or no—discuss.
4. What is an objective? What are business objectives?

5. Can you name some Indian businessmen for whom business gives joy of creation?
6. Why profit making is listed as number one objective?
7. What are the attributes of good corporate citizenship?
8. Why are businesses criticised?
9. What are the views of activist reformers?
10. How do liberal intellectuals and reactionaries differ in their criticisms against business?
11. Among the five group of business critics, who do you think are more convincing in their arguments?
12. List at least five Indian companies/groups that, according to you are good corporate citizens. Why do you think so?
13. An NGO's functions are almost same as those of a business enterprise. Why then NGOs are not called business enterprises?
14. Why do you think Indian firms are well poised to acquire foreign companies? Name typical Indian companies that are likely to be strong suitors.

REFERENCES

1. *The Economic Times,* Nov 5, 2004.

1(b). *The Economic Times,* July 24, 2009.

2. Arthur A. Thompson and A.J. Strickland, *Strategic Management,* Tata McGraw-Hill, 2003.
3. George R. Terry, *Principles of Management*.
4. Gita Piramal, *Business Maharajas*, New Delhi, Viking, 1996.
5. R.M. Lala, *Creation of Wealth*.
6. George A. Steiner and John F. Steiner, *Business, Government and Society*, McGraw-Hill, 2000.
7. Barry M. Richman and Melvin Copen, *International Management and Economic Development*.
8. Glueck and Jauch, *Business Policy and Strategic Management*.
9. Aswathappa,K., *Human Resource and Personnel Management*, New Delhi, Tata McGraw-Hill, 1999.
10. Fahey and Narayanan, *Macro Environmental Analysis for Strategic Management*, West Publishing Co., 1986.
11. Christopher Bartlet and Sumantara Ghoshal, *Beyond Systems to People*, "The Economic Times", June 6, 1995.
12. *The Economic Times,* dated April 16, 2010.

CASE 1 – MATTER OF TRUST

When Tata Group Founder: Jamsetji Nusserwanji Tata designed his coat of arms in 1869, it was the highest Zoroastrian principles of *humata* (good thoughts), *hukhta* (good works) and *hvarshta* (good deeds) that he inscribed on the blue insignia. The inspiring motto was just right for the businessman who was a descendant of the Parsi priests of Navsari in Gujarat. Many decades and many generations later, the house of Tatas still lives by that credo.

In the big bad world of business, Tatas are a unique example. The various philanthropic Tata Trusts own about 65.8 per cent of the holding company — Tata Sons. Each of the Tata Sons' chairman adhered to the lofty values set by the founder and over generations won over the Indian populace. Ultimately, it's not the size of his business, or the sheer scale of his ambition but this position as the guardian of that collective trust that the people of India place in the Tatas which made Ratan Tata India's most powerful CEO of the decade.

Run through the annals of history, and you will find that there are few industrial houses across the globe that have played a more important role in nation building than the Tatas have in India. Whether it was the group's foray into textiles, power, chemicals or steel in the early 1900s or transport in 1945 or software in late 1968; each new business venture created an industry and in turn made India more self-reliant.

Tatas have practised patriotic entrepreneurship from the outset. When Tata Steel raised money from domestic investors in 1906, Jamshetji's son Sir Dorabji Tata wrote, "It was the first time that the raw material of India did not go out and return as finished articles to be sold in the country. Above all, it was purely swadeshi enterprise financed by swadeshi money and managed by swadeshi brains."

Most of these projects in the early 1900s were downright risky and ahead of their time. That never deterred the Tatas. When Sir Frederick Upcott, Chief Commissioner of Railways heard about Dorabji Tata's plan to make steel in India, he replied sarcastically,

"Do you mean to say that Tata proposes to make steel rails to British specifications? Why, I will undertake to eat every pound of steel rail they succeed in making". The rest, as they say, is history.

So when critics scoffed at Ratan Tata's proposal to make a ₹ one lakh car in the early 2000s, they erred; history was merely repeating itself. Ratan Tata was not going to break a promise, just like none of his ancestors ever had. When the Nano was eventually launched in 2009, a nation was united in pride.

It's difficult to find a similar match of profits and purpose across the globe. For a young nation to stand tall, an ecosystem of world-class institutions is imperative and the Tatas have always stepped up to give India the best. Prestigious institutes like Indian Institute of Science, Tata Institute of Social Science, Tata Institute of Fundamental Research, Tata Environmental and Research Institute, Tata Memorial Hospital and NCPA owe their existence to the foresight and monetary contributions from the group.

The lives of lakhs of Indians continue to be touched by the group every single day by the various Tata Trusts. The Tatas and philanthropy go hand in hand today because it was a tradition that Jamsetji set right at the very start. In September **1898,** he pledged half his personal wealth to make his dream of the 'University of Research' attain fruition, and in **1892,** he set up an endowment to enable Indian scholars to pursue post-graduate studies. Even today, the three big Tata Trusts — JN Tata Trust. Sir Dorabji Trust, and Sir Ratan Trust — cover the entire gamut of philanthropic activities in fields as diverse as education, art and innovation. For Ratan Tata to announce a Taj Public Service Welfare Trust to help the 26/11 massacre victims was a natural step given a family legacy where one of the ancestors of Ratan Tata even bequeathed his cuff links and tie pins to charity.

Social philanthropy aside, the Tata leaders have the added responsibility of propriety. In an industrial milieu where business family fights were and are the order of the day, Tatas have been true role models. Apart from Jamsetji and his son Dorabji, no Tata Sons chairman has been a direct descendant. Dorabji Tata and his successor Nowroji Saklatwala were first cousins, Saklatwala and JRD Tata were second cousins, and JRD and current chairman Ratan Tata were second cousins twice removed. The other Tata family members like Ratan Tata in the early 1900s, Naval Tata in the 60s and 70s and now, Noel Tata quietly served the group; palace intrigues remain a non-issue in Tata land.

Though there have been isolated instances like Nandigram, the Tatas have believed in social responsibility and inclusive growth throughout their journey. As far back as 1902, when the founder Jamsetji wrote to his son Dorabji about planning an industrial city in Gorumahisani Hills where iron ore was found, he said, 'Be sure to lay wide streets planted with shady trees, every other of a quick growing variety. Be sure that there is plenty of space for lawns and gardens'; Jamsetji didn't want to replicate the dingy British industrial towns. It was not a Tata thing to do.

It's long been our tricky question for any CEO: Can you read your company's mission and value statement with a straight face? Most fail. But not Ratan Tata, JRD Tata or J.N. Tata.

Questions:

1. While describing the characteristic features of business, we said that the trust in business is receding. But here is a story that tells how trust matters. Is there any contradiction?
2. Could you guess what would have happened to India and to Indian business if Tatas did not become businessmen?
3. Tatas have proved that profits and purposes can coexist. Why can't other businesses follow the same line?