1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 03 (Class XII, Semester - 1)
Module Name/Title	Business Environment – Major reforms covered under new industrial policy 1991, Impact of government policy changes on Business and industry, Managerial response to change in the business environment: Part – 2
Module Id	lebs_10302
Pre-requisites	Knowledge of Meaning , features , importance and dimensions of Business Environment
Objectives	After going through this lesson, the learners will be able to understand the following: 1. Major reforms covered under new industrial policy 1991 2. Impact of government policy changes on Business and industry 3. Managerial response to change in the business environment
Keywords	Liberalisation, Privatisation, Globalisation, Increasing competition, More demanding customers,

2. Development team

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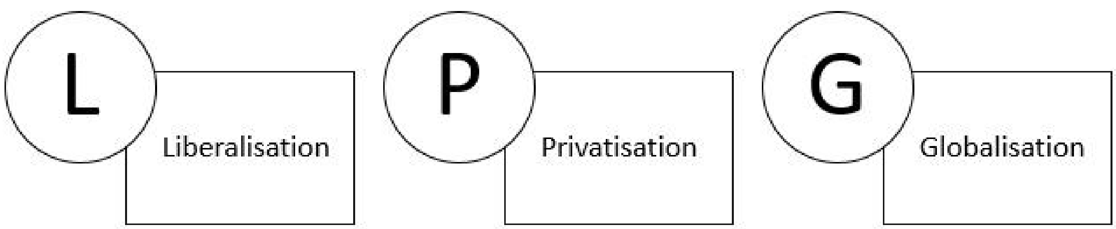
1. Major reforms covered under new industrial policy 1991

In 1991 the economy faced a serious foreign exchange crisis, high government deficit and a rising trend of prices despite bumper crops.

As a part of economic reforms, the Government of India announced a new industrial policy in July 1991 which includes three major reforms which are commonly called as LPG



1. Liberalisation: The economic reforms that were introduced were aimed at liberalising the Indian business and industry from all unnecessary controls and restrictions.
They signalled the end of the licence-pemit-quota raj.
Liberalisation of the Indian industry has taken place with respect to:

i. Abolishing licensing requirement in most of the industries except a short list,
ii. Freedom in deciding the scale of business activities i.e., no restrictions on expansion or contraction of business activities,
iii. Removal of restrictions on the movement of goods and services,
iv. Freedom in fixing the prices of goods services,
v. Reduction in tax rates and lifting of unnecessary controls over the economy,

vi. Simplifying procedures for imports and experts, and
vii. Making it easier to attract foreign capital and technology to India.

2. Privatisation: The economic reform that aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector Is called Privatisation

To achieve this:

i. The government redefined the role of the public sector in the New Industrial Policy of 1991
ii. Adopted the policy of planned disinvestments of the public sector - disinvestments means transfer in the public sector enterprises to the private sector. It results in dilution of stake of the Government in the public enterprise. If there is dilution of Government ownership beyond 51 %, it would result in transfer of ownership and management of the enterprise to the private sector.
iii. Decided to refer the loss making and sick enterprises to the Board of Industrial and Financial Reconstruction(BIFR)

3. Globalisation: It means integration of various economies of the world leading to the emergence of cohesive global economy. This step mainly intended at integrating the national economy with the world economy through the removal of barriers on international trade and capital movements.

Till 1991, the Government of India had followed a policy of strictly regulating imports in value and volume terms. These regulations were with respect to

(a) Licensing of imports,

(b) Tariff restrictions and

(c) Quantitative restrictions

The measures taken by the Government include

(a) Import liberalization;

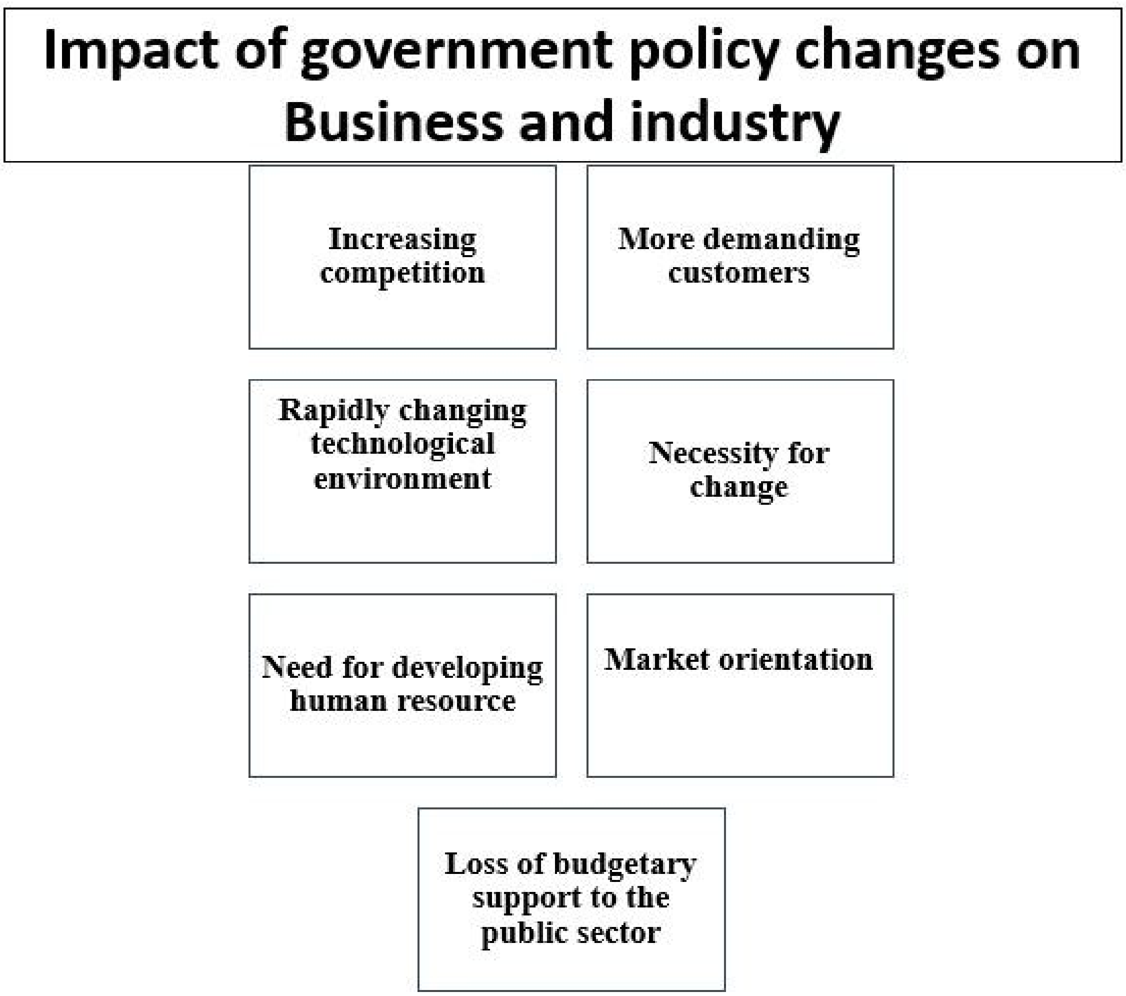
(b) Export Promotion though rationalization of tariff structure;

(c) Foreign exchange liberalization;

Physical geographical gap or political boundaries no longer remain barriers for a business enterprise to serve a customer in a distant geographical market.

2. Impact of government policy changes on Business and industry

The policy of liberalisation, privatisation and globalisation of the Government has made a significant impact on the working of enterprises in business and industry. The Indian corporate sector has come face-to-face with several challenges due to government policy changes.



These challenges can be explained as follows:

(i) **Increasing competition:** As a result of changes in the rules of industrial licensing and entry of foreign firms, competition for Indian firms has increased especially in service industries like telecommunications, airlines, banking, insurance, etc. which were earlier in the public sector.

Example

- LIC and SBI now faces competition from private insurance companies. The increasing competition has adversely affected many companies.
- Air India faces stiff competition because of overseas airlines such as Emirates, British Airways, Air France and Cathay Pacific.

(ii) **More demanding customers:** Customers today have become more demanding because they are well-informed. Increased competition in the market gives the customers wider choice in purchasing better quality of goods and services.

Example

Before 1991, cars were available in one colour, and only two to three brands of cars or scooters existed in the market to choose from. The choices people had available to them in their day-to-day life were very limited. But now we have lot of brands selling different types of cars .

(iii) **Rapidly changing technological environment:** Increased competition forces the firms to develop new ways to survive and grow in the market. New technologies make it possible to improve machines, process, products and services. The rapidly changing technological environment creates tough challenges before smaller firms.

(iv) **Necessity for change:** In a regulated environment of pre-1991 era, the firms could have relatively stable policies and practices. After 1991, the market forces have become turbulent as a result of which the enterprises have to continuously modify their operations.

Example

Companies like Nokia, Samsung, LG, keep on making changes in their product, so that their product can face competition.

(v) **Need for developing human resource**: Indian enterprises have suffered for long with inadequately trained personnel. The new market conditions require people with higher competence and greater commitment. Hence the need for developing human resources. As a result, compensation levels for managerial & technical services have sharply increased.

(vi) **Market orientation:**

- Earlier firms used to produce first and go to the market for sale later. In other words, they had production oriented marketing operations.
- In a fast changing world, there is a shift to market orientation in as much as the firms have to study and analyse the market first and produce goods accordingly

(vii) **Loss of budgetary support to the public sector:** The central government's budgetary support for financing the public sector outlays has declined over the years. The public sector undertakings have realised that, in order to survive and grow, they will have to be more efficient and generate their own resources for the purpose.

On the whole, the impact of Government policy changes particularly in respect of liberalisation, privatisation and globalisation has been positive as the Indian business and industry has shown great resilience in dealing with the new economic order.

3. Managerial response to change in the business environment

Indian business faced various challenges because of the change in government policy and they adopted different strategies to meet these challenges. Following are the ways in which companies or managers are responding to change in business environment.

1. **Acquisitions and Mergers**

   To achieve the objectives of market dominance, market entry, expand product range and obtain core competencies , the Indian business enterprises are also indulging in **mergers and acquisitions**. Initiative for same has naturally come from managers of such companies Examples: Mergers between ACC Gujarat, Ambuja Cement, Hindustan Aluminum Co and Indian Aluminum Co. Reliance gaining control over management of L&T is an example of acquisition.

2. **Diversification spree**

   Managers are leading diversification of their companies into various fields. **For example**, Reliance is now also in the business of communications, retail chains etc. Likewise, Eureka Forbes, a firm that manufactured vacuum cleaners started making water purifiers, food processors.

3. **Consolidation of Multinational**

   Due to liberalisation policy, many multinationals have entered India through joint ventures. This give the new firm the benefit of technology and finance and the MNC could take the advantage of the domestic firm's market reach and distribution network. For example General Motors entered through a joint venture with Hindustan Motors. Ford entered with Mahindra & Mahindra. Multinationals are also entering the core sectors of the Indian economy.

4. **Brand building**

   Companies are becoming more aggressive towards brand building. Their managers are spending huge amount on same. Focus is on securing prime positions for their brands through creative media – mix, in the minds of the customers. For example heavy expenditure was incurred on launching of Korean brands such as Hyundai, LG, Samsung, etc. Indian companies are also doing likewise.

5. **Distribution and Selling**

   Increase in selling and distribution of product was taken as a core step to grab a larger share of market .Companies are now taking new initiatives in distribution such as exploring the rural markets or using direct distribution networks as adopted by companies like Amway, Tupperware etc.

6. **Customer focus**

   Before the entry of MNC's in the Indian market, the Indian firms would focus on higher sales and profits but nowadays, they have started manufacturing products in accordance to customer's need and stressed on customer satisfaction. Also due to increase in competition among sellers, the rate of increase in prices of products was lesser than the general level of inflation.

7. **Sharply improved Compensation levels**

   Compensation levels for specialised managerial and technical staff improved. The starting salary of engineering and management graduated have risen significantly. Incentive schemes related to performance are being implemented very commonly now.

8. **Use of latest Technology**

   Use of latest technology has become the slogan of the successful companies. Use of latest technology has not only enabled firm to upgrade its quality but has also reduced the cost of production and distribution of goods.

9. **Increase Production capacity**

   Because of abolition of licencing and removal of restriction on expansion of business activities, companies increased their production capacity and started catering to domestic and global markets. For example Companies like Ranbaxy, Reliance industries and others increased their production capabilities and made them world class.

10. **Cooperation with Labour Unions**

    Contrary to their role in past , labour unions have become supportive to changes in the organisation because they have understood that finally workers will benefit due to such changes .Managers are changing their behaviour towards labour. Labour is also benefitted through higher wages and other facilities like training to upgrade their skills and job enrichment. Private sector is benefitted because of this change but public sector however was unable to adapt to these changes primarily because of political and bureaucratic interference.