Dr. M.P.S. College of Business Studies

Business Organisation

Unit-3

The government control over business is as follows:

(i) Economic Planning:

Planning in India started in the year 1951. The economic planning aims to regulate the investment activity by private enterprises, and improve the government activities towards underdeveloped areas.

A significant aspect of Indian Planning is to achieve social justice.

(ii) Industrial Policy:

Industrial policy of Government of India guides the state attitudes towards industrial development and it lays down priorities regarding the relative roles of public and private sectors, large, small and cottage industries. The salient feature of industrial policy is mainly to improve the Industries in India.

(iii) Industrial Licensing:

Industrial licensing is a major device through which industrial policy of the government implemented. The licensing system designed to ensure proper utilization of the country's resources, balanced regional development and overall economic development.

(iv) Labour Laws:

Labour laws help to regulate the employer-employee relations, working and living conditions of workers, wages, bonus, labour welfare, social security etc. The labour laws include the Factories Act, the Minimum Wages Act, Workmen's Compensation Act, The Payment of Wages Act, the Payment of Bonus Act, Trade Unions Act, Industrial Disputes Act, Employees State Insurance Act, The Payment of Gratuity Act etc.

(v) Regulation of Foreign Trade:

The regulation of business activities like import and exports, foreign exchange and etc., through Imports and Exports (Control) Act, COFEPOSA, FERA and FEMA.

The Imports and Experts (Control) Act, 1947 amended from time to time empowers the government to prohibit or control imports and exports in the public interest. The government itself directly participates in the import and exports business through its agency like the State Trading Corporation of India (STC), the Minerals and Metals Trading Corporation of India (MMTC).

These agencies have been set up by the government by doing import and export business in specified areas. The main objective of Foreign Exchange Management Act (FEMA) is the conservation of the foreign exchange resources of the country and the proper utilization thereof in the interest of the economic development of the country.

Responsibility of Business towards Government

In any country, the government strives hard to preserve the businesses and empower their growth. For this, the Indian government has passed many acts and has laid down many rules and regulations. While taking benefit of these rules, businesses should also be responsible for the government.

When the business discharges its responsibilities the government sincerely and effectively, the government becomes more capable to function more efficiently. It is in the welfare of the entire community and indirectly in the interest of the business. The prospects of the business depend upon the status of the community. The growth of a business depends upon the development of the community; therefore, the business has got to be very particular about discharging its obligations towards the government.

Here are the major responsibilities of the business towards the government that every business must follow:

The Responsibility of Business towards Government

1. Timely Payment of Taxes

The government has levied various taxes on business units like sales tax, corporate tax, excise duty, etc. With this tax revenue, the government works to provide improved infrastructure and other welfare facilities.

Businesses must pay taxes and fees to the government in order to continue their operations. These can include taxes on revenue, tariffs on imported products and different administrative fees required to register the business. You should be aware of that withholding this payment, mainly taxes is considered a crime.

2. The Obligation of Rules and Regulation

The laws reflect the wishes of the community, they present what the community wants the member to do and what the community wants the member to ignore. The laws control the persons with each other and with the community.

The organizations are required to follow all the rules and regulations laid by the government. When business obeys laws the society can perform smoothly and business can progress only when the society is functioning smoothly but when laws are oppressive the path of business, they can be opposed in a constitutional way.

If you are just setting up your business, you need to follow the guidelines set by the government of India to establish in any business if you are in India. However, you can suggest the government to modify the rules if it is in the interest of the society.

3. Become Socially Responsible

Apart from the legal responsibilities, the business needs to take up some moral responsibilities towards society. Hence, the business should provide training facilities for unemployed people so that they can get absorbed in some occupation or can establish self-employment units.

It is supportive in winning them sympathy from the community. This is a vital and major investment made by the business.

4. Financial Disclosure

Companies must disclose all the financial statements to the government through tax returns. If the company holds the ownership of shares of stock, it should be made available to the public also.

This financial disclosure brings transparency that helps to ensure that the organization is not violating any laws, like withholding taxes and to aid the public in deciding whether to invest in the company.

5. Providing Inputs

Sometimes, the government needs inputs of technical economic-financial, or political importance for creating proper policies. The business holds contacts in various sections of society.

This is the responsibility of business towards the government that it will provide accurate information to the government. They can be helpful for the collection he necessary information and providing it to the government.

When a rule is imposed based on accurate inputs, it has great chances of achieving success.

6. Earning Foreign Exchange

The government expects from the business that it will earn foreign currency by exporting goods in the foreign market. This term also comes under the responsibility of business towards the government. Especially large scale businesses should enter in export trade to earn foreign exchange.

They should enable the government to import capital goods and technical know-how. Also, businesses must follow all the rules and regulations about imports and exports.

7. Political Stability

Political stability is another major responsibility of business towards the government. For economic development, national security, political stability are mandatory. A well-established government always brings more returns and peace in a democratic atmosphere.

Business units should avoid partnering and support those groups or individuals who are responsible for creating a political disturbance.

The Government's responsibilities towards business are as follows:

1. Enacting and Enforcing Laws

Enacting and enforcing laws is the prime responsibility of the Government of each country. This is because laws and regulations only enable the businesses to function smoothly. Further, Government provides a system of court for adjudicating differences between firms, individual or Government agencies.

2. Maintaining Law and Order

Maintaining law and order and protecting persons and property is another responsibility of the Government of the country. It would be impossible to carry on business in the absence of a peaceful atmosphere.

3. Providing Monetary System

The Government has to provide monetary system so that business transactions can be effected. Further, it is also the responsibility of the Government to regulate money and credit, and protect the money value of the currency in terms of other currencies.

4. Balanced Regional Development and Growth

It is the responsibility of the Government to make sure that there are balanced regional developments and growth.

5. Provision of Basic Infrastructure

Government should provide basic infrastructural facilities such as transportation, power, finance, trained personnel and civic amenities, which are indispensable for the effective functioning of business concerns.

6. Supply of Information

It is the responsibility of the Governments to provide information, which is useful to businessmen in carrying out their business activities. Government agencies publish and provide a large volume of information, which is used extensively by business firms. This information normally relates to economic and business activity, specific lines of business, scientific and technological developments, and many other things of interest to business houses or business leaders.

7. Assistance to Small-scale Industries

It the responsibility of the Government to provide the required facilities and encourage the development of small-scale industries to overcome the problem faced by them.

8. Transfer of Technology

It is the responsibility of the Government to transfer to private industries whatever discoveries are made by the Government – owned Research Institutions so that they can be used for commercial production.

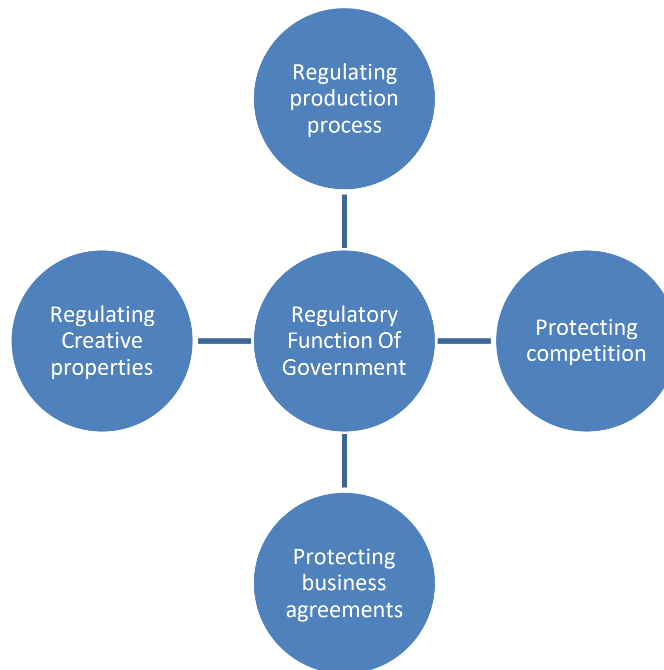
9. Conducting Inspections

It is the responsibility of the Government to inspect the private business concerns in order to make sure that they produce quality products, and also to prevent the production and sale of sub-standard goods.

10. Incentives to Home Industries

It is the responsibility of the Government to encourage the development of home industries by providing them various incentives and subsidies.

Regulatory Functions of Government:-



1. **Regulating Creative properties:-**
    a.) Copyright.
    b.) Patent
    c.) Trademark
2. **Regulating Production process:-**
    a. National Environment Act, 1969
    b. Clean Air Act, 1970
    c. Clean Water Act, 1972
3. **Protecting Competition:-**
    a. Trust
    b. Monopoly
    c. Price fixing
4. **Protecting Business Agreements:-**
    a. Breach of Contract
    b. Breach of Warranty

Government As Provider-

1. Public Services
2. Work
3. Business
4. Investors

Government As Public Service provider-

1. Postal Services
2. Armed Services
3. Parks
4. Trasportation
5. Education
6. Police
7. Fire

Business Risk

Business risk is defined as the possibility of occurrence of any unfavourable event that has the potential to minimise gains and maximise loss of a business. In simple words, business risks are those factors that increase the chances of losses in a business and reduce opportunities of profit.
These factors are not under the control of the business and result in declining profits of the business.

Nature of Business Risk

The following are some of the nature or characteristics of business risk:

1. Business risk arises due to uncertainties. Uncertainty is when it is not known what is going to happen in future. Examples of uncertainties that affect a business are, change in government policy, change in demand, change in technology, etc.
2. Risk is an essential part of the business. The risk involved in a business can be reduced to some extent but it is not possible to eliminate the risk involved.
3. Every business has risk which varies in severity based on the type of business. For example a large corporation or business will carry more risk as compared to small scale businesses.
4. Businesses take risk with the motive or expectation of earning profit.

Causes of Business Risk

Natural Causes

Nature is an independent phenomenon and human beings have no control over it. Natural calamities like earthquake, flood, drought, famine etc. Affect a business a lot and can result in heavy losses. The natural causes are such type of uncertain factors that human beings cannot make any preparation against.

Human Causes

Human causes are related to a chance of loss due to human being or employees of the organization. The dishonesty of employees can bring heavy losses for business e.g., the employees may leak a business secret to a competitor and may commit fraud also bring heavy losses by wastage of resources.
The employees may hamper the production by going on strikes, riots etc. This can also lead to heavy loss of business condition. There can be price fluctuations in the market, there can be a change in fashion, taste, preferences, and demands of customers

Economic Causes

Economic causes are related to a chance of loss due to change in the market. There can be a change in the degree of competition. All these have a direct impact on the earnings of the business.
Even change in Government policy affects the business a lot. For example, in 1971 when Janata government came to power the Coca-Cola Company and many other foreign companies were sent back to India

Physical Causes
All the causes which result in damage of assets are considered as a physical cause, for example, change in technology may result in machinery being outdated, use of old technology, mechanical defects may also result in damage of assets such as the bursting of a boiler, accident to employee etc.

Types of Risk in Business

1. Strategic Risk:

Strategic risks are such that can happen to a business at any time. This could be due to the change in customer preferences. Hence, businesses need to have a real time feedback system for recognising customer feedback.

2. Compliance Risk:

Compliance risk relates to the risk that arises from the changing rules by a regulatory body or government that a company needs to adjust accordingly and implement the same in their operations.

3. Financial Risk:

Financial risk is related to the financial health of the business. It relates to the companies ability to carry on operations in case of non-payment by some clients.

4. Operational Risk:

Operational risk is where there is a risk arising from the execution of the processes or operations of the business. It can be due to sudden breakdown of machinery or the system which can result in delay in operations, that can be detrimental to the business.

Risk Management Process:-

1. Identifying the Risk

The first step in a successful risk management process is to identify the type of risk the organization is currently dealing with or could deal with in the future.
It is important to identify all the different potential types of risks that the organization can face. These risks can be noted down manually but if there is a risk management platform implemented in the organization, the risk identification process becomes a lot simpler. The gathered information is directly inserted into the system.
Access to this data also becomes a lot simpler because the project managers and other team members do not have to request an email for this information. They can directly log in to the risk management system and see all the identified risks.

2. Analyzing the Risk

All the possible risks for the organization have been identified in the previous step, which will lead the teams to analyze these risks. The risk analysis should answer the following questions:

- What is the likelihood of these risks occurring?
- What will be the consequences of these risks to the organization?

During the risk analysis process, teams estimate the probability of each risk occurring and its fallout to prioritize the identified risks.
The factors that companies consider when prioritizing the risks include:

- Potential financial loss
- Time lost
- The severity of the impact
- Availability of resources to manage the risk

Risk analysis helps companies create their response to these risks depending on their severity. It also helps in understanding the link between the risk and the number of aspects of the business it will affect. To put it simply, the more business aspects at risk, the higher the risk to an organization.
If companies use a manual risk management process, then this risk analysis takes place manually. If a risk management solution is deployed across the organization, then different documents, policies, processes, and procedures are analyzed by the solution to map the risk and create a framework for the next step, which is risk evaluation.

3. Evaluating the Risk

After completing a thorough analysis of risks, they need to be ranked in order of severity and then prioritized. When companies use a risk management solution, they already have different categories of risks in-built into the solution, which categorizes the risk based on its severity.
A risk causing minor inconvenience to the organization gets a low rating, whereas risks that can have a big impact on operations is considered to be high risk. Low risks do not necessarily need intervention from upper management, but high risks require immediate intervention.
When organizations use risk management platforms, they can help in identifying different workable solutions for each risk that the enterprise could face. This way all the projects in the organization and processes can go on uninterrupted and without any delay.

4. Treating the Risk

Once the risks have been analyzed and prioritized, it is time to take action. Every risk to the organization or the project needs to either be eliminated or contained. If the risk treatment is done manually, team members need to contact each stakeholder to discuss the issues. Usually, these discussions get spread out over email chains, various documents, and many phone calls, making the entire process longer and more difficult.
When companies employ a risk management solution, the stakeholders are immediately notified by the application, and all the key decisions are made in one go. This way it becomes easy to monitor the progress of the solution.

One aspect of effectively treating the risk is the efficient usage of resources without losing the progress made in the active projects. Over time, organizations can create a log of all the projects, the risks faced, and the mitigation process. This will help in anticipating risks in the future so that the team members can be proactive in their risk management strategy.

Some of the common ways of mitigating risk include:

Accepting the risk of the project, which means understanding the risk it poses but realizing that the benefits outweigh the negative outcomes of the risk
Avoiding the risk in the project, where team members simply do not participate in an activity that could lead to potential risk

Controlling the risk, where team members mitigate the risk by reducing the likelihood of its occurrence to reduce the impact beforehand
Transferring the risk, where organizations get a third party involved (such as insurance) to take responsibility for the risk in case it occurs

5. Monitoring and Reviewing the Risk

Organizations will notice over time that there will be some risks that cannot be eliminated and will be omnipresent. These continuous risks can include external risks such as market risks and environmental risks. They need to be continuously monitored to make the mitigation process more effective.
When companies employ risk management solutions, the system becomes responsible for monitoring the organization's complete risk framework. If there is any change, all relevant parties get notified immediately. This also ensures continuity. When employees are properly trained in the processes, they can use the system efficiently.

Final Thoughts

The basic processes of risk management stay the same, regardless of whether the company does it digitally or manually. All companies, regardless of their size, face risks, and they need to successfully identify, evaluate, track, and mitigate the risks they face currently and in the future to improve their processes for their projects.

Benefits of Risk Management:-

1. Asset Protection
2. Reputation Management
3. Supply Chain Risk
4. Competitor Risk