

## Module 1

### AN OVERVIEW OF INDIAN ECONOMY

#### INDIAN ECONOMY

##### Introduction to the Indian Economy.

The economy of India is the tenth-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). It is one of the most attractive destinations for business and investment opportunities due to a huge manpower base, diversified natural resources, and strong macroeconomic fundamentals. Also, the process of economic reforms initiated since 1991 has been providing an investor-friendly environment through a liberalized policy framework spanning the whole economy. As predicted by Goldman Sachs, the Global Investment Bank, by 2035 India would be the third-largest economy of the world just after the U.S. and China. It will grow to 60% of the size of the U.S. economy. This booming economy of today has to pass through many phases before it can achieve the current milestone of 9% GDP. India has been one of the best performers in the world economy in recent years, but rapidly rising inflation and the complexities of running the world's biggest democracy are proving challenging. The economy slowed to around 5.0% for the 2012-13 fiscal year compared with 6.2% in the previous fiscal. According to Moody's, the economic growth rate of India would be 5.5% in 2014-15.

India's economy slowed to 4.7% for the 2013-14 fiscal year, in contrast to higher economic growth rates in the 2000s. IMF projects India's GDP to grow at 5.4% over 2014-15. The agriculture sector is the largest employer in India,s economy

but contributes a declining share of its GDP (13.7% in 2012-13). Its manufacturing industry has held a constant share of its economic contribution, while the fastest-growing part of the economy has been its services sector - which includes construction, telecom, software and information technologies, infrastructure, tourism, education, health care, travel, trade, banking and others components of its economy.

### **Nature of Indian Economy**

The characteristics of the Indian economy are:

- 1) **Low per Capita Income:** Underdeveloped economy is characterized by low per capita income. India's per capita income is very low as compared to the advanced countries. For example, the capital income of India was 460 dollars, in 2000. Whereas their capita income of the U.S.A. in 2000 was 83 times that of India? This trend of difference in per capita income between underdeveloped and advanced countries is gradually increasing in present times. India not only the per capita income is low but also the income is unequally distributed. This maldistribution of income and wealth makes the problem of poverty in ore critical and acute and stands an obstacle in the process of economic progress.
- 2) **Heavy Population Pressure:** The Indian economy is facing the problem of population explosion. It is clearly evident from the total population of India which was 102.67 crore in the 2001 census. It is the second-highest populated country China being the first. India's population has reached 110 crores. All the underdeveloped countries are characterized by a high birth rate which stimulates the growth of population; the fast rate of growth of population necessitates a higher rate of economic growth to maintain the same standard of living. The failure to sustain the living standard makes

the poor and underdeveloped countries poor and underdeveloped.

- 3) **Pre-Dominance of Agriculture:** The occupational distribution of the population in India clearly reflects the backwardness of the economy. One of the basic characteristics of an underdeveloped economy is that agriculture contributes a very large portion in the national income and a very high proportion of the working population is engaged in agriculture,
- 4) **Unemployment:** There is a larger unemployed and underemployment is another important feature of the Indian economy. In underdeveloped countries, labor is an abundant factor. It is not possible to provide gainful employment to the entire population. Lack of job opportunities disguised unemployed is created' in the agriculture fields. There deficiency of capital formation.
- 5) **Low Rate of Capital Formation:** In backward economics like India, the rate of capital formation is also low. capital formation mainly depends on the ability and willingness of the people save since the per capita income is low and there is maldistribution of income and wealth the ability of the people to save is very low in underdeveloped countries for which capital formation is very low.
- 6) **Poor Technology:** The lever of technology is a common factor in an underdeveloped economy. India's economy also suffers from this typical feature of technological backwardness. The techniques applied in agriculture industries milling and other economic fields are primitive in nature. Backward Institutional and Social Framework: The social and institutional framework in underdeveloped countries like India is hopelessly backward, which is a strong obstacle to any change in the form of production. Moreover, religious institutions such as the caste system, joint family universal marriage affect the economic life of the people.
- 7) **Under-Utilisation of Resources:** India is poor land. So our people remain economically backward for the lack of utilization of resources of the

country.

- 8) **Price Instability:** It is also a basic feature of the Indian economy. In almost all the underdeveloped countries like India, there is continuous price instability. The shortage of essential commodities and the gap between consumption and production increase the price persistently. The rising trend of price creates a problem to maintain the standard of living of the common people.

### Structure of Indian Economy

The proportionate contribution of different sectors tends to change with the process of growth. Central Statistical Organisation has divided the economy into three basic sectors:

- ❖ Primary Sector
- ❖ Secondary Sector
- ❖ Tertiary Sector

- 1) **Primary Sector:** The primary sector of the economy is the change of natural resources into primary products. Most products from this sector provide raw materials for other industries. The share of the primary sector has decreased over the past four decades.

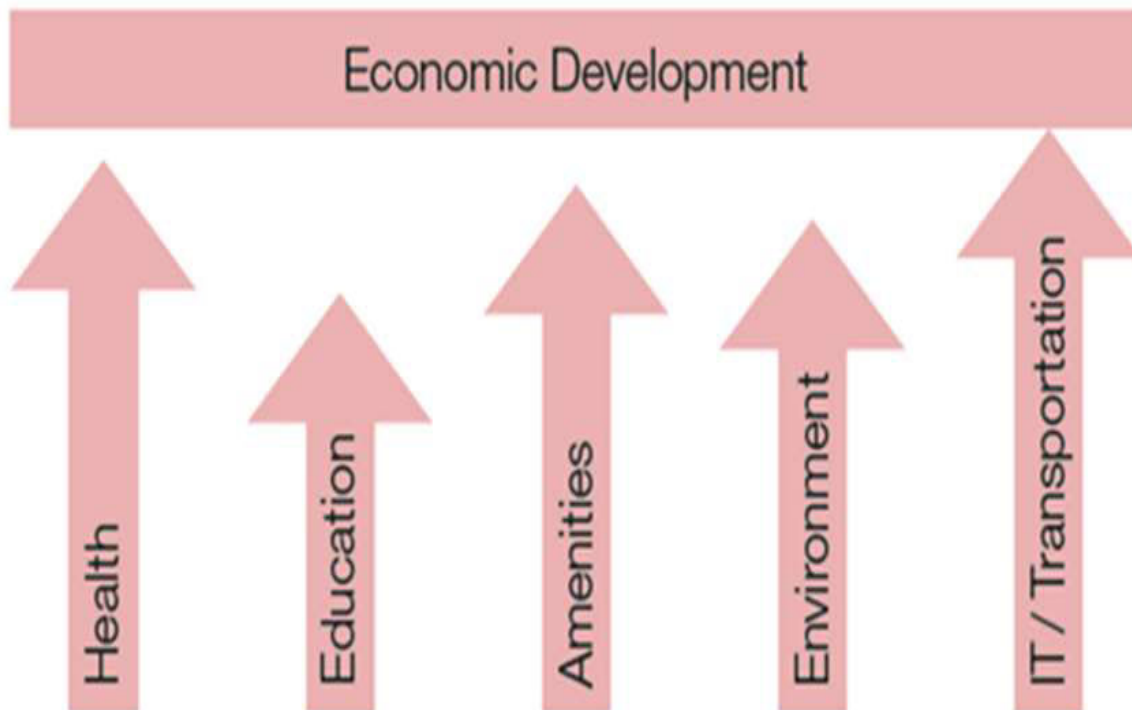
- a) **Agriculture:** Agriculture in India is the major sector of its economy. Almost two-thirds of the total workforce earn their livelihood through farming and other allied sectors like forestry, logging, and fishing which account for 18% of the GDP. These sectors provide employment to 60% of the country's total population. About 43% of the country's total geographical area is used for agricultural purposes.
- b) **Fishing:** Fish breeding has increased almost five times since India got independence and is a prime industry in coastal regions.

- c) **Mining:** It is the term used for the extraction of useful material from the treatment of ore, vein, or coal seam. Materials obtained from extraction may be base metals, precious metals, iron, uranium, coal, diamonds, limestone, oil shale, rock salt, and potash. Any material obtained from agriculture or cultured in the laboratory requires to be mined.
- 2) **Secondary Sector:** The secondary sector of the economy includes those economic sectors that create a finished usable product and hence depend on primary sector industries for the raw materials. The secondary sector contributes 24% of the share in the Indian economy. This sector includes
- a) **Industry:** India's industrial sector accounts for 27.6% of the GDP and gives employment to 17% of the total workforce. Though agriculture is the foremost occupation of the majority of the people, the government had always laid stress on the industrial development of the country.
  - b) **Construction:** The process of building or assembling infrastructure is known as a term commonly used in architecture and civil engineering - "construction". Construction job is all about multi-tasking and needs the services from the project manager, construction manager, design engineer, construction engineer, and project architect.
- 3) **Tertiary/Service Sector:** The tertiary sector includes the service industry and it holds the highest importance among all sectors. The tertiary sector of the economy involves the provision of services to businesses as well as final consumers. Services may involve the transport, distribution, and sale of goods from producer to consumers as happen in wholesaling and

retailing, or may involve the provision of a service, such as in PEST control or entertainment. The tertiary sectors account for 51% of the GDP. The tertiary sectors may include:

- a) **Insurance,**
- b) **Banking, and**
- c) **Transport**

### **Pillars of Indian Economy**



### **Health**

Healthcare industry comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment.

India's healthcare delivery system is categorised into two major components - public and private.

The government (public healthcare system), comprises limited secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of Primary Healthcare Centres (PHCs) in rural areas.

The private sector provides a majority of secondary, tertiary, and quaternary care institutions with major concentration in metros, tier-I and tier-II cities.

India's public expenditure on healthcare is only 2.1% of GDP in 2021-22 while Japan, Canada and France spend about 10% of their GDP on public healthcare.

Even neighbouring countries like Bangladesh and Pakistan have over 3% of their GDP going towards the public healthcare system.

### **Education**

Education is one of the most important aspects of development. It has a significant impact on a country's economic prosperity. Without considerable investments in human capital, no country can achieve long-term economic progress.

It helps in the development of human capital, productivity, creativity, poverty reduction, encourages entrepreneurship, technological advancements, women empowerment, social development, health awareness, and other areas where economic development can be boosted.

### **Amenities**

Any economy has three sectors – the primary sector (related to agriculture), the secondary sector (the industrial sector which is concerned with manufacturing goods), and the tertiary sector (the service sector). The service sector has developed so much in India only in the past few decades. At the time of independence, the Indian economy heavily depended on the primary sector, but now it is the service sector that drives the economic growth. The contribution of the service sector to the Indian economy is enormous. It accounts for over 50% of the Indian GDP (more than the primary and secondary sectors combined). Besides, it has the highest labour productivity. This article will cover the importance of the service sector in India.

### **Environment**

That a healthy environment is the backbone of a resilient economy is not an exaggeration. The environment provides a wide range of services that in turn drive long-term economic growth. And this mechanism far outweighs short-term gains that can be derived by overlooking the environment. Importantly, the impact of environmental degradation is far greater on India's poor. This fact prompts the question: Is the value of ecosystem services included in our GDP? The answer is 'no' – and this is a part of the reason why environmental protection is not a policy priority. Models of valuation of ecosystem

services are emerging globally, and it would be appropriate to take a bold step towards factoring this in our GDP computations.

### **IT/Transport**

The IT & BPM sector has become one of the most significant growth catalysts for the Indian economy, contributing significantly to the country's GDP and public welfare. The IT industry accounted for 7.4% of India's GDP in FY22, and it is expected to contribute 10% to India's GDP by 2025.

As innovative digital applications permeate sector after sector, India is now prepared for the next phase of growth in its IT revolution. India is viewed by the rest of the world as having one of the largest Internet user bases and the cheapest Internet rates, with 76 crore citizens now having access to the internet.

A good transport system can broaden the market for goods. It can also make the movement of raw materials, fuel, equipment, etc. to the places of production easy.

Further, it opens up remote regions as well as resources for production. Also, as transport facilities increase, the demand for motor vehicles, locomotives, ships, etc. increases too.

This leads to the start of industries which specialize in these goods. let's take a quick look at the transport system and understand how it contributes to the economic development in India.

## Role and Contribution of Agriculture

The role and contribution of agriculture to the economic development of India is given below:

- 1) **Share in National Income:** Agriculture is India's big economy. Although the share of agriculture in the total national income has been gradually decreasing on account of the development of the secondary and tertiary sectors its contribution continues to be significant. In 1950, the share of agriculture was 57% but it is only 13.7% now. The more developed a country is the lesser is the contribution of agriculture.
- 2) **Source of Employment:** Today almost 60% of the population depends directly or indirectly on agriculture. The greater independence of the working population on agriculture indicates the underdevelopment of nonagricultural activities in the country
- 3) **Industrial Development:** Agriculture provides raw materials to pour leading industries such as cotton textiles and sugar industries. Not only have these workers in industries are dependent on agriculture for their food. Agriculture also provides the market with a variety of goods.

- 4) **International Trade:** A number of agricultural commodities like tea, coffee, spices, and tobacco constitute our main items of exports. This amounts to almost 15% of our total exports. Hence agriculture provides foreign exchange which helps us to buy machines from abroad. It also maintains a balance of payments and makes our country self-sufficient.
  
- 5) **Development of Tertiary Sector:** The tertiary sector provides helpful services to the industries and agriculture like banking, warehousing, etc. Internal trade is mostly done in agricultural produce. For example, various means of transport get the bulk of their business by the movement of agricultural goods.
  
- 6) **Revenue to the Government:** State government gets a major part of their revenue in terms of land revenue, irrigation charges, agricultural income tax, etc. The central government also earns revenue from export duties on agricultural production. Moreover, our government can raise substantial revenue by imposing an agricultural income tax. However, this has not been possible due to some political reasons.
  
- 7) **International Importance:** Our agriculture has brought fame to the country. India enjoys the first position in the world as far as the production of tea and groundnuts are concerned.
  
- 8) **Internal Trade:** Agriculture plays an important role in internal trade. It is because of the fact that 90% of our population spends 60% of their income on the purchase of items like food, tea, milk, etc.

## Role and Contribution of Industry Sector in Indian Economy

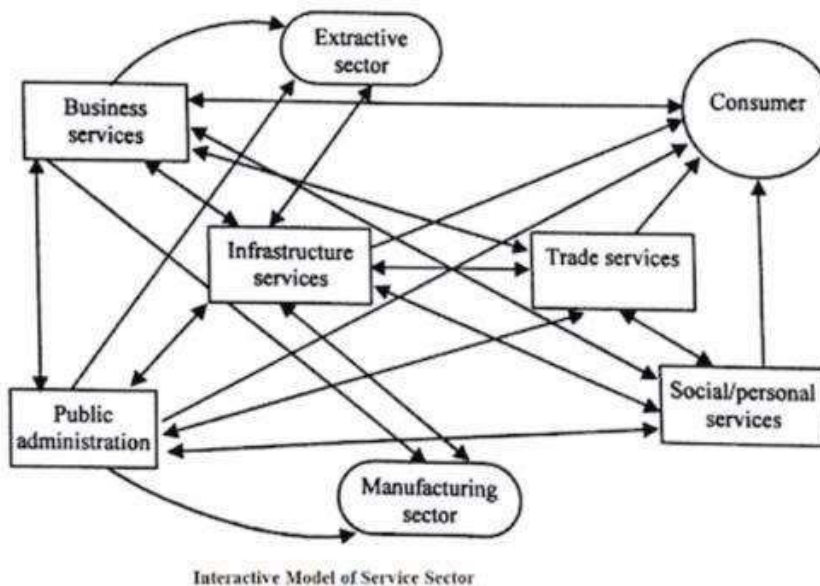
The Role and contribution of the industrial sector in the Indian economy are as follows:

- 1) **Increase in National Income:** Industrial development makes possible the optimum utilization of the scarce resources of the country. It helps in increasing the quantity and quality of various kinds of manufactured goods and thereby makes a larger contribution to Gross National Product (GNP),
- 2) **Higher Standard of Living:** Industrial development helps in increasing the value of output per worker. The income of labor due to higher productivity increases. The rise in income raises the living standard of the people.
- 3) **Increased Employment Opportunities:** Industrial development provides increased employment opportunities in small- and large-scale industries. In an agrarian economy, the industry absorbs under-employed and unemployed workers in the agricultural sector and thereby increase the income of the community.
- 4) **Rise in Agricultural Production:** Industrial development provides machinery like tractors, threshers, harvesters, bulldozers, transport, aerial spray, etc., to be used in the farm sector. The increased use of modern inputs has increased the yield of crops per hectare. The increase in the income of the farmers has given a boost to economic development in the country.

- 5) **Reduction in the Rate of Population Growth:** Industrial development leads to migration of surplus labor from the farm sector to the industries mostly situated in urban centers. In cities improved facilities of sanitation and healthcare are available. People through the adoption of family planning measures, reduce the rate of population growth.
- 6) **Increased Saving and Investment:** Industrial development increases the income of workers. It enhances their capacity to save. The voluntary savings stimulate industrial growth and by cumulative effect lead to further expansion of the industry.
- 7) **Lesser Pressure on Land:** The establishment and expansion of industries lessen the excessive pressure of The labor force from the agriculture sector.
- 8) **Increase in the Government Revenue:** Industrial development increases the supply of goods both for internal and external markets. The export of goods provides foreign exchange. The customs excise duties and other taxes levied on the production of goods increase the revenue of the State. The income tax received from the industrialists adds to the revenue stream of the government which eventually is spent for the welfare of the people as a whole.

### Role and Contribution of Service Sector in Indian Economy

Services lie at the very center of economic activity in any society. **Dorothy Riddle**, in writing about the role of the service sector in world development, formulated the economic model shown in the **figure**. This model of the economy shows the flow of activity among the three principal sectors of the economy, extractive (mining and farming) manufacturing and service, which is divided into five sub-groups. All activity eventually leads to the consumer.



The role of these services in the Indian economy can be understood with the help of the following points:

- 1) **Infrastructure Services:** Infrastructures such as transportation and communication are the essential links between all sectors of the economy, including the final consumer. In a complex economy, infrastructure services and trade services function as intermediaries between the extractive and manufacture sectors and as the channel of distribution to the final consumer. Infrastructure services are a prerequisite for an economy to become industrialized, therefore, no advanced society can be without

these services.

- 2) **Business Services:** It includes consulting, finance, and banking. In an industrialized economy, specialized firms can supply business services to manufacturing firms more cheaply and more efficiently than the manufacturing firms can supply the services for themselves. Thus, more often we find advertising, consulting, financing, and other business functions being provided for the manufacturing sector by service firms.
- 3) **Trade Services:** It includes retailing, maintenance, and repair. Service activities are absolutely necessary for the economy to function and to enhance the quality of life. Consider, **for example**, the importance of the banking industry to transfer funds and the transportation industry to move food to areas that cannot produce them,
- 4) **Social/Personal Services:** It includes restaurants, health care. Moreover, a wide variety of social and personal services such as restaurants, lodging, cleaning, and child care have been created to move former household functions into the economy.
- 5) **Public Administration:** It includes education, government. It plays a critical role in providing a stable environment for investment and economic growth. In communities and countries where public administrative services are weak or heavily skewed solely by political or idealistic concerns, essential services are inaccessible to many citizens.

Thus, it is imperative to recognize that services are not peripheral activities but, rather, integral parts of society. They are central to the functioning of a healthy economy,

The service sector not only facilitates but also makes possible the goods-producing activities of the extractive and manufacturing sectors. Services

are the crucial force for change towards a global economy.

### Key Service Businesses in India

Major Service businesses in India are as follows:

- ❖ Education and Health Services
- ❖ Financial Activities
- ❖ Government
- ❖ Information
- ❖ Leisure and Hospitality
- ❖ Professional and Business Services
- ❖ Transportation and Warehousing and Utilities
- ❖ Wholesale and Retail Trade

- 1) **Education and Health Services:** The educational services sector includes schools, colleges, universities, and training centers. The healthcare and social assistance sector is comprised of health services such as hospitals, nursing care facilities, physicians' offices, and home healthcare services.
- 2) **Financial Activities:** The financial activities super-sector consists of the finance and insurance sub-sector and the real estate and rental and leasing sub-sector. The finance and insurance sub-sector is comprised of establishments primarily engaged in financial transactions such as commercial banking, savings institutions, credit unions, securities and commodities brokers, as well as insurance carriers.
- 3) **Government:** The government super-sector consists of publicly-owned establishments of federal, state, and local agencies that administer,

oversee, and manage public programs. Examples of such agencies include those that set policies, create laws, adjudicate civil and criminal legal cases, and provide public safety and national defense.

- 4) **Information:** The information super-sector consists of establishments that produce and distribute information and cultural products, provide the means to distribute or transmit these products, and/or process data.
- 5) **Leisure and Hospitality:** The leisure and hospitality sector is comprised of two sub-sectors - the arts, entertainment, and recreation sub-sector, and the accommodation and food services sub-sector. The arts, entertainment and recreation sector includes establishments that
  - a) Produce, promote, or participate in live performances, events, or exhibits intended for public viewing.
  - b) Preserve and exhibit objects and sites of historical, cultural, or educational interest.
  - c) Operate facilities that provide amusement, hobby, and leisure-time interests.

6) **Professional and Business Services:**

- i) This super-sector consists of three sub-sectors including Professional, scientific, and technical services (5.2 percent of all employment, 10.5 percent of all establishments);
- ii) Management of companies and enterprises (1.3 percent of all employment, 0.5 percent of all establishments); and
- iii) Administration and support and waste management and remediation services (5.9 percent of all employment, 5.0 percent of all establishments).

- 7) **Transportation and Warehousing and Utilities:** The transportation and warehousing include the transportation of passengers and cargo, warehousing and storage, scenic and sightseeing transportation, and other support activities related to the primary modes of transportation (air, rail,

## Performance of Agriculture Sector

The share of agriculture in gross domestic product (GDP) has reached almost 20 per cent for the first time in the last 17 years, making it the sole bright spot in GDP performance during 2020-21, according to the Economic Survey 2020-2021.

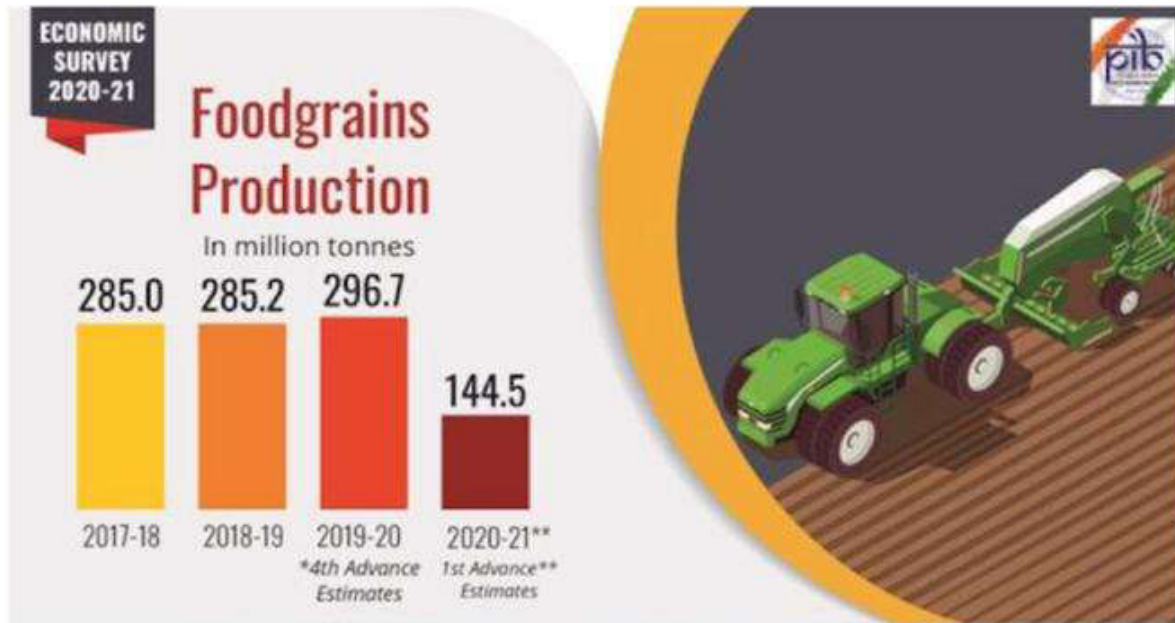
The resilience of the farming community in the face of adversities made agriculture the only sector to have clocked a positive growth of 3.4 per cent at constant prices in 2020-21, when other sectors slid.

The share of agriculture in GDP increased to 19.9 per cent in 2020-21 from 17.8 per cent in 2019-20. The last time the contribution of the agriculture sector in GDP was at 20 per cent was in 2003-04.

This was also the year when the sector clocked 9.5 per cent GDP growth, after the severe drought of 2002 when the growth rate was negative.

Following 2003-04, the share has remained between 17 and 19 per cent.

“The growth in GVA (gross value added) of agriculture and allied sectors has been fluctuating over time. However, during 2020-21, while the GVA for the entire economy contracted by 7.2 per cent, growth in GVA for agriculture maintained a positive growth of 3.4 per cent,” according to the survey.



### **Agricultural Exports**

The Economic Survey notes that in 2019-20, India's agricultural and allied exports amounted to approximately Rs. 252 thousand crores. The major export destinations were the USA, Saudi Arabia, Iran, Nepal and Bangladesh. The top agriculture and related products exported from India were marine products, basmati rice, buffalo meat, spices, non-basmati rice, cotton raw, oil meals, sugar, castor oil and tea. While India occupies a leading position in global trade of aforementioned agri-products, its total agri-export basket accounts for a little over 2.5 percent of world agri-trade.

### **Minimum Support Price**

The Economic Survey says that "The Union Budget for 2018-19 had announced that MSPs would be kept at the level of 1.5 times of the cost of production. On the basis of the above-mentioned principle, Government recently increased the

The continuous supply of agricultural commodities, especially staples like rice, wheat, pulses and vegetables, also enabled food security.

In 2019-20 (according to fourth advance estimates), total food grain production (296.65 million tonnes) in the country was higher by 11.44 million tonnes than 2018-19.

It was also higher by 26.87 million tonnes than the previous five years' (2014-15 to 2018-19) average production of 269.78 million tonnes.

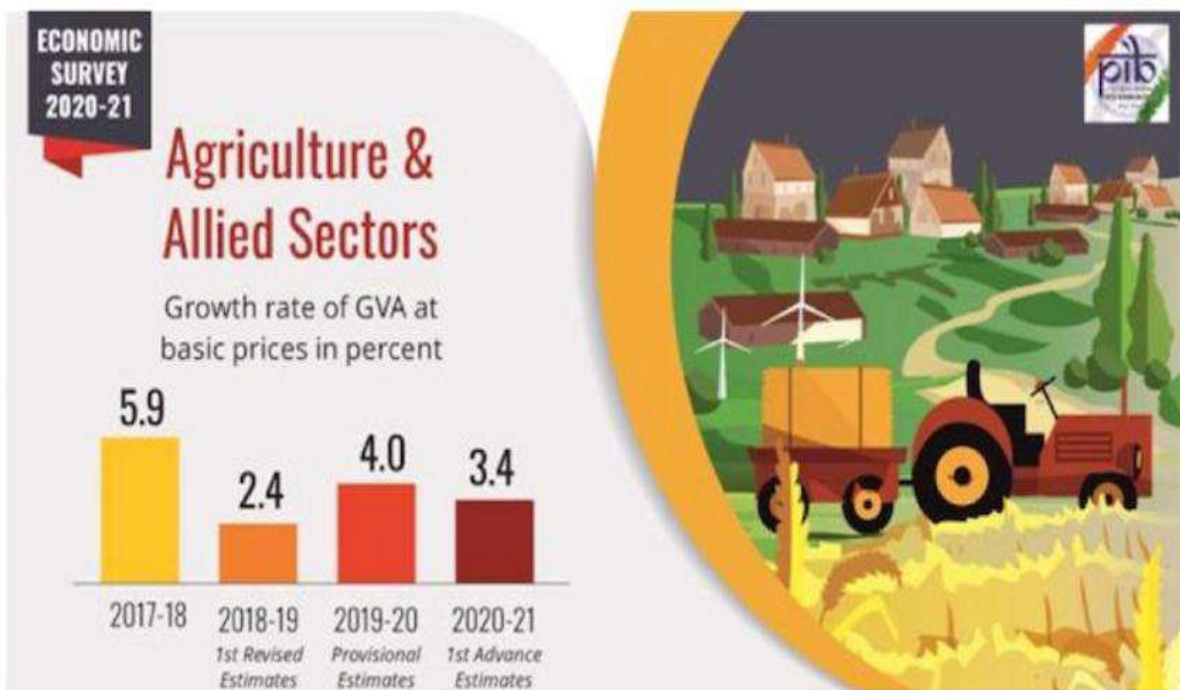
The production also boosted allocation of food grains under the National Food Security Act (NFSA) that increased by 56 per cent in 2020-21, compared to 2019-20. The government allocated 943.53 lakh tonnes of food grains to states / Union territories till December 2020.

The survey also termed the new farm laws as a “remedy” and “not a malady” in a message to the farmer community opposing the laws.

“The three agricultural reform legislations are designed and intended primarily for the benefit of small and marginal farmers who constitute around 85 per cent of the total number of farmers and are the biggest sufferers of the regressive Agricultural Produce Market Committee regulated market regime. The newly introduced farm laws herald a new era of market freedom that can go a long way in the improvement of farmer welfare in India,” it said.

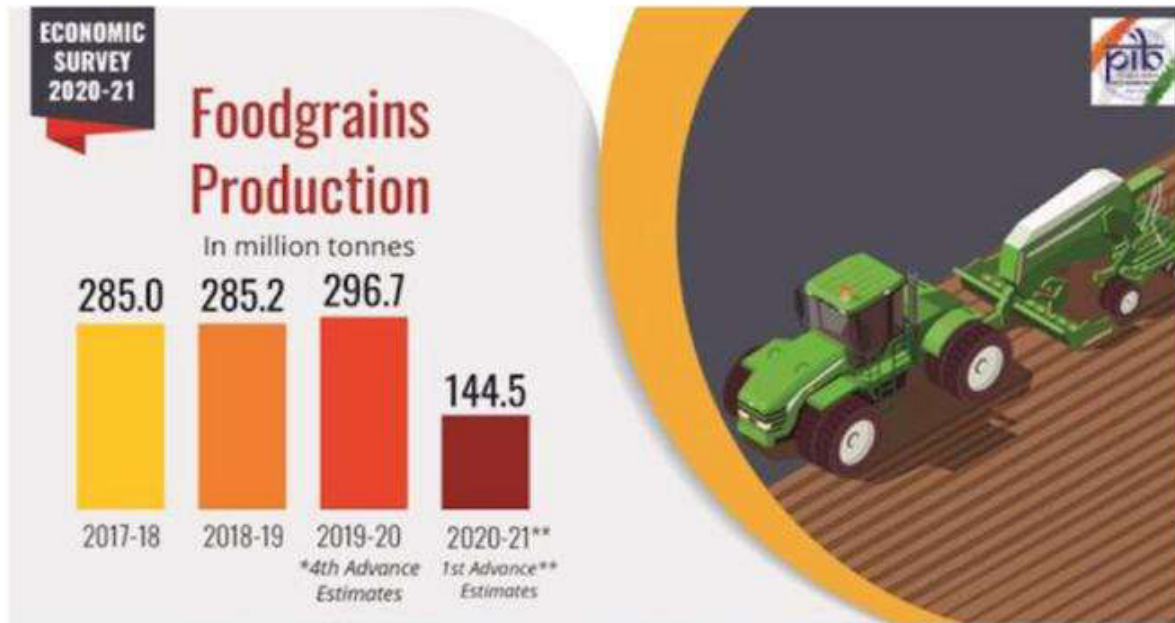
India's agricultural sector has shown its resilience amid the adversities of COVID-19 induced lockdowns. The Agriculture and Allied activities clocked a growth of 3.4 per cent at constant prices during 2020-21 (first advance estimate) says the Economic Survey. The Union Minister for Finance & Corporate Affairs, Smt Nirmala Sitharaman presented the Economic Survey 2020-21 in Parliament today.

The Economic Survey observes that as per the Provisional Estimates of National Income released by CSO on 29th May, 2020, the share of Agriculture and Allied Sectors in Gross Value Added (GVA) of the country at current prices is 17.8 percent for the year 2019-20.



### **Record Foodgrain Production**

According to the Economic Survey in the Agriculture year 2019-20 (as per Fourth Advance Estimates), total food grain production in the country is estimated at record 296.65 million tonnes which is higher by 11.44 million tonnes than the production of food grain of 285.21 million tonnes achieved during 2018-19.



### **Agricultural Exports**

The Economic Survey notes that in 2019-20, India's agricultural and allied exports amounted to approximately Rs. 252 thousand crores. The major export destinations were the USA, Saudi Arabia, Iran, Nepal and Bangladesh. The top agriculture and related products exported from India were marine products, basmati rice, buffalo meat, spices, non-basmati rice, cotton raw, oil meals, sugar, castor oil and tea. While India occupies a leading position in global trade of aforementioned agri-products, its total agri-export basket accounts for a little over 2.5 percent of world agri-trade.

### **Minimum Support Price**

The Economic Survey says that "The Union Budget for 2018-19 had announced that MSPs would be kept at the level of 1.5 times of the cost of production. On the basis of the above-mentioned principle, Government recently increased the

MSPs for all mandated kharif and rabi crops for 2020-21 season.”

### **Agricultural Reforms**

On recent agricultural reforms the Economic Survey says “The three agricultural reform legislations are designed and intended primarily for the benefit of small and marginal farmers which constitute around 85 per cent of the total number of farmers and are the biggest sufferer of the regressive APMC regulated market regime. The newly introduced farm laws herald a new era of market freedom which can go a long way in the improvement of farmer welfare in India.”

### **Aatma Nirbhar Bharat Abhiyan**

The Economic Survey observes that the major announcements for agriculture and food management under the Atma Nirbhar Bharat Abhiyan have been Rs. 1 lakh crores Agriculture infrastructure fund; Rs. 10,000 crores scheme for Formalisation of Micro Food Enterprises (MFE); Rs. 20,000 crores for fisherman through Pradhan Mantri Matsya Sampada Yojana (PMMSY); National Animal Disease Control Programme; Animal Husbandry Infrastructure Development Fund- Rs. 15,000 crores; Reforms in Essential Commodities Act, Agriculture Marketing and Agriculture Produce Pricing and Quality Assurance; PM Garib Kalyan Ann Yojana; One Nation One Ration Card.

### **Agricultural Credit**

The Economic Survey notes “Given the large proportion of resource constrained small and marginal farmers in India, timely availability of adequate credit is fundamental for the success of farming activities.” The agricultural credit flow target for the year 2019-20 was fixed at ₹13,50,000 crores and against this target

the achievement was ₹13,92,469.81 crores. The agriculture credit flow target for 2020-21 has been fixed at ₹15,00,000 crores and till 30th November, 2020 a sum of ₹ 9,73,517.80 crores was disbursed. The Economic Survey notes that the Agriculture Infrastructure Fund announced as a part of Atma Nirbhar Bharat Abhiyan will further boost credit flow to the agriculture sector.

According to the Economic Survey, consequent upon budget announcement on inclusion of livestock sector in Kisan Credit Card in February 2020, 1.5 crores dairy farmers of milk cooperatives and milk producer companies' were targeted to provide Kisan Credit Cards (KCC) as part of Prime Minister's Atma Nirbhar Bharat Package. As of mid January 2021, a total of 44,673 Kisan Credit Cards (KCCs) have been issued to fishers and fish farmers and an additional 4.04 lakh applications from fishers and fish farmers are with the banks at various stages of issuance.

### **Pradhan Mantri Fasal Bima Yojana**

The Survey observes that Pradhan Mantri Fasal Bima Yojana (PMFBY) is a milestone initiative to provide a comprehensive risk solution at the lowest uniform premium across the country for farmers. The PMFBY covers over 5.5 crore farmer applications year on year. As on 12th January, 2021, claims worth Rs. 90,000 crores have already been paid out under the Scheme. Aadhar seeding has helped in speedy claim settlement directly into the farmers' accounts. Even during COVID-19 lock down period nearly 70 lakh farmers benefitted and claims worth Rs. 8741.30 crores were transferred to the beneficiaries.

### **PM-KISAN**

The Economic Survey says "An amount of `18000 crore have been deposited

directly in the bank account of 9 crore farmer families of the country in December, 2020 in the 7th installment of financial benefit under the PM-KISAN scheme.”

### **Livestock Sector**

Regarding the Livestock Sector the Economic Survey says “The livestock sector grew at CAGR of 8.24 per cent during 2014-15 to 2018-19. As per the estimates of National Accounts Statistics (NAS) 2020 for sector wise Gross Value Added of Agriculture and allied sector, the contribution of livestock in total agriculture and allied sector GVA (at Constant Prices) has increased from 24.32 per cent (2014-15) to 28.63 per cent (2018-19). Livestock sector contributed 4.19 per cent of total GVA in 2018-19.”

### **Fisheries**

The Economic Survey notes that Fish production in India has reached an all-time high of 14.16 million metric tons during 2019-20. Further, the Gross Value Added (GVA) by the Fisheries sector to the national economy stood at ₹2,12,915 crores constituting 1.24 per cent of the total national GVA and 7.28 per cent of the agricultural GVA.

### **Pradhan Mantri Garib Kalyan Anna Yojana**

The Economic Survey describes that “During the Financial Year 2020-21, allocation of foodgrains has been done through two channels- under National Food Security Act (NFSA) and Pradhan Mantri Garib Kalyan Anna Yojana (PM-GKAY) scheme. At present NFSA is being implemented in all the 36 States/UTs and they are receiving monthly allocation of foodgrains under NFSA. Under Pradhan Mantri Garib Kalyan Package as part of the economic response to COVID -19, Government of India launched the Pradhan Mantri Garib Kalyan

Anna Yojana (PM-GKAY) scheme for additional allocation of foodgrains from the Central Pool at the rate of 5 kg per person per month free of cost for all the beneficiaries covered under Targeted Public Distribution System (TPDS) (i.e., beneficiaries under Antyodaya Anna Yojana & Priority Households).” Under the Pradhan Mantri Garib Kalyan Anna Yojana, 80.96 crores beneficiaries were provided additional foodgrains, i.e. above the NFSA mandated requirements, of 5 kg per person per month free of cost till November, 2020. Over 200 LMT of foodgrains were provided amounting to a fiscal outgo of over Rs. 75000 Crores. Also, under Atma Nirbhar Bharat Package, 5 kg per person per month was distributed for four months (May to August) to benefit approximately 8 crores migrants who are not covered under NFSA or state ration card entailing subsidy of Rs. 3109 crores approximately.

### **Food Processing Industries**

The Economic Survey notes that during the last 5 years ending 2018-19, Food Processing Industries (FPI) sector has been growing at an Average Annual Growth Rate (AAGR) of around 9.99 per cent as compared to around 3.12 per cent in Agriculture and 8.25 per cent in Manufacturing at 2011-12 prices.

**Table 1: Share of Agriculture and Allied Sectors in Total GVA at current prices**

| Items  | Year    |         |          |          |          |           |
|--|---------|---------|----------|----------|----------|-----------|
|  | 2014-15 | 2015-16 | 2016-17* | 2017-18# | 2018-19@ | 2019-20** |
| Share of GVA of Agriculture & Allied Sector in GVA of Total Economy (per cent) | 18.2    | 17.7    | 18.0     | 18.0     | 17.1     | 17.8      |
| Share of Crops   | 11.2    | 10.6    | 10.6     | 10.4     | 9.4      | NA        |
| Share of Livestock   | 4.4     | 4.6     | 4.8      | 5.1      | 5.1      | NA        |
| Share of Forestry & logging  | 1.5     | 1.5     | 1.5      | 1.4      | 1.3      | NA        |
| Share of Fishing & aquaculture   | 1.0     | 1.1     | 1.1      | 1.2      | 1.2      | NA        |

### Recent Trends in Agriculture Sector

About 54.6 per cent of the total workforce in the country is still engaged in agricultural and allied sector activities (Census 2011) which accounts for approximately 17.8 per cent of the country's Gross Value Added (GVA) for the year 2019-20 (at current prices). While the difficulties created by COVID induced lockdowns adversely affected the performance of the non-agricultural sectors, the agriculture sector came up with a robust growth rate of 3.4 per cent at constant prices during 2020-21 (first advance estimates). The sector has got renewed

thrust due to various measures on credit, market reforms and food processing under the Atma Nirbhar Bharat announcements.

#### Gross Value Added in Agriculture

As per the provisional estimates of national income released by CSO on 29th May 2020, the share of agriculture and allied sectors in Gross Value Added

(GVA) of the country at current prices is 17.8 per cent for the year 2019-20.

### **Production of Crops**

In the year 2019-20 (as per fourth advance estimates), total food grain production in the country is estimated at record 296.65 million tonnes which is higher by 11.44 million tonnes than the production of food grain of 285.21 million tonnes achieved during 2018-19. Further, the production during 2019-20 is higher by 26.87 million tonnes than the previous five years' (2014-15 to 2018-19) average production of 269.78 million tonnes.

### **Agricultural Credit**

Given the large proportion of resource constrained small and marginal farmers in India, timely availability of adequate credit is fundamental for the success of farming activities.

The agricultural credit flow target for the year 2019-20 was fixed at Rs. 13,50,000 crores and against this target the achievement was Rs.13,92,469.81 crores. The agriculture credit flow target for 2020-21 was fixed at Rs.15,00,000 crores and till 30th November 2020 a sum of Rs. 9,73,517.80 crores were disbursed. The Agriculture Infrastructure Fund announced as a part of Atma Nirbhar Bharat Abhiyan will further boost credit flow to the agriculture sector.

### **Production-Linked Incentive Scheme**

Government gave its approval in November 2020 to introduce the Production-Linked Incentive (PLI) Scheme in 10 key sectors, including food processing sector, for enhancing India's manufacturing capabilities and improving exports. The approved financial outlay for the PLI scheme in food processing is Rs. 10,900 crores. The food segments identified includes ready to eat/ready to cook, marine products, processed fruits & vegetables, mozzarella cheese, and innovative/organic products of SMEs. The scheme would also support the branding and marketing abroad.

### **International Trade in Agricultural Commodities**

In 2019-20, India's agricultural and allied exports amounted to approximately Rs. 252 thousand crores. The major export destinations were USA, Saudi Arabia, Iran, Nepal, and Bangladesh. The top agriculture and related products exported from India were marine products, basmati rice, buffalo meat, spices, non-basmati rice, cotton raw, oil meals, sugar, castor oil and tea. While India occupies a leading position in global trade of aforementioned agri- products, its total agri-export basket accounts for a little over 2.5 per cent of world agri-trade.

### **ALLIED SECTORS: ANIMAL HUSBANDRY, DAIRYING & FISHERIES**

#### **Milk**

India continues to be the largest producer of milk in the world. Several measures have been initiated by the government to increase the productivity of livestock, which has resulted in increasing the milk production significantly. Milk production in the country has increased from 146.3 million tonnes in 2014-15 to 198.4 million tonnes in 2019-20. The per capita availability of milk was 407 grams per day in (2019-20).

#### **Livestock Population and Production**

According to FAOSTAT production data (2019), India ranks 3rd in egg production in the world. The egg production in the country has increased from 78.48 billion in 2014-15 to 114.38 billion in 2019-20. Annual growth rate of egg production was 4.99 per cent during 2014-15, thereafter, there has been a significant improvement in the egg production with 10.19 per cent growth registered in 2019-20 over the previous year. The per capita availability of egg was 86 eggs per annum in 2019-20.

#### **Fisheries**

India is the second largest fish producing country in the world and accounts for 7.58 per cent of the global production. The fish production in India has reached an all-time high of 14.16 million metric tons during 2019-20.

### **Food Processing Sector**

During the last 5 years ending 2018-19, food processing industries (FPI) has been growing at an average annual growth rate of around 9.99 per cent as compared to around 3.12 per cent in agriculture and 8.25 per cent in manufacturing at 2011-12 prices. Food processing sector has also emerged as an important segment of the Indian economy in terms of its contribution to GDP, employment and investment. The sector constitutes as much as 8.98 per cent of Gross Value Added (GVA) in manufacturing in 2018-19 at 2011-12 prices.

### **BUDGET ANNOUNCEMENTS: AGRICULTURE SECTOR**

1. The MSP regime has undergone a sea change to assure price that is at least 1.5 times the cost of production across all commodities. The procurement has also continued to increase at a steady pace. This has resulted in increase in payment to farmers substantially.
2. Government has enhanced the agricultural credit target to Rs.16.5 lakh crores in FY22. This will focus on ensuring increased credit flows to animal husbandry, dairy, and fisheries.
3. Government has enhanced the allocation to the Rural Infrastructure Development Fund from Rs.30,000 crores to Rs.40,000 crores.
4. To boost value addition in agriculture and allied products and their exports, the scope of 'Operation Green Scheme' that is presently applicable to tomatoes, onions, and potatoes, will be enlarged to include 22 perishable products.
5. The Agriculture Infrastructure Fund would be made available to APMCs for augmenting their infrastructure facilities.

## Future Scenario of Agriculture Sector

The GDP of India's agricultural sector amounts to an impressive US\$ 262 billion. The industry remains the single largest contributor to the Indian economy, although its share of GDP fell from more than 30 % in FY 91 to almost 14.5% in FY 11. In order to promote the participation of the private sector, the Indian government allowed 100% foreign direct investment (FDI) in several segments of the agricultural industry. These include fertilizers, agricultural machinery, horticulture, seed development, livestock farming, fish farming, and F&V segment. The outpour of these private sector investments will benefit Indian farmers considerably, as most of them engage in small-scale enterprises and struggle to achieve profitability. These investments can be used to promote agricultural research and development and protect the environment, which could contribute to the overall increase in agricultural productivity. As a result of the 100% FDI allowance, the agricultural services sector saw foreign investments of US\$ 1.5 billion over 2000-2012. Apart from FDI being a major game changer, the green revolution in the 70's actually played a pivotal role in making the nation self-sufficient. This was tagged with the usage of chemical-based agri inputs which made the farmers pay a hefty price over the coming year. The haphazard use of chemicals made the soil infertile, led to the loss of productivity, environmental degradation, and lower yields eventually. Consumption of chemical fertilizers increased from 151 kg/hectare in FY10 to 166 kg/hectare in FY12. This has not only caused an increase in yields but also led to the

disruption of the ecological balance which the nation is trying to reverse by going chemical free. Several states have adopted the organic route and many are in the pipeline. Considering the present agricultural scenario and the growth plan to be envisioned, we need to work on the below pointers to understand and develop the channel for the rise of agriculture in India:

- Supply stress due to resource scarcity
- Scope to improve yield
- Opportunity to reduce losses in the food chain
- Technological disruption directly to farmers
- Agricultural credit • Soil nutrient management
- Research / technology-based crops

Also, the government initiatives and investments, along with various schemes for the agri community have proved to be a turning point in the way agriculture will be carried out. Some major agriculture investments and developments are as follows:

- The first mega food park in Rajasthan was inaugurated in March 2018
- In 2017, the agriculture sector in India witnessed 18 M&A deals worth US\$ 251 million
- A loan agreement of US\$ 318 million was signed between the Government of India, Government of Tamil Nadu and the World Bank in December 2017 for the Tamil Nadu Irrigated Agriculture Modernization Project through which is expected to benefit around 500,000 farmers in the state

Not just the organic way or government initiatives, the Public-Private partnership would garner better results in the agriculture space for supporting future innovation and capacity building. India is expected to achieve the ambitious

objective of doubling farmer's agricultural revenue by 2022. In the coming years, India is expected to be self-sufficient in pulses due to the concerted efforts of scientists to obtain early maturation varieties of pulses and the increase in the minimum support price. The Government of India aims to increase a farmer's average household income to Rs. 219,724/- by 2022-23 from Rs. 96,703/in 2015-16 at present prices. The Government of India has implemented a number of projects to support the agriculture sector. They are:

**Pradhanmantri Gram Sinchai Yojana:** The aim of the scheme is to irrigate the farmers' fields and improve the efficiency of water use to achieve the motto 'Per Drop More Crop'. The scheme overall ensures better access to irrigation. About 285 new irrigation projects for 18.8 million hectares of land will be undertaken in 2018. Under the Union Budget for 2018-19, US\$ 401.6 million was allocated to the scheme. **Paramparagat Krishi Vikas Yojana (PKVY):** The scheme aims to motivate groups of farmers to take up organic farming. India currently occupies a prominent position among 172 countries that are active in organic farming worldwide. More than 6,50,000 organic producers, 699 processors, 669 exporters, and 7,20,000 hectares are currently in cultivation in the country. However, with only 0.4% of the total agricultural land for organic farming, it is clear that this industry still has a long way to go in terms of growth. The farmers even now have an option for chemical-free farming using Metabolites based bio agri inputs which are a perfect replacement to chemical-based inputs and help in residue free farming.

The future will be technologically driven and research oriented. This would open up more avenues for growth, investment and eventually development of the sector and nation as a whole. About the Author Santosh Nair -Founder & MD at Miklens Bio Pvt. Ltd. Santosh Nair is a graduate from Mumbai University in 1991

with a specialization in Chemistry. He chose Finance as his mainstream while obtaining his Master's degree in management from the reputed NMIMS in 1998 and has an Executive Degree from IIM-A. With his experience and keen understanding of the world of business and finance, he is involved in making the presence of Miklens Bio felt over wider regions of India and across the globe. His passion for clean agriculture makes him the perfect advocate for ResidueFree Cultivation.

The future scenario of the agriculture sector can further be explained through the following points:

1. Government to establish two more Agricultural Research Institute of Excellence in Assam and Jharkhand with an initial sum of ₹100 crores.
2. An amount of 100 crores set aside for the "Agri-tech Infrastructure Fund".
3. ₹200 crores provided to open Agriculture Universities in Andhra Pradesh and Rajasthan and Horticulture Universities in Telangana and Haryana.
4. A scheme to provide every farmer with a soil health card in a Mission mode will be launched. ₹100 crores has been provided for this purpose and an additional ₹56 crore to set up 100 Mobile Soil Testing Laboratories across the country.
5. To meet the vagaries of climate change a "National Adaptation Fund" with an initial sum an amount of ₹100 crores will be set up.
6. Sustainable growth of 4% in Agriculture will be achieved.
7. Technology-driven second green revolution with a focus on higher productivity and including "Protein Revolution" will be an area of major focus.
8. To mitigate the risk of Price volatility in the agricultural produce, a sum of 500 crores is provided for establishing a "Price Stabilisation Fund".

9. Central Government to work closely with the State Governments to re-orient their respective APMC Acts.
10. Sum of ₹50 crores provided for the development of indigenous cattle breeds and an equal amount for starting a blue revolution in inland fisheries.
11. Transformation plans to invigorate the warehousing sector and significantly improve post-harvest lending to farmers.
12. To provide institutional finance to landless farmers, it is proposed to provide finance to 5 lac joint farming groups of "Bhoomi Heen Kisan" through NABARD.
13. A target of ₹8 lac crore has been set for agriculture credit during 2014-15.
14. Corpus of Rural Infrastructure Development Fund (RIDF) raised by an additional ₹5,000 crore from the target given in the Interim Budget to ₹25,000 crores.
15. Allocation of ₹5,000 crores provided for the Warehouse Infrastructure Fund.
16. "Long-Term Rural Credit Fund" to set up for the purpose of providing refinance support to Cooperative Banks and Regional Rural Banks with an initial corpus of ₹5,000 crores.
17. Restructuring FCI, reducing transportation and distribution losses, and efficacy of PDS to be taken up on priority.
18. The government committed to provide wheat and rice at reasonable prices to the weaker sections of the society.
19. Government when required will undertake open market sales to keep prices under control.

## **Performance of the Industry Sector in the Indian Economy**

Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, launched the 'Make in India' program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. Government aims to create 100 million new jobs in the sector by 2022.

### **Market Size**

The sector's Gross Value Added (GVA) at current prices was estimated at US\$ 350.27 billion as per the first advanced estimate of FY21. The IHS Markit India Manufacturing Purchasing Managers Index (PMI) increased to 57.7 in January 2021 from 56.4 in December 2020.

As per the latest survey, capacity utilisation in India's manufacturing sector stood at 63.3% in the second quarter of FY21.

According to the Ministry of Statistics & Programme Implementation, India's industrial output, measured by the Index of Industrial Production (IIP), stood at 135.9 in December 2020. Overall merchandise exports stood at US\$ 200.80 billion between April 2020 and December 2020.

### **Investments**

With the help of Make in India drive, India is on a path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and

Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and an increasing purchasing power.

Cumulative Foreign Direct Investment (FDI) in India's manufacturing sector reached US\$ 91.28 billion between April 2000 and September 2020. In May 2020, the Government of India increased FDI in defence manufacturing under the automatic route from 49% to 74%.

India has become one of the most attractive destinations for investment in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- On February 16, 2021, Amazon India announced to start manufacturing electronic products in India, starting first with Amazon Fire TV stick manufacturing. The company plans to start manufacturing with contract manufacturer Cloud Network Technology, a subsidiary of Foxconn in Chennai by end-2021.
- In January 2021, Toyota Kirloskar Motor (TKM) signed a Memorandum of Understanding (MoU) with the Directorate General of Training (DGT), Ministry of Skill Development and Entrepreneurship, to develop skills among the youth under the Flexi-MoU Scheme of the government.
- On January 19, 2021, Amazon announced that it has partnered with Startup India, Sequoia Capital India and Fireside Ventures to initiate an accelerator programme to support entrepreneurs deliver products to audiences globally. Amazon Global Selling programme is rapidly improving India's exports and helping create Indian global brands. More than 800 Indian MSMEs exceeded USD 131,375 (Rs 1 crore) in e-commerce export sales (under the programme) in 2019.

### **Government Initiatives**

The Government of India has taken several initiatives to promote a healthy

environment for the growth of manufacturing sector in the country. Some of the notable initiatives and developments are:

The Union Budget 2021-22 is expected to enhance India's domestic growth in manufacturing, trade and other sectors. Development of a robust infrastructure, logistics and utility environment for the manufacturing sector is a primary focus field.

Some of these initiatives are as follows:

- The Mega Investment Textiles Parks (MITRA) scheme to build world-class infrastructure will enable global industry champions to be created, benefiting from economies of scale and agglomeration. Seven Textile Parks will be established over three years.
- The government proposed to make significant investments in the construction of modern fishing harbours and fish landing centres, covering five major fishing harbours in Kochi, Chennai, Visakhapatnam, Paradip, and Petuaghat, along with a multipurpose Seaweed Park in Tamil Nadu. These initiatives are expected to improve exports from the textiles and marine sectors.
- The 'Operation Green' scheme of the Ministry of the Food Processing Industry, which was limited to onions, potatoes and tomatoes, has been expanded to 22 perishable products to encourage exports from the agricultural sector. This will facilitate infrastructure projects for horticulture products.

### **Road Ahead**

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

The manufacturing sector of India has the potential to reach US\$ 1 trillion by 2025. The implementation of the Goods and Services Tax (GST) will make India

a common market with a GDP of US\$ 2.5 trillion along with a population of 1.32 billion people, which will be a big draw for investors. The Indian Cellular and Electronics Association (ICEA) predicts that India has the potential to scale up its cumulative laptop and tablet manufacturing capacity to US\$ 100 billion by 2025 through policy interventions.

With impetus on developing industrial corridors and smart cities, the Government aims to ensure holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for the industrial development and will promote advance practices in manufacturing.

### **Recent Trends in the Industry Sector in the Indian Economy**

According to a study by global management consulting firm McKinsey and Company, the manufacturing sector in India could grow six-fold to **U.S. \$1 trillion**, by **2025**. The rising demand in the country and the aspirations of Multinational Companies (MNCs) to establish low-cost plants in India are seen as reasons for this possible growth. Up to 90 million domestic jobs could be created by that time, with the sector generating about 25-30 percent of the country's Gross Domestic Product (GDP). India's rapidly expanding economy gives domestic entrepreneurs and international players vast opportunities to invest and grow.

India's manufacturing sector is vital for its economic progress. Its contribution to the GDP is 16 percent, with the potential to grow more. The government has realized the importance of this sector to the country's industrial development and has taken a number of proactive steps to further enhance the industry.

Today, India's attractiveness as a manufacturing center for foreign companies is

all too apparent. Overseas mobile phones and automobile companies already have manufacturing plants in India. Luxury brands such as Frette and Louis Vuitton are looking to do the same, as is major aircraft maker Airbus.

**Deloitte's global index** for 38 nations (2013) ranked India as the fourth most competitive manufacturing nation. The country's economy saw a massive expansion in the period 2006-2011, attaining a five-year **Compound Annual Growth Rate (CAGR)** of 7.8 percent.

The Eight Core Industries have a combined weight of 37.90 % in the Index of Industrial Production (IIP). The combined Index of Eight Core Industries stands at 164.5 in June 2014, which was 7.3 % higher compared to the index of June, 2013. Its cumulative growth during April to June, 2014-15 was 4.6 %. Recent trends in the eight core industries are as follows:

- 1) **Coal:** Coal production (weight: 4.38 %) increased by 8.1 % in June 2014 over June 2013. Its cumulative index from April to June 2014-15 increased by 5.6 % over the corresponding period of the previous year.
- 2) **Crude Oil:** Crude Oil production (weight: 5.22 %) increased by 0.1 % in June 2014 over June 2013. The cumulative index of Crude Oil from April to June 2014-15 declined by 0.1 % over the corresponding period of the previous year.
- 3) **Natural Gas:** The Natural Gas production (weight: 1.71 %) declined by 1.7 % in June 2014 over June, 2013. Its cumulative index from April to June 2014-15 declined by 3.9 % over the corresponding period of the previous year.
- 4) **Petroleum Refinery Products:** Petroleum refinery production (weight: 5.94%) increased by 1.2 % in June 2014 over June 2013. Its cumulative index from April to June 2014-15 declined by 1.1 % over the corresponding

period of the previous year.

- 5) **Fertilizers:** Fertiliser production (weight: 1.25%) declined by 1.0 % in June 2014 over June 2013. It registered a cumulative growth of 8.6 % during April to June, 2014-15 over the corresponding period of the previous year.
- 6) **Steel:** Steel production (weight: 6.68%) increased by 4.2 % in June 2014 over June 2013. While, its cumulative index from April to June, 2014-15 increased by 1.6 % over the corresponding period of the previous year.
- 7) **Cement:** Cement production (weight: 2.41%) increased by 13.6 % in June 2014 over June 2013. Its cumulative growth from April to June 2014-15 was 9.5 % over the corresponding period of the previous year.
- 8) **Electricity:** Electricity generation (weight: 10.32%) increased by 15.7 % in June 2014 over the period of June 2013 and it registered a cumulative growth of 10.9 % from April to June 2014-15 over the corresponding period of the previous year.

### **Future Scenario of Industry Sector in Indian Economy**

The government of India has made certain provisions for a bright future of the industrial sector in the **Union Budget 2014-2015** which helps in understanding the future scenario of the Indian industry sector. Future scenario of the industrial sector can be explained in the following points:

1. Central Government Departments and Ministries to integrate their services with the e-Biz - a single-window IT platform - for services on priority by 31 December this year.
2. 100 crore provided for setting up a National Industrial Corridor Authority.
3. Amritsar-Kolkata Industrial master planning to be completed expeditiously.
4. Master planning of 3 new smart cities in the Chennai-Bengaluru Industrial Corridor region, viz., Ponneri in Tamil Nadu, Krishnapatnam in Andhra

Pradesh and Tumkur in Karnataka to be completed.

5. Perspective plan for the Bengaluru-Mumbai Economic Corridor (BMEC) and Vizag-Chennai corridor to be completed with the provision for 20 new industrial clusters.
6. The development of industrial corridors with emphasis on Smart Cities linked to transport connectivity to spur growth in manufacturing and urbanization will be accelerated.
7. Proposed to establish an Export promotion Mission to bring all stakeholders under one umbrella.
8. Apprenticeship Act to be suitably amended to make it more responsive to industry and youth.
9. Skill India to be launched to skill the youth with an emphasis on employability and entrepreneurial skills.
10. Committee to examine the financial architecture for MSME Sector, remove bottlenecks, and create new rules and structures to be set-up and give concrete suggestions in three months.
11. Fund of Funds with a corpus of ₹10,000 crore for providing equity through venture capital funds, quasi-equity, soft loans and other risk capital specially to encourage new startups by youth to be set up.
12. Corpus of ₹200 crore to be set-up to establish Technology Centre Network.
13. Definition of MSME to be reviewed to provide for a higher capital ceiling.
14. Program to facilitate forward and backward linkages with multiple value chain of manufacturing and service delivery to be put in place.
15. Entrepreneur friendly legal bankruptcy framework will be developed for SMEs to enable easy exit.
16. A nationwide “District-level Incubation and Accelerator Programme” to be taken up for incubation of new ideas and necessary support for

accelerating entrepreneurship

### **Performance of Service Sector in Indian Economy**

The Services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export

and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

#### **Market Size**

The services sector is a key driver of India's economic growth. The sector contributed 55.39% to India's Gross Value Added at current price in FY20#. GVA at basic prices at current prices in the second quarter of 2020-21 is estimated at Rs. 42.80 lakh crore (US\$ 580.80 billion), against Rs. 44.66 lakh crore (US\$ 633.57 billion) in the second quarter of 2019-20, showing a contraction of 4.2%. According to the RBI, in December 2020, service exports stood at US\$ 18.72 billion, while imports stood at US\$ 11.50 billion.

Nikkei India Services' Purchasing Managers' Index (PMI) increased to 52.8 in January 2021 from 52.3 in December 2020.

#### **Industry developments**

Some of the developments in the services sector in the recent past are as follows:

- The services\* category in India attracted cumulative foreign direct investment (FDI) worth US\$ 85.86 billion between April 2000 and December 2020. The services category ranked 1st in FDI inflow as per data released by the Department for Promotion of Industry and Internal Trade (DPIIT).
- In December 2020, a cohort of six health-tech start-ups—AarogyaAI, BrainSightAI, Fluid AI, InMed Prognostics, Wellthy Therapeutics, and Onward Assist—have been selected by the India Edison Accelerator, fuelled by GE Healthcare. India Edison Accelerator, the company's first start-up partnership programme focused on Indian mentors, creates strategic partners to co-develop healthcare solutions.

- ▶ The Indian healthcare industry is expected to shift digitally enabled remote consultations via teleconsultation. The telemedicine market in India is expected to increase at a CAGR of 31% from 2020 to 2025.
- ▶ In August 2020, Japan committed ~Rs. 35 billion (US\$ 476.11 million) under the Official Development Assistance for the health sector to fight the COVID-19 crisis in India and improve resilience of India's health systems against infectious diseases.
- ▶ In September 2020, LinkedIn and NSDC collaborated to accelerate digital skills training for the Indian youth.
- ▶ In September 2020, NASSCOM FutureSkills and Microsoft collaborated to launch a nationwide AI skilling initiative to train 1 million students in AI by 2021.
- ▶ In September 2020, Byju's acquires 3D virtual lab startup LabInApp to strengthen its edtech presence.
- ▶ In October 2020, Bharti Airtel entered cloud communications market with the launch of business-centric 'Airtel IQ'.
- ▶ In June 2020, Jio Platforms Ltd. sold 22.38% stake worth Rs. 1.04 trillion (US\$ 14.75 billion) to ten global investors in a span of eight weeks under separate deals, involving Facebook, Silver Lake, Vista, General Atlantic, Mubadala, Abu Dhabi Investment Authority (ADIA), TPG Capital and L. Catterton. This is the largest continuous fundraise by any company in the world.
- ▶ In December 2020, Gamma Skills Automation Training introduced a unique robotics & automation career launch programme for engineers, an 'Industry 4.0 Hands-on Skill Learning Centre' located at IMT Manesar, Gurgaon in Haryana.
- ▶ In December 2020, the 'IGNITE' programme was initiated by Siemens, BMZ and MSDE to encourage high-quality training and technical education. 'IGNITE' aims to develop highly trained technicians, with an

emphasis on getting them ready for the industry and future, based on the German Dual Vocational Educational Training (DVET) model. By 2024, this programme aims to upskill ~40,000 employees.

### **Government Initiatives**

The Government of India recognises the importance of promoting growth in services sector and provides several incentives across a wide variety of sectors like health care, tourism, education, engineering, communications, transportation, information technology, banking, finance and management among others.

The Government of India has adopted few initiatives in the recent past, some of these are as follows:

- On January 15, 2021, the third phase of Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was launched in 600 districts with 300+ skill courses. Spearheaded by the Ministry of Skill Development and Entrepreneurship, the third phase will focus on new-age and COVID-related skills. PMKVY 3.0 aims to train eight lakh candidates.
- In January 2021, the Department of Telecom, Government of India, signed an MoU with the Ministry of Communications, Government of Japan, to strengthen cooperation in the areas of 5G technologies, telecom security and submarine optical fibre cable system.
- On November 4, 2020, the Union Cabinet, chaired by the Prime Minister, Mr. Narendra Modi, approved to sign a memorandum of understanding (MoU) between the Ministry of Communication and Information Technology and the Department of Digital, Culture, Media and Sports (DCMS) of United Kingdom Government to cooperate in the field of telecommunications/information and communication technologies (ICTs).
- In October 2020, the government selected Hughes Communications India to connect 5,000 village panchayats in border and naxal-affected states

and island territories with satellite broadband under BharatNet project by March 2021.

- In September 2020, the government announced that it may infuse Rs. 200 billion (US\$ 2.72 billion) in public sector banks through recapitalisation of bonds
- In the next five years, the Ministry of Electronics and Information Technology is working to increase the contribution of the digital economy to 20% of GDP. The government is working to build cloud-based infrastructure for collaborative networks that can be used for the creation of innovative solutions by AI entrepreneurs and startups.
- On Independence Day 2020, Prime Minister Mr. Narendra Modi announced the National Digital Health Mission (NDHM) to provide a unique health ID to every Indian and revolutionise the healthcare industry by making it easily accessible to everyone in the country. The policy draft is under 'public consultation' until September 21, 2020.
- In September 2020, the Government of Tamil Nadu announced a new electronics & hardware manufacturing policy aligned with the old policy to increase the state's electronics output to US\$ 100 billion by 2025. Under the policy, it aims to meet the requirement for incremental human resource by upskilling and training >100,000 people by 2024.
- The Cabinet Committee on Economic Affairs has given its approval for continuation of the process of recapitalization of Regional Rural Banks (RRBs) by providing minimum regulatory capital to RRBs for another year beyond 2019-20.
- Government of India has launched the National Broadband Mission with an aim to provide Broadband access to all villages by 2022.
- Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Central Government increased incentives provided under Services Exports from India Scheme (SEIS) by 2%.

### Road Ahead

Services sector growth is governed by domestic and global factors. The Indian facilities management market is expected to grow at 17% CAGR between 2015 and 2020 and surpass the US\$ 19 billion mark supported by booming real estate, retail, and hospitality sectors.

By 2023, healthcare industry is expected to reach US\$ 132 billion. India's digital economy is estimated to reach US\$ 1 trillion by 2025. By end of 2023, India's IT and business services sector is expected to reach US\$ 14.3 billion with 8% growth.

The implementation of the Goods and Services Tax (GST) has created a common national market and reduced the overall tax burden on goods. It is expected to reduce costs in the long run on account of availability of GST input credit, which will result in the reduction in prices of services.

### Future Scenario of Service Sector in Indian Economy

The country's banking industry would be the world's third-largest in asset size by 2025, as per a report by the **Boston Consulting Group (BCG)** India, prepared in collaboration with a leading industry organization and **Indian Banks Associations (IBA)**.

Also, **the Life Insurance Council**, the industry body of life insurers in India, projects a **Compound Annual Growth Rate (CAGR)** of **12-15 percent** over the next few years for the segment, with India's insurable population, projected to touch 750 million by FY 2020.

India is today one of the leading destinations for high-end diagnostic services,

with significant capital investment for advanced diagnostic facilities. Also, modern Indian medical service consumers are more conscious with regard to their healthcare upkeep.

The Indian service industry has emerged as one of the largest and fastest-growing sectors on the global platform and made a sizeable contribution towards global output and employment. This sector is growing at a faster pace as compared to the agriculture and manufacturing sectors. Indian service segment comprises of a wide range of activities, such as

- I. Trade
- II. Hotels and restaurants
- III. Transport including tourist assistance activities as well as activities of travel agencies and tour operators
- IV. Storage of goods and commodities
- V. Communication – Mobile and Internet
- VI. Banking and Insurance
- VII. Real estate
  1. Business services including accounting; software development; data processing services; business and management consultancy; architectural, engineering, and another technical consultancy
- IX. Advertisement

- X. Entertainment and Multimedia
- XI. Public administration and defense
- XII. Other services including education, medical and health, legal services

### **What is required for entering into this sector?**

Apart from your educational background and job-specific skills, you must have the following skills in you if you want to enter this sector

### **The top five skills the employer will look in you are**

- 1. Business expertise:** This is about knowledge of how a business or industry works.
- 2. Communication:** This covers verbal and written communication and listening skills.
- 3. Teamwork:** You'll need to prove that you're a team player but also have the ability to manage and lead the team.
- 4. Problem solving:** You need to display an ability to take a logical and analytical approach to solve problems and resolving issues.
- 5. Ability to work under pressure:** This is about keeping calm in a crisis and not becoming too overwhelmed or stressed.

## Module 2

### ESSENTIALS OF BUSINESS & INDUSTRY

#### BUSINESS

##### Meaning and Definition of Business and Industry

Business is an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants under uncertain market conditions.

Activities connected with the production or purchase and sale of goods or services with the object of earning profit are called business activities. Mining, manufacturing, trade, transportation, insurance, banking, etc., are business activities. Thus business may be defined as an economic activity involving regular production or purchase and distribution of goods and services with the object of earning profits.

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. Whether a business unit has one or two people working at home, 10 operating in a retail store, 1,000 employed in a factory, or 1,00,000 operating in multiple units spread across the country, all businesses share the same purpose that is to earn profits.

The purpose of business goes beyond earning profit. It is an important institution in society. It is for the supply of goods and services; creation of job opportunities; offer of 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 as society needs it. According to Arthur M. Weimer, "Business is that complex field of commerce and industry in which goods and services are created and distributed in the hope of profit within a framework of laws and regulations".

According to Lewis H. Haney, "Business may be defined as human activity

directed towards producing or acquiring wealth through buying and selling goods".

According to Musselman and Hughes, "Business represents the organised efforts of enterprises to supply consumers with goods and services".

### **Nature of Business**

- 1) **Exchange of Goods and Services:** All business activities are directly or indirectly concerned with the exchange of goods or services for money or money's worth.
- 2) **Deals in Numerous Transactions:** In business, the exchange of goods and services is a regular feature. A businessman regularly deals in a number of transactions and not just one or two transactions.
- 3) **Profit is the Main Objective:** The business is carried-on with the intention of earning a profit. The profit is a reward for the services of a businessman.
- 4) **Business Skills for Economic Success:** Anyone cannot run a business. To be a good businessman, one needs to have good business qualities and skills. A businessman needs experience and skill to run a business.
- 5) **Risks and Uncertainties:** Business is subject to risks and uncertainties. Some risks, such as risks of loss due to fire and theft can be insured. There are also uncertainties, such as loss due to change in demand or fall in price cannot be insured and must be borne by the businessman.
- 6) **Buyer and Seller:** Every business transaction has a minimum two parties, i.e., 'a buyer' and 'a seller'. Business is nothing but a contract or an agreement between buyer and seller.
- 7) **Connected with Production:** Business activity may be connected with production of goods or services. In this case, it is called industrial activity. The industry may be primary or secondary.
- 8) **Marketing and Distribution of Goods:** Business activity is concerned with marketing or distribution of goods in which case it is called as commercial activity.
- 9) **Deals in Goods and Services:** In business there has to be dealings in goods and service. Goods may be divided into following two categories:

1) Promotion of Capital Formation: Business promotes capital formation by mobilising the idle savings of the public. They employ their own as well as borrowed resources for setting up their enterprises. Such type of business activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country.

#### Role and Functions of Business

- Promotion of Capital Formation
- Creation of Large-Scale Employment Opportunities
- Promotion of Balanced Regional Development
- Reduction of Concentration of Economic Power
- Wealth Creation and Distribution
- Increasing Gross National Product and Per Capita Income ● Improvement in the Standard of Living
- Promotion of Country's Export Trade
- Induction of Backward and Forward Linkages
- Facilitation of Overall Development

2) Creation of Large-Scale Employment Opportunities: Business provides immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up of more and more units by business, both on small and large-scale numerous job opportunities are created for others. As time passes, these enterprises grow, providing direct and indirect employment opportunities to many more. In this way, business plays an effective role in reducing the problem of unemployment in the country which in turn clears the path towards economic development of the nation.

3) Promotion of Balanced Regional Development: Business helps to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education,

entertainment, etc. Setting up of more industries leads to more development of backward regions and thereby promotes balanced regional development.

4) Reduction of Concentration of Economic Power: Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of businesses need to be developed, which will help reduce the concentration of economic power amongst the population.

5) Wealth Creation and Distribution: It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Business activities also generate more activities and give a multiplier effect in the economy.

6) Increasing Gross National Product and Per Capita Income: Business is always on the lookout for opportunities. They explore and exploit opportunities, encourage effective resource mobilisation of capital and skill, bring in new products and services and develop markets for growth of the economy. In this way, they help increase gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth.

7) Improvement in the Standard of Living: Increase in the standard of living of the people is a characteristic feature of economic development of the country. Business plays a key role in increasing the standard of living of the people by adopting latest innovations in the production of a wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

8) Promotion of Country's Export Trade: Business helps in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services on a large scale for the purpose of earning huge amounts of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development.

9) Induction of Backward and Forward Linkages: Business likes to work in an environment of change and try to maximise profits by innovation. When an enterprise is established in accordance with the changing technology, it induces backward and forward linkages which stimulate the process of economic development in the country.

10) Facilitation of Overall Development: Business acts as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialisation is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the business multiplies their business activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

### **Role and Functions of Business**

The major role played by business in the economic development of an economy is discussed in a systematic and orderly manner as follows:

1) Production of Goods: The raw material producing industries such as agriculture, mining, forestry, fishing, etc., provide raw materials for the manufacturers of consumer and producer goods. For example, agriculture provides food such as grains and vegetables. Mines provide metals which are used in factories and firms. Coal, another product of mine, is a very useful source of power. Forestry provides us timber which is needed in the construction of building, furniture, paper, etc.

2) Distribution Aspect of Business: The goods which are produced should reach the consumers at the right place, right time, and at the right price also. The transport industries facilitate the movement of goods from one place to another where they are wanted.

3) **Business Supplies Services:** Though the service organisations do not contribute directly in the production of goods but they facilitate in the production and distribution of goods to the customer and the major services which are growing in importance with each passing year are banking and finance, insurance, medical and health, legal, engineering and other professionals, domestic servants, education, automobile repairs, etc., the services which perform simple or difficult tasks for earning money are regarded as an important part of business.

4) **Business has Helped in Raising Standard of Living:** Business has helped people to earn a living either as owners of business or as employees. The mass production of standard goods and their specialisation; and automation have increased the incomes of those who are directly or indirectly engaged in business. Business also pays a large share of taxes to the government.

5) **Creation of Customers:** The business of today is creating markets for its customers all over the world by introducing new products, new methods of distribution such as e-commerce, tele-shopping, etc.

6) **Proper Utilisation of Resources:** It leads to effective utilisation of the scarce resources of society. It provides facilities for mass production.

7) **Better Quality and Large Variety of Goods and Services:** It involves production, purchase and sale of goods and services for price. Customer satisfaction is the backbone of modern business. Services such as supply of water, electricity etc. may be considered highly significant for the community.

8) **Creates Utilities:** Business makes goods more useful to satisfy human wants. It adds to products the utilities of person, time, place, form, knowledge etc. Thus, people are able to satisfy their wants effectively and economically.

9) **Employment Opportunities:** It provides employment opportunities to a large number of people in society.

10) **Workers' Welfare:** Business organisations these days take care of various welfare activities for workers. They provide a safer and healthier work environment for employees.

## **INDUSTRY**

Meaning and Definition of Industry refers to all business activities, which are connected with raising, producing and processing of goods and services. They convert raw materials into useful products by the application or use of human or mechanical power. Sometimes the term "industry" is used to represent a group of business enterprises engaged in producing similar products or providing similar service.

For example, all units engaged in producing automobiles, whether two wheelers, three wheelers or four wheelers, together constitute the automobile industry. Similarly there are film industry, banking industry, telecom industry and many more.

### **Nature of Industry**

The nature of industry can be described as follows:

#### **Nature of Industry**

- Market Size and Growth Rate
- Number of Rivals
- Scope of Competitive Rivalry
- Buyer Needs and Requirements
- Degree of Product Differentiation
- Product Innovation
- Pace of Technological Change
- Vertical Integration

- Economies of Scale

1) Market Size and Growth Rate: Market size refers to the total number of firms operating in the industry. It is also important to know whether the industry is growing, static or declining. It depends upon the position of industry in the business lifecycle, i.e., early development, rapid growth, early maturity, maturity, stagnation, and decline.

2) Number of Rivals: Organisations should also know whether the industry contains too many small rivals or is it dominated by a few large firms. Similarly they should also know about the various developments in the industry such as mergers and acquisitions, etc.

3) Scope of Competitive Rivalry: It is an important factor for the organisations to know about the level of competition. Industry members must know about the nature of future competition. For example, if a company realises that its future success depends upon diversification, product development and market expansion, then it must start planning from the very first day.

4) Buyer Needs and Requirements: Industry members must take into consideration the need and taste of final buyers as well as the middlemen. So, basically organisations have to do a lot of periodic research in order to know the major shifts in buyer needs and requirements. They should also know about the various factors affecting consumer behaviour.

5) Degree of Product Differentiation: Product differentiation is another important factor for analysing the overall industry situation. If all the products of industry are not fully differentiated then it will increase competition among the members of industry. In such cases prices of the products will be low and the new entrants will find it difficult to compete with the existing firms.

6) Product Innovation: It can be used as a measure to know the dominant industry features. If the industry is characterised by rapid product innovation and short product life cycle then the research and development is very important for the success of an organisation. In such cases, members of the industry must come up with new products to compete effectively.

## **Role and Functions of Industry**

The role and functions of industry are as follows:

### Role and Functions of Industry

- Stimulates Progress in Other Sectors
- Promotes Specialisation
- Economic Stability
- Improvement in Balance of Payments
- Easy to Control Industrial Activity
- Large Scope for Technological Progress
- Development of Markets
- Provision for Defence

1) Stimulates Progress in Other Sectors: Industrial development stimulates progress in other sectors of the economy. A development of one industry leads to the development and expansion of other industries.

2) Promotes Specialisation: Industrial development promotes specialisation of labour. The division of work increases the marginal value product of labour. The income of workers in the industrial sector is therefore higher than that of a worker in the agricultural sector.

3) Economic Stability: Industrial development is the best way of providing economic stability to the country. A nation which depends upon the production and export of raw material alone cannot achieve a rapid rate of economic growth. The uncertainties of nature, the restricted and fluctuating demand of the agricultural raw material hampers economic progress and leads to an unstable economy.

4) Improvement in Balance of Payments: Industrial development brings structural changes in the pattern of foreign trade of the country. It helps in increasing the export of manufactured goods and thus earns foreign exchange. On the other hand the processing of raw material at home curtails the import of goods and thereby helps in conserving foreign exchange. The export orientation and import substitution effects of industrialisation help in the improvement of balance of payments.

5) Easy to Control Industrial Activity: The industrial activity compared to agriculture is easy to control. The industrial production can be expanded or cut down according to the price, cost and demand of the product.

6) Large Scope for Technological Progress: Industrial development provides larger scope for on-the-job training and technological progress. The use of advanced technology increases the scale of production, reduces cost of production, improves quality of the product, and helps in widening of the market.

7) Development of Markets: With the development of industries the market for raw materials and finished goods widens in the country.

8) Provision for Defence: If a country is industrialised, it can manufacture arms and ammunition necessary for the defence of the country. A nation which depends on other countries for the supply of ammunition will eventually suffer and may face defeat. The two wars with India should be an eye-opener for Pakistan.

## **Importance of Industry**

Following points highlights the importance of industry:

### Importance of Industry

- Better Standard of Living
- Aids in Nation's Income
- Makes Nation Independent

- Rapid Growth of Income
- Employment
- Exploitation of Resources
- Foreign Exchange
- Development of Agriculture

1) Better Standard of Living: It is due to the presence of many industries that people get to use an array of products like television, cloths, automobiles, furniture, etc., which helps in making life easier and improves the general standard of living.

2) Aids in Nation's Income: A prospering industrial environment is good for the country because the government gets income in the form of taxes from the industries, which in turn is used by the government for the well being of the people.

3) Makes Nation Independent: It makes the country independent because once country start producing goods with the help of industrialisation it does not have to depend on other countries for its demand and it can save its money by reducing the imports and it can even export its produce leading to foreign exchange income which in turn makes the country more prosperous.

4) Rapid Growth of Income: The first and the foremost argument in favour of industrialisation is that it can provide a base for rapid growth of income. It is because of the fact that productivity rates are higher in industry than in agriculture. Industries mainly depend on man's effort while agriculture is restricted by the limiting factor of nature. It is also seen that the Industrialised nations have a high per capita income.

5) Employment: With the increasing population agriculture is unable to provide for employment. Hence it is very important to set-up industries to absorb this surplus of labour. Hence industries can solve the problem of unemployment

6) Exploitation of Resources: Industries are capable of utilising all the resources present in the economy. They can even make use of scraps and waste materials.

Agriculture cannot make use of all the resources.

7) Foreign Exchange: India cannot earn adequate foreign exchange from the exports of its primary products. It is because of the fact that the demand for such products is very low in other countries. Industrial exports need to be added to the primary products.

8) Development of Agriculture: The requirements of agriculture are met by the industries in large. Agriculture requires improved farm machinery, chemical fertilizers and pesticides. It also requires storage and transport facilities.

### **Business Processes**

A business process is a unit of internal behaviour or a collection of causal (sequence or dependency) related units of internal behaviour, with the goal of producing a predefined collection of products and services. A business process can be constructed from sub processes or activities. A business process is triggered (started) by one or more business events or other business processes. Informally one could say that a business process consists of a number of activities or sub processes that are being executed in a certain sequence. Every activity is part of a business function.

In a business, a set of eight business processes is identified that defines the full range of activities a firm engages in to conduct its business. Within these processes are business functions that describe in greater detail the specific activity that a firm performs in order to produce its product, provide its service, or otherwise achieve its objective. The processes begin with the procurement of inputs and end with those services provided after the sale of the good or service.

The eight processes are grouped into core business processes and support business processes:

1) Core Business Processes: Core business processes relate most directly to the basic business of the firm, with operations representing the key industry activity of the company. Following are the five core business processes characterising any firm:

i) Procurement, Logistics, and Distribution: Those activities associated with obtaining and storing inputs, and storing and transporting finished products to customers.

ii) Operations: Those activities which transform inputs into final outputs, either goods or services.

iii) Product or Service Development: Activities associated with bringing a new, improved, or redesigned product or service to market. Among these activities are research, marketing analysis, design, and engineering.

iv) Marketing, Sales and Customer Accounts: Activities aimed at informing existing or potential buyers. These activities include promotion, advertising, telemarketing, selling, and retail management.

v) Customer and After-sales Services: Support services provided to customers after they purchase the goods or service. Such activities include training, help-desk services, call-centre services, and customer support for guarantees and warranties.

2) Support Business Processes: Support business processes facilitate core business processes. Three support business processes characterise a firm:

i) General Management and Firm Infrastructure: Corporate governance (legal, finance, planning, and public and government relations), accounting, building services, management, and administrative support.

ii) Human Resource Management: Activities associated with recruiting, hiring, training, compensating, and dismissing personnel.

iii) Technology and Process Development: Activities related to maintenance, automation, design or redesign of equipment, hardware, software, procedures, and technical knowledge.

## **Industry Processes**

Industries form the backbone of any economy and it is these industries that bring to a common layman the basic commodities of living. These industries are industrial processes and activities which are the key for effective and quality production of end products.

Processes and procedures in a large scale that involve chemical or mechanical steps aiding them in manufacture of a specific item or items is known as an Industrial Process. These processes become the key components of heavy industries.

The industrial processes often contribute to the conversion of a rare and costly material into a commodity cheaper in price. Thus the economical feasibility of the society to use the costly material on a large scale is increased by means of industrial processes. There are many kinds of industrial processes and most of the time, more than one is used in the production of a single material.

The industrial processes often end in production of a desired product though it also creates certain unnecessary by-products which may be toxic, hazardous and hard to manage with. There are very few processes which are controlled and self-contained.

## **Types of Industrial Processes**

There are many kinds of Industrial processes and are listed as follows:

1) **General Processes:** General processes are used by large in almost all the heavy industries. Examples of such processes include liquefaction of gases, freeze drying or scrubber. Liquefaction of gases is used for easy transportation between one part to the other while freeze drying or supercritical drying involves removal of excess liquid. Scrubber is another industrial general process which is used for removing pollutants from the exhaust gas that is created.

2) **Chemical Processes:** Chemical processes involve those methods or means

that include the change of chemicals from one to another. It is used at large to change chemicals or materials by use of chemicals. Certain popular methods include smelting, disinfection and pyro-processing. Smelting includes the enhancement of metals by use of chemical substances. Disinfection is another chemical process where chemicals are used to kill bacteria and viruses. Pyroprocessing is the process in which heat is used to chemically combine the materials. Cement is one of the materials that are combined by means of Pyro-processing methods.

3) Heat Processes: In these kinds of industrial processes, heat or direct current is used in the production of materials. Flash smelting and Electrolysis are methods that use heat processes for producing the end products.

Flash Smelting is a refinement of the smelting process and is used predominantly for sulphur ores to produce copper, nickel and lead. Electrolysis is the process in which electricity is used to produce the desired effect of plating or separating metals. Electrolysis can be of many ways, electro-focussing, electropolishing, anodisation, electro-plating, electro-phoretic deposition, etc.

4) Physical Processes: Metals and materials are reshaped and moulded into various products by means of certain procedures like cutting, folding, polishing, etc. These procedures constitute the physical processes that are used in industries. Techniques like forging, casting, machining, progressive stamping, sandblasting, soldering etc. are few of the available physical processes used in industries.

## **STRUCTURE OF BUSINESS ENVIRONMENT**

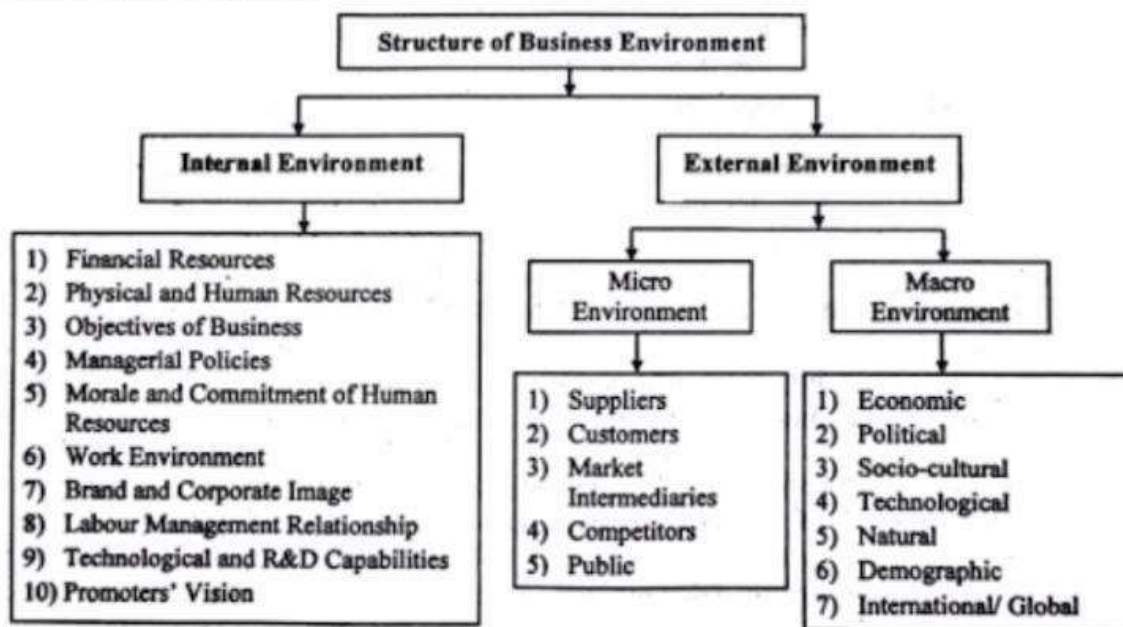
### **Introduction**

Business environment refers to those aspects of the surroundings of business enterprise, which antec influence its operations and determine its effectiveness. The business environment is always changing and is uncertain. It is because of the dynamism of the environment (ie.. ever changing nature). As it is already said that the business environment is the sum of all the factors outside the control of management of a company, the factors which are constantly changing, and they carry with them both opportunities and risks or uncertainties which can make or mark the future of business. The environment includes factors outside the firm, which can lead to opportunities or threats to the firm. Although there are many factors, the most important of these factors are socio-economic, technological, supplier, competitors and government.

Business environment encompasses all those factors that affect a company's operations, and includes customers, competitors, stakeholders, suppliers, industry trends, regulations, other government activities, social and economic factors, and technological developments.

It is very important for business firms to understand their environment and changes occurring in it. Business enterprises which know their environment and are ready to adapt to environmental changes would be successful. On the other hand, firms which fail to adapt to their environment are unlikely to survive in the long run. There are two broad components of the business environment:

- 1) Internal Environment, and
- 2) External Environment.



Internal Influences: Internal Environment

The internal environment is the environment that has a direct impact on the business. Here there are some internal factors which are generally controllable because the company has control over these factors. It can alter or modify such factors as its personnel, physical facilities, and organisation and functional means, like marketing, to suit the environment.

The important internal factors which have bearing on the strategy and other decisions of internal organisation are discussed below:

- 1) Value system: The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and the objectives of the organisation, business policies and practices.
- 2) Mission and Vision and Objectives: Vision means the ability to think about the future with imagination and wisdom. Vision is an important factor in achieving the objectives of the organisation. The mission is the medium through which the objectives are achieved.
- 3) Management Structure and Nature: The structure of the organisation also

influences the business decisions. The organisational structure like the composition of board of directors influences the decisions of business as they are internal factors. The structure and style of the organisation may delay a decision making or some other helps in making quick decisions.

4) Internal Power Relationships: The relationship among the three levels of the organisation also influences the business. The mutual coordination among those three is an important need for a business. The relationship among the people working in the three levels of the organisation should be cordial.

5) Human Resource: The human resource is the important factor for any organisation as it contributes to the strength and weakness of any organisation. The human resource in any organisation must have characteristics like skills, quality, high morale, commitment towards the work, attitude, etc. The involvement and initiative of the people in an organisation at different levels may vary from organisation to organisation. The organisational culture and overall environment have bearing on them.

6) Company Image and Brand Equity: The image of the company in the outside market has the impact on the internal environment of the company. It helps in raising the finance, making joint ventures, other alliances, expansions and acquisitions, entering sale and purchase contracts, launching new products, etc. Brand equity also helps the company in the same way.

7) Miscellaneous Factors: The other factors that contribute to the business success or failure are as follows:

i) Physical Assets and Facilities: Facilities like production capacity, technology are among the factors which influences the competitiveness of the firm. The proper working of the assets is indeed for free flow of working of the company.

ii) Research and Development: Though the R & D department is basically done in an external environment but it has a direct impact on the organisation. These aspects mainly determine the company's ability to innovate and compete.

iii) Marketing Resources: Resources like the organisation for marketing, quality of the marketing men, brand equity and distribution network have direct bearing on marketing efficiency of the company.

iv) Financial Factors: Factors like financial policies, financial positions and capital structure are also important internal environments affecting business performances, strategies and decisions.

### **External Influences: External Environment**

The external environment refers to the factors existing outside the business firm. The external factors are, by and large, beyond the control of a company. The external or environmental factors such as the economic factors, socio-cultural factors, government and legal factors, demographic factors, geo-physical factors, etc., are, therefore, generally regarded as uncontrollable factors,

As the environmental factors (external) are beyond the control of a firm, its success will depend to a very large extent on its adaptability to the environment, i.e., its ability to properly design and adjust the internal (the controllable) variables to take advantage of the opportunities and to combat the threats in the environment.

Although the term business environment is often used to refer to the external environment of business, the management of an enterprise confronts two kinds of environment, viz., the internal environment and external environment. A business decision, therefore, is often influenced by both the internal and external environment. The various elements of external environment consist of the following:

- 1) Micro Environment Indicators, and
- 2) Macro Environment Indicators.

### **Micro Environment**

"The micro environment consists of the actors in the company's immediate environment" that affect the performance of the company. These include the suppliers, marketing intermediaries, competitors, customers, and publics. "The macro environment consists of the larger societal forces that affect all the actors

in the company's micro environment namely, the demographic, economic, natural, technological, political and cultural forces."

It is quite obvious that the micro environmental factors are more intimately linked with the company than the macro factors. The micro forces need not necessarily affect all the firms in a particular industry in the same way. Some of the micro factors may be particular to a firm. For example, a firm, which depends on a supplier, may have a supplier environment, which is entirely different from that of a firm whose supply source is different.

When competing firms in an industry have the same microelements, the relative success of the firms depends on their relative effectiveness in dealing with these elements:

1) Customers. The prime task for any business is to attract and retain customers. This is to ensure their own long-term profitability and existence in the market. It therefore follows that the need and the desire of the customer should be monitored minutely to ensure customer delight, which will lead to the firm having an increasing number of loyal customers. Changing tastes and preferences of the customer should not only be observed as they happen, but forecasted before, and necessary corrections should be made in the product/service profile by the company. Customers are the backbone of a company and the very reason for the company's existence. They are the people who pay money in return for products or services that any company offers. Customers are the focal point of all business activities. Since it follows that any organisation cannot afford to neglect customer interests, they automatically become major forces of the environment. If any company chooses to ignore the customers even temporarily, they will definitely face harsh repercussions. Their entity may also cease to exist.

2) Suppliers: An important factor in the micro environment is the supplier, i.e., those who supply raw materials and components and machines to the company. The suppliers should be reliable and act as business partners, working in coordination to fulfil the ultimate consumer expectations. If the suppliers are reliable, there is no need to keep heavy inventory stocks that increases the risk of obsolescence and damage and also blocks the working capital of the company.

3) **Marketing Intermediaries:** These are the middlemen who form part of the distribution channel and those who help reach the product/service to the ultimate consumer. They can be few or many in number, depending on the length of the distribution chain and the type of distribution system that the company adopts. If this chain is hassle free and functions without many hurdles, it eventually helps the organisation. On the other hand, if this is not true, then the company spends much time, money and energy on solving the problems relating to the marketing intermediaries.

4) **Competitors:** There are other business entities that manufacture similar products and compete with a company for market share and turnover. These have to be managed well and market intelligence is required to find out about their future plans. These can play a major role in making or marring the fortunes of any company.

5) **General Public:** These refer to the immediate physical environment of any organisation. People, who live around an office or a factory area, exert considerable influence with regard to disposal mechanisms of waste, production practices employed, noise pollution generated, nuisance value created, etc. These people cannot be ignored or else they may also go as far as getting the business closed down.

### **Macro Environment**

The macro forces are more uncontrollable than the micro forces. The important macro environmental forces are as follows:

#### Macro Environment

- Political Environment
- Cultural Environment
- Legal Environment
- Economic Environment

wages and prices, employment opportunities, safety and health at work, location, what the plant can emit into the air, how much noise the product can make and other similar matters. These laws and regulations affect the day-to-day operation of business.

Companies also have to take into consideration the probability of grant of justice and the speed at which the justice is likely to be delivered to the complainant party. The strength of the judiciary varies from country to country. All these factors affect the security of the investment made in a country and thus influence the decision to undertake business in that country. The legal provisions also impact the nature of business organisation that a company would like to establish in a country.

4) **Economic Environment:** Economic Environment is the economic factors that have effects on the working of the business. It includes the system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth. It is very dynamic and complex in nature and does not remain the same. Naturally, the dependence of business on the economic environment is total and is not surprising because, as it is rightly said, business is one unit of the total economy.

The economic conditions of a country include the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, etc. The economic policy of the government, needless to say, has a very great impact on business. Some types of categories of business are favourable affected by government policy, some adversely affected, while it is neutral in respect of others.

5) **Social Environment:** Social environment of business means all factors which affect business socially. It can be integral to its success or failure. Social environment refers to the nature of social organisation and development of social institutions like caste, religion, customs, and socio-economic factors like class structure, social mobility, women employment etc.

Values refer to concepts that a society holds in high esteem. In India, individual freedom, social justice, equality of opportunity and national integration are examples of major values cherished by all of us. In business terms, these values

translate into freedom of choice in the market, business' responsibility towards the society and non-discriminatory employment practices. Social trends present various opportunities and threats to business enterprises.

6) Demographic Environment: Demography refers to study of the population that constitutes population size, growth rate of population, age, composition of the population, economic stratification of the population, education levels, caste, religion, race, income, asset ownership, home ownership, employment status and location. These factors are relevant to the business for formulating and implementing a strategy for controlling and accomplishment of the objectives of the organisation.

Rise in population with income leads to more demand for goods and services. A rapidly increasing population indicates a growing demand for many products. Huge population size also indicates cheap labour and abundant labour supply. Age composition and sex composition are also important elements of demographic environment. Age composition refers to the proportion of different age group persons in the population. Sex composition refers to ratio of female and male in the population. Economic stratification of population refers to classification of population on the basis of their income level: like-upper income class (rich), middle income class, and lower income class (poor). Business units dealing in consumer goods have to consider these factors.

7) Technological Environment: Technology is knowledge of methods to perform certain tasks or solve problems pertaining to products or services. The information on product design, production techniques, quality assurance measures, human resource development and management systems form the basic elements of technology continuum. Science and technology enabled man to conquer distances; control birth rate; save lives; generate, preserve and distribute energy; discover new materials and substitutes to existing ones; introduce machines to do the work of human beings; substitute mental work with computers; probe deep into the seas and space in search of new treasures; provide himself with lot of leisure and comfort ad infinitum.

Technology can be defined as all the knowledge, products, processes, tools, methods, and systems employed in the creation of goods or in providing services. In simple terms, technology is the way we do things. It is the means by

## Forms of Enterprises

Six forms of enterprises that you can start in India are:

1. Sole Proprietorship
2. Partnership Firm
3. Company
4. Limited Liability Partnership
5. One-person Company
6. Small Companies

### 1. Sole Proprietorship:

This is the simplest and easiest way to get started. Just decide on a name and start using it. A sole proprietorship is not restricted from employing people, acquiring assets, registering intellectual property, or opening a bank account. There is no paperwork necessary to indicate formation of the venture. It requires very little by way of documentation and legal compliances. The problem is that this structure is not conducive to growth.

A sole proprietorship implies a one-man show and in case more partners are taken on to fastens growth, the structure of the firm has to be changed to a partnership firm or a company. Lenders are also unwilling to lend as the business is in the hands of one individual and so, the risk is high. In case of liabilities arising from the conduct of the business, the losses have to be covered by the personal assets of the proprietor. The liability of the proprietor to pay off all creditors is unlimited.

### 2. Partnership Firm:

Two or more people can come together to form a partnership firm. It is required to draft a partnership deed, which is signed by all the partners indicating the formation of the partnership.

This deed must clearly specify the name of the firm, the names of the partners, the capital contributed by each partner (currently and in the future), the ratio of sharing profit or loss between partners, the business of the partnership, the duties, rights, powers and obligations of each partner, and other relevant details. One of the partners can also be designated the managing partner. Particulars of salaries and other payments to the partners can also be mentioned in the deed.

The advantage of the partnership firm is that two or more people can come together to start a business and the regulatory and disclosure norms are relatively simple. The main disadvantage is that even in this form of business, the partners' liability to pay off creditors is unlimited.

### 3. Company:

The legal status of a company is different from that of its members. The risk that any person takes by investing personal money in a company is restricted to the amount of his/her investment. The creditors and lenders of company cannot force the member to pay debts due to them by the company out of the member's personal funds.

A company may either be a private limited company or may be formed as a public limited company. The members of the company appoint directors who are responsible for the management of the company. The directors are collectively known as the Board of Directors.

A private limited company can be formed with a minimum of two members and a public company may be formed with a minimum of seven members. A private limited company can have a maximum of 50 members excluding employee-members; whereas there is no maximum limit on the number of members of a public company.

The memorandum of association and the articles of association have to be filed with the Registrar of Companies in order to incorporate a company. The memorandum of association is the charter of the company and specifies the name of the company, the business and activities it can carry, its address, the capital of the company, and details of the persons who have formed the company. The articles of association of the company specify the rules and regulations of the company, the rights, duties, and liabilities of the members and directors.

One may start with a private limited company and later on, when the number of members increases up to 50, the company may be converted into a public company by suitable amendments in the memorandum and articles of association of the company.

The major advantage of a company set-up is that the liability of the members is restricted to the extent of the member's investment in the company; his/her personal property is not put at risk. The company form of organization is most suitable for modern times because it provides a route whereby ownership (members) can be separated from management (directors).

Though members can become directors, it is not always necessary. Even outsiders can be appointed as directors. The funding may be provided by the investor-members and the management may be in the hands of the promoter-members. If required, the investor-members may be appointed as directors.

### 4. Limited Liability Partnership:

This is a concept new to India and it was introduced on the recommendations of the J.J. Irani Committee. The unlimited liability of partners is the main reason why partnership firms have not been able to grow in size to be internationally competitive. The Limited Liability Partnership (LLP) has the benefits of limited liability but the members of the partnership have the flexibility to structure their organization as in a traditional partnership.

In an LLP, the LLP as an entity is liable for the full extent of its assets but the liability of individual partners is limited. So, now personal assets of partners are protected from liability arising from wrong decisions of other partners or employees not under their direct supervision.

The assets of a partner cannot be attached to pay the liabilities of arising from the conduct of business in an LLP. However, one important distinction from a company is that the liability of a 'negligent' partner continues to remain unlimited. The definition of a 'negligent' partner is sure to be much debated. Any new or existing firm of two or more persons can form an LLP.

The J.J. Irani Committee report recommends two more forms that will be of significance to entrepreneurial ventures. These recommendations have not yet been implemented as of now, but are likely to be implemented in the near future.

### **5. One-person Company:**

The concept of a one-person company (OPC) will encourage corporatization of entrepreneurial ventures. It is recommended that the OPC be registered as a private company with one member and at least one director. To distinguish it from other companies, the suffix OPC can be used.

### **6. Small Companies:**

Very demanding statutory requirements and an imposing fee structure discourage small companies from incorporation. The J.J. Irani Committee recommended that a framework should be developed to encourage growth of small corporate entities. It should enable them to achieve transparency at a low cost through simplified statutory and audit requirements and a reasonable fee structure.

**Interaction and Linkages of Business with Government and Civil Society**

The interaction of government, business and civil society with balance and harmony and without abuse of power is a state of social justice. The following figure helps to understand the interactions of these three primary sectors and therefore guides to a more clear understanding of the role of CSR:



Figure

This figure presents the three sectors of modern society as dynamic forces that can tend towards social justice or, when they forget to use their powers as responsible fiduciary stewardship, towards conditions of injustice. When the government oversteps the line and comes to abuse its powers, their tyranny and corruption begin. When business oversteps that same line of unthinking concern for others, negative externalities are imposed on other parts of society, including of course the environment. When NGOs fail to meet the standards of responsible conduct, social capital erodes, undermining both good governance and responsible business practices.

The above figure presents an ecosystem of interactions. Movements within each separate sector play off conditions and changes in the other sectors and, reciprocally, can set off changes in the other sectors. The ecosystem could be in equilibrium, or it could be in a dynamic process of change as flows of innovation move from one sector to the others and, then modified by other parts of the larger system, back into the sector of origin.

### **Role of Government towards Business**

As the business has to discharge certain responsibilities towards the government, similarly the government has to discharge several responsibilities towards the business. Government is the most powerful and sovereign authority in the country. It can do or undo anything. The government can use that power to regulate and to stimulate business. In particular the responsibilities of the government towards business in India can be described as follows:

1) To Pass and Execute Proper Laws: The behaviour of the people in society can be effectively controlled with the help of laws. The government has to pass laws which would create a friendly and helpful atmosphere for the business to grow. At the same time the laws should be capable of controlling the dishonest businessmen and prevent and punish their unfair practices.

In India the government has passed several laws such as Companies Regulation Act, The factory Act, The labour Laws, the social security laws, the foreign exchange management act etc. Though passing of proper laws is important, an efficient implementation of the law is more important. If a good law is implemented in a bad way it produces harmful effects. It encourages dishonesty on the part of the people.

2) Maintenance of Law and Order: It is the responsibility of the government to maintain law and order and peace in the community. Any business can exist and prosper if there is law and order in the country. Periods of disturbance are harmful to the existence of business and much more to the progress of the business. The government has to maintain law and order for attracting foreign investment.

3) Providing Money and Credit: Every business requires credit. It is like blood circulation in the body of the economy. Finance is provided to business by the money market and the capital market. The government has to regulate them in such a way that they are able to attract more capital and direct it to the business. It is the responsibility of the government to maintain the financial institutions in sound health so that they can mobilise more finances. The government, through the central bank of the country has to maintain a stable and appropriate rate of exchange which is helpful in attracting more foreign investment.

4) Building Infrastructure: All productive activities require infrastructure by way of

means of transport & communications, supply of energy and credit, providing appropriate information about the openings for different businesses etc. If the government is successful in building efficient infrastructure, business can expand at a fast rate.

5) Research: Innovation is the watchword of modern business. Introduction of proper innovations at proper time requires extensive research. It is of 2 types:

i) Basic Research: Basic research is not profit oriented, hence it is the responsibility of the government to conduct it and provide foundation for the commercial research.

ii) Commercial Research: Commercial research is profit oriented; the business undertakes commercial research by using the basic research as the foundation. The government can give incentive to commercial research by providing fiscal concessions and monetary incentives.

6) Providing Information: The government collects information on several issues such as the growth of population, changes in the demographic features, trends in migration etc. This information is highly useful to business in formulating its policies. The government can keep that information open to business.

7) Controlling the Growth of Monopolies and Preserving Competition: A free market economy has an inherent tendency to give birth to monopolies. They are economically and socially harmful. They result in concentration of economic and political power. They are also instrumental in increasing inequalities. The government can pass appropriate laws and can take timely action for preventing the growth of monopolies and encouraging competition.

8) Reservation of Fields of Production: The government reserves certain fields of production for the public sector. The remaining part is kept open to the private sector. In India several fields of production were reserved for the small scale and cottage industries. The sphere was contracted after we adopted the policy of globalisation.

9) Awarding Patent Rights and CopyRights: Progress in any field requires research inventions and innovations. The job of patent rights and copyrights is to give protection to those who invest in research and arrive at inventions and

## **Introduction**

Industrialization or industrial development is the process of social and economic change whereby a human group is transformed from a pre-industrial society into

an industrial one. It is a part of a wider modernization process, where social change and economic development are closely related with technological innovation, particularly with the development of large-scale energy and metallurgy production.

Industrialization also introduces a form of philosophical change where people obtain a different attitude towards their perception of nature and a sociological process of ubiquitous rationalization. The industrial sector plays a vital role in economic development.

Industries in India are seeing major changes as these are undergoing both expansions as well as diversification of products. New technologies along with modern management techniques have been introduced for growth.

The sector of agriculture has seen significant growth between the periods of 1950-2000. The index of agriculture production has increased to more than four folds during that period. Production of wheat has gone to 75 million tonnes from just 11 tonnes. Also, rice production has increased from 35 to 89.5 million tonnes. This has not only fulfilled an indigenous food requirement but also given a chance to export food products.

All this has led to the expansion and economic growth in India. With this, very impressive growth has been witnessed in GNP. This has further led to the growth in India's per capita net national product.

Some important features of industrialization are as follows:

- 1) It is a continuous flow line production.
- 2) It is a standardised production.
- 3) Industrialization is planned and mechanized production
- 4) It includes the creation of scale economies at the farm level. 5)

Industrialization is based on new sources of power.

### **Consequences of Industrialisation**

The various consequences of industrialization on the Indian economy and business are given below:

**1) Raising Income:** The first role of industrialization is that it provides a secure basis for the rapid growth of income. The empirical evidence suggests a close correspondence between the high level of income and industrial development.

**2) Changing the Structure of the Economy:** In order to develop the economy, underdeveloped countries need structural change through industrialization. History shows that in the process of becoming a developed economy the share of the industrial sector should rise and that of the agricultural sector decline. This is only

possible through deliberate industrialization.

**3) Meeting High-Income Demands:** Beyond certain limits, the demands of the people are usually for industrial products alone. After having met the needs of food, the income of the people is spent mostly on manufactured goods. This means the income-elasticity of demand for manufactured goods is high and that of agricultural products is low. To meet these demands and increase the economy's output underdeveloped countries need industrialization.

**4) Overcoming Deterioration in the Terms of Trade:** Underdeveloped countries like India need industrialization to free themselves from the adverse effects of fluctuations in the prices of primary products and deterioration in their terms of trade. Such countries mainly export primary products and import manufactured goods. The prices of primary products have been falling or are stable whereas the prices of manufactured products have been rising. This led to a deterioration in the terms of trade of the LDCs.

**5) Absorbing Surplus Labour (Employment Generation):** Underdeveloped countries like India are characterised by surplus labour and rapidly growing population. To absorb all the surplus labour it is essential to industrialise the country rapidly. It is the establishment of industries alone that can generate employment opportunities on an accelerated rate.

**6) Bringing Technological Progress:** Research and Development are associated with the process of industrialisation. The development of industries producing capital goods i.e., machines, equipment etc., enables a country to produce a variety of goods in large quantities and at low costs, make for technological progress and change in the outlook of the people.

**7) Strengthening the Economy:** Industrialisation of the country can provide the necessary elements for strengthening the economy. In this regard, the following points may be noted.

**i)** Industrialisation makes possible the production of goods like railways, dams, etc. which cannot be imported. These economic infrastructures are essential for the future growth of the economy.

**ii)** It is through the establishment of industries that one can impart elasticity to the system and overcome the historically given position of a primary producing country. Thus, with industrialisation, we can change the comparative advantage of the country to suit its resources and potentialities of manpower.

**iii)** Through industrialisation, the requirements for the development of agriculture can be met. **For example**, improved farm-implements, chemical fertilisers, storage and transport facilities, etc., appropriate to our own conditions can be adequately provided only by our own industries.

iv) The industrial development imparts to an economy dynamic element in the form of rapid growth and a diversified economic structure which make it a progressive economy.

v) Industrialisation is needed to provide for the country's security. This consideration becomes all the more critical when some international crisis develops. In such a situation, the dependence of foreign sources for defence materials is a risky affair. It is only through industrial development in a big way that the national objective of self-reliance in defence materials can be achieved.

## IT SYSTEM OF INDUSTRIALISATION

### Introduction

The growth in Information Technology (IT) industry is perhaps the fastest of all that within a span of a decade or so it has become a multi-billion dollar industry. There are small and big players in this industry, each one is trying to carve a niche for itself. How marketing is of help in such organisations, the unit relates to the same.

There has been a recent spurt, both globally as well as in India, in the use, demand and implementation of Information Technology (IT). This new technology, which has found its uses in industry, offices and homes, is seen to be a multi-billion dollar industry in the years to come. What had started in the 1970s as essential hardware or computer-oriented industry has now become a multi-dimensional force with an increasing influence on the quality of life.

**Information Technique Services or Information Technology Enabled Services** are defined as "outsourcing of processes that can be enabled with information technology and covers diverse areas like finance, HR, administration, health care, telecommunication, manufacturing etc".

Armed with technology and manpower, these services are provided from e-enabled locations. This radically reduces costs and improves service standards. In short, this Internet service provider aims to provide B2B eCommerce solutions.

The IT industry is moving in the direction of Industrialisation. More and more outsourcing solutions are becoming less bespoke and providers are offering more standardised 'plug and play' solutions. Industrialisation is reconstituting the design, sales, contraction and provision of IT services. Industrialisation is the standardisation of IT services through pre-designed and pre-configured solutions that are highly automated and repeatable, scalable and reliable and meet the needs of many organizations.

Business-critical and life-critical IT services cannot move forward if they continue to be produced in the artisan style to which the industry has become accustomed - high failure rates for IT projects, the inflexibility of suppliers, high rate of renegotiation of contracts and an absence of structured IT delivery have all been common end-user complaints in recent times. Industrialisation will force standards whereby such complaints could and should be eradicated.

### **Nature of IT Industry Services**

The following points describe the nature of IT industry services:

- 1) High Economies of Scale:** Economies of scale for the information technology services are high. The marginal cost of each unit of additional software or hardware is insignificant compared to the value addition that results from it.
- 2) Knowledge-Based:** Unlike other common industries, the IT services are knowledge-based.
- 3) Skilled Labour Forces:** IT services have skilled labour. Efficient utilisation of skilled labour forces in the IT sector can help an economy achieve a rapid pace of economic growth.

**4) Helps in Growth:** The IT industry helps many other sectors in the growth process of the economy including the services and manufacturing sectors.

**5) Acts as the Business Processes:** Information Technology services, depending on the situation can also act as the business processes and the different services performed or provided from a location different from that of their users or the beneficiaries and are then delivered with the help of the information technology

over the telecom networks.

**6) Inherently Ubiquitous:** Moreover, most information technology services are inherently ubiquitous. The use of service is independent of time and space. Thus, production and consumption of service can be described as spatiotemporally separated, especially in terms of human labour involved.

**7) Eliminate Human Labour:** IT-enabled services eliminate human labour from direct co-creation of value. This has a two-faceted effect. On one hand, customers receive predictable, reliable, and consistent outcomes from the service. On the other hand, the supplier organisation has no direct, active way to co-create value

### Linkages between Agriculture and Industry

These two sectors are not competitive but are complementary to each other. The futures of agriculture and industry are closely linked with each other in the sense that expansion in agriculture depends on the supply of industrial inputs and the expansion in industry is tied up with the development of the agricultural activity.

Industry will not progress unless agriculture is sound, stable, and progressive. Because of this interdependence these sectors are complementary, and not competitive. In the development of an underdeveloped economy, there is as such no conflict between agricultural and industrial development.

The three most important linkages are : production linkages, demand linkages, and saving-investment linkages.

**Production linkages** arise from the interdependence between agriculture and industry through the use of productive inputs. Agriculture draws some raw materials, like chemical fertilisers, pesticides, electric power, agricultural machinery and implements, etc., from the industry. Agriculture is also dependent on industry for the supply of materials for building up social and economic overheads in the agricultural sector.

Further, many raw materials and inputs used in industrial production, e.g., cotton, jute, sugarcane, tobacco, etc., is supplied by the agricultural sector. Such production linkages demonstrate that a 10 p.c increase in agricultural output results in an increase in industrial output by as much as 5 p.c

**Demand linkages** between the two sectors suggest that demand for one sector's product pulls demand for another sector in an upward direction. Urbanisation and industrialisation are synonymous. Under the impact of Green Revolution, agriculturists now experience rising rural incomes which has brought a change in the pattern of tastes and preferences of rural people. Increased rural income has resulted in an entry of industrial consumer goods, like TV, refrigerator, modem, car, footwear, refined sugar, edible oils, motorbikes, etc.

The impact of rising urban incomes and industrialisation has a favorable impact on the demand for food, vegetables, fruits, various raw materials produced in the agricultural sector. It has been an article of faith in India that the demand stimulus for industrial expansion would likely come mainly from agriculture with low social and economic costs.

**Savings-investment:** A self-reliant agriculture capable of exporting surplus food-grains helps in saving scarce foreign exchange resources of the country. Now these resources can be better utilised for importing capital goods and crucial raw materials needed for industrialisation effort.

As agricultural production and productivity rises, marketable surplus increases which leads to rural industrialisation. Again, the rising volume of savings and capital formation consequent upon rising farm incomes give strong stimulus to demand for manufactured goods. Investment in one sector pulls investment of other sectors up thereby accelerating overall growth rate of the economy.

The rise in non-farm incomes leads to an increase in the demand for various agricultural products. In the process, agricultural sector becomes diversified, modernised. Most importantly, the relative terms of trade between the two sectors affect the flow of resources from one to another sector. Terms of trade will improve for agricultural sector if over a period of time the prices of agricultural commodities move at a higher rate than the prices of manufactured articles. Thus, the terms of trade favouring agriculture results in an increased real income and hence, increased private saving and investment. The relative terms of trade also influence government saving and investment in these two sectors.

### **Dependence of agriculture on industry**

- a) It regularly supplies scientific tools and equipment's like tractors, harvesters, pump-sets chemical fertilizers etc. to agriculture increase the per hectare production.
- b) To increase the market for finished agricultural goods some infrastructural development like roads, railway, storage etc. are very essential. In this connection industry plays a vital role.
- c) Industries provide huge employment opportunities and therefore help to absorb all the surplus labour of agriculture.
- d) Agriculture sector also dependent on industry for different types of consumer goods like bi-cycle, torch, radio etc.

## Module3

# EVOLUTION OF BUSINESS & INDUSTRY IN INDIA

## INDIAN SOCIETY

### Introduction

**Society** is a condition of those living in companionship with others or in a community rather than in isolation. It is a group of people related to each other on the basis of certain factors such as social status, roles, and social networks.

The Indian society is composed of various **ethno-lingual groups**, which are further divided into religious communities and caste groupings. With the process of modernization, the rigid boundaries defining the extent of social groupings tend to lose their rigidity and in due course are supplemented by secondary groupings. But this new line of organization does not altogether eliminate the impact of primary associations based on social variables. It is here that the political institutions become important agencies for maintaining order, resolving! differences and disputes, selecting leaders, and promoting unity among the heterogeneous social groups. In a simple society where the masses are organized along a simple social variable, there is little need for advanced political institutions in view of the stability of the political system. However, in complex societies where the social forces are divided along a number of primary associations, the stability of the political system largely depends on the nature of political institutions. It is through the latter that the social forces attain a working equation in which different social groups can exist together.

Indian society is composed of different castes, some of which are scheduled in the Indian Constitution. The rich and powerful section of Indian society deprived them of their due for a very long period in the past. India is inhabited by a large number of tribal people who have yet to join the mainstream of society. Modern culture has not made inroads among the tribes. These have also been given a privilege in terms of reservation of seats for entering into the civil services. Then there are people known as OBC, or other backward castes, a

section of society who have for one or other reasons not shared the fruits of development.

Traditionally, Indian society is organized by caste (or Varna), a system thought to have been introduced some 3,000 years ago by Aryan invaders. Although caste is strongly linked to the Hindu religion, it impacts the whole of society irrespective of religion. In India, caste pervades Islam, Buddhism, Sikhism, and Christianity. It is a socio-religious phenomenon that is embedded in Indian culture, and although caste tends to have broken down to an extent in the cities (or Urban areas), it is particularly strong in the rural areas where most of the population live. Indian society is divided into different classes as per the level of income they generate.

India offers astounding variety in virtually every aspect of social life. Diversities of ethnic, linguistic, regional, economic, religious, class, and caste groups' cross-cut Indian society, which is also permeated with immense urban-rural differences and gender distinctions. Differences between north India and south India are particularly significant, especially in systems of kinship and marriage. Indian society is multifaceted to an extent perhaps unknown in any other of the world's great civilizations it is more like an area as varied as Europe than any other single nation-state. Adding further variety to contemporary Indian culture are rapidly occurring changes affecting various regions and socioeconomic groups in disparate ways. Yet, amid the complexities of Indian life, widely accepted cultural themes enhance social harmony and order.

### **Salient Features of Indian Society**

Salient features of Indian society are:

- Geographical Unity
- Culture
- Religious
- Politics
- Varieties of Races

**1) Geographical Unity:** India is a rich land having a definite territory of its own,

like any other nation in the world. The geographical unity of India is a matter of strange observation of the Europeans living in small regions having similar cultural identification. India, i.e., 'Bharatvarsha' reflects a historical significance and is the symbol of unity. From the early times till today every religious thinker, political philosopher, and poet, has a deep admiration for this great country spreading from the Himalayas in the north to the 'Cape Cameron' in the south as a single expanse of Indian culture and civilization.

**2) Culture:** In spite of many differences between customs and traditions, one finds a fundamental cultural unity in India. The mark of this unity can be found in the literature from an early age. The approach to literature, traditions, and customs and philosophy is fundamentally Indian in its sentiment. A clear cultural unity is found among the people though they practice different religious rites, and have different social intercourse. Cultural unity is a force behind all the group activities. There exists no group which does not accept the nature of family and sanctity of Sanskaras. Not only this, but many of the festivals are celebrated throughout the country in the same manner which reflects the bond of unity existing among the people belonging to different sects. Behind all the group expressions and sectional activities, there lies the bond of cultural unity.

**3) Religious:** The Hindus, Muslims, Christians, Sikhs, Parsees, Buddhists and other religious communities live in this country. In spite of this diversity in religious belief, every Indian does not find his religious view apart from others. Each religion in India exhibits one single feeling, each belief in the immortality of the soul, the temporary existence of this physical world. Nirvana, and contemplation and this are all the ideas falling within the lap of religions in India. Though all religions take different ways to accomplish their objectives which is the same, for all and every religion embodies faith in invisible God, purity of thought, benevolence, and pity as the true characteristics of every individual. This inculcates the feeling of unity and patriotism among the Indian people.

**4) Politics:** Political unity in the country is an outcome of the religious and cultural unity that has been prevalent since the time immemorial. History has facts in its store to provide that in early days many princes and kings rebelled against the central authority, but every rebel realized the importance of the universal overlordship (i.e., Chakravarti), and such incidents are automatically proved by the Vedic literatures in which kings had tried to become universal overlords (Chakravarti) by conquering more and more territory.

**5) Varieties of Races:** Many different races have invaded India from the very early days and noteworthy among these are Aryans, Shaka, Huns, etc., but Indian soil absorbed all their racial dissimilarity and they all became Indians and now if anyone attempts to sort out these invading races, they will find nothing. Indian social system provided them a big place of cover and solace and as the time passed these different tribes and races established a concrete physical identification with the local culture and civilization after the fall of Mauryan Empire, so many races came to India but, when Muslims arrived they faced only one race, i.e. the Hindus and it proves that the early races of Negros, Dravidians, Aryans, the Mongols, the Greeks, the Yuchi, Shaka, Aabhir, the Turks, the Huns had been absolutely assimilated into the four varnas of the Indian social system.

Indian culture is an amalgamation of various foreign social cultures that came in the country from time to time. Aryans are hailed for bringing unity in the Indian culture.

### Values in Indian Society

Indian society is the hallmark of various epical traits and values. They are very essential. These values existed since the advent of Aryans. These values continued unaffected till the arrival of the Westernisation effect. Such values are called traditions. The main values in the Indian social system are as follows:

**1) Dharma:** It is a comprehensive doctrine of the duties and rights of an individual in an ideal society. There is Dharma for each group namely, Varna Dharmas, Jati Dharma, Kula Dharma, etc. There is also the concept of Sadharana Dharma, i.e., Dharma which is common to all individuals belonging to the various groups. Each authority gives its own list of the Sadharana Dharmas but the ideal common to all these lists are virtues like truth, non-violence, self-control, and compassion.

**2) Renunciation:** Another important social value is 'Renunciation'. It is known as Vairagya. Wealth and material gains are subordinate to virtue or Dharma in Indian culture. A householder pursues wealth (Artha) and pleasure (Karma) while, at the same time laying due emphasis on virtue (Dharma), but in order to reach the final stage of development, in his pursuit of fourth purushartha (moksha), a man should be ready to disassociate himself with all his worldly possessions.

**3) Karma:** Karma lays down an individual's responsibility for his deed and action. Its interpretation concerns the past life, punarjanma. According to it, one's present condition of life is assumed on his deed in the previous life and, deeds in the past. In this sense, the doctrine of Karma has anti-social implications since it ignores the present social forces around the individual and his a predicament.

**4) Social Hierarchy:** As early as from the times of Dharma Sutras, the Indian society has always made a difference between higher groups and lower groups. The caste system is an example of such a social hierarchy.

**5) Tolerance:** It is in every walk of life is considered one of the greatest values. It is a fundamental postulate of Indian philosophy that each and every kind of life contributes to the welfare of the people in its own way. There is no attempt to make another person to conform to one's own ways of thinking and way of living.

**6) Ahimsa:** The Indian child of any caste or community is brought up to respect life and not to use violence, verbal or physical, towards other human beings at home and outside. He is also taught to respect life in every form. Even today one can see people putting a handful of broken rice or wheat wherever there are ant holes. Though the monkeys, birds, rats, and insects consume or destroy more than 10 percent of agricultural products, the Indian does not kill them. Harmony: Indian society, in spite of diversified factors, presents a harmony in every walk of life and in various social groups living in various villages and cities. Family is the place where all the members live in harmony. This harmony has been the cause of the survival of the joint families in our country.

**8) Familism:** Feeling of kinship and kin's obligation is very strong in the Indian family. It is expected by everyone that his kins would help him in need and it is thought guilty of a rich member of the family who fails to help the needy member of his family. The kinship ties are very wide extending not only to all members of the joint family but also to the other relatives and members of the same caste.

**9) Respect for Elders:** Respecting one's elders is another Sadharana Dharma of every individual in Indian society. In such a society almost all knowledge was derived through informed communication and personal experience. As a result, the older people were looked upon as the repositories of knowledge. But, with modern formal education with the introduction of new sources of knowledge like books, newspapers, the radio and television, the greater knowledge and ability of elders cannot remain unchallenged.

**10) Nishkama Karma:** In the Brihadaranyaka Upanishad, it was emphasized that man is compelled by the desire to do something. As a result, it is a desire that makes a man interested in doing something, and this acts as the main force behind the action or deed. So Indian culture has always stressed that one should not be attached to the results of action and that one should not be moved by desire when one is doing something.

**11) Personality and Individuality:** Caste surpasses the personality of an individual. The personality of an individual, in our society, much depends upon the place of his caste in the social hierarchy. Every man must express, by way of his life, the ideals of the Ashrama through which he is passing and must show the expected degree of development. From this point of view, in Indian society, the role is more important than the individual

### **Structure of Indian Society**

Understanding Indian social structure is necessary because it explains the relations of people with each other in society. It tells what kind of social institutions exist in society and how they got modified over a period of time. The evolution of Indian social structure through the ages and the shape it took today is discussed below:

**1) Tribes:** Tribe is one of the earliest identifiable ethnic cum social organizations. A fairly good number of tribes such as Munda, Ho, Oraon, Bhil, Gaddi, Santhal, Kol, Kandh, Khasi, Garo, Mizo, Naga exist in different parts of India. These have been clubbed together in a group in a schedule of the Constitution of India and are known as the Scheduled Tribes. The pertinent question here is - Who is a tribal, and what differentiates a tribe from other groups based on caste or varna? The answer to this lies in the functioning of the institution. One can identify a tribe by the following features:

- i) All members are related to each other by blood.
- ii) All members are equal in status.
- iii) All members believe that they have descended from a common ancestor.
- iv) All members have equal access to the resources.

v) The sense of private property is the least visible.

vi) Social differentiation exists only on the basis of age and sex.

Tribes are very often made up of more than one clan. A clan is an exogamous institution whereas a tribe is endogamous.

Such tribes existed during the Vedic period. The Bharatas, Yadus, Turvasas, Druhyus, Purus, and Anus were some of the prominent tribes. The head of the tribe was known as Raja or King who was first among the equals. The major differentiation existed between people on the basis of 'varna' or color. Thus, the people who did not belong to the Vedic tribes were termed as *data varna*. They are said to have had an alien language, a dark complexion, and worshipped different gods.

**2) Varna System:** This initial differentiation later developed into a complex '**varna system**', which in place of the Tribe had divided society into **Brahmana**, **Kshatriya**, **Vaishya**, and **Shudra** categories. These categories emerged principally because of frequent inter-tribal and intra-tribal wars, subjugation of the vanquished, appropriation of loot by the war-leaders, and unequal distribution of wealth.

The members of the **Brahman** 'varna' usually functioned as priests. The **Kshatriyas** were associated with the political functions, the Vaishyas were mostly agriculturists and the Shudras were the servile class. The first two 'varnas' exploited the most numerous and productive Vaishya varna, whereas the three in unison exploited the Shudras. The three higher 'varnas' were also entitled to the sacred (upanayana) thread ceremony and were known as 'dvijas' (twice-born).

Many changes took place in the economy during the **post-Vedic** period. These changes needed new ideological support which came in the form of numerous unorthodox religious movements such as Buddhism which ridiculed the Hindu social system. But Buddhism could not negate the caste system completely. The Kshatriyas were considered the highest 'varna' in the social hierarchy as seen by the Buddhists. The Vaishyas who were exploited under Brahmanism became members of these religions in large numbers in order to gain respectability. However, there was no caste hierarchy within the Buddhist and Jain monastic communities. "Varna/Jati" system underwent further changes when new groups such as the Shakas, Kushanas, Parthians, and Indo-Greeks people arrived in India. The economy was also undergoing changes.

**3) Caste System:** Growth of urbanization, craft production, and trade resulted in the rise of guilds or 'shreni' which in later times became castes. The behavior of guild members was controlled through a guild court. Customarily the guild (shreni-dharma) had the power of law. These guilds could act as bankers, financiers, and trustees as well. Generally, these functions were carried out by a different category of merchants known as the "shreshthins" (present day Seths of North India and the Chettis and Chettiyars of South India). Thus, the period between 500 BC and 500 AD saw the crystallization of the caste system. The number of castes increased manifold because of the growth of a number of crafts, arrival of new elements in the population, inter-caste marriages (anuloma and pratiloma), and inclusion of many tribes into caste hierarchy. The Dharmashastras and the Smritis tried to fix the duties of each caste. The relations between castes were generally governed by the rules of endogamy, commensurability, and craft-exclusiveness.

Between the **fifth and seventh centuries**, further changes occurred in the varna/caste organization. The creation of landlords through land grants resulted in the transformation of Vaishyas into servile peasants. Large numbers of tribal cultivators were enrolled as Shudras. Consequently, the Shudras now emerged as farmers like the Vaishyas. Now, the Vaishyas and Shudras were lumped together. However, in regions other than the Ganga basin, the caste system took a different shape. In Bengal, South India, and other border areas mainly two castes emerged, i.e., the Brahmanas and the Shudras. The Rajputs emerged as a significant factor in the society of Northern India from the seventh century onwards. In this period the caste system became so entrenched in the psyche of the people that even the plants were divided on the basis of the varna/caste system. One text prescribes varying sizes of houses according to the varnas.

An important development during medieval times, particularly in South India, was the division of the Shudras into 'pure' (sat) and 'impure' (asat) categories. Also typical of the south were the so-called 'lefthand' (idangai) and 'right-hand' (velangai) castes. Manu noted 61 castes whereas a later text counted hundreds of mixed castes (varnasankara). Other than the Rajputs, another caste that developed during this period was the Kayastha. The Kayasthas were traditionally scribes who got transformed into a separate caste as all types of scribes got clubbed together to form one endogamous group. Very often a large number of these castes claim origin from highly respected ancestors and explain their current lower status in terms of economic or other factors. The Khatri, an

important caste in Northern India, claim that they were of Kshatriya origin but took to commerce, which brought them the contempt of their caste fellows and they had to accept Vaishya status. The Gujarat, Jats, and Ahirs all claim Kshatriya origin, the status they came to lose later for various reasons. This process of claiming high caste origin continued till the 1950s when the Constitution of India provided for reservations for lower castes in most government jobs.

The caste system has its regional variations. The formation of regions and regional consciousness after the basis of gotra but also on the basis of their residence. Thus there are Kanyakubja, Sarayuparier, and Maithila brahmanas belonging to Kanauj, Sarayu River, and Mithila respectively. A large number of Rajput sub-castes carry their earlier tribal names such as Tomaras, Kacchavahas, Hadas, and Chauhanas. These sub-castes also acquired gotras for themselves. Thus the number of castes and sub-castes as well as that of the gotras kept increasing in medieval times. The Marathas also became a caste.

**4) Modern Caste System:** In modern times the caste system acquired some new features. Thus, the idea of "surnames" was also added. One particular caste or sub-caste came to acquire one, sometimes more, "surnames". However, ample variation is found in this matter. Caste and anti-caste movements of the modern period resulted in the formation of further new castes. Thus the Brahma-samajis acquired status which is very similar to a caste.

The caste system, as can be seen from the above description, has a complex working method. Substantial regional variation is found and hence it has been impossible to define it in a precise manner, region, subregion, economic status, nearness to political authority, craft, vocation, following a particular deity all have come to play a role in its formation and subsequent changes.

The influence of the caste system has been so great that even though the egalitarian religious reformers of the medieval period such as Basava, Ramanand and Kabir, tried to abolish caste among their followers, their sects soon took on the characteristics of new castes. The Sikhs could not overcome caste feelings. Even the Muslims formed caste groups. Syrian Christians of Kerala, earlier divided into sections, took on a caste character. The Christian converts brought their caste prejudices with them and high caste converts

consider themselves aloof from those of the lower orders.

### **Class Structure of Indian Society**

Social class is defined as the division of members of a society into a hierarchy of distinct status classes so that members of each class have relatively the same status and members of all other classes have either more or less status.

Although social class can be thought of as a continuum - a range of social positions on which each member of society can be placed. Researchers have preferred to divide the continuum into a small number of specific social classes, or strata. Within this framework, the concept of social class is used to assign individuals or families to a social-class category.

Social class also called class, a group of people within a society who possess the same socioeconomic status. Besides being important in social theory, the concept of class as a collection of individuals sharing similar economic circumstances has been widely used in census and in studies of social mobility. It is a status hierarchy in which individuals and groups are classified on the basis of esteem and prestige acquired mainly through economic success and accumulation of wealth. Social class may also refer to any particular level in such a hierarchy.

Belonging to a social class is not merely an objective fact, but is generally accompanied by a perception of class identity. In this sense, social class is not merely a personal attribute, but also a contextual variable that characterizes a group of people. The shared culture of a particular class influences, and is influenced by, people's attitudes and lifestyle. Social class, therefore, influences health.

### **Social Class Categories**

Identification of members within each social class is influenced most heavily by education and occupation, including income, as a measure of work success. But it is also affected by family recreational habits and social acceptance by a particular class. Thus, social class is a composite of many personal and social

attributes rather than a single characteristic such as income or education. The percentage of the population accounted for in each social class appears to fluctuate but is concentrated in the middle and lower classes. The concept of mass marketing can, e.g., be applied to the middle classes but not to the affluent upper-upper. The upper-upper is, however, a desirable target market for specialty goods marketing by firms. Such goods can appeal to the cultivated tastes of a very small number of affluent consumers. In addition, four target groups have been identified by marketers for their use. These include a broad upper class, a white-collar middle class, an affluent working class and poorer lower class. The social classes are described for marketing purposes, in terms of the social groups from which they are drawn in society. On the basis of demographic factors, these are as follows:

**1) Upper-Upper Class:** This is the wealthy, aristocratic, landed class. It acts as a reference group for the rest of the social classes. Since its size is very small, it is not a major number segment; but it provides scope for niche marketing,

**2) Lower-Upper Class:** Here we find novel rich consisting of those who have attained success and earned wealth. Successful professionals like doctors, lawyers, first-generation successful entrepreneurs belong here. These provide a market for specialized luxury goods.

**3) Upper-Middle Class:** This class consists of the moderately successful. It consists of the professionally educated managers, intellectual elite and successful professionals, doctors, lawyers, and professors, owners of medium-sized businesses and managerial executives, and also younger men and women who are expected to reach these occupational status levels. Housing is important to this class, and also the appearance of products in general.

**4) Lower-Middle Class:** It is represented by the common man, and the highly paid individual worker. It includes the small business owners and non-managerial workers. Persons in this class tend to have high school educations and some college education, but do not reach high levels in their organizations.

**5) Working Class:** This is the largest of the social classes, and is composed of skilled and semi-skilled workers. They are blue (khaki) collar workers but have sufficient money for consumer products, and along with the middle classes, they represent the market for mass consumer goods. Within each of these social classes, there are both, under-privileged and over-privileged members

## Caste System in India

India's caste system has four main classes (also called varnas) based originally on personality, profession, and birth. In descending order, the classes are as follows:

**1) Brahmana (Now More Commonly Spelled Brahmin):** Consists of those engaged in scriptural education and teaching, essential for the continuation of knowledge. People who preached spiritual teachings to the society and lived spiritual lives were called brahmins. Brahmin (also known as Brahman) varna is the topmost varna in the varna system in India. Various Indologists consider the Brahmins to have been Aryan migrants from the region around Iran, eastern Eurasia, or central Asia.

**2) Kshatriya:** Takes on all forms of public service, including administration, maintenance of law and order, and defense. These were the people who protected the society against external attacks and maintained internal order. Under the Hindu varna system, a Kshatriya is a ruler or warrior. This varna has traditionally been ranked second among the four varnas of the system, and members of the Kshatriya varna have held power for centuries in India.

**3) Vaishya:** Engage in commercial activity as businessmen. The Vaisya varna is the third of the four varnas in the Indian varna system. Businessmen, traders, and farmers fall under this category. However, as the varna system developed in the Vedic and post-Vedic period, the Vaisya largely gave up agriculture and turned towards occupations such as merchants, skilled labor, and land ownership.

**4) Shudra:** Work as semi-skilled and unskilled laborers. This varna is the lowest of the four varnas in the varna system in India. They are just above the Dalits/Untouchables. The population that comprises this varna is largely a product of monetization (upper three varnas mating with the untouchables and with Sudras). In addition, it consists of those from the upper three castes who were demoted to Sudra status for violation of caste laws). Sudras were the people engaged in services. Carpenters, blacksmiths, goldsmiths, cobblers, porters, etc., fall under this category. Though they were looked down as dasas

and dashyus, yet they are not discriminated

The most obvious problem in this system was that under its rigidity, the lower castes were prevented from aspiring to climb higher, and therefore, economic progress was restricted. But India is aware of the problem

Mahatma Gandhi, the Father of modern India, made the lower castes and untouchables a fifth, lowly class with the name of Harijan or children of God. You see many references to SC and ST in India, in newspapers, government notifications, and so on. These initials refer to Scheduled Castes and Scheduled Tribes - scheduled is what Harijan is translated into today. The government is sensitive about reserving seats in colleges and job opportunities as well for them. But the government has legislation to make-up for the past suppression and oppression of the lower castes.

## **LPG Era**

The economy of India had undergone significant policy shifts in the beginning of the 1990s. This new model of economic reforms is commonly known as the LPG or Liberalization, Privatization and Globalization model. The primary objective of this model was to make the economy of the seventh largest country in the world the fastest developing economy in the globe with capabilities that help it match up with the biggest economies of the world.

The chain of reforms that took place with regards to business, manufacturing, and financial industries targeted at lifting the economy of the country to a more proficient level. These economic reforms had influenced the overall economic growth of the country in a significant manner.

### **Liberalisation**

Liberalisation is a very broad term that usually refers to fewer government regulations and restrictions in the economy in exchange for greater participation of private entities.

Liberalisation refers to the relaxation of the previous government restriction usually in the area of social and economic policies. When the government liberalised trade, it means it has removed the tariff, subsidies and other restrictions on the flow of goods and services between the countries.

Economic liberalisation, in its modern form, usually describes internal economic reform such as deregulation and privatisation and the removal of barriers to trade in services as well as the more conventional view of free trade as the removal of tariffs on physical imports.

Liberalisation does not mean simply inviting a number of foreign companies or Multinational Corporations (MNCs) on whatever terms with whatever objectives in mind and in whatever sector, indiscriminately. By implication, economic liberalisation suggests that the entire opening up of the economy should ultimately be for building up strength of its own. Hence, inviting foreign companies/MNCs should be a means and not an end. Liberalisation means removal of control and not of regulations. Liberalisation does not imply any secret deals behind the curtain. On the contrary, it does mean the elements of transparency and accountability in the functioning and procedures relating to the various sectors of the economy.

**According to M. Dhanuja**, liberalisation is related to that state of economic conditions in which rules, regulations and controls are eliminated to promote competition.

### **Nature of Liberalisation**

The nature of liberalisation is as follows:

- 1) Freedom in Fixing Prices:** Liberalisation involves freedom in deciding the scale of business activities and fixing prices of goods and services.
- 2) Reduction in Restrictions:** It includes reduction in physical restrictions on imports and also in the rate of import duties. There is also reduction in controls on foreign exchange both current and capital account and in different tax rates of different industries.
- 3) Increase Competitiveness:** Due to liberalisation, various sectors of the Indian economy are made competitive on the global economic platform by making them produce quality goods in a cost-effective manner.
- 4) Reform of the Banking System:** Banking sector reforms were kicked off in 1992 and have been continuing since then. Private banks, including foreign banks, have been allowed to operate and their reach is now extensive
- 5) Increase of Foreign Investment:** Liberalisation simplified the policies to attract foreign capital and technology to India.

### **Impact of Liberalisation in India**

The main aim of liberalisation was to dismantle the excessive regulatory framework which acted as a barrier for industries growth. Over the years the country had developed a system of "LICENCE PERMIT-RAJ". Major purpose of liberalisation was to free the large private sector from bureaucratic control and therefore started dismantling the industrial licensing and controls.

- 1) Positive Impact of Liberalisation in India:** The positive impact of liberalisation in India can be seen in following areas:

- a) **Improvement in Healthcare:** Liberalisation has also positively affected the overall healthcare situation in the country. More and more medical innovations are coming which are improving the health situation in India. The infant mortality rate and the malnutrition rate have significantly come down since the last decade. All these factors clearly prove that globalisation helped to reduce India's poverty level.
- b) **Growth of Agriculture:** A major portion of the poverty level in India is from the rural areas whose staple form of income is agriculture and farming. Due to globalisation, Indian agriculture has improved to some extent which has helped to reduce the poverty problems of the rural masses.
- c) **Liberalisation and Employment:** Liberalisation has also put a favourable effect on the employment scenario of the country. Over the years, due to the liberalisation policies, India has become a consumer oriented market where the changes are brought by the demand and supply forces. Due to the high demand and the supply chains, there has been significant growth in the market. As such, more and more job opportunities are being created in different sectors. This has increased the per capita income considerably which has improved the poverty level to a great extent.
- d) **Liberalisation and Economic Growth:** It was in the 1990s that the first economic liberalisation policies were initiated by the then Finance Minister Dr. Manmohan Singh to encourage the wake of globalisation in India. Since then, the economic condition of India has significantly increased. Over the years, India has gradually become one of the fastest growing economies in the world. It has become the 4<sup>th</sup> largest economy in the world in terms of the Purchasing Power Parity (PPP). It has been expected that the average yearly economic growth will range between 6 per cent and 7 per cent.
- e) **Liberalisation and Mergers in India:** The extents to which cross-border mergers and acquisitions are growing are all due to the globalisation process. It has been observed of late that there are several sectors of the economy that are heating up with a number of cross-border mergers and global alliances. This is only to improve the economic state of the country.

**2) Negative Impact of Liberalisation in India:** The negative impact of liberalisation in India is as follows:

- a) **Reduced Profits:** Liberalisation is often opposed by domestic industries that would have their profits and market share reduced by lower prices for imported goods.
- b) **Exploitation of Workers:** Socialists frequently oppose liberalisation on the ground that it allows maximum exploitation of workers by capital.
- c) **Reduces Economic Freedom:** Liberalisation is opposed by many anti-globalisation groups, based on their assertion that free trade agreements generally do not increase the economic freedom of the poor or the working class, and frequently make them poorer.
- d) **Short-Term Adjustments:** Even though an economy is likely to benefit from the process of economic liberalisation over time, certain short-term adjustments may not be so positive. If availability of imports causes a local company to lose its market share, there could be a short-term impact in terms of layoffs of workers.
- e) **Effect on Capital:** Liberalisation makes it easier to move capital from one country to another. Global institutions such as the World Trade Organisation exist to make this movement easier by "encouraging" member states to change laws and regulations that eliminate barriers to capital flow. However, rapid inflow or outflow of capital can impact national economies negatively. For example, the sudden withdrawal of capital from East-Asian countries in the late 1990s precipitated a financial crisis.

## Privatisation

Privatisation is part of the process of rethinking the welfare state. Society is searching for new ways of delivering services because of our collective sense of efficiency. The entrepreneur, not the bureaucrat, is the hero of society. While we cannot be sure how it will all turn out, privatisation will be part of the emerging post-welfare state. "Privatisation where applied has achieved some measures of success in the local government

Privatisation is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking. In a broader sense, it connotes private ownership. In other words privatisation means transfer of ownership and/or management of an enterprise from the public sector to the

private sector. It also means the withdrawal of the State from an industry or sector, partially or fully. Another dimension of privatisation is opening-up of an industry that has been reserved for the public sector to the private sector.

**According to Stuart M. Butler,** Privatisation is “the transfer of government assets or functions to the private sector”.

**According to D. R. Pendse,** Privatisation is “any process which reduces the involvement of the state or the government sector in the nation's economic affairs is a privatisation process”.

### **Nature of Privatisation**

The various nature of privatisation is as follows:

**1) Transfer of Ownership:** Privatisation of State-Owned Enterprises (SOEs), i.e., the transfer of firm ownership from governments to private investors has become an important tool of economic policy, especially in less-developed and former communist countries.

**2) Increased Competition:** One of the prominent features of privatisation is the enhanced competitive characteristics it provides to the enterprises which prove to be fruitful for the business as well as the country.

**3) Increased Efficiency:** Competitive environments and capital-market discipline increase the efficiency of privatised SOEs. The result is a lack of specific guidelines for shaping deal conditions given the characteristics of the firm and country.

**4) Increased Opportunities:** The worldwide privatisation wave creates opportunities for international diversification.

**5) Effectiveness of Deal Depends on Host Country:** The effectiveness of the deals depends, on the conditions of the privatisation process and the host country.

### **Impact of Privatisation in India**

Privatisation in India is still at a minimalist level. Privatisation by way of sale of

public sector enterprises is almost negligible while divestment is also existent by way of selling of a portion of shares of the 31 public sector enterprises. Privatisation got a tremendous boost by the introduction of new economic policy in 1991 that allowed delicensing, relaxing entry restrictions and equity funding. Few examples of privatisation in India are Lagan Jute Machinery Company Limited, Modern Food Industries Limited, BALCO, Hotel Corporation of India Limited, Hindustan Zinc Limited, Paradeep Phosphates Limited, BSNL, etc.

**1) Positive Impact of Privatisation in India:** The positive impact of privatisation in India can be seen in following areas:

- a) **Provide the Necessary Impetus to the Underperforming PSUs:** State-owned enterprises usually are outdone by the private enterprises competitively. When compared the latter show better results in terms of revenues and efficiency and productivity. Hence, privatisation can provide the necessary impetus to the underperforming PSUs.
- b) **Provides Momentum in the Competitive Sectors:** Privatisation brings about radical structural changes providing momentum in the competitive sectors.
- c) **Fosters Sustainable Competitive Advantage:** Privatisation leads to adoption of the global best practices along with management and motivation of the best human talent to foster sustainable competitive advantage and improvised management of resources.
- d) **Improves Financial Health:** Privatisation has a positive impact on the financial health of the sector which was previously state dominated by way of reducing the deficits and debts.
- e) **Lowers Net Transfer to the State-Owned Enterprises:** The net transfer to the state-owned enterprises is lowered through privatisation.
- f) **Escalates the Performance Benchmarks of the Industry:** Helps in escalating the performance benchmarks of the industry in general.
- g) **Beneficial for the Growth of Employees:** It can initially have an undesirable impact on the employees but gradually in the long-term, shall prove beneficial for the growth and prosperity of the employees.
- h) **Better Services to the Customers:** Privatised enterprises provide better

and prompt services to the customers and help in improving the overall infrastructure of the country.

**2) Negative Impact of Privatisation in India:** There are several disadvantages or the problems faced by privatisation which are as follows:

- a) **Ignores Social Objectives:** Private sector focuses more on profit maximisation and less on social objectives unlike the public sector that initiates socially viable adjustments in case of emergencies and criticalities.
- b) **Lack of Transparency:** There is lack of transparency in the private sector and stakeholders do not get the complete information about the functionality of the enterprise.
- c) **Support to Unfair Practices:** Privatisation has provided the unnecessary support to the corruption and illegitimate ways of accomplishments of licenses and business deals amongst the government and private bidders. Lobbying and bribery are the common issues tarnishing the practical applicability of privatisation.
- d) **Loses the Mission:** Privatisation loses the mission with which the enterprise was established and profit maximisation agenda encourages malpractices like production of lower quality products, elevating the hidden indirect costs, price escalation, etc.
- e) **High Employee Turnover:** Privatisation results in high employee turnover and a lot of investment is required to train the lesser-qualified staff and even making the existing manpower of PSU abreast with the latest business practices.
- f) **Conflict of Interest:** There can be a conflict of interest amongst stakeholders and the management of the buyer private company and initial resistance to change can hamper the performance of the enterprise.
- g) **Escalates Price Inflation:** Privatisation escalates price inflation in general as privatised enterprises do not enjoy government subsidies after the deal and the burden of this inflation affects the common man.

## Globalisation

Globalisation is a powerful real aspect of the new world system, and it represents one of the most influential forces in determining the future course of the planet. It has manifold dimensions - economic, political, security, environmental, health, social, cultural, and others. The focus here is on the concept of "globalisation" as applied to the world economy. The term was coined in the 1980s, but the concept is an old one that has different interpretations to different people. Partly as a result of these different interpretations, there are very different world economies while others, again all three, see it as a serious danger to the world economic system. Globalisation is also responsible for the major increases in worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy. There has been remarkable growth in such trade and exchanges, not only in traditional international trade in goods and services, but also in exchanges of currencies, in capital movements, in technology transfer, in people moving through international travel and migration, and in international flows of information and ideas.

**According to the International Monetary Fund (IMF)**, "Globalisation is the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread diffusion of technology".

**According to Charles Hill**, "Globalisation is the shift towards a more integrated and interdependent world economy. Globalisation has two main components - the globalisation of markets and the globalisation of production".

Globalisation has a significant impact on all economies of the world, with manifold effects. It affects the production of goods and services. It also affects the employment of labour and other inputs into the production process. In addition, it affects investment, both in physical capital and in human capital. It affects technology and results in the diffusion of technology from initiating nations to other-nations. It also has major effects on efficiency, productivity and competitiveness.

## Nature of Globalisation

The idea of globalisation may be simplified by identifying several key features which are as follows:

**1) Improved Technology in Transportation and Telecommunications:** What makes the rest of this list possible is the ever-increasing capacity for and efficiency of how people and things move and communicate. In past years, people across the globe did not have the ability to communicate and could not interact without difficulty. Nowadays, a phone, instant message, fax, or video conference call can easily be used to connect people.

**2) Movement of People and Capital:** A general increase in awareness, opportunity, and transportation technology has allowed for people to move about the world in search of a new home, a new job, or to flee a place of danger. Most migration takes place within or between developing countries, possibly because lower standards of living and lower wages push individuals to places with a greater chance for economic success.

**3) Diffusion of Knowledge:** The word 'diffusion' simply means to spread-out, and that is exactly what any new found knowledge does. When a new invention or way of doing something pops-up, it does not stay secret for long. A good example of this is the appearance of automotive farming machines in Southeast Asia, an area long home to manual agricultural labour.

**4) Non-Governmental Organisations (NGOs) and Multinational Corporations:** As global awareness of certain issues has risen, so too has the number of organisations that aim to deal with them. So called nongovernmental organisations bring together people unaffiliated with the government and can be nationally or globally focused

**5) Growing Worldwide Interconnections:** This is one characteristic of globalisation. Some interconnections can be predicted, others cannot. Moreover, factors other than globalisation also shape events.

**6) Rapid, Discontinuous Change:** Another characteristic of globalisation is that this process has occurred rapidly but not at a steady pace. In other words, a chart of global interconnections would follow an upward slope, but the regression line would not be a smooth one.

**7) Increased Number and Diversity of Participants:** This characteristic of

globalisation is growth in the numbers and diversity of actors involved in global activities. For example, participants in global business activities now include many Small to Medium Sized Enterprises (SMEs) as well as large ones.

**8) Growing Complexity:** Finally, the “one world” characterisation of globalisation exposes most of us. To many more people and ideas whose perspectives on globalisation differ. Domestic questions that once seemed to have simple answers become more complex when one realises that others worldwide have different “simple” answers to the same questions.

### Impact of Globalisation in India

India's economic integration with the rest of the world was very limited because of the restrictive economic policies followed until 1991. Indian firms confined themselves, by and large, to the home market. Foreign investment by Indian firms was very insignificant. With the new economic policy ushered in 1991, there was, however, been a change. Globalisation has in fact become a buzzword with Indian firms now, and many are expanding their overseas business by different strategies.

**1) Positive Impact of Globalisation in India:** The positive impact of globalisation in India is discussed below:

- a) **Huge Amounts of Foreign Investments:** It brought in huge amounts of foreign investments into the industry especially in the BPO, pharmaceutical, petroleum, and manufacturing industries. As huge amounts of foreign direct investments were coming to the Indian industry, they boosted the Indian economy quite significantly.
- b) **Provides Employment:** The benefits of the effects of globalisation in the Indian industry are that many foreign companies set-up industries in India, especially in the pharmaceutical, BPO, petroleum, manufacturing, and chemical sectors, and this helped to provide employment to many people in the country. This helped to reduce the level of unemployment and poverty in the country.
- c) **Updated Technology:** Also the benefit of the effects of globalisation on Indian industry are that the foreign companies brought in highly advanced technology with them, and this helped to make the Indian industry more

technologically advanced.

- d) **Goods and Services:** As markets become global, more goods and services are made available at lower cost to a wider group of people. More access leads to rising consumer demand and improved standards of living. In addition, global competition and cheap imports keep a lid on prices, so that inflation is less likely to derail economic growth.
- e) **Free Flow of Capital:** Globalisation helps to free the flow of capital from one country to the other. It helps the investors to get a fair interest rate or dividend and the global companies to acquire finance at lower cost of capital. Further, globalisation increases capital flows from surplus countries to the needy countries, which in turn increases the global investment.
- f) **Increase in Industrialisation:** Free flow of capital, along with the technology enable the developing countries to boost-up industrialisation in their countries. This ultimately increases global industrialisation
- g) **Balanced Development of World Economies:** With the flow of capital, technology, and locating manufacturing facilities in developing countries, the developing countries industrialise their economies. This in turn leads to the balanced development of all the countries.
- h) **Lower Prices with High Quality:** Indian consumers have already been getting the products of high quality at lower prices. Increased industrialisation, spread of technology, increased production consumption enable the companies to produce and sell the products of high quality at lower prices.
- i) **Cultural Exchange and Demand for a Variety of Products:** Globalisation reduces the physical distance among the countries and enables people of different countries to acquire the culture of other countries. The cultural exchange, in turn, makes the people demand for a variety of products which are being consumed in other countries. For example, demand for 'American pizza' in India and demand for 'Masala dosa' and 'Hyderabadi biryani' and Indian styled garments in the USA and Europe.
- j) **Balanced Human Development:** Increase in industrialisation on balanced lines in the globe improves the skills of the people of developing countries.

Further, the increased economic development of the country enables the government to provide welfare facilities like hospital; educational institutes etc., which in turn contributes to balanced human development across the globe.

**2) Negative Impact of Globalisation in India:** The various negative implications of globalisation on Indian industry are as follows:

- a) **Reduced Jobs and Incomes:** The negative effects of globalisation on Indian industry are that with the coming of technology the number of labour required decreased and this resulted in many people being removed from their jobs. This happened mainly in the pharmaceutical, chemical, manufacturing, and cement industries.
- b) **Poor Labour Practices and Environmental Policies:** One of the criticisms against globalisation is that free trade encourages developed nations to move manufacturing facilities off-shore to less developed countries that lack adequate regulations to protect labour and the environment. They feel that free trade can lead to an increase in pollution and exploitation of labour of less developed nations.
- c) **Globalisation and the World's Poor:** Critics of globalisation argue that despite the supposed benefits associated with free trade and investment, over the last hundred years or so the gap between the rich and poor nations of the world has gotten wider. A quarter of the countries with a GDP per capita of less than \$1,000 in 1960 had growth rates of less than zero from 1960 to 1995, and a third had growth rates of less than 0.05 per cent.
- d) **Heterogeneity of Problems:** A major hurdle in the path of globalisation is the absence of a universally accepted set of solutions to the problems which have to be tackled. Some of these problems happen to be political and social ones, but even their solutions have economic implications. Frequently, the proposed solutions are such that some countries view them as more harmful than beneficial.
- e) **Reluctance of Developed Countries:** Though advocating the advantages of a free market mechanism and competitive markets, rich economies of the world are themselves riddled with all sorts of distortions on account of monopoly forces, huge subsidies, and a variety of vested interests. They

are not ready to accommodate the poorer countries of the world on criteria of economic fairness.

- f) **Reluctance of Developing Countries:** The developing countries, on their part, have the bitter experience of being forced into giving trade and non-trade concessions to the developed countries at the cost of their own interests. They realise that, with them, the developed countries want to have 'free trade' and not 'fair trade'. The developed countries keep finding fresh 'reasons' for adding to the trade disadvantages of the developing countries.
- g) **Short Term Gains:** Though several economists from the developed countries have been arguing that long run sustainable growth and prosperity of the developed countries can be ensured only by the growing prosperity of the developing countries, the former are not ready to adopt and pursue this approach.
- h) **Factor Mobility:** Globalisation necessitates unhindered international factor mobility. Developing countries feel that unrestricted mobility of capital and finance can be damaging for them; while developed countries are apprehensive about the effects of unrestricted immigration of low-wage labour.
- i) **Social Security:** With globalisation, it becomes increasingly difficult for a government (particularly of a developing country) to create and finance a social security system. Such provisions tend to lose their priority in a market-oriented globalisation.
- j) **Risks and Uncertainties:** Progress towards globalisation is also hindered by uncertainties relating to a possible shift in political and economic philosophy of some member countries; the fear of nationalisation by the MNCs, the resistance to cultural invasion associated with unrestricted inflow of foreign capital and enterprise, and so on.

### Economic Reforms India

The process of economic reforms was started by the government of India in 1991 for taking the country out of economic difficulty and speeding up the development of the country. Indian economic policy plays a major role in determining various

government actions on the economic field. Depending on the Indian economic policy, the government of India initiates various actions including preparing budget, setting interest rates, etc. The economic policy also influences the national ownership, labour market, and several other economic areas where government intervention is required.

There are a number of internal factors like political beliefs and policies of the parties, etc., that play pivotal roles in determining the economic policy of India. Besides these, like all other countries, Indian economic policy also gets influenced by various international institutions like the World Bank and the International Monetary Fund (IMF), etc. India embarked on economic reforms in 1991, in the wake of a balance of payments crisis. Issues concerning economic policy, impact of the reforms on poverty, sectoral issues relating to agriculture, industry, and infrastructure. To become a major player in world economy, a comprehensive approach was taken through Indian economic policy. After the liberalisation of Indian economy in the early 1990s, the Indian economy scenario witnessed a paradigm shift of stance. Indian economic policy has cast-off its protectionism image and became more liberal. Foreign investors were allowed to invest in Indian business and as a result of which huge foreign direct investments or FDI flowed into the Indian market. Rationality and consistency among trade and other economic policies were taken into account for maximising the contribution of such policies. And, while implementing the Indian economic policy, previous economic policies of India were also refereed, to allow developmental scope of Indian economic policy.

### **Objectives of Economic Reforms**

Economic reform is a comprehensive as well as continuous process that enfold the elements which play an important role in improving the economic and financial activities. The main objectives of economic reforms are:

- a) Liberalisation and opening-up of the economy.
- b) Improving the availability of resources.
- c) Proper redistribution of resources so as to minimise inequality across the different rungs of the society as well as across sectors.
- d) Balance between different sectors of the economy.

### **Economic Reforms Since 1991**

Since 1991, following economic reforms concerning liberalisation, privatisation, and globalisation have also been undertaken:

**1) Fiscal Reforms:** Fiscal reforms mean increasing the revenue receipts and reducing the public expenditure of the government in a manner that production and economic welfare are not adversely affected. Its main objective was to reduce the fiscal deficit that stood at 8.5 per cent of GDP in 1990-91, to 3 per cent. Several reforms were undertaken to achieve this objective, e.g., control over public expenditure, increase in taxes, sale of share of public sector enterprises, and increased price of public sector products. On the basis of the recommendations of Raja J. Chelliah Committee Report, long-term fiscal policy was announced. This fiscal policy initiated many reforms. The main fiscal reforms are as follows:

- a) Taxation system was made more scientific and rational. The maximum limit of income tax was reduced from 50 per cent to 30 per cent,

- b) Taxation system has been simplified,
- c) Custom duties were brought down from 250 per cent to 10 per cent,
- d) Excise duty on several commodities was reduced,
- e) Subsidies were cut down, and
- f) Special efforts are being made by the government to cut public expenditure.

**2) Financial/Monetary Reforms:** These reforms refer to reforms in the country's monetary and banking policies. Government had appointed the Narasimham Committee to introduce financial reforms. On the basis of recommendations of this committee, government has introduced the following significant financial/monetary reforms:

- a) **Reduction in Liquidity Ratio:** Statutory Liquidity Ratio (SLR) has been lowered from 38.5 percent to 25 percent. Likewise the Cash Reserve Ratio (CRR) has been brought down from 12 per cent to 5 percent.
- b) **Reduction in Bank Rate:** Bank rate has been brought down to 6 per cent.
- c) **Free Determination of Interest Rates:** Rates of interest should not be determined by the Reserve Bank rather the same be allowed to be determined by the banks independently within some limits.
- d) **More Freedom to Banks:** Different banks should be given freedom to recruit their own officials. Inspection of the banks should be based on internal inspection reports.

**3) International Trade and Investment Reforms:** India's trade policy prior to the 1991 reforms was characterised by high tariffs and import restrictions. Foreign manufactured consumer goods were entirely banned, and capital goods, raw materials, and intermediate goods for which domestic substitutes existed were importable only through a bureaucratic licensing process. Illustrating the severity of the situation, Infosys executives described how the founders had to visit Delhi nine times to obtain a license to import just one personal computer. India has come a long way toward opening its borders to trade - exports and imports grew at 19% and 30% in 2004 and 2005 respectively - and both Congress and the BJP are committed to increasing free trade. India has and should continue to take

advantage of the WTO as a cover against domestic backlash to further tariff reductions. Concessions like temporary subsidies may be necessary to placate short-term losers in non-competitive industries. Investment has increased throughout the past decade and a number of important industries like aviation and construction have raised or eliminated caps on foreign investment.

**4) Industrial Sector Reforms:** India's industrial policy was one of the areas most changed by the economic liberalisation of the 1990s. The early reforms crystallised a trend that had been building since the national government moved toward a pro-business approach to industrial policy during the 1980s. During the following decade, India transitioned from a centrally planned and operated economy to a market-driven economy, reflecting a global trend toward less regulated economies. Most government-operated industries in India are now privatised, though some political contention still exists over the removal of reservation schemes.

**5) Infrastructure Reforms:** A short drive through any Indian city reveals some of the serious deficiencies of India's infrastructure - roads full of potholes, relentless traffic, suffocating pollution. Although an efficient infrastructure is in the national interest, state governments control many infrastructure projects. Large private sector organisations are taking care of their own infrastructure needs in response to state governments' neglect. Infosys, e.g., maintains a fleet of nearly 600 buses to transport its 12,000 employees to work. Prime Minister Singh has declared that India must raise levels of investment in infrastructure to enable the nation to reach its goal of 8% growth. Unfortunately, due to India's large deficit, the nation often skimps on infrastructure spending. Additionally, improvements in center-state cooperation are greatly needed.

**6) Labour Reforms:** While less than 10% of the 500 million-person labor force is "organized" or has regular contractual employment, 12 labor regulations have made unions a powerful force in Indian politics. The tide is beginning to change, however. There are fewer labor strikes today, labor agreements now generally include clauses on productivity, and court judgments are no longer reflexively in favor of labor. While Rao recognizes the need for labor reform, he had hesitated to implement reforms like laying-off public sector workers or closing down or privatizing inefficient factories. Additionally, it remains difficult to fire workers and employers are hesitant to hire new ones. A 1947 Act mandates state governments to require manufacturing firms with over 100 workers to gain governmental approval before firing workers. According to Nandan Nilekani, CEO

of Infosys, the lack of a flexible labor policy is an important impediment to India's growth.

**7) Agricultural Reforms:** Prime Minister Manmohan Singh maintains that India must improve conditions for farmers and invest more in education and healthcare to reach its goal of 8% growth. He aims to modernize agriculture and increase manufacturing by expanding agribusiness and food processing. Yet any change to the agricultural sector faces intense political opposition. Despite the fact that it contributes only 20% of India's GDP, the agricultural sector has always been politically influential. Interest group politics often hinder the government attempts to cut costs in its agricultural spending. For example, Prime Minister Singh recently attempted to decrease government fertilizer subsidies but was stopped by a farmers' lobbying group from wealthy agricultural states.

**8) Privatization Reforms:** The Government of India runs coal mines as well as discoms. Public enterprises account for nearly half of India's capital stock and enjoy commanding market shares in industries like mining, smelting, banking, and railways. Most, however, exhibit poor productivity of labor and capital. Many public enterprises were created and kept alive for political reasons. For example, a fertilizer factory in Haldia, West Bengal, kept thousands of workers on its payroll for years without ever commencing production.

### Constituents of Economic Reforms

Economic reforms in India refer to the set of instruments and strategies adopted since 1991. Liberalization, privatization, and globalization are the three constituents of economic reforms. Let us discuss all these three constituents one by one.

- 1) **Liberalization of the Economy:** In the context of economic reforms, liberalization refers to shifting of license dominated regime to e-licensing, deregulation, and de-bureaucratization. It has taken following measures towards liberalizing the economy,
  - a) **Removal of Industrial Licensing:** Except 18 industries relating to security and strategic concerns, social reasons, hazardous chemicals, and over-riding environmental, all industrial licensing was abolished

- b) **De-reservation of SSI Items:** The items earlier reserved for the SSI sector are gradually being de reserved. Thus, the small scale industry has been forced to face both domestic and international competition
  - c) **Withdrawing MRTP Restrictions:** The provisions for MRTP companies for clearance of investment proposals have been withdrawn. This has freed big business houses to undertake expansion and establishment of new undertakings as well as to undertake mergers, amalgamations and takeovers.
- 2) **Privatization of the Economy:** Privatisation refers to any process that reduces the involvement of The state/public sector in the economic activities of a nation. The following measures have been taken towards privatization of the Indian economy
- a) **Entry of Private Players:** Permitting the entry of the private corporate sector in such core sectors as steel, telecommunications, ports, airlines and power; and
  - b) **No Budget Support:** No fresh budgetary support for Public Sector Enterprises (PSEs). This will lead to:
    - ❖ Dilution of government equity in most of those PSEs which decide to go in for new projects and expansion;
    - ❖ No new Central Public Sector undertakings (Ps Us) will be set up in the country;
    - ❖ Issue of equity to the public by the identified PSUs; and
    - ❖ Outright sale of identified PSUs.
  - c) **Disinvestment:** As part of the ongoing privatization, the shares of public sector undertakings are being sold in the market with the objective of obtaining revenue to reduce the budget deficit.
- 3) **Globalization of the Economy:** Globalisation means the economic integration of the country with the rest of the world. The following measures have been taken towards the globalization of the Indian economy:

- a) **Automatic Approval for FDI:** Automatic approval for direct foreign investment up to 51 percent foreign equity ownership in a wide range of industries. Earlier, all foreign investments were limited to 40 percent.
- b) **Automatic Approval for Foreign Technology Agreements:** Automatic permission for foreign technology agreements royalty payments up to 5 percent of domestic sales or 8 percent of export sales or lump sum payment of Rs. 10 million. Automatic approval for all other royalty payments will also be given if the projects can generate internally the foreign exchange.
- c) **Allowance of Foreign Equity Holdings:** With a view to provide access to international markets, majority foreign equity holdings up to 51 percent equity would be allowed for trading companies primarily engaged in export activities.
- d) **Reduced Tariff Rates:** As a part of the shift in policy orientation from import substitution to export promotion, tariff rates were reduced and quantitative controls over imports were removed. Quantitative restrictions were replaced by a price-based system.

## ENTREPRENEURSHIP IN INDIA

### Introduction

Many developing countries including India are in a state of transition. They are striving to move from a subsistence-oriented, tightly integrated, inward-looking local economy to a surplus seeking, market-led, outward-looking economy. Such a move is possible only with the emergence of entrepreneurship in all works of life. This requires building up a wider base of population capable of entrepreneurial behavior.

Though unrecognized by policy statements, an entrepreneurial initiative was breaking new grounds in the small industry scene over the past four decades, banking mainly upon the ingenuity and determination of individuals. The late sixties and early seventies also witnessed a few sporadic attempts to create entrepreneurs from nontraditional communities with a view to breaking the monopoly of the dominant groups and diversifying the entrepreneurial base in the country

Entrepreneurship growth aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generation and economic development. Entrepreneurship growth and development focuses on the individual who wishes to start or expand a business. Entrepreneurs play a key role in the economic development of a country. Entrepreneurial growth cannot be denied to be always closely related to any form of economic development,

### Trends of Entrepreneurship in India

The future trends of entrepreneurship in India are as follows:

#### Trends of Entrepreneurship in India

- ❖ Growth of Multinational Companies
- ❖ Advances in Science and Technology
- ❖ Establishment of Global Support Network
- ❖ Government Support

- 1) **Growth of Multinational Companies:** Recently, India is considered to be amongst the three top investment destinations. According to a report released by Evalueserve research, over 44 U.S.-based VC firms are now seeking to invest heavily in startups and early-stage companies in India. Reports from PricewaterhouseCoppers predict that between 2010 and 2024, 2219 multinational companies will emerge from India.
- 2) **Advances in Science and Technology:** In the last five years, thanks to globalization and advances in science and technology, Indian entrepreneurs are beginning to align themselves in three categories.
  - a) The **first** category of entrepreneurs are focused on developing world-class products that can compete in the international market. For example, India is rapidly emerging as a world-class player in information technology, iron and steel industry, pharmaceutical

industry, etc.

- b) A **second** category of Indian entrepreneurs are working on products that are customized in design, pricing, and quality to the needs of the Indian people, or the developing countries at large. For example, developments of cost-effective gadgets like cellphones, tablets, and even laptops which are more tuned to address the basic needs of the Indian people are increasing by the day.
- c) A **third** and more distinct category is the rise of hundreds of social entrepreneurs. The liberal democratic system in India allows and promotes citizens to come together as a group to solve some of the big challenges facing the nation. For example, Serval Corporation builds kerosene stoves which are 30% more fuel-efficient. They have also leveraged their technical expertise to create a product assembly process that can be executed by the less-educated people in villages. Although fuel efficiency and design of kerosene stoves need not be of any interest to the developed world, the Serval stoves play a significant role in creating a clean and healthy cooking environment in rural India. Indian Census 2011, shows about 66% of the Indian population resides in villages and relies on traditional occupations like agriculture, animal farming, etc.

Appropriate use of technology and engineering to solve some of these real problems can make India a technology-leader midst the developing world. Indian social entrepreneurs working on rural development can minimize migration of people from rural to urban areas, leading the creation of a sustainable ecosystem.

**3) Establishment of Global Support Network:** The establishment of a global support network of venture capitalists and other funding sources (also known as "angels") that would be willing to support the new entrepreneurs. India must create "areas of excellence" breeding grounds where ideas grow into new businesses. They can attract the ideas, venture capital, and the management talent often found to succeed in other entrepreneurial efforts around the world. India can begin to create these areas of excellence by drawing upon the resources of its universities and other educational institutions, including the Indian Institutes of Technology. Providing opportunities for networking among entrepreneurs themselves also can help new businesses get started on the right

foot. In particular, India needs to foster networking and exchange among both new and established entrepreneurs.

4) **Government Support:** In these days both the Central Government and different State Governments have started showing more interest in promoting the importance of entrepreneurship. Individuals are being encouraged to start new businesses and are being provided with many supportive measures to facilitate the creation process like tax incentives, buildings, roads, communication systems.

Since politicians are realising how enterprises create jobs and boost the economic output of the region, the encouragement by the central and state governments will continue in the future as well. Every state government should develop its own innovative industrial strategies for nurturing entrepreneurial activity and the timely development of the technology of the area. The states should have their own state-sponsored venture funds, where a percentage of the funds have to be invested in the new initiatives of young entrepreneurs.

### **Sectors Providing Opportunity for Entrepreneurs in India**

- 1) **Tourism:** It is a booming industry in India. With the number of domestic and international tourists rising every year, this is one hot sector entrepreneurs must focus on. India with its diverse culture and rich heritage has a lot to offer to foreign tourists. Beaches, hill stations, heritage sites, wildlife, and rural life, India has everything tourists are looking for.
- 2) **Automobile:** India is now a hot spot for automobiles and auto components. A cost-effective hub for auto components sourcing for global automakers, the automotive sector is a potential sector for entrepreneurs.
- 3) **Textiles:** India is famous for its textiles. Each state has a unique style in terms of apparel. India can grow as a preferred location for manufacturing textiles taking into account the huge demand for garments. Places like Tirupur and Ludhiana are now export hubs for textiles. A better understanding of the markets and customers' needs can boost growth in this sector.
- 4) **Software:** With one of the largest pool of software engineers, Indian entrepreneurs can set higher targets in hardware and software

development.

- 5) **Engineering Goods:** India continues to be one of the fastest-growing exporters of engineering goods, growing at a rate of 30.1 percent. The government has set a target of \$110 billion by 2014 for total engineering exports. Entrepreneurs must capitalize on the booming demand for products from the engineering industry.
- 6) **Franchising:** India is well connected with the world. Hence, franchising with leading brands who want to spread across the country could also offer ample opportunities for young entrepreneurs. With many small towns developing at a fast pace in India, the franchising model is bound to succeed.
- 7) **Education and Training:** There is a good demand for education and online tutorial services. With good facilities at competitive rates, India can attract more students from abroad. Unique teaching methods, educational portals, and tools can be used effectively to make the sector useful and interesting.
- 8) **Food Processing:** India's mainstay is agriculture. Entrepreneurs can explore many options in the foodgrain cultivation and marketing segments. Inefficient management, lack of infrastructure, proper storage facilities leads to huge losses of food grains, and fresh produce in India.
- 9) **Ayurveda and Traditional Medicine:** India is well-known for its herbal and ayurvedic products. With increasing awareness about the ill-effects allopathic medicines, there will be a huge demand for cosmetics, natural medicines, and remedies.
- 10) **Organic Farming:** Organic farming has been in India for a long time. The importance of organic farming will grow at a fast pace, especially with many foreigners preferring only organic products. Entrepreneurs can focus on business opportunities in this sector. There are many small-time farmers who have adopted organic farming but the demand is still unmet, offering many opportunities for those who can promote organic farming on a large scale.
- 11) **Media:** The media industry has huge opportunities to offer young entrepreneurs. With the huge growth of this segment, any business in this

field will help entrepreneurs reap huge benefits. Television, advertising, print and digital media have seen a boom in business.

- 12) **Packaging:** With China invading the markets with cheap plastic goods and packaging materials, there is a good opportunity to develop good packaging materials to meet domestic and foreign demand. There is a huge demand in various sectors like agriculture, automotive, consumer goods, healthcare infrastructure, and packaging sectors for plastics.
- 13) **Floriculture:** India's floriculture segment is small and unorganized. There is a lot to be done in this lucrative sector. This is a huge market to be tapped considering the rising demand for fresh flowers. More awareness and better farming and infrastructure can boost exports,
- 14) **Healthcare Sector:** India's healthcare sector is dismal. The private sector can play a vital role in developing this sector. With medical tourism also gaining momentum, the sector can attract foreigners who are looking for cost-effective treatment in countries like India.
- 15) **Biotechnology:** After the software sector, biotechnology opens a huge potential. Entrepreneurs can look at a plethora of options with the application of biotechnology in agriculture, horticulture, sericulture, poultry, dairy and production of fruits and vegetables,
- 16) **Recycling Business:** E-waste will rise to alarming proportions in the developing world within a decade, with computer waste in India alone to grow by 500 percent from 2007 levels by 2020, according to a UN study. This sector opens a viable business opportunity for entrepreneurs in terms of e-waste management and disposal.

Entrepreneurship Culture in India Culture refers to the way in which entrepreneurs give expression to normative patterns of traditions and behavior in establishing industrial ventures. Indeed, it may be assumed that cultural identity supplies the primary mechanism for entrepreneurial behavior regarding issues such as decision-making, assessing market potential, developing commercial strategy, calculating risks versus opportunities, and implementing methods for procuring resources.

Entrepreneurship is not an inborn skill; it is a product of the environment. It involves a complex of economic and social behavior. To be successful, an

entrepreneur has to remain dynamic and responsible for the whole environment. Entrepreneurship can hardly survive under any given circumstances. It can flourish only under the right environment. It is a part of the total system. The social values, culture, government policies, political system, technology, economic conditions, customs, laws, etc., influence the growth of entrepreneurship.

## INDUSTRIAL POLICY

### Meaning and Definition of Industrial Policy

The Industrial Policy plan of a nation, sometimes shortened IP, "denotes a nation's declared, official, total strategic effort to influence sectoral development and, thus, national industry portfolio. These interventionist measures comprise "policies that stimulate specific activities and promote structural change".

Industrial policy means rules, regulations, principles, policies, and procedures laid down by the government for regulating, developing, and controlling industrial undertakings in the country. It prescribes the respective roles of the public, private joint and cooperative sectors for the development of industries.

It also indicates the role of the large, medium, and small sector. It incorporates fiscal and monetary policies, tariff policy, labor policy, and the government attitude towards foreign capital, and the role to be played by multinational corporations in the development of the industrial sector.

**According to the World Bank**, "Industrial policy comprises government efforts to alter industrial structure to promote productivity-based growth".

**According to UNCTAD**, "Industrial policy as a "concerted, focused, conscious effort on the part of government to encourage and promote a specific industry or sector with an array of policy tools".

**According to Akkemik**, "Industrial policy is a set of policies designed for the development of selected industries to increase the welfare of the country and to achieve dynamic comparative advantages for these industries by use of state apparatus in resource allocation".

### Objectives of Industrial Policy

Some of the important objectives can be identified as follows:

- 1) **Correcting Imbalances:** Correct the imbalances in the development of industries and helps in bringing about a desirable balance and diversification in them.
- 2) **Directing Resource Flow:** Direct the flow of scarce resources in the most desirable areas of investment in accordance with national priorities,
- 3) **Optimum Utilisation of Resource:** Prevent the wasteful use of scarce resources and ensure their conservation and judicious utilization.
- 4) **Control over Private Industry:** Empower the government to regulate the establishment and expansion of private industry in accordance with the planned objectives.
- 5) **Demarcating Industrial Areas:** Demarcate areas among the public, private and joint sectors of the economy, as well as large, medium and small-scale industries.
- 6) **Proper Distribution of Wealth:** Prevent the formation of monopolies and concentration of wealth in a few hands through fiscal and monetary policies. So that the evils associated with monopolies can be effectively curbed.
- 7) **Control Over Foreign Capital:** Give guidelines for importing foreign capital and the conditions on which such capital should be permitted to operate.
- 8) **Other Objectives:** Other objectives or the rationale of industrial policy includes:
  - a) Achieving a socialistic pattern of society,
  - b) Preventing undue concentration of economic power,
  - c) Achieving industrial development,
  - d) Achieving economic growth,
  - e) Reducing disparities in regional development,
  - f) Developing heavy and capital goods industry,
  - g) Proving opportunities for gainful employment,

- h) Expanding the public sector for achieving socialism,
- i) Achieving faster economic growth,
- j) Achieving a self-sustained economy.

### Importance of Industrial Policy

A well-designed industrial policy is important for several reasons:

- 1) **Establishes Co-ordination:** Industrial policy establishes co-ordination between
  - a) **Industry and Agricultural Development:** It is helpful in establishing coordination between industrial development and agricultural development.
  - b) **Public and Private:** It is helpful in establishing Co-ordination between the public sector and the private sector.
  - c) **Capital and Physical Resources:** It is helpful in establishing effective coordination between capital and physical resources on one hand and natural and social resources on the other hand.
- 2) **Directs National Resource:** It is helpful in directing national resources in the desired direction. It can direct the flow of scarce resources in the most desirable areas of investment in accordance with national priorities.
- 3) **Helps in Industrial Development:** It can help correct the lopsided development of industrial structure and thereby bring about desirable balance and diversification in the country's economic structure. It is helpful in formulating a plan for industrial development. It is helpful in formulating rules, principles, and policies for the management regulation and control of industrial undertakings. It is helpful in formulating the target and program of industrial development.
- 4) **Prevents Economic Power Concentration:** It is helpful in preventing the concentration of economic power. It can prevent, through industrial licensing and other supporting measures of fiscal and monetary policies,

the concentration of wealth and economic power in few hands so that the emergence and evils of monopoly capitalism can be effectively curbed.

- 5) **Proper Control:** It empowers the State to regulate and control the establishment and expansion of the industrial undertakings in the private sector, in accordance with national planned objectives. It can help to demarcate the areas of economic activity between different sectors of the economy.
- 6) **Promotes Export:** It is helpful in promoting exports and reducing the dependence on imports. It is helpful in maintaining regional balances.
- 7) **Prevents Duplication of Economic Resources:** It can prevent duplication or uneconomic use of resources so that the country can ensure conservation and the judicious use of the country's limited resources (both exhaustible and renewable).

In short, industrial policy provides guidelines for effective coordination and integration of the activities of the various sectors of the economy with a view to achieving a balanced and self-reliant pattern of development that can ensure the rapid growth of output and employment.

### Changing Economic Policy Era till 2014

As with every reform, Indian reforms too have their pluses and minuses. Since economic reforms were born out of an impending economic crisis, the thinking among people, the policymakers and the government was in the direction of stabilization of the economy, which has been achieved in a large measure. Nearly nineteen years of the working of economic reforms have brought about a significant stabilization of the economy.

The growth rate of the Gross Domestic Product (GDP) has averaged to around 6-7 percent over these years, crossing the barrier of the so-called "Hindu Rate of Growth" (**table below**):

Analysis of Indian Macroeconomic Indicators Before and After Liberalisation

| Period (averages) | GDP Growth Rate | WPI Inflation Rate |
|-------------------|-----------------|--------------------|
|                   |                 |                    |

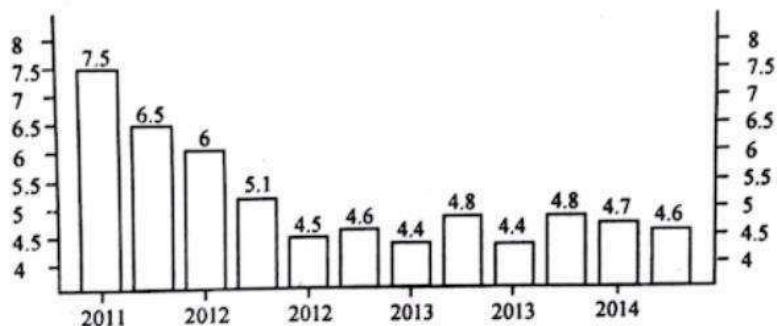
|                       |           |      |
|-----------------------|-----------|------|
| 1951-52 to 1959-60    | 3.6       | 1.2  |
| 1960-61 to 1969-70    | 4.0       | 6.3  |
| 1970-71 to 1979-80    | 2.9       | 9.0  |
| 1980-81 to 1990-91    | 5.6       | 8.2  |
| 1991-92 (Crisis year) | 1.4       | 13.7 |
| 1992-93 to 1999-00    | 6.3       | 7.2  |
| 2000-01 to 2006-07    | 6.9       | 5.1  |
| 2008-09               | 6.7       | 8.4  |
| 2009-10               | 5.0 - 5.5 | 5.0  |

Secondly, the country has been able to build considerable reserves of foreign exchange of the order of U.S. \$260 billion, and the inflow of these reserves has been steadily increasing. India's external debt has been coming down since it retired some of the high-cost debts. Thirdly, it has been offering lines of credit to some of the neighboring countries and has even lent to the World Bank. India has never defaulted on external obligations and have successfully come out of the debt trap. Fourthly, there is another healthy sign; the average export ratio that slumped to 74 percent prior to the reforms has registered an improvement to 84 percent during the decade after 1992. Exporters are responding well to sweeping reforms of the exchange rate and trade policies. The fears expressed in some quarters that our trade policy would generate a disruptive flood of imports and weaken the economy have been proved unfounded. Liberalization and openness have increased our self-confidence. Indian companies, especially in the information technology, pharmaceutical and biotechnology sectors, have established themselves here and abroad. The world at large has been acknowledging albeit grudgingly that India is a knowledge powerhouse and has the potential to grow as an economic superpower in the years to come.

The Gross Domestic Product (GDP) in India expanded 4.60 percent in the first quarter of 2014 over the same quarter of the previous year. GDP Annual Growth

Rate in India averaged 5.82 percent from 1951 until 2014,

reaching an all-time high of 11.40 percent in the first quarter of 2010 and a record low of -5.20 percent in the fourth quarter of 1979. GDP Annual Growth Rate in India is reported by the Ministry of Statistics and Programme Implementation (MOSPI).



| Actual | Previous | Highest | Lowest | Dates | Unit | Frequency |
|--------|----------|---------|--------|-------|------|-----------|
| 4.60   | 4.70     | 11.40   | -5.20  | 1951- | Per  | Quarterly |

In India, the annual growth rate in GDP at factor cost measures the change in the value of the goods and services produced in India, without counting the government's involvement. Simply, the GDP value excludes indirect taxes (VAT) paid to the government and includes the original value of products without accounting for government subsidies. In the first quarter of 2014, India's GDP growth slowed to 4.6 percent year over year from a 4.7 percent expansion registered in the previous period. The output was mainly hurt by a contraction in the manufacturing sector.

## Module 4

# GROWTH OF BUSINESS AND INDUSTRY

## BUSINESS AND INDUSTRY IN INDIA

### Introduction

The practices of business and industry vary from place to place, region to region and country to country. These depend upon factors such as availability of resources, skilled manpower, the attitude of society, level of education, propensity to consume, readiness to use/import of technology, stage of entrepreneurial development, etc.

India has seen a systematic transition from being a closed-door economy to an open economy since the beginning of economic reforms in the country in 1991. These reforms have had a far-reaching impact and have helped India to unleash its enormous growth potential. Today, the Indian economy is characterized by a liberalized foreign investment and trade policy, a significant role being played by the private sector and deregulation.

India has grown to become a trillion-dollar economy with a largely self-sufficient agricultural sector, a diversified industrial base, and a stable financial and services sector. The scope of a business is very wide. It includes a large number of activities which may be classified into two broad categories, i.e., Industry and Commerce. Production of goods is the domain of 'Industry and distribution comes under 'Commerce'.

Business and industry in India consist of unregistered firms, new start-ups, MSME enterprises, large enterprises, export firms, MNCs, and family businesses.

### Unregistered Firms/Bhagidari Sector

Bagedari (Bhagidari) sector is the non-corporate or incorporated sector of the Indian economy. It is also known as the unregistered sector/firm. The activities where the bhagidari enterprises are dominant are the fastest growing sectors in

**Start-Ups: Setting Up a Business** A business is an economic activity that involves the production and purchase of goods and services with the object of selling them at a profit. Owning a business is a great dream for most people. Owning a business is a boon, provided one gets into it the right way and knows what to expect and what to do, otherwise, it can be a nightmare. Entrepreneurial motivation is a term that is used to describe the quest for new venture creation as well as the willingness to sustain the venture.

Before starting a business, it is, therefore, very important to figure out the time, money, and other resources needed for it. Setting up a new business enterprise is a challenging and rewarding task. Right from the conception of a business idea up to the start of production, numerous decisions have to be taken. Thus, starting a new business is as complex and as difficult as the birth of a child. The entrepreneur has to act as a mother and a midwife. The ultimate success of a business depends upon the various considerations essential for the successful running of a business enterprise.

An entrepreneur starts their journey with an idea which is converted into opportunities by redefining, discussing, rebating, and filtering. These opportunities are further assessed by the entrepreneur before starting a new venture. Entrepreneur starts a new venture for exploiting the opportunities. Normally, they start with a small venture or small scale industry (SSI) rather than

a company. The overriding reason for anyone to think of establishing a small scale industry unit can be defined in one word i.e., opportunities, opportunities to be own boss, to provide a product or services, to implement the idea which can generate sufficient surplus, etc. Starting a new business needs a lot of courage and various skills and competencies.

Any enterprise has to start from an idea; this basis for the business is called the business idea. Starting an enterprise based on a business idea is often an irreversible process. The entrepreneur becomes wedded to the enterprise committing most of the resources and his quality time. The entrepreneur is at crossroads at this phase of business idea selection. The selection of business ideas can make or ruin an entrepreneurial career. Proper selection leads the entrepreneur to the path of success and enhances his esteem and respect in the eyes of people who more often will be watching the entrepreneur. In addition, it saves valuable money, time and effort. However, it is necessary for them to understand the scientific method so that they can evaluate their choice and if necessary change the project. This will enable them to take up the activity with confidence.

### **Steps Involved in Setting Up a Business**

The following are the various functions or steps for starting a business:

- 1) **Generating Business Idea:** The process of creating developing, and communicating ideas that are abstract, concrete, or visual. The process includes the process of constructing through the idea, innovating the concept, developing the process, and bringing the concept to reality
- 2) **Opportunity Recognition:** This theory is based on entrepreneurship, suggests that people use a specific cognitive process to recognize the potential in a new business opportunity. The idea is based on considering past experiences, risks and market trends to recognize the potential in and make a decision about a business venture.
- 3) **Environmental Scanning:** This refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment. It helps the managers to decide the future path of the organization. Scanning must identify the

threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat to one organization may be an opportunity for another.

- 4) **Industry and Competitor Analysis:** It is a business research that focuses on the potential of the industry. Once it is determined that an Industry and Competitor Analysis A new venture is feasible in regard to industry and market it will compete, a more in-depth study is needed to learn the ins and outs of the industry. This analysis helps to determine if the target market is identified during feasibility analysis is favorable for the new firm.
- 5) **Feasibility Analysis:** The purpose of the new venture feasibility study is to identify the most promising business opportunities. Winning feasibility studies will prove that the business idea is both innovative and workable. Feasibility studies help entrepreneurs - and their supporters - judge whether an idea is viable. The process of preparing a feasibility study is a testing process - a thought experiment in what could go wrong and what needs to go right for an enterprise to take Steps in Setting Up a Business root and grow.

Preparing a feasibility study requires a tremendous amount of research and thinking which often leads to significant changes in the original idea.

- 6) **Business Plan:** A business plan is a written presentation that carefully explains the business, its management team, its products or services, and its goals, together with strategies for reaching the goals. There are two primary purposes of a business plan. The first has an outside objective - to obtain funding, There is no business without capital. The second serves an inside purpose - to provide a plan for early corporate development - to guide an organization toward meeting its objectives, to keep the entrepreneurial business itself and all its decision makers headed in a predetermined direction.
- 7) **Preparing Project Report:** A project report for new business conducts a profound road map for effectual business ventures. It discusses whether the business requires finance or not, the challenging risks, several problems en route, etc. Hence it becomes vital for every new business to prepare a project report, to acquaint them on forewarning issues.

## Requirements in Setting Up a Business

Following are the major requirements in starting a business venture or a manufacturing service unit:

- ❖ Registration
- ❖ Formalities
- ❖ Clearances and Permit
- ❖ Required
- ❖ Excise
- ❖ Sales Tax
- ❖ SSI Exemptions
- ❖ Location
- ❖ Licensing

- 1) **Registration:** New business formation is constrained by the registration hurdles. In particular, minimum capital requirements suppress the emergence of small firms. Capital requirements are different for different types of ownership of companies. It is generally difficult to limit personal liability when setting up a new firm, which makes new ventures particularly risky for entrepreneurs. Moreover, all business activities are subject to cumbersome licensing procedures. In addition to the complicated registration process, the state maintains a regime of tight controls and reporting requirements.
- 2) **Formalities:** In starting and running a business, a number of formalities are to be followed and fulfilled for the smooth running of the business. The formalities are of different types according to the type of business. There are procedural or legal formalities to be completed which are formed by the government of India.
- 3) **Clearances and Permit Required:** For establishing a new enterprise

several clearances are required from different authorities depending on the type of industry and location of the unit. Some of the common certifications that new business owners need to obtain include a business license (local, state, or federal), a fire department permit, an air and water pollution control permit, a sign permit, a county permit, a sales tax license, and a health department permit. Through the consultation of an experienced attorney, a new business owner can easily determine which of the licenses and permits apply to their business. The Attorney can even complete the entire application process for them.

- 4) **Excise:** The Central Excise Act, 1944, and Customs Act 1962 are important tax collecting statutes of the Union of India. It along with other connected subsidiary legislations regulates the levy and collection of duties of goods manufactured or produced in India and import and export of goods to/from India. Excise duty is a duty or tax levied upon the manufacture or sale or consumption of commodities within the country. It is collected from manufacturers or producers. While customs duty is a duty or tax, which is levied by the central government, on import of goods into, and export of goods from India. It is collected from the importer or exporter of goods.
- 5) **Sales Tax:** All goods sold in the course of inter-state trade are subject to Central Sales Tax (CST). While the tax is levied by the Central Government, it is administered by the state governments. Inter-state procurement on which CST is charged in the originating state is not eligible for input tax credit in the destination state. It is imposed and collected by the Central Government on the inter-state transition. Business units with a specific turnover should get compulsory sales tax registration.
- 6) **SSI Exemptions:** As per Central Excise Act, SSI Unit means a unit whose turnover is less than 4 crore in the last Financial Year. Under Central Excise Act 1944 the Government has given various exemptions and concessions to SSI units to encourage their growth. If SSI unit avails Cenvat Credit on inputs, it has to pay normal duty on all clearances and no SSI exemption is available. According to the definition of Central Excise, all industries are eligible for exemptions and concessions irrespective of their investment or numbers of employees or size of the industry or unregistered under the SSI Act. Any industry is eligible for this concession if its annual turnover is less than 4 crore.

- 7) **Location:** The location of a business firm is an important decision as it influences the costs, profitability, and growth of the enterprise. Moreover, once the site is selected, it is very difficult to change it. An unfavorable location may restrict the growth of the firm in addition to higher costs. The objective of the location decision is to find out the optimum location, so that the per-unit costs of production and distribution are the lowest possible. Access to raw materials and markets, availability of labor, transportation, and banking facilities, local attitudes, managerial preferences, public facilities, climate, availability of the site, financial inducements, cost of land, soil and surface, development costs, influence choice of location.
- 8) **Licensing:** Entrepreneur may be interested in starting a new business, expanding an existing business (extending the territory or the nature of business), or improving the quality of the goods or services of SME and thereby its market position. In many situations, licensing of intellectual property rights is an effective tool for achieving these business goals. A licensing agreement is a partnership between an intellectual property rights owner (licensor) and another who is authorized to use such rights (licensee) in exchange for an agreed payment (fee or royalty).

## Micro, Small and Medium Sector (MSME Sector)

Another type of business enterprise in India is MSME. Small scale enterprises or micro, small and medium-sized enterprises are companies whose headcount or turnover falls below certain limits.

MSMEs are defined as enterprises with fewer than 500 employees. However, firms range from one-person consulting shops to larger, publicly traded companies. Moreover, MSMEs are present in almost every industrial sector.

In India, the MSME is generally referred to as '**micro, small and medium industries**' including the micro sector and the 'Small Scale Services and Business Enterprises' (SSSBE). MSMEs have always represented the model of socio-economic policies of the Government of India, which emphasized judicious use of foreign exchange for import of capital goods and inputs; labor-intensive mode of production, employment generation; non-concentration and diffusion of economic power in the hands of a few (as in the case of the big business houses); discouraging monopolies practices of production and marketing; and finally effective contribution to foreign exchange earnings of the nation with low import-intensive operations.

Worldwide, the Micro, Small and Medium Enterprises (MSMEs) have been accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The labor intensity of this sector is much higher than that of the large enterprises. It is a nursery of entrepreneurship, often driven by individual creativity and innovation. In India too, the Micro, Small and Medium Enterprises play a pivotal role in the overall industrial economy of the country.

It contributes 8 percent of the country's Gross Domestic Product, 45 percent of the manufactured output and 40 percent of its exports. The Micro, Small and Medium Enterprises provide employment to about 60 million persons through 26 million enterprises.

All the activities related to small scale industry are directed by this **Ministry of Micro, Small and Medium Enterprises**. In accordance with the provision of Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small, and Medium Enterprises (MSME) are classified in two classes, which are as follows:

- 1) **Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first

schedule to the Industries (Development and Regulation Act, 1951). The manufacturing enterprises are defined in terms of investment in plant and machinery.

- a) A microenterprise is where the investment in plant and machinery does not exceed **₹25 lakh**.
  - b) A small enterprise is where the investment in plant and machinery is more than **₹25 lakh** but does not exceed **₹5 crore**.
  - c) A medium enterprise is where the investment in plant and machinery is more than **₹5 crore** but does not exceed **₹10 crore**.
- 2) **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.
- a) A microenterprise is where the investment in equipment does not exceed **₹10 lakh**.
  - b) A small enterprise is, where the investment in equipment is more than **₹10 lakh** but does not exceed **₹2 crore**
  - c) A medium enterprise is, where the investment in equipment is more than **₹2 crore** but does not exceed **₹5 crore**.

### Characteristics of MSME Sector

The characteristics of the MSMEs sector are as follows:

- ❖ Born Out of Individual Initiatives
- ❖ and Skills
- ❖ Greater Operational Flexibility
- ❖ Low Cost of Production
- ❖ High Propensity to Adopt
- ❖ Technology
- ❖ High Capacity to Innovate

- ❖ Export
- ❖ High Employment Orientation
- ❖ Reduction of Regional Imbalances

- 1) **Born Out of Individual Initiatives and Skills:** MSMEs tend to evolve along a single entrepreneur or a small group of entrepreneurs; in many cases; leveraging on a skill set. There are other MSMEs being set-up purely as a means of earning a livelihood. These include many trading and retail establishments while most countries continue MSMEs to manufacturing services, others adopt a broader definition and include retail as well.
- 2) **Greater Operational Flexibility:** The direct involvement of the owner(s), coupled with flat hierarchical structures and less number of people ensure that there is greater operational flexibility. Decision-making such as changes in price mix or product mix in response to market conditions is faster.
- 3) **Low Cost of Production:** MSMEs have lower overheads. This translates to lower cost of production, at least Up to limited volumes.
- 4) **High Propensity to Adopt Technology:** Traditionally MSMEs have shown a propensity of being able to adapt and internalize the technology being used by them.
- 5) **High Capacity to Innovate Export:** MSMEs skills in innovation, improvisation, and reverse engineering are legendary. By being able to meet niche requirements, they are also able to capture export markets where volumes are not huge.
- 6) **High Employment Orientation:** MSMEs are usually the prime drivers of jobs, in some cases creating up to 80% jobs. MSMEs tend to be labor-intensive per se and are able to generate more jobs for every unit of investment, compared to their bigger counterparts.
- 7) **Reduction of Regional Imbalances:** Unlike large industries where

divisibility of operations is more difficult. MSMEs enjoy the flexibility of location. Thus, any country, MSMEs can be found spread virtually right across, even though some specific locations emerge as 'clusters'.

### Scope of MSME Sector

The scope for small enterprises is vast covering a wide variety of activities starting from retailing to manufacturing. There are some specific areas of economic activity that can be effectively and successfully managed by forming small business enterprises. Following are the scope of small business:

- 1) **Manufacturing Industries:** This type of small enterprise is involved in producing complete articles used for direct consumption and also for processing industries. These are:
  - a) **Village and Cottage Industries:** These are industries which are carried on in homes of workers which we have designated as cottage industries.
  - b) **Handlooms and Handicrafts:** These industries cover artisans, skilled craftsmen and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 2kW power less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products, electronic and electrical gadgets are some examples of these industries.
  - c) **Modern Small Industries:** These industries are:
    - i) **Small Enterprises:** According to the Government of India, 2000, small-scale industry is an undertaking having an investment in plant and machinery of not more than ₹1 corer.
    - ii) **Ancillary Industries:** These are industrial undertakings having fixed investment in plant and machinery not exceeding ₹75 lac (Government of India, 1991) engaged in the manufacturing of parts components, sub-assemblies, tooling or intermediaries, or the rendering of services supplying 30% of their products or services, as the case may be, to other units for production of other articles.

iii) **Tiny Units:** This refers to undertakings having fixed investment in plant and machinery not exceeding ₹5 lac. These also include undertakings providing services such as laundry, zeroing, repairs and maintenance of customer equipment and machinery, hatching and poultry, etc.

2) **Trading Industries:** These types of small entrepreneurs are engaged in the sale and purchase or exchange of goods and services. These industries act as middlemen between producers and consumers. This type of unit includes wholesalers, retailers, and commission agents.

3) **Service Industries:** These small entrepreneurs' establishments are engaged in personal or household services in rural areas and towns with a population not exceeding ₹5 lac and having fixed investment in plant and machinery not exceeding ₹2 lac. These industries include

- a) Professional services, e.g., services of law, accounting medicine, consultancy, etc.
- b) Commercial services, e.g., transport, constructing warehousing, real estate, repair shops, etc
- c) Personal services, e.g., fashion shops, dry cleaning restaurants, etc.

### **Role of MSME Sector in Economic Development of India**

Small and Medium Enterprises (MSMEs) have a very important role to play in ensuring that processes of economic growth in our country are inclusive, employment-friendly and they contribute to greater regional balance in levels of development. There are some of the major roles that are played by MSME are as follows:

- 1) **Employment Generation:** SSI Sector in India creates the largest employment opportunities for the Indian, next only to Agriculture. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector generates employment for four persons.
- 2) **Production:** The small scale industries sector plays a vital role in the growth of the country. It contributes 40% of the gross manufacture to the

Indian economy. It has been estimated that a lakh rupees of investment in fixed assets in the small scale sector produces 4.62 lakhs worth of goods or services with an approximate value addition of ten percentage points.

- 3) **Export Contribution:** SSI Sector plays a major role in India's present export performance. 45%-50% of the Indian Exports is being contributed by the SSI Sector. Direct exports from the SSI Sector account for nearly 35% of total exports. The number of small scale units that undertake direct exports would be more than 5000.
- 4) **Innovation and Development:** MSMEs are quick in assimilating new design trends, developing contemporary products, and bringing them to the marketplace ahead of the competition. MSMEs tend to be far more innovative in developing indigenous or appropriate technology, which may be grown later into pioneering technological breakthroughs.
- 5) **Utilizing Resources Optimally:** MSMEs are notably skillful in maximizing the use of scarce capital resources and are able to partner with large firms by supplying locally available raw materials in unprocessed or semi-processed forms.
- 6) **Developing Entrepreneurial Capacity:** MSMEs can act as the seedbed for the development of entrepreneurial skills and innovation. They play an important part in the provision of services in the community. They can make an important contribution to regional development programs.
- 7) **Increases GDP:** The MSME sector contributes about 9 percent of the country's GDP, 45 percent of the manufactured output and 40 percent of its exports, the Minister said and added the MSMEs provide employment to over 73 million persons through more than 31 million enterprises with a lower labor to capital ratio and produces 6,000 products range from traditional to high tech items.
- 8) **Feeder to Large Industries:** MSMEs are complementary to the large scale industries. Small and medium scale industries manufacture various types of components, spare parts, tools, and accessories which are required by the large scale sector. Small and medium firms also distribute the goods produced by large scale firms.
- 9) **Opportunity for Artisan:** In villages, artisan/specialist/artist having

expertise in different fields are found. Because of a lack of opportunities their skills do not come into limelight. Small and medium businesses provide opportunities to such people. This provides an impetus to their talent.

- 10) **Increase Standard of Living:** With the establishment of small businesses in rural or nearby regions, villages get many types of facilities, for example, employment, electricity, water, roads, education, banks, modes of transportation, etc. In such a situation, the promotion of standard of living is inevitable.
- 11) **Less Pressure of Population on Agriculture:** As more population depends upon the land for survival the land is further divided into small pieces. It no longer remains beneficial to do farming on such small fields, Every year there is a further increase of approximately. Thirty lakh people who depend on agriculture. So, this has become necessary to reduce this burden on the land. This is possible only when people will establish small businesses.
- 12) **Equitable Distribution of Income:** With the establishment of these businesses the income of the country is not just concentrated with some handful of city industrialists but is also distributed among many small rural industrialists. This helps to reduce the gap between the rich and the poor in the country.
- 13) **Social Advantage:** MSMEs offer the opportunity for an independent way of life to people with small means. They offer savings in social overheads like education, housing, and medical facilities by taking industry nearer to the people. They help to raise per capita income and standard of living in the country. A system of widely diffused ownership permits wider participation of people in the process of economic development. Small and medium -scale sector provides a base for democracy, socialism, and self-government.

## Large Scale Enterprises

Over the years agriculture has been the major source of livelihood of the Indian population. However, after Independence, the founding fathers saw the nation progressing with a decent industrial base. This triggered the formulation of programs and strategies to construct a proper infrastructure for speedy industrialization.

India has been successful in achieving autonomy in producing different basic and capital products since its independence. The productivity of the major Indian industries incorporates aircraft, vessels, automobiles, steam engines, heavy electrical equipment, construction machinery, chemicals, precision equipments, communication instrument, power generation and transmission tools, and computers. Iron and steel, jute, and cotton industries were established with the help of modern techniques of production before independence.

Large scale enterprises refer to those industries which require huge infrastructure, manpower, and have an influx of capital assets. The term 'large scale enterprise' is a generic one including various types of industries in its purview. All the heavy industries of India like the iron and steel industry, textile industry, automobile manufacturing industry fall under the large-scale industrial arena. However in recent years due to the IT boom and the huge amount of revenue generated by it the IT industry can also be included within the jurisdiction of the large-scale industrial sector. Last but not least the telecom industry also forms an indispensable component of the large-scale industrial sector of India. Indian economy is heavily dependent on these large industries for its economic growth, generation of foreign currency, and for providing job opportunities to millions of Indians.

The main examples of large scale enterprises include sewing machines and parts, machine-tools, automobile parts, diesel-oil engines and parts, scooters, nylon, and staple spinning.

### Characteristics of Large Scale Enterprises

There is a range of circumstances or facts which contribute to the unique nature of large scale enterprises, and while there is no formal definition for a large-scale

organization, the generally accepted features for large organization are as follows:

- 1) **Strategic Objectives are Formulated:** These are set to provide the long-term objectives (usually for the next five years) for the organization. When dealing with large numbers of employees, it is important that both management and employees are working to achieve a common set of objectives and not carrying on activities only relevant to their own individual agenda. It is important to create synergy.
- 2) **Strategic Planning is Undertaken:** Strategic planning involves the long-term planning (two to five years) undertaken by senior management to achieve specific corporate objectives.
- 3) **Formalized Policies, Procedures, and Rules are Adopted and Documented:** Formalised policies, procedures, and rules are adopted and documented in order for the organization to function properly and for all employees to know how to act and react.
- 4) **Organizational Structure is Devised:** An organizational structure forms the basis of its internal formal framework to show how management is linked and how authority is transmitted. A typical structure is based on departmental lines, with departments being divided according to their function, such as operations, finance, human resources, marketing, and research and development. The common way of showing an organization's structure is diagrammatically in an organizational chart.
- 5) **Chain of Command and Hierarchical Management Structure is Established:** A chain of command is created due to the need for a route through which authority can be passed down. The chain of command originates with the Board of Directors and the chief executive officer and passes down to each level of the hierarchical structure. Each level represents a ranking of staff, with lower ranks being subordinate to superiors of a higher rank. The trend in modern organizations has been a move towards a flatter management structure.
- 6) **Coordinated and Decentralised Approach to Decision-Making is Adopted:** Decentralisation involves delegation to and empowerment of employees and requires coordination to ensure that decisions made throughout the organization work towards achieving its overall corporate

objectives.

7) **Specialization of Activities into Departments or within Departments**

**Occurs:** The size and range of activities in which an organization is involved will generally require it to be broken into departments. This will allow for the specialization of the activities into departments or within departments. For example, the marketing department will be responsible for all decisions relating to marketing a product, as well as working in conjunction with the research and development department in product development.

### Importance of Large Scale Enterprises

Every country needs exploring of coal, iron and steel, exploring oil and its purification, heavy machineries, heavy electrical equipments, heavy chemicals, ships and airplanes, industries of heavy and basic industries for its development. All these industries help to develop agriculture, transport, communication facilities, and other industries. It means the development of large scale enterprises is almost essential for the development of heavy and basic industries.

- 1) **Improvement in Productivity:** In large scale enterprises work is distributed among the laborers according to their efficiency which improves productivity. These industries also use huge modern capital which raises productivity and reduces cost per head. It enables the consumer to get commodities at a cheaper rate.
- 2) **Import Substitution:** Capital goods and consumer goods that are imported from foreign countries can be produced inside the country through large scale enterprises. Our country will depend upon foreign countries on heavy chemicals, heavy electricity, chemical fertilizers, and other consumer goods, unless we develop large scale industries. Due to the development of large scale enterprises, all these commodities are produced inside the country and there is no need for import which is known as import substitution.
- 3) **Export Promotion:** Large scale enterprises change the pattern of export. In the old days, we exported skin, tea, jute, jute products, spices of different types, and cotton clothes to foreign countries. Due to the

development of large scale enterprises, we are now able to export engineering products, heavy electric products, and other industrial products. It means large scale industries have changed the pattern of export and increased the quantity of export.

### Major Large Scale Enterprises in India

Few major enterprises in India are as follows:

- ❖ Iron and Steel Enterprises
- ❖ Sugar Enterprises
- ❖ Textile Enterprises
- ❖ Cotton Enterprises
- ❖ Jute Enterprises
- ❖ Man-Made Fibre Enterprises
- ❖ Chemical Fertiliser
- ❖ Paper Enterprises
- ❖ Food Processing Enterprises
- ❖ Automobile Enterprises
- ❖ Electronic Enterprises
- ❖ Chemical Enterprises
- ❖ Cement Enterprises
- ❖ Mining Enterprises
- ❖ Petroleum Enterprises
- ❖ Software Enterprises

- 1) **Iron and Steel Enterprises:** The use of iron in India is too old. Iron Pillar of Delhi and the use of iron in old temples of Puri and Konark show that iron was used in ancient times. The use of iron has increased in the modern days. Beginning from needles to machineries, cycles to airplanes and windows, doors, big buildings, dams, and projects are prepared and constructed with the help of iron.
- 2) **Sugar Enterprises:** The advent of the modern sugar processing industry in India began in 1930 with a grant of tariff protection to the Indian sugar industry. The number of sugar mills increased from 30 in the year 1930-31 to 135 in the year 1935-36 and the production during the same period increased from 1.20 lac tonnes to 9.34 lac tonnes under the dynamic leadership of the private sector.

- 3) **Textile Enterprise:** This industry is an old industry in India. India is famous for its traditional hand-woven cottage industry for producing cloth. Gradually we used cotton, jute, wool, and artificial fiber like rayon terrene, and polyester, etc., to produce cloth and different types of textile industries have been established.
- 4) **Cotton Enterprises:** Cotton clothes are more popular in India because of the hot climate. The cotton industry uses cotton as prime raw materials. With the help of cotton, sarees, dhotis, and sheets are produced. The first cotton industry was established in the year of 1851 in Bombay. Though cotton industries are found throughout the country but it is more expanded in the States of Maharashtra, Gujarat, and Tamil Nadu.

Except for these states, cotton industries are also found in Kanpur and Midnapur of Uttar Pradesh, Kolkata of West Bengal, Gwalior of Madhya Pradesh, Mysore and Bangalore of Karnataka, Jetport of Rajasthan, Britani of Haryana, Amritsar of Punjab, Chuwar of Orissa and in the union territories of Delhi. Large-scale cotton yarn industries have been operating to provide yarn to the handloom industry of Andhra Pradesh and Kerala.

- 5) **Jute Enterprises:** The fibred of the jute plant is known as jute. This jute is regarded as the raw material of the jute industry and bags, ropes, carpal, carpet, and small ropes are produced from it. The first jute industry was established in the year of 1854 in Risra near the river Hoogly which is situated 23 km away from Kolkata. Most of the jute industries of India are situated near the river the Hoogly in West Bengal.

Jute is cultivated more near the Hoogly River. So the jute industry gets more raw materials like jute. The reasons for the development of the jute industry are transport facilities, availability of raw materials, and Kolkata Port. Except West Bengal, jute industries have been established in other states like Andhra Pradesh, Bihar. Uttar Pradesh, Madhya Pradesh, and Orissa.

- 6) **Man-Made Fibre Enterprises:** Nylon, terylene, and polyester, etc., are artificial fibers. Rayon fiber is produced from bamboo and wood pulp, nylon fiber from coal, and tideline fiber from petroleum. These fibers are durable. Nowadays, we find different types of dresses and garments produced with the help of these artificial fibers. Except these, threads and ropes which

are produced from these artificial fibers are strong and durable and they are also used to knit net to catch fish. Artificial fiber industries are found in Bombay, Kanpur, Kolkata, Chennai, Pune, Nagpur, Rajonpuram (Maharashtra), etc.

- 7) **Chemical Fertiliser Enterprises:** This industry is necessary for the development of agriculture and agricultural products. Chemical fertilizer industry uses Naphtha, the emission from the oil purification industry, emitted gas from coal, emitted gas from thermal electricity, sculpture and gypsum, etc., as raw materials and different types of fertilizers are produced.

The chemical fertilizer industry is second to the iron and steel industry from invested capital and value of product point of view. The first chemical fertilizer industry was established in the year 1906 in the Ranipet of Tamilnadu. In the year 1951, after independence, the chemical fertilizer industry was established in Sindhri. After that, the fertilizer industry has developed a lot.

Fertilizer industries are found in Sindhri of Bihar, Kamrup of Assam, Bombay of Maharashtra, Naively of Tamilnadu, Always of Kerala, Nangal of Punjab, Talcher, Rourkela and Paradeep of Orissa, and Gorakhpur and Varanasi of Uttar Pradesh.

- 8) **Paper Enterprises:** Paper is necessary for books, khats, and newspapers. Nowadays paper is also used for packing extensively. In the year 1932 first paper industry of India was established in Srirampur of West Bengal. This industry was not developed before independence. During these last 25 years, paper industries have developed a lot. Softwood, bamboo, grass, the residue of sugarcane, straw, and other wastage papers are used as raw materials of the paper industry. This industry needs caustic soda, washing soda, bleaching powder like chemicals. Huge paper industries are found in Titagarh of West Bengal, Choudwar, Brajaraj Nagar, and Rayagada of Orissa, Rajmuhendry of Andhra Pradesh, Neapanagar of Madhya Pradesh, Dalmia Nagar of Bihar, Lucknow of U.P., Faridabad of Haryana, Bombay of Maharashtra, Bhadravati of Karnataka, and Pulam of Kerala. Newsprints are produced in Neapanagar.

- 9) **Food Processing Enterprises:** In terms of the global food business, India

accounts for less than 1.5% in spite of being one of the key food-producing nations worldwide. But this on the other hand also indicates the enormous possibilities for the growth of this industry. Supported by the GDP estimates, the approximate expansion of this sector is between 9-12% and during the tenth plan period, the growth rate was around 68%. Food Processing Industry provides job opportunities to 1.6 mn people and it is estimated to expand by 37 mn by 2025.

- 10) **Automobile Enterprises:** The automobile industry is the ninth-largest in the world with an annual production of over 2.3 million units in 2008. In 2009, India emerged as Asia's fourth-largest exporter of automobiles, behind Japan, South Korea, and Thailand. Several Indian automobile manufacturers such as Tata Motors, Maruti Suzuki and Mahindra and Mahindra, expanded their domestic and international operations. India's robust economic growth led to the further expansion of its domestic automobile market which attracted significant India-specific investment by multinational automobile manufacturers. In February 2009, monthly sales of passenger cars in India exceeded 100,000 units.
- 11) **Electronic Enterprises:** India remains a major importer of components and finished equipment amounting to around \$20 billion (₹84,000 crore now) in 2007. The country imports electronic goods mainly from China. In the last four years, the production of computers has grown at a compounded annual growth rate (CAGR) of 31%, the highest among the various electronic products in India. The government has identified electronics and IT hardware manufacturing as one of the thrust areas for development. A special incentive package scheme (SIPS) was announced in March 2007 to attract investments for semiconductor fabrication and other micro and nanotechnology manufacturing industries in India. India's main destination for electronic goods is the US.
- 12) **Chemical Enterprises:** Indian Chemical Industry generates around 70,000 commercial goods ranging from plastic to toiletries and pesticides to beauty products. It is regarded as the oldest domestic sector in India and in terms of volume, it gives a sense of pride to India by featuring as the 12 largest producers of chemicals. With an approximate cost of \$28 billion, it amounts to 12.5% of the entire industrial output of India and 16.2% of its entire exports. Under Chemical industries some of the other rapidly emerging sectors are petrochemical, agrochemical, and

pharmaceutical industries.

- 13) **Cement Enterprises:** India has 10 large cement plants governed by the different state governments. Besides this India have 115 cement plants and around 300 small cement plants. The big cement plans have installed a competence of 148.28 million tones per annum whereas the mini cement plants have a total capacity of 11.10 million tonnes per annum. This totals the capacity of the Indian cement industry at 159.38 million tonnes. Ambuja Cement, JK Cement, Aditya Cement, and L&T Cement are some of the major steel companies in India.
- 14) **Mining Enterprises:** The GDP contribution of the mining industry varies from 2.2% to 2/5% only but going by the GDP of the total industrial sector it contributes around 10% to 11%. Even mining done on small-scale contributes 6% to the entire cost of mineral production. Indian Mining Industry provides job opportunities to around 0.7 million individuals.
- 15) **Petroleum Enterprises:** Petroleum enterprises started its operations in the year 1867 and is considered as the oldest Indian industry. India is one of the most flourishing oil markets in the world and in the last few decades has witnessed the expansion of top national companies like ONGC, HPCL, BPCL, and IOC.
- 16) **Software Enterprises:** Software Industry registered a massive expansion in the last 10 years. This industry signifies India's position as the knowledge-based economy with a Compounded Annual Growth Rate (CAGR) of 42.3%. In the year 2008, the industry grew by 7% as compared to 0.59% in 1994-95.

### **Export Oriented Companies**

An export-oriented company is one which produces goods mainly for exports, rather than for the domestic market. The term is commonly used to describe factories in developing countries producing goods for developed countries. Such companies are heavily dependent on the exchange rate, usually wanting their domestic currency to be weak, as this allows them to sell their products cheaply abroad.

Export companies export goods to other countries in the world. It involves lengthy

procedures and formalities. In export marketing, goods are sent abroad as per the procedures framed by the exporting country as well as by the importing country. Export business is more complicated to domestic business due to international restrictions, global competition, lengthy procedures and formalities, and so on. Moreover, when a business crossed the borders of a nation, it becomes infinitely more complex. Along with this, export marketing offers ample opportunities for earning huge profits and valuable foreign exchange.

Export-oriented companies have wider economic significance as it offers various advantages to the national economy. It promotes economic/business/industrial development, to earn foreign exchange and ensures optimum utilization of available resources. Every country takes various policy initiatives for promoting exports and for meaningful participation in global marketing. Global business is a reality and every country has to participate in it for mutual benefits. Every country has to open up its markets to other countries and also try to enter in the markets of other countries in the best possible manner. This is a normal rule which every country has to follow under the present global marketing environment. In the absence of such participation in global marketing, the process of economic development of the country comes in danger.

### **Functions of Export Oriented Companies**

The functions of export-oriented companies consist of those activities, which are necessary for the smooth flow of goods from the producers or sellers to the purchasers or consumers. The following are the functional areas of the company:

- ❖ International Marketing Research
- ❖ Export Production
- ❖ Export Packaging
- ❖ Export Pricing
- ❖ Advertising
- ❖ Sales Promotion
- ❖ Export Risk Management

- ❖ Financing
- ❖ Branding
- ❖ Transporting

- 1) **International Marketing Research:** It is one of the important areas of marketing, through international research. The export-oriented companies come to know about the likes, dislikes, tastes, and behavior of foreign consumers marketing research is must in export markets due to various factors such as diversities in social, cultural, economic and political background of distant markets. Thus, marketing research will help to identify the right export for the company's products.
- 2) **Export Production:** The fruits of marketing research and R&D can be put into use by producing the goods and services as per the needs and requirements of foreign markets, strict activity control must be maintained while producing export goods. Goods and services should conform to international standards, and then only the export firm will survive and succeed in the overseas market.
- 3) **Export Packaging:** Packaging for exports must be given due consideration. Proper and attractive packing not only protects the products but also sell. The product in the market, this is because attractive packaging has an advertising value if required assistance can be taken from the Indian Institute of Packaging located at Marol Andheri Mumbai.
- 4) **Export Pricing:** It is one of the important aspects of export-oriented companies; a proper pricing strategy spells a firm's survival and success not only in the home market but also in the export market, while fixing prices, the exporter cost, demand, and competitive environment prevailing in the export market.
- 5) **Advertising:** Nowadays, advertising is considered to be one of the most effective ways of promoting goods and services. It makes consumers aware of the qualities, uses, and benefits of the products that are available in the market. The Exporter-oriented company can make use of various media of advertising such as newspapers, magazines, trade journals, trade directories, televisions, etc. for selling in foreign markets.

- 6) **Sales Promotion:** Apart from advertising, there are various sales promotion techniques such as sales on an instalment basis, free gifts, contests, offering discounts, etc., effective selling through sales can also increase sales in the overseas market.
- 7) **Export Risk Management:** Export risk involves risk to the export cargo in transit, which can be insured with marine insurers, a more important risk is that credit offered to an overseas buyer, the Government of India has set-up Export Credit Guarantee Corporation (ECGC) to provide credit insurance to protect exporters from the consequences of payment risks.
- 8) **Financing:** In order to carry out various marketing activities such as marketing research, sales promotion, etc., there is a need for funds, the funds can be obtained as advances from the customers, credit from suppliers, loans from institutions, etc.
- 9) **Branding:** This is one of the important marketing functions, it refers to give name to the product. The purpose of branding is to give a separate identity to the product, which is distinct from that of its competitor. At times, a catchy brand name can sell the product in the market. Care must be taken to see that the brand name so selected not have negative meanings in foreign languages.
- 10) **Transporting:** It refers to moving goods from one country to another normally the exporter make of transporting export goods, i.e. sea transport and air transport. The nature of goods, cost transport, buyers requirement and such other factors efficient export marketing requires the right choice of transport,

### Types of Export Oriented Companies

There are different types of export-oriented Companies explained as follows:

- ❖ Manufacturer Exporter
- ❖ Merchant Exporter
- ❖ Entrepreneur Merchant Exporters
- ❖ Export Houses

- ❖ Star Export House
- ❖ Trading House
- ❖ Premier Trading Houses
- ❖ Canalizing Agencies
- ❖ Export Consortium
- ❖ State Corporations

- 1) **Manufacturer Exporter:** These are the direct exporters. The manufacturer obtains the orders from the overseas markets, manufactures the goods, and then exports. The main advantages are reputation in the domestic as well as overseas markets, optimum use of resources, spreading of risks of domestic market, and export obligation fulfillment. Manufacturer exporters are those who undertake manufacturing and marketing activities simultaneously. These activities may be carried out by owner-manager of a small unit or by a large manufacturing organization such as corporate undertaking. Manufacturer exporters are in a better position to enter into the export market in a successful manner as compared with the merchant exporters. Manufacturer exporters are able to design products as per the requirements of the buyers. They are able to execute orders in time by following the planned production schedule.
- 2) **Merchant Exporter:** These exporters are those traders who do not manufacture goods by themselves but they arrange the required goods and services from local manufacturers and sell directly to the foreign buyers. Normally, such exporters have very good arrangements with several manufacturers who produce goods as per the requirements of the merchant exporters. However, if any dispute arises as to the quality of products in foreign markets, the merchant exporter alone is responsible, merchant exporter should be careful in selecting the most reliable manufacturer.
- 3) **Entrepreneur Merchant Exporters:** In order to create a linkage between domestic production and export marketing and also to support entrepreneur initiative in export from Small Scale Industries Sector, a new

scheme for granting certain special facilities introduced by the Ministry of Commerce from 1984. Entrepreneur Merchant Exporters (EMES) will be eligible for an additional licenses on the basis of 5% of the F.O.B. value of their exports of select products manufactured by SSI/Cottage Sector Units subject to the following conditions:

- a) The Entrepreneur Merchant Exporter must be a manufacturer.
  - b) Minimum F.O.B. value of eligible exports of select products manufactured by SSI/Cottage Sector Units should not be less than ₹20 lac in the year before the preceding year and a minimum increase of 20% achieved in the F.O.B. value of such exports in the year before the preceding year.
  - c) The Entrepreneur Merchants Exporters should register themselves as 'EME's with the Export Promotion Council dealing with the concerned export product.
- 4) **Export Houses:** These houses were introduced by the Government of India in the year 1960 with the objective of promoting export by providing assistance for building the marketing infrastructure and expertise required for export promotion. To qualify for export houses, the exporter must have aggregate export performance during the four years of ₹20 crore.
- 5) **Star Export House:** The concept of star export houses have been introduced in the Foreign Trade Policy (2004-2009). The Star Export Houses are also known as status holders. The position about the eligibility of the various categories is exhibited in the table below:

| Category                | ₹           |
|-------------------------|-------------|
| One Star Export House   | 15 Crore    |
| Two Star Export House   | 100 Crore   |
| Three Star Export House | 500 Crore   |
| Four Star Export House  | 1,500 Crore |
| Five Star Export House  | 5,000 Crore |

- 6) **Trading House:** Manufacturer exporters, merchant exporters, EOUS, units in SEZs, and others can apply for trading house status. In April 2007, the government replaced the concept of a three-star export house by trading house. To qualify for a trading house, the exporter must have total export performance (FOB) during the four years of ₹500 crore.
- 7) **Premier Trading Houses:** Manufacturer exporters, merchant exporters, EOUS units in SEZ, and others can apply for premier trading house status. In April 2007, the government replaced the concept of five-star export houses by premier trading houses. To qualify for the premier trading house, the exporter must have Aggregate Export Performance (FOB) during the four years of 10,000 crore.
- 8) **Canalizing Agencies:** These agencies are concerned with production, distribution, and marketing of goods and services. The main canalizing agency is the State Trading Corporation of India which was established on May 18, 1956, to organize and undertake exports from India of all such goods which the corporation determines from time to time and also organize and undertake purchase and sales of goods and services.

Canalizing agencies are notified agencies responsible to undertake export of commodities assigned to them. State Trading Corporation (STC) canalizing agency set-up to undertake exports from India of foodgrains. Some other canalizing agencies are NAFED, Projects and Equipment Corporation of India Ltd., Cashew Corporation of India Ltd., Minerals and Metals Trading Corporation of India Ltd., Handicrafts and Handlooms Export Corporation. These canalizing agencies provide specialized facilities and assistance to their exporting manufacturer suppliers who are called business associates.

- 9) **Export Consortium:** Manufacturers, especially in the small sector can organize themselves into a cooperative organization for export purposes, which is called as export consortium. The export consortium enables individual exporters to take advantage of joint marketing efforts, such as joint negotiation with overseas buyers, joint marketing research, joint shipment, etc.
- 10) **State Corporations:** State governments have taken interest in promoting exports of their State products through State Corporation. In

some States, export promotion activities have been assigned to the State Small-Scale Industries Development Corporation. As. e.g.. MSSIDC, Uttar Pradesh Export Promotion Corporation, Bihar Export Promotion Corporation, and Gujarat Export Promotion Corporation, etc., have been set-up to promote export of the small-scale sector. Besides State level corporation, the National Small Industries Corporation has also been playing a key role in promoting and diversifying the export of the small-scale sectors.

### **Benefits of Export Oriented Companies**

Exports increase the potential for the export-oriented companies offering, nation's development and help to reduce risk in the following ways:

- 1) **Market Diversification:** By exporting, companies avoid dependency on the domestic market. In times of tough market conditions or a long economic recession, any business may be affected. The best way to avoid those types of risks is through market diversification.
- 2) **Additional Source of Revenues:** Selling abroad to a reliable distributor for a long period of time will provide us additional steady streams of revenues.
- 3) **Use of Excess Production Capacity:** Increase production to achieve an efficient level of production while reducing fixed costs.
- 4) **Leverage on Purchasing Power:** Increase the negotiation power at the time of purchasing a higher volume of raw materials, which will finally be part of the export products.
- 5) **Business Operation Stability:** If the business operation is subject to revenue fluctuations due to seasonal factors, exporting to countries with opposite seasons will allow the company to gain stability in its operations.
- 6) **Product Lifecycle Extension:** When products reach the maturity stage, many companies replace them with new products investing a significant amount of resources in their development. However, exporting them to specific target markets, mature products may still have potential abroad.

- 7) **Product Improvement:** Competing in international markets is an excellent source of learning to gain more competitiveness in the domestic market.
- 8) **Lower Unit Costs:** Export-oriented companies put idle production capacity to work. This is generally achieved the more efficient utilization of the existing factory, machines, and staff. Lower unit costs make a product more competitive in the local marketplace as well as in foreign markets, and/or can contribute to the firm's overall profitability.
- 9) **Economies of Scale:** Export-oriented companies enjoy economies of scale as they are involved in large scale production. Exporting is an excellent way to enjoy pure economies of scale with products that are more "global" in scope and have a wider range of acceptance around the world (in other words, they can be used in other parts of the world without much adaptation).
- 10) **Minimizing the Effect of Seasonal Fluctuations in Sales:** Being in the Southern Hemisphere, South Africa has seasons that are opposite to those in the Northern Hemisphere. Export-oriented companies that sell seasonal goods such as fruit growers, and swimwear or suntan lotion manufacturers, being able to sell these goods in the Northern Hemisphere when our season ends, helps to achieve a longer and more stable sales pattern
- 11) **Untapped Markets:** An export-oriented company may have a very unique product that is not yet available elsewhere in the world. In this instance, these untapped markets are likely to drive the firm's export activities. Other firms may want to take advantage of high-volume purchases in large markets overseas, such as in the U.S., Europe, and Asia.

## **Multinational Corporations (MNCs) in India**

**Multinational corporations (MNCs)** are companies that manufacture and market the products or services in several countries. Typically a multinational corporation operates in a number of plants abroad and markets products through a large network of fully-owned subsidiaries. Although the multinational corporation took birth in the early 1860s, it was after World War II that the multinationals have grown rapidly. The first MNC came to India in 1921.

In the early days, the United States was the home of most of the MNCs. Now there are a number of European and Japanese multinationals. Multinationals have been emerging from the developing countries too.

A multinational corporation has been defined as follows:

"An enterprise which allocates company resources without regards to national frontiers, but is nationally based in terms of ownership and top management."

"An enterprise which own or control production or service facilities outside the country in which they are based."

**According to James C. Baker**, the multinational corporation is a company

- 1) Which has a direct investment base in several countries,
- 2) Which generally derives from 20 percent to 50 percent or more of its net profits from foreign operations, and
- 3) Whose management makes policy decision based on the alternatives available anywhere in the worlds

It is an enterprise, which allocates company resources without regards to national frontiers, but is nationally based in terms of ownership and top management. It comprises of three words multi, national, and corporations. These words together mean that corporations that have established their offices to increase the interaction either by their own efforts or by collaborations with other companies.

It took lots of time in for **Indian companies** to expand themselves globally and become a multinational company (MNC). As the time passes India acquire many companies in abroad, recruited many people outside India, and become world popular supplier. India Inc. is flying high. Not only over the Indian sky. Many Indian firms have slowly and surely embarked on the global path and lead to the emergence of the Indian multinational companies. India is a democratic, multi-cultural society.

Many multinational companies are there in India and which connects it to the rest of the world. The expansion of several companies like Mittal steels, Tata group, etc. shows the emergence of Indian multinationals.

### **Present Scenario of Indian MNCs**

Indian companies are rapidly gaining confidence and are themselves now major players in globalization through international expansion. From steel to Bollywood, from cars to IT, Indian companies are setting themselves up as powerhouses of tomorrow's global economy. The following are different operational areas in which major companies are operating as multinationals in India:

- 1) **Tata Motors:** Tata Motors sells its passenger car Indica in the UK through a marketing alliance with Rover and has acquired a Daewoo Commercial Vehicles unit giving it access to markets in Korea & China.
- 2) **Ranbaxy:** Ranbaxy is the ninth-largest generics company in the World. An

impressive 76 percent of its revenues come from overseas.

**3) Dr. Reddy's Laboratories:** Dr. Reddy's Laboratories became the first Asia-Pacific pharmaceutical company outside Japan to list on the New York Stock Exchange in 2001.

**4) Asian Paints:** Asian Paints is among the 10 largest decorative paint makers in the World and has manufacturing facilities across 24 countries.

**5) Bharat Forge:** Small auto components company Bharat Forge is now the World's second-largest forgings maker. It became the World's second-largest forgings manufacturer after acquiring Carl Dan Peddinghaus a German forgings company last year. Its workforce includes Japanese, German, American, and Chinese people. It has thirty-one customers across the World and only 31% of its turnover comes from India.

**6) Essel Propack:** Essel Propack is the World's largest manufacturers of latitudes; tubes used to package toothpaste. It has 17 plants spread across 11 countries. The company commands a staggering 30% of the 12.8 billion-units global tubes market.

**7) TCS:** It is the largest provider of information technology in Asia and the second-largest provider of business process outsourcing services in India. About 80 percent of revenues for Tata Consultancy Services come from outside India.

**8) Infosys:** Infosys has 49,422 employees including employees from over 33 nationalities other than Indian. It has (approximately) 30 marketing offices across the World and 26 global software development centers in the US, Canada, Australia, the UK, and Japan.

**9) Sundram Fasteners:** Sundram Fasteners is not merely a nuts and bolts company. It believes in thinking out of the box. Probably that is why it decided to acquire a plant in China. The plant in Jiaxin city in the Haiyan economic zone has ensured one fact that its customers who were earlier buying Sundram products in Europe and the US, did not have to go far from home to access the product.

### **Role of MNCs in India**

The role of MNCs in India can be explained in the form of the following points:

### Role of MNCs in India

- Profit Maximisation
- International Network of Marketing
- Diversification Policy
- Concentration in Consumer Goods
- Location of Central Control Offices
- Techniques to achieve Public Acceptability
- Existence of Modern and Sophisticated Technology
- Business, But Not Social Justice
- Unconcern towards Social Responsibilities and Business Ethics
- MNCs and Process of Planned Economic Development in India
- Cultural Erosion
- Unconcern for Environmental Pollution and Ecological Balance

**1) Profit Maximisation:** Most of the private companies including MNCs have profit maximization as the most important objective. However, MNCs are expected to operate fairly and behave like a Corporate Citizen. But the MRTP commission had shown that Philips has undervalued its exports in order to reduce its tax liability to the Indian Government.

**2) International Network of Marketing:** India expects the MNCs to increase their exports and earn foreign exchange for India. But most of the MNCs transfer the Foreign exchange to its parent country, just in the name of imports from their home country.

**3) Diversification Policy:** India expects the MNCs to diversify their activities into the untapped areas and the priority areas like the core industry and infrastructure industry. But the majority of the MNCs diversify into the more profitable areas. For example, ITC ventured into the hotel industry.

**4) Concentration in Consumer Goods:** Most of the MNCs entered the Indian consumer market like HLL due to the high profitability rather than capital goods markets which is less profitable.

**5) Location of Central Control Offices:** MNCs diversify their activities to various countries having their central control offices which provide them maximum global advantage. Unilever, though a company born in Holland, took up British for operations in erstwhile British Colonies.

**6) Techniques to achieve Public Acceptability:** MNCs adopt a number of techniques to get the acceptability of the people of the country wherever they operate. For example, companies like Mulchandani Electronics and Indian Tobacco Company are more acceptable to Indians.

**7) Existence of Modern and Sophisticated Technology:** Maximisation of global profits is one of the major objectives of MNCs. MNCs develop modern and sophisticated technology in order to produce the products of high quality and lowest cost of production. They bring the technology to the developing world, but they do not provide the latest technology to the domestic companies of the third world.

**8) Business, But Not Social Justice:** MNCs are in business but not in social service. They believe in the superiority of free-market economies. MNCs allocate their investments according to market demand in order to maximize their profits. The wide gap between the rich and poor has been one of the characteristics of India since long back. Therefore, a section of the Indian economy enjoys a higher standard of living. MNCs in India have been concentrating only on this section in designing the product, pricing, and services.

**9) Unconcern towards Social Responsibilities and Business Ethics:** It is also criticized that MNCs try to maximize their profits and do not think of discharging their responsibilities towards Indian society. Further, it is criticized that MNCs exploit the Indian natural resources indiscriminately, export the products from India to other countries, and transfer the proceeds of sales to their home countries.

**10) MNCs and Process of Planned Economic Development in India:** Until the recent past, India was a planned economy. There was a confusion with regard to the role of MNCs in Indian planned development. Most of the MNCs operating in India during that period had different plans which were incompatible with the

Indian five-year plans.

**11) Cultural Erosion:** Indian culture with regard to dressing patterns, eating habits, building and maintaining the relations, etc., are quite distinct from the rest of the world. But, it is widely criticized that the MNC's activities with regard to the type of products (mainly cigarettes, liquor, beverages like coke, etc.), advertisements and the like, erode the Indian culture.

**12) Unconcern for Environmental Pollution and Ecological Balance:** It is widely criticized that MNCs in India did not invest in environmental polluting controlling equipment as they normally do in their home country. This in turn resulted in environmental pollution in a number of instances in the country. For example, Bhopal gas tragedy and also the failure of Union Carbide in paying due compensation to the victims is an example.

## Family Business

Another business enterprise in the Indian scenario is family business. Family business and small business are not the same. At the same time, large public firms are often family firms. "Family business" can be regarded as the most popular "mom and pop" businesses. Although many small and micro businesses are family-owned and operated, there is evidence that family firms are also fast-growth firms and very large successful firms.

Broadly, the family business has been defined as a business that is owned and managed (i.e., controlled) by one or more family members.

**According to Davis and Tagiuri**, "Family firms are organizations where two or more extended family members influence the direction of the business through the exercise of kinship ties, management roles, or ownership rights".

**According to Gallo**, "Family businesses are essentially the same in every country in the world relative to their problems, issues, & interests".

There is no consensus of opinion as to what exactly is a family business. There have been varying definitions and a review of the definitions will reveal the elements used by the authors to construct their understanding of the term. The following list outlines the gist of various definitions of family business used by various authors and academicians:

- 1) High percentage of share capital owned by a family either jointly or individually.
- 2) Family members employed in the highest decision-making posts.
- 3) Expression of intention to maintain family involvement in the future.
- 4) A number of generations of the same family involved in management or ownership.
- 5) Management or ownership control by direct descendants of the founders.

In a family enterprise, there is a unique source of competitive advantage derived from the interaction of family, management, and ownership. But, it is usually true only when the family unit is high.

### **Characteristics of Family Business**

Several characteristics of a family business are:

- 1) Clearly separate management and ownership.
- 2) Have a clearly defined vision and speak with one voice.
- 3) Take time to understand the family's concerns and the needs of individuals.
- 4) Have a common language of trust inside and outside the family business.
- 5) Live their values as well as espouse them and have high staff loyalty and low staff turnover.
- 6) Have defined roles and responsibilities for family members, shareholders, and employees.
- 7) Consider appointing non-executive directors to help bring objectivity.
- 8) It also considers the family business members who aren't involved in the business.

### **Types of Family Businesses**

Family businesses are of three types. They are as follows:

#### **Types of Family Businesses**

- Family-Owned Business
- Family-Owned and Managed Business
- Family-Owned and Led Company

**1) Family-Owned Business:** A family-owned business is a for-profit enterprise in which a controlling number of voting shares (or another form of ownership), typically but not necessarily, a majority of the shares are owned by members of a single extended family, or are owned by one family member but significantly

influenced by other members of the family.

**2) Family-Owned and Managed Business:** A family-owned and managed business is a for-profit enterprise in which a controlling number of voting shares (or another form of ownership), typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And this business has the active participation by at least one family member in the top management of the company so that one or more family members have ultimate management control

**3) Family-Owned and Led Company:** A family-owned and led company is a for-profit enterprise in which a controlling number of voting shares (or another form of ownership), typically but not necessarily a majority of the shares, are owned by members of a single extended family, or are owned by one family member but significantly influenced by other members of the family. The authority conferred by this controlling interest permits the family to determine objectives, methods for achieving them, and policies for implementing such methods. And, this business has the active participation by at least one family member in the Board of Directors of the company so that one or more family members have at least a high level of influence over the company's direction, culture and strategies.

## **INDUSTRY ASSOCIATIONS AND BODIES**

### **Introduction**

Industry associations are organizations that create a means for businesses involved in a given industry to interact with the mutual benefit of all concerned. Funded by contributions made by the member companies, the industry association often functions as a means of enhancing the public image of the industry in general, or providing a unified voice to lobby on matters of legislation that are anticipated to have an impact on the industry. Along with these two important functions, an industry association may also provide a forum to educate the general public about a given industry and its chief products.

In many instances, an industry organization is set up as a non-profit organization. This type of business organization makes it possible for companies involved in the same industry to work together on issues of common concern. To a degree, an industry organization helps to protect the integrity of an industry, in that it normally sets standards that all members must abide by in order to be considered in good standing. Failure to comply with the standards set and maintained by the peer group who operate the industry association can lead to exclusion from the association and lose a great deal of credibility in the eyes of the buying public.

The industry organization often provides the mechanism necessary to make the voice of the industry known in the law-making process. Often member companies will work through an industry association as a means of promoting legislation that is anticipated to be in the best interests of the industry. At the same time, the industry association may lobby against legislation that is perceived as being detrimental to the industry in some manner.

While many companies mount public relations and marketing plans to raise the visibility of the company and its products with consumers, an industry

association will also attempt to educate the public and generate interest. Rather than focusing on the wares of a particular company, business associations will engage in marketing and publicity campaigns that entice consumers to purchase and enjoy the goods produced by a particular industry. Part of the marketing approach is accomplished by providing facts and figures that consumers can readily grasp. The education effort of an industry association often paves the way for the marketing efforts made by individual members of the industry.

Along with lobbying, marketing, and educational efforts, an industry association often sponsors conferences for member companies. The focus of the conferences is usually to improve the general function of the industry by providing information that each participant in the conference can absorb and take back to the company level. Just about every industry or business association sponsors at least one conference or gathering on an annual basis.

There are many other industries that are associated with the Chamber of Commerce. That helps directly or indirectly in the functioning of the Chamber of Commerce. Some of the major associations are as follows:

### **Industry Associations and Bodies**

- Federation of Indian Chambers of Commerce and Industry (FICCI)
- Confederation of Indian Industry Association (CII)
- TiE (The Indus Entrepreneur)
- DICCI
- Associated Chambers of Commerce and Industry of India (ASSOCHAM)

### **Federation of Indian Chambers of Commerce and Industry (FICCI)**

The Federation of Indian Chambers of Commerce and Industry (FICCI) dates back to the days of British rule. It was set up in 1927 at the suggestion of Mahatma Gandhi, and it is the oldest, largest apex body of Indian business and a rallying point for Indian enterprise. FICCI numbers more than 1,500 corporations

across the country among its members, not to mention more than 500 chambers of commerce and business associations. It is the direct and indirect voice for more than 250,000 business units of all sizes and types.

Headquartered in the heart of New Delhi, the FICCI has world-class infrastructure and its executive committee is made up of industry leaders including key innovators, wealth creators, and employment providers. The FICCI is a body that constantly interacts with the government on economic issues, works toward promoting global trade and investment, and acts as an international business forum, offering information and guidance to investors from abroad. It also has a vast database that consists of important contacts and details about the companies registered with it.

FICCI has links to the World Trade Organisation (WTO), the United Nations Industrial Development Organisation (UNIDO), International Labour Organisation (ILO), the World Bank, the General Agreement on Tariffs and Trade (GATT), and other important organizations. It also has Joint Business Councils with various other nations. These strengths allow it to help both Indian businessmen succeed abroad and overseas businessmen succeed in India.

### **Objectives of FICCI**

The main objectives of the FICCI are as follows:

- 1) To promote a healthy interface between the business community and the government.
- 2) To work for the deregulation of the economy by persuading the government to lift administrative and other controls.
- 3) To create conditions for the globalization of the Indian economy.
- 4) To assist members in export promotion, modernization, quality control, pollution, control, etc.
- 5) To assist the government in achieving socio-economic goals of removing poverty and increasing employment opportunities.
- 6) To promote scientific research, import-substitution, and the fullest possible utilization of national resources.

## Role of FICCI

The main role of Chambers of Commerce is to project a good image of Indian products.

**1) Collection of Information:** It collects valuable information on overseas imports, import regulations, about

competitors, market potential, and other developments in foreign trade.

**2) Supplying Information:** It provides information on the latest developments in the field of export trade. It may relate to various aspects of foreign trade. Such information is vital to the exporters to promote their sales abroad.

**3) Organizing Seminars:** It organizes seminars, workshops, discussions, meetings, conferences on various aspects of foreign trade. Exporters are invited to such seminars and workshops.

**4) Trade Fairs and Exhibitions:** It may also assist the concerned authorities in organizing trade fairs and exhibitions in India and abroad. It may also assist the exporters to take part in such trade fairs and exhibitions.

**5) Advising the Government:** It appraises or advises the government authorities on current export problems

and suggest measures for export growth. It also advises the government in framing proper export-import policies from time to time. It may recommend certain modifications in the existing government policies and programs.

**6) Invite Trade Delegation:** It may invite trade delegation from abroad, both at the private level and at The government level. Such trade delegations are very important to promote the export trade of India. Foreign delegations visit India and sign contracts with Indian exporters.

**7) Send Delegations Abroad:** It may undertake the responsibility of sending trade delegations abroad comprising Indian businessman. Indian parties may visit abroad and enter into contracts with overseas

buyers. Thus, the foreign trade of India can be expanded.

**8) Professional Advice:** It may offer professional advice to exporters in areas

such as technology up-gradation, quality and design improvement, standards and specifications, product development, innovation, etc. Such advice goes a long way to improve the product and organizational efficiency of the exporters.

**9) Exploration of Overseas Markets:** It may assist the exporter in the exploration of overseas markets and identify items having export potential. It may also assist the exporter to open offices or branches abroad. It may guide the exporter in setting up of joint ventures abroad.

**10) Developing Export Consciousness:** This organization makes all possible efforts to develop export consciousness in our country. This is because there is a great need for exports for a country like ours so as to earn foreign exchange.

**11) Other Functions:** It may fix minimum floor price or may advise the government in such fixation of floor price.

### **Confederation of Indian Industry Association (CII)**

The Confederation of Indian Industry (CII) is an organization of the industries, by the industries, to borrow a phrase. It is non-governmental and nonprofit, and it aims to promote the growth of industry in India by working with various industries and the government.

The CII works in a consultative capacity to improve the business atmosphere in the country and its efficiency. The government considers its views when framing policy and putting in place measures for resource mobilization. The CII holds a national conference each year, bringing together representatives of different sectors - academia, government, and industry, e.g., -to debate on national development issues.

The CII also works toward harmonious relationships between the central and state governments, vital to expanding business opportunities in the country as a whole. For more on central and state governments, see "The levels of government" earlier in this chapter.

The CII has over 5,800 direct members from both the private and public sectors, while its indirect membership runs to about 95,000. It offers a range of specialized services and global linkages, which can be very useful to you as a foreign businessperson trying to get started in India. The CII also has branch

offices in various countries - the United Kingdom (UK), Australia, the United States (U.S.), France, and Japan (to name a few).

The Confederation of Indian Industry (CII) has a special council for multinational companies. This body holds a briefing for about 500 organizations and arranges discussions with key government officials. That should be reason enough for you to make your business known to the CII.

One of the major goals toward CII is the institution of a single-window clearance system for investment projects. This system greatly reduces the confusing paperwork for you as an overseas investor, and India's attraction as an investment destination will automatically soar.

The principal objectives of the Confederation of Indian Industry (CII) are to provide information, advisory, consultative, and representative services to industry and government. It operates through national/regional/state and zonal councils. It has specialized industry divisions and affiliated associations/institutions. CII has 3,000 member companies. Its aim is to strengthen the industry's role in the economic development of the country and to integrate the Indian industry with the world economy. Towards this end, CII works towards creating awareness and supporting industry efforts on quality, environment, and consumer protection:

CII plays a key role in promoting international industrial cooperation. It also identifies and addresses the special needs of the small-scale sector. CII is represented on all major policy-making bodies concerning industry. CII provides up-to-date information to both, industry, and government on a vast number of subjects. The international division of the CII services industry through day to day networking with Indian missions overseas and over 45 counterpart organizations throughout the world. CII also organizes specialized trade fairs and the Indian Engineering Trade Fair. It brings-out various publications and bulletins relating to economy, industry, and business

### **Objectives of CII**

The main objectives of CII are to:

- 1) Identify, and strengthen the industry's role in the economic development of the country.

- 2) Act as a catalyst in bringing about growth and development of the Indian industry.
- 3) Reinforce the industry's commitment to society.
- 4) Work towards the globalization of Indian Industry and integration into the world economy,
- 5) Provide up-to-date information and data to industry and Government.
- 6) Create awareness and support industry efforts on quality, environment and consumer protection
- 7) Identify and address the special needs of the small scale sector.
- 8) Promote cooperation with counterpart organizations.

### **Role of CII**

The role of CII can be understood from the following points:

**1) Benefits and Opportunities Emerging Out of Economic Reforms:** The CII set-up a Social Development Council in 1995 to ensure that the benefits and opportunities emerging out of the economic reforms and industrial growth are made available to all, to facilitate Indian industry's responses to the needs of a developing India, and to build-up strong partnerships across the sectors for better governance, accountability and empowerment.

**2) Enhancing Corporate Leadership and Engagement:** The CII states that its social development role is to be an advocate, catalyst, facilitator, and partner for enhanced corporate leadership and engagement, working in sync with the national priorities and aligning with global codes and benchmarks.

**3) Working on Innovative Projects and Programmes:** Cii's Social Development Division works with central and state governments, multilateral and bilateral agencies, and civil society organizations on various innovative projects and programs throughout the country. It also strives to promote multi-stakeholder dialogue and evolve a common understanding of good corporate citizenship through initiatives such as the CII-UNDP India Partnership Forum. CII is a member of the UN Global Compact.

**4) Social Work:** The CII's focus areas are HIV/AIDS, social infrastructure, women's empowerment, and Corporate Social Responsibility (CSR), though it states that no single element is predominant.

The CII maintains partnerships with over 120 NGOs nationwide to pursue initiatives in integrated development, including health, education, livelihoods, diversity management, skill development, and water. It also employs a team of development experts to provide specialized services to help companies plan and implement development initiatives,

**5) Dialogue with the Government:** CII's agenda has expanded to include inclusiveness and sustainability over and above its running theme of competitiveness. In its effort, it interacts with the government to play a proactive role in the development of India's economy.

### **TiE (The Indus Entrepreneur)**

TiE is a global, not-for-profit network of entrepreneurs and professionals dedicated to the advancement of entrepreneurship. TiE provides a platform for mentoring, networking and education, to entrepreneurs and professionals. TiE has grown into a prominent, global, not-for-profit organization, which is inclusive and transparent in its governance and operations.

The Indus Entrepreneurs (TiE) was founded in 1992 in Silicon Valley by a group of successful entrepreneurs, corporate executives, and senior professionals with roots in the Indus region. There are currently 13,000 members, including over 2,500 charter members in 61 chapters across 17 countries. TiE's mission is to foster entrepreneurship globally through mentoring, networking, and education. Dedicated to the virtuous cycle of wealth creation and giving back to the community, TiE's focus is on generating and nurturing our next generation of entrepreneurs.

The foremost and most widely known event that TiE hosts is TiEcon, which is the largest professional and networking conference for entrepreneurs. TiE also hosts a wide range of program events catering to various industry verticals, educational events hosted by TiE Institute, TiE Young Entrepreneurs (TYE) program to foster entrepreneurship in our youth, and TiE Women's Forum for empowering women entrepreneurs. Every year TiE holds more than 500 events,

with over 70,000 attendees worldwide.

Besides its flagship event, TiECon - the largest professional conference for entrepreneurs, TiE now has a wide range of programs including Special Interest Groups (SIG), TIE Institute, Deal Flow Meetings, TiE Young Entrepreneurs, and, most recently, TIE Women's Forum and CEO Forum.

TYE Global is a unique program that helps high school children to learn about the challenges and rewards of becoming an entrepreneur. The aim of the TiE Young Entrepreneurs (TYE) Global Programme is to empower our youth to become the next generation of entrepreneurs, by coaching them on topics on business basics, leadership, and overall development.

### **Objectives of TIE**

**TiE's** mission is to foster and advance entrepreneurship across the globe. TiE has evolved into an active, vibrant organization with three objectives:

- 1) Its principal objective is to provide a platform on which people with entrepreneurial spirit and those interested in economic value creation can come together to share ideas.
- 2) TIE endeavors to cultivate and nurture the ecosystems of entrepreneurship and free-market economics everywhere, as it sees this to be the single most powerful instrument of prosperity.
- 3) To network and to facilitate networking among members.
- 4) TiE aims to provide sound ecosystems for regional and national economic growth through private enterprise.

### **Importance of TiE**

The importance of TiE in various fields is as follows:

- 1) It creates an open, inclusive, and transparent organization.
- 2) It provides positive leadership role models.
- 3) It emphasizes value creation through informed entrepreneurship

- 4) It maintains high ethical standards.
- 5) It displays rigorous, intellectually honest behavior.
- 6) It helps organizations in pursuing a modern, scientific, and forward-looking approach.
- 7) It make organization and teaches entrepreneurs to remain socially responsible.
- 8) It helps the entrepreneurs and make them confident so that they should not tolerate pettiness, divisiveness, and corruption. Ultimately it helps in developing good and social entrepreneurs.
- 9) It helps entrepreneurs to strive to remain an idea and value-driven organization.

### **Dalit Indian Chamber of Commerce and Industry (DICCI)**

The Pune-based Dalit Indian Chamber of Commerce and Industry (DICCI) was established in 2005 by Milind Kamble, a civil engineer and entrepreneur. While Mr. Kamble is currently the Chairman, the organization has grown with the help of new state chapters. Its membership base is rapidly expanding as more Dalit entrepreneurs become aware of its activities and what it can offer to them.

The activities of its members are quite diversified ranging from manufacturing (sectors such as chemicals, agriproducts, frozen foods, plastics, textiles, pest control, metals and metallurgy, marine engineering, solar energy, sugar refining), construction and services (healthcare, hospitality industries, education and international trade).

The **vision** of DICCI is to instill the spirit of entrepreneurship among Dalit youth to develop business leadership, thus empowering them to walk in step with the world.

The **mission** is to motivate Dalit youth to enter the business and industry sector as entrepreneurs and to carve their own niche; to encourage them to contribute to the nation's economy through wealth creation and to spread the spirit of enterprise to other fellow members. Our mission is to encourage Dalit entrepreneurs and support them in their ventures.

### **Functions of DICCI**

DICCI is doing a good job by way of advancing the growth of the weaker section of the society. There are many ways in which DICCI is working toward empowering the Dalit entrepreneurs:

- 1) By way of garnering government support to pass bills and regulations in this regard
- 2) They are forming the skill development workshops and modules to help the Dalit youth wishing to make a transition from being job seekers to being job givers
- 3) The government has also requested the mainstream Industry to empower the Dalit entrepreneur and DICCI is getting a lot of support from Industries like the Tatas, Forbes Marshall, Thermax, and others.
- 4) It brings together all Dalit entrepreneurs under one umbrella.
- 5) It acts as a source of a one-stop resource center for existing and aspiring Dalit entrepreneurs.
- 6) It promotes entrepreneurship among Dalits as a solution to their socio-economic problems.

### **Challenges for DICCI**

There are many challenges in terms of fostering entrepreneurship among the community, the challenges are as follows:

- 1) Availability of early-stage funding.
- 2) Creating professional Entrepreneurship Development Programmes (EDPs) tailored for their needs without ignoring their social setting.
- 3) Helping existing Dalit entrepreneurs scale up their operations and grow:
  - i) The legacy model of 'collateral-based lending' preferred by traditional Fis creates an entry barrier to aspiring Dalit entrepreneurs as they rarely possess assets that can be collateralized. However, it is not clear how far it will be feasible

to create an early-stage funding venture capital mechanism' as an alternative.

ii) Establishing EDPs as professionally run programs, not exclusively for Dalits (to avoid ghettoization and expand their professional networks).

iii) Creating/accessing professional funds that can invest in Dalit businesses that are on the growth trajectory.

A major challenge for DICCI is how to create/prescribe benchmarks for its members in terms of where to access capital and pitfalls thereof, and where to turn for advice and mentoring. The DICCI and its members face a large knowledge gap about the complexities, opportunities, and risks in harnessing the financial sector.

### **Associated Chambers of Commerce and Industry of India (ASSOCHAM)**

The Associated Chambers of Commerce and Industry of India (ASSOCHAM), India's premier apex chamber covers a membership of over 4 lakh companies and professionals across the country. It was established in 1920 by promoter Chambers, representing all regions of India. It has witnessed upswings as well as upheavals of the Indian economy and contributed significantly by playing a catalytic role in shaping up the trade, commerce, and industrial environment of the country.

Today, ASSOCHAM has emerged as the fountainhead of Knowledge for the Indian industry, which is all set to redefine the dynamics of growth and development in the technology-driven cyber age of Knowledge-Based Economy'. ASSOCHAM derives its strength from its promoter chambers and other industry/regional chambers/associations spread all over the country.

ASSOCHAM represents the interests of more than 3,00,000 direct and indirect members. Through its heterogeneous membership, ASSOCHAM combines the entrepreneurial spirit and business acumen of owners with management skills and expertise of professionals to set itself apart as a chamber with a difference. Currently, ASSOCHAM has 60 expert committees covering the entire gamut of economic activity in India. It has been especially acknowledged as a significant voice of Indian industry in the field of Information Technology, Biotechnology, Telecom, Banking and Finance, Company Law, Corporate Finance, Economic and International Affairs, Tourism, Civil Aviation, Corporate

Governance, Infrastructure, Energy and Power, Education, Legal Reforms, Real Estate and Rural Development, etc.

### **Functions of ASSOCHAM**

Among ASSOCHAM's activities and services are as follows:

- 1) Regular interaction with policy-makers at the center and state government levels.
- 2) Seminars, conferences, business meetings, and missions.
- 3) Quality management services.
- 4) Energy and environment management services.
- 5) Data bank covering imports, exports, and other commercial subjects-related information.
- 6) Trade fairs in India and overseas.
- 7) Publications like Overseas Business Contacts, Parliamentary Digest, News and Views, Environ News, etc.
- 8) ASSOCHAM assists its members by timely dissemination of information and know-how on the latest policy and technical developments.

## **PROFILE OF EMINENT INDUSTRY PERSONS AND HOUSES**

### **Introduction**

Companies play a very important role in the Indian economy. Over the last 15 years or so the major private companies in India have contributed more than significantly to the growth of the Indian economy. After the liberalization policies in the 1990's India started receiving huge amounts of Foreign Direct Investment (FDI) which was one of the most important reasons behind the success of the private companies in the country. Prior to this, the Indian economy was ruled mostly by the public sector enterprises which were known for their strict rules and

regulations and bureaucratization.

The successful Indian companies recognize effective leaders and harness them to maximize results. They communicate the overall strategy so every person in the organization understands his or her role. These organizations know when to accelerate and when to slow based on indicators built into their processes. They turn customer complaints into new business. They focus on customer retention, not customer service.

Eminent industry persons in a way rule the world. Most of the richest persons happen to be from the corporate world. Many business tycoons from India are now emerging in the map of the world's richest people. Knowing the biographies of such business tycoons is quite inspiring for the future generation. There are many business tycoons in India as well as in the world who started their life as ordinary men and their biographies are the rags to riches stories. These business tycoons achieved success in different industries. Indian corporate world contains a variety of prominent organizations that became successful due to their creative and cost-effective strategies. Few of them are the Tata group, Birla group, Reliance group, Bharti Airtel group, and Mahindra group.

### **Reliance Group**

The Reliance Group, founded by Dhirubhai H. Ambani, is India's largest private-sector enterprise, with businesses in the energy and materials value chain. The flagship company, Reliance Industries Limited, is a Fortune Global 500 company and is the largest private sector company in India.

Dhirubhai Ambani founded Reliance as a textile company and led its evolution as a global leader in the materials and energy value chain businesses. It was in 1957 when he returned to India after a stint with A. Besse & Co., Aden he started yarn trading business from a small 500sq.ft. office in Masjid Bunder, Mumbai. He set up his brand new mill in Naroda, Gujarat. In 1996 Reliance went on to become the biggest textile brand 'Only Vimal'. In 1977 the Reliance Textile Industries came with an IPO which was oversubscribed seven times.

Reliance enjoys global leadership in its businesses, being the largest polyester yarn and fiber producer in the world and among the top five to ten producers in the world in major petrochemical products. Starting as a small textile

company, Reliance has in its journey crossed several milestones to become a Fortune 500 company in less than 3 decades.

Now, the Reliance group is divided into Reliance Industries Limited and Reliance ADA Group, named after two sons of Dhirubhai Ambani, i.e., **Mukesh D. Ambani** and **Anil D. Ambani**.

### **Reliance Industries Limited: Mukesh D. Ambani**

The chairman of Reliance Industries Limited is Mukesh D. Ambani. Mukesh D. Ambani is a Chemical Engineer from the Institute of Chemical Technology, Mumbai (earlier University Department of Chemical Technology, University of Mumbai). He has pursued an MBA from Stanford University, U.S.A. Mukesh D. Ambani's achievements have been acknowledged at national and international levels. Over the years, some of the awards and recognition bestowed on him are:

- 1) In 2013, he was conferred 'Entrepreneur of the Decade' by All India Management Association.

- 2) In 2010, awarded the Dean's Medal by University of Pennsylvania's Eduardo Glandt, Dean of the School of Engineering and Applied Science for his leadership in the application of Engineering and Technology,

- 3) In 2010, named among the most powerful people in the world by Forbes magazine in its list of "68 people who matter most"

- 4) In 2010, awarded the Indian Merchant's Chamber (IMC) 'Juran Quality Medal 2009'.

- 5) In 2009, ranked the 5th best performing CEO in the world by the Harvard Business Review in its ranking of the top 50 global CEOs.

Mukesh D. Ambani is a member of the Prime Minister's Council on Trade and Industry, Government of India and the Board of Governors of the National Council of Applied Economic Research, New Delhi. He is the Chairman of the Board of Governors, Pandit Deendayal Petroleum University, Gandhinagar. He is also a Member of the Millennium Development Goals (MDG) Advocacy Group (MDG Advocate) constituted by the United Nations (U.N.) and a Member of The Foundation Board of World Economic Forum.

Mukesh D. Ambani is a member of the Indo-U.S. CEOs Forum, Chair of

The British Asian Trust's India Advisory Council, International Advisory Council of The Brookings, McKinsey & Company, Global Advisory Council of Bank of America, Member of The Business Council and Asia Business Council, and London School of Economics' India Advisory Group.

Mukesh D. Ambani is the Chairman and Director of Reliance Jio Infocomm Limited and Reliance Retail Ventures Limited and a Director of Reliance Foundation and Reliance Europe Limited.

### **Reliance ADA Group: Anil D. Ambani**

The chairman of Reliance ADA Group is Anil D. Ambani. Regarded as one of the foremost corporate leaders contemporary India, Anil D Ambani, 50, is the chairman of all listed companies of the Reliance Group, namely, Reliance Communications, Reliance Capital, Reliance Energy and Reliance Natural Resources,

He is also the president of the Dhirubhai Ambani Institute of Information and Communications Technology, Gandhinagar. An MBA from the Wharton School of the University of Pennsylvania, Shri Ambani is credited with pioneering several financial innovations in the Indian capital markets. He spearheaded the country's first forays into overseas capital markets with international public offerings of global depositary receipts, convertibles and bonds.

Under his chairmanship, the constituent companies of the Reliance Group have raised nearly U.S. \$3 billion from global financial markets in a period of less than 15 months.

He is currently a member of:

- 1) Wharton Board of Overseers, The Wharton School, U.S.A.
- 2) Board of Governors, Indian Institute of Management (IIM), Ahmedabad
- 3) Board of Governors, Indian Institute of Technology (IIT), Kanpur
- 4) Executive Board, Indian School of Business (ISB), Hyderabad
- 5) In June 2004, Shri Ambani was elected as an Independent Member of the Rajya Sabha - Upper House, Parliament of India, a position he chose to resign

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- 5) In June 2004, Shri Ambani was elected as an Independent Member of the Rajya Sabha - Upper House, Parliament of India, a position he chose to resign

voluntarily on March 25, 2006.

### **TATA Group**

Tata Group is one of India's largest and most respected business groups. Tata Group's name is synonymous with India's industrialization. The Group gave India her first steel plant, hydro-electric plant, inorganic chemistry plant, and created a reservoir of scientific and technological manpower for the country. Its Trusts have instituted the Tata Institute of Social Sciences in 1936; India's first cancer hospital, the Tata Memorial in 1941, and in 1945, the Tata Institute of Fundamental Research, which became the cradle of India's Atomic energy program. Today, Tata Group comprises 96 operating companies in seven business sectors - information systems and communications; engineering; materials; services; energy; consumer products; and chemicals. The Group has operations in more than 54 countries across six continents, and its companies export products and services to 120 nations.

**Jamsetji Nusserwanji Tata** laid the foundations of Tata Group when he started a private trading firm in 1868. India's largest industrial conglomerate, Tata Group comprises more than 90 companies with activities ranging from manufacturing and chemicals to consumer products and business services. Its Tata Steel unit is India's largest private steel-maker, while Tata Power is the nation's largest private power utility. Tata Motors makes the world's most inexpensive car - the Nano - and owns the Land Rover and Jaguar automobiles. Other units include Tata Communications (international telephone network services), Tata Consultancy Services (outsourced business services), and Tata Global Beverages (one of the top tea producers and owner of the venerable Tetley brand). Tata Group is managed through holding company Tata Sons.

### **Ratan N Tata**

Ratan N. Tata was the Chairman of Tata Sons, the holding company of the Tata group, from 1991 till his retirement on December 28, 2012. He was also chairman of the major Tata companies, including Tata Motors, Tata Steel, Tata Consultancy Services, Tata Power, Tata Global Beverages, Tata Chemicals,

Indian Hotels and Tata Teleservices. During his tenure, the group's revenues grew manifold, totaling over \$100 billion in 2011-12.

Mr. Tata is also associated with various organizations in India and overseas. He is the chairman of two of the largest private-sector-promoted philanthropic trusts in India. He is a member of the Indian Prime Minister's Council on Trade and Industry. He is the president of the Court of the Indian Institute of Science and Chairman of the Council of Management of the Tata Institute of Fundamental Research. He also serves on the Board of Trustees of Cornell University and the University of Southern California. Mr. Tata serves on the Board of Directors of Alcoa, and is also on the international advisory boards of Mitsubishi Corporation, JP Morgan Chase, Rolls-Royce, Temasek Holdings and the Monetary Authority of Singapore.

Mr. Tata received a Bachelor of Architecture degree from Cornell in 1962. He worked briefly with Jones and Emmons in Los Angeles before returning to India in late 1962. He completed the Advanced Management Programme at Harvard Business School in 1975.

The Government of India honored Mr. Tata with its second-highest civilian award, the Padma Vibhushan, in 2008. He has also received honorary doctorates from several universities in India and overseas.

### **Bharti Group**

Bharti Enterprises is one of India's leading business groups with interests in telecom, agribusiness, financial services, retail, and manufacturing. Bharti has been a pioneering force in the telecom sector with many firsts and innovations to its credit. Bharti Airtel, a group company, is a leading global telecommunications company with operations in 20 countries across Asia and Africa. At Bharti, there is one underlying philosophy-- to create businesses that are transformational and have a deep impact on society.

Founded in 1976, by **Sunil Bharti Mittal**, Bharti has grown from being a manufacturer of bicycle parts to one of the largest and most respected business groups in India. With its entrepreneurial spirit and passion to undertake business projects that are transformational in nature, Bharti has created world-class businesses in telecom, insurance, retail, and foods.

Bharti started its telecom services business by launching mobile services in Delhi (India) in 1995. Since then there has been no looking back and Bharti Airtel, the group's flagship company, has emerged as one of the top telecom companies in the world and is amongst the top four wireless operators in the world.

Through its global telecom operations, Bharti group operates under the 'Airtel' brand in 20 countries across Asia and Africa - India, Sri Lanka, Bangladesh, Seychelles, Burkina Faso, Chad, Congo Brazzaville, Democratic Republic of Congo, Gabon, Ghana, Kenya, Madagascar, Malawi, Niger, Nigeria, Rwanda, Sierra Leone, Tanzania, Uganda, and Zambia. In addition, the group also has mobile operations in Jersey and Guernsey.

Over the past few years, Bharti has diversified into emerging business areas in the fast-expanding Indian economy. The group has forayed into the retail sector by opening retail stores - small and medium formats. The group offers - life insurance and general insurance to customers across India. Bharti also serves customers through its fresh and processed foods business. The group has growing interests in other areas such as mobile internet, real estate, training and capacity building, and distribution of telecom/IT products.

What sets Bharti apart from the rest is its ability to forge strong partnerships. Over the years some of the biggest names in international business have partnered Bharti. Currently, SingTel, Qatar Foundation Endowment, IBM, Ericsson, Nokia Siemens, and Alcatel-Lucent are key partners in telecom. AXA Group is the partner for the insurance business and Del Monte Pacific for the processed foods division.

Bharti strongly believes in giving back to the society and through its philanthropic arm the Bharti Foundation it is reaching out to over 39,000 underprivileged children and youth in India.

### **Sunil Mittal**

Sunil Bharti Mittal is the Founder and Chairman of Bharti Enterprises which has interests in telecom, retail, realty, financial services, and agri-products. Bharti Airtel, the group's flagship company, is a global telecommunications company across South Asia and Africa. Bharti has joint ventures with several global

leaders - SingTel, SoftBank, AXA, and Del Monte.

Sunil is currently the Vice Chairman of the International Chamber of Commerce (ICC). He also serves on the Prime Minister of India's Council on Trade and Industry, World Economic Forum's International Business Council, Telecom Board of International Telecommunication Union (ITU), Commissioner of the Broadband Commission, and the Singapore Prime Minister's Research, Innovation and Enterprise Council. He has been appointed by the Prime Minister of India as Co-Chair of the India-Africa Business Council and India Sri Lanka CEO Forum as well as a member of the India-U.S., India-UK and India-Japan CEO Forums. Earlier, he served as the President of the Confederation of Indian Industry (CII, 2007-08), the premier industry body in India.

Sunil is a recipient of the Padma Bhushan, one of India's highest civilian awards. He has also been awarded the INSEAD Business Leader for the World Award 2011 and the NDTV Profit Business Leadership Award 2011 for "Corporate Conscience". Earlier, he received the Global Economy Prize 2009 by The Kiel Institute, Germany, and the U.S.-India Business Council also honored him with the 'Global Vision Award 2008. Sunil has received the GSM Association Chairman's Award for 2008. He is also a member of the Academy of Distinguished Entrepreneurs, Babson College, Wellesley, Massachusetts.

An alumnus of Harvard Business School, Sunil is on Harvard University's Global Advisory Council, Board of Dean's Advisors of Harvard Business School and Executive Board of the Indian School of Business. He is also a Trustee of the Carnegie Endowment for International Peace.

Sunil believes that a responsible corporate has a duty to give back to the community in which it operates. This belief has resulted in the Bharti Foundation, which operates 254 schools as well as remedial centers and renders quality support to government schools, providing holistic education to over 46,000 underprivileged children in rural India. Sunil was ranked among the Top 25 Philanthropists in the World in 2009 by Barron's Magazine. He is also a Member of the Board of Trustees of Qatar's Education Above All Foundation, an initiative of Her Highness Sheikha Moza bint Nasser.

## **Mahindra & Mahindra**

In 1945, two enterprising brothers named J.C. Mahindra and K.C. Mahindra joined forces with Ghulam Mohammed and started Mahindra & Mohammed as a steel company in Mumbai. Two years later, India won its independence, Ghulam Mohammed left the company to become Pakistan's first finance minister, and the Mahindra brothers ignited the company's enduring growth with their decision to manufacture Willys jeeps under license in Mumbai. The company's new name - Mahindra & Mahindra, of course.

Founded in 1945 as a steel trading company, it entered automotive manufacturing in 1947 to bring the iconic Willys Jeep onto Indian roads. Over the years, it has diversified into many new businesses in order to better meet the needs of our customers. It follows a unique business model of creating empowered companies that enjoy the best of entrepreneurial independence and group-wide synergies. This principle has led its growth into a U.S. \$16.5 billion multinational group with more than 1,80,000 employees in over 100 countries across the globe.

Today, its operations span 18 key industries that form the foundation of every modern economy - aerospace, aftermarket, agri-business, automotive, components, construction equipment, consulting services, defense, energy, farm equipment, finance and insurance, industrial equipment, information technology, leisure and hospitality, logistics, real estate, retail, and two-wheelers.

Its federated structure enables each business to chart its own future and simultaneously leverage synergies across the entire Group's competencies.

### **Keshub Mahindra**

For over six decades, Keshub Mahindra has enabled Mahindra and its people to rise. A graduate of Wharton University Pennsylvania, U.S.A. - he joined Mahindra & Mahindra in 1947 and became Chairman in 1963. Although he stepped down from the chairmanship in 2012, he was requested to accept the Office of Chairman Emeritus and still continues to be involved with the activities of the company today and has literally been the backbone of the company.

He is a well-known philanthropist who has redefined good corporate governance. From building ethical corporate organizations in India to serving on prestigious boards and committees, his immense contribution to Indian business

has established him as an inspirational business leader and an iconic corporate citizen. He was been appointed by the Government of India to serve on many Committees including the Sachar Commission on Company Law and MRTP and the Central Advisory Council of Industries. In 1987, he was awarded the Chevalier de la'Ordre National de la Legion d'Honneur by the French Government. From 2004 to 2010, he was a Member of the Prime Minister's Council on Trade and Industry, New Delhi.

Mr.Mahindra is a member of the Apex Advisory Council of ASSOCHAM and is President Emeritus of the Employers' Federation of India. He also served as the President of the Governing Council of the University of Pennsylvania, Institute for the Advanced Study of India, New Delhi. He is an Honorary Fellow of the All India Management Association, New Delhi, and a Member of the Council of the United World Colleges (International) in the United Kingdom.

Most recently, in 2013, he was honored by SIAM/ACMA for his valuable contribution to the Indian Automotive Industry. In 2012, he was felicitated by the Federation of Automobile Dealers Association (FADA), an apex national body representing Automobile Dealers in India, with a Lifetime Contribution Award and he was also awarded the Lifetime Achievement Award by the Employers' Federation of India (EFI).

### **Anand Mahindra**

Anand G. Mahindra graduated with Honours (Magna cum laude) from Harvard College, Cambridge, Massachusetts, in 1977. In 1981 he secured an MBA degree from the Harvard Business School, Boston, Massachusetts. He returned to India that year and joined Mahindra UGINE Steel Company Ltd (MUSCO), the country's foremost producer of specialty steels, as Executive Assistant to the Finance Director. In 1989 he was appointed President and Deputy Managing Director of the company.

During his stint at MUSCO, he initiated the Mahindra Group's diversification into the new business areas of real estate development and hospitality management.

In the summer of 1991, he was appointed Deputy Managing Director of Mahindra & Mahindra Ltd., the country's dominant producer of off-road vehicles

and agricultural tractors. He initiated a comprehensive change program in Mahindra & Mahindra Ltd. to make the company an efficient and aggressive competitor in the new liberalized economic environment in India.

In April 1997, he was appointed Managing Director of Mahindra & Mahindra Ltd., and in January 2003 given the additional responsibility of Vice Chairman. On 9th August 2012, he was appointed Chairman and Managing Director.

Today, the Mahindra Group is a U.S. \$16.5 billion organization, and one of India's top 10 industrial houses. Mahindra has evolved into a socially and environmentally responsible global federation of companies with a leading presence in each sector in which it is present.

Anand Mahindra is the co-founder of the Harvard Business School Association of India, an association dedicated to the promotion of professional management in India. He was a co-promoter of Kotak Mahindra Finance Ltd., which in 2003 was converted into a bank. Kotak Mahindra is one of the foremost private sector banks today.

As a leading industry figure, he has served as President of the Confederation of Indian Industry in 2003-04 and has also been President of the Automotive Research Association of India (ARAI). He also served on the Boards of the National Stock Exchange of India and the National Council of Applied Economic Research, and as a member of the Council of Scientific and Industrial Research.

### **Aditya Birla Group**

The roots of the Aditya Birla Group date back to the 19th century in the picturesque town of Pilani set amidst the Rajasthan desert. It was here that

**Seth Shiv Narayan Birla** started trading in cotton, laying the foundation for the House of Birla. Though India's arduous times of the 1850s, the Birla business expanded rapidly. In the early part of the 20th century, the Group's founding father, Mr. Ghanshyamdas Birla, set up industries in critical sectors such as textiles and fiber, aluminum, cement, and chemicals. As a close confidant of Mahatma Gandhi, he played an active role in the Indian freedom struggle.

A formidable force in the Indian industry, Mr. **Aditya Birla** dared to dream of setting up a global business empire at the age of 24. He was the first to put Indian business on the world map, as far back as 1969, long before globalization became a buzzword in India.

In the then vibrant and free market South East Asian countries, he ventured to set up world-class production bases. had foreseen the winds of change and staked the future of his business on a competitive, free-market driven Economic order. He put Indian business on the globe, 22 years before economic liberalization was formally introduced by the former Prime Minister, Mr. Narasimha Rao, and the former Union Finance Minister. Dr. Manmohan Singh. He set up 19 companies outside India, in Thailand, Malaysia, Indonesia, the Philippines and Egypt.

A U.S. \$40 billion corporation, the Aditya Birla Group is in the League of Fortune 500. It is anchored by an extraordinary force of over 1,20,000 employees belonging to 42 different nationalities. The Group has been ranked Number 4 in the global 'Top Companies for Leaders' survey and ranked Number 1 in Asia Pacific for 2011. 'Top Companies for Leaders' is the most comprehensive study of organizational leadership in the world conducted by Aon Hewitt, Fortune Magazine, and RBL (a strategic HR and Leadership Advisory firm). The Group has topped the Nielsen's Corporate Image Monitor 2012-13 and emerged as the Number 1 corporate, the 'Best in Class'.

50 percent of the Aditya Birla Group's revenues flow from its overseas operations. The Group operates in 36 countries - Australia, Austria, Bangladesh, Brazil, Canada, China, Egypt, France, Germany, Hungary, India, Indonesia, Italy, Ivory Coast, Japan, Korea, Laos, Luxembourg, Malaysia, Myanmar, Philippines, Poland, Russia, Singapore, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Tanzania, Thailand, Turkey, U.A.E., U.K., U.S.A., and Vietnam.

In India, here is what it has accomplished:

- 1) The largest fashion (premium branded apparel) and lifestyle player,
- 2) The second-largest manufacturer and largest exporter of viscose filament yarn,
- 3) The largest producer in the Chlor-alkali sector,
- 4) Among the top three mobile telephony companies,

- 5) A leading player in life insurance and asset management,
- 6) Among the top two supermarket chains in the retail business, and
- 7) The largest manufacturer of linen fabric.

### **Kumar Mangalam Birla**

Mr. Kumar Mangalam Birla (46) is the Chairman of the U.S. \$40 billion multinational Aditya Birla Group, which operates in 36 countries across six continents. 50 percent of its revenues flow from its operations outside India. Mr. Birla chairs the Boards of the major Group companies in India and globally. The global companies include Novelis, Columbian Chemicals, Aditya Birla Minerals, Aditya Birla Chemicals, Thai Carbon Black, Alexandria Carbon Black, Domsjo Fabriker, and Terrace Bay Pulp Mill, among others. In India, Mr. Birla chairs the Boards of Hindalco, Grasim, Aditya Birla Nuvo, UltraTech, Idea, Aditya Birla Financial Services, and Aditya Birla Retail.

Mr. Birla took over as Chairman of the Group in 1995, at the age of 28, after the untimely demise of his father. As Chairman, Mr. Birla has taken the Aditya Birla Group to an altogether higher growth trajectory. In the 17 years that he has been at the helm of the Group, he has accelerated growth, built a meritocracy, and enhanced stakeholder value.

In the process, he has raised the Group's turnover from U.S. \$2 billion in 1995, to U.S. \$40 billion today. Mr. Birla has restructured the businesses to emerge as a global/national leader in the sectors in which the Group operates. He has made 26 acquisitions in 17 years in India and globally, the highest by an Indian multinational in India.

In India as well, he has made major acquisitions, the most notable being the Cement division of Larsen & Toubro, Indal from Alcan, Madura Garments from Coats Viyella and the Chlor Alkali division of Kanoria Chemicals. Under his stewardship, the Aditya Birla Group enjoys a position of leadership in all the major sectors in which it operates. Over the years, Mr. Birla has built a highly successful meritocratic organization, anchored by an extraordinary force of 1,36,000 employees belonging to 42 different nationalities.

Mr. Birla has held and continues to hold several key positions on various

regulatory and professional Boards. An erstwhile Director on the Central Board of Directors of the Reserve Bank of India, he was also Chairman of the Advisory Committee constituted by the Ministry of Company Affairs and served on The Prime Minister of India's Advisory Council on Trade and Industry.

As the Chairman of Securities and Exchange Board of India (SEBI) Committee on Corporate Governance, he authored the First Report on Corporate Governance titled "Report of the Kumar Mangalam Birla Committee on Corporate Governance". Its recommendations were path breaking and became the basis of corporate governance norms. Furthermore, as the Convener of the Prime Minister's Task Force on Administrative and Legal Simplifications, the extensive recommendations made by him in his report, have been implemented in totality. Mr. Birla also served as Chairman of SEBI's committee on Insider Trading, which formulated Corporate Governance principles for Indian corporates.

He is on the National Council of the Confederation of Indian Industry and the Apex Advisory Council of the Associated Chambers of Commerce and Industry of India.

## **CRISIS IN BUSINESS & INDUSTRY**

### **Meaning and Definition of Crisis**

Crisis refers to sudden unplanned events that cause major disturbances in the organization and trigger a feeling of fear and threat amongst the employees. A business crisis can be anything that can negatively affect a company's reputation or bottom line. Many events at first blush may not appear to be serious. HP's firing of Mark Hurd and the subsequent entanglement with Oracle was not a big deal in the scheme of things, even though internally it must have been a shocker. However, the death or resignation of a key person in any organization could very well be serious for any company depending on just how key that person really was. Natural catastrophes, product recalls labor disputes, computer data losses. The list is endless. Some are temporary. Some can cause the demise of a company. Most can be handled with honesty and the realization that it may be necessary to absorb losses over the short-haul in order to achieve a long and healthy business life.

**According to Barton,** "A crisis is any event that can seriously harm the people, reputation or financial condition of an organization".

**According to Fearn-Banks,** "Crisis is a major occurrence with a potentially negative outcome affecting the organization, company, or industry, as well as its publics, products, services, or good name. A crisis interrupts normal business transactions and can sometimes threaten the existence of the organization".

The genesis of crisis situations in any organization is the failure of an effective planning mechanism for the transmission of information to resolve the crisis by making quick and sound decisions without loss of time. The sources for

the delay in taking decisions are lack of message, inappropriate media, channel, and inactiveness of communicator and decision-maker.

The crisis is a turning point for better or worse. The message is clear that a particular situation could turn out to be both good and bad. For example, an industry that falls "sick" will create a situation of overall crisis for the management, employees, shareholders, suppliers, distributors, financial circles, and much more public with whom the industry has to interact. The other side of this gloomy picture is that some persons will consider it as an opportunity to turn the organization into a viable unit. Calamity and opportunity are indeed two sides of the same coin because people involved in the business are ready to clutch at a straw. They would be ready to do something for the organization.

The crisis thus leads to an opportunity and nurtures the unit back to health, providing all aspects of the crisis are handled with understanding, efficiency, and business acumen.

### **Nature of Crisis**

The nature of the crisis is as follows:

- 1) Sudden Event:** Crisis is a sequence of sudden disturbing events harming the organization.
- 2) Short Notice:** Crisis generally arises on short notice. It does not have a reflecting nature to alert the system.
- 3) Triggers Fear:** Crisis triggers a feeling of fear and threat amongst the individuals. It may range from light problems to a severe problem.
- 4) Serious Consequences:** Crisis is an extraordinary condition that is disruptive and damaging to the existing operating state of an organization. An organization crisis, if ignored or mismanaged, will threaten the competitiveness and sustainability of the affected entity.
- 5) Blocking of Daily Activities:** Crisis may alter the sequence of activities or functions in the organization. It may be difficult or impossible to carry out usual daily activities

**6) Lack of Information:** It is common that there may be a lack of clear information about what is happening. Managers or owners have to tackle the situation without proper information about the problem.

**7) Quick Response Needed:** After the hit of a crisis, there may be a limited time in which managers or owners have to make decisions about what to do. The more is the time taken in decision-making; more is the impact of the crisis. **8)**

**Unpredictable:** The intensity and impact of the crisis are unpredictable. No one can predict the nature and strength of the upcoming crisis. There is no machinery or the program for identifying the upcoming crisis.

**9) Reduction of Competitiveness:** Because of the crisis, several key characteristics or resources of the organization may be inactivated or destroyed. The final impact is the reduction of competitiveness of the organization

### Types of Crisis

Businesses are exposed to a variety of crises. In this regard, different types of crises play a critical role. Many crises occur suddenly and leave one helpless and hopeless; they befall one instantly and challenge one's existing coping mechanisms. Crisis in businesses can be classified into two main categories, which are described below:

- 1) Physical Damage Crisis
- 2) Non-Physical Damage Crisis

#### Physical Damage Crisis

Physical damage crisis is described by its name, i.e., physical damage. A crisis that is characterized by the physical damage of the individual, organization, or society is called physical damage crisis.

The following are the main types of physical damage crisis:

**1) Natural Disasters:** Every business is vulnerable to natural disasters. These include things such as bush fires, floods, and earthquakes. Although disasters are

mostly unpredictable, some steps can be taken to reduce their impacts. Natural disasters have received comparatively little attention in the organizational crisis literature, although they create very high levels of destruction and disruption for organizations. Natural disasters are generally assumed to be beyond the control and responsibility of most organizations. Rather, preparation and management of these events usually fall to governmental agencies.

Organizations often seek to have crises classified as natural disasters, therefore, to avoid responsibility for the associated harm. In this way, weather-related airline accidents are more advantageous to the industry than strictly human error or mechanical failures. Natural disasters clearly have a debilitating impact on organizations. Floods, earthquakes, mudslides, hurricanes, tornadoes, and blizzards often limit an organization's ability to meet its goals.

**2) Accidents:** Accidental crisis may include plant explosions, fire, leak, or lengthy power outage. Accidental disasters, including plant explosions, fires, collapses of facilities and mines, and releases of toxic substances, account for some of the most-dramatic organizational crises. These crises may also be triggered by natural disasters. These crises exemplify the role of complexity. As manufacturing technologies become more complex, the potential for crisis increases.

Oil and chemical spills most often occur during transportation of the product. They are typically related to shipping, trucking, rail, or pipelines and have the potential for a profound impact on communities and the environment.

**3) Intentional Acts:** There are following general categories of crises that are initiated by intentional acts designed to harm an organization:

**i) Terrorism:** You must be aware of your vulnerability to terrorist acts which can potentially disrupt your business and Australia as a whole. **ii) Sabotage:** it involves the intentional damaging of a product or the working capacity of the business by an employee. Typically, sabotage is done for revenge, such as a disgruntled staff member.

**iii) Workplace Violence:** Results from staff being distressed over their treatment either by the company in general or by specific employees. It has the potential to result in injuries and deaths, etc.

**iv) Unethical Leadership:** When an organization's leadership knowingly puts its workers, consumers, investors, or the surrounding community at risk without being honest about that risk, two events are likely to occur:

- a)** A breakdown in the system occurs, which often results in a crisis. **b)** When the public learns of the organizational leadership's dishonesty, the public is likely to be unforgiving.

### **Non-Physical Damage Crisis**

Non-physical damage crisis means crisis reflected by no physical damage of the individual, organization, or society. In this, the assets, business facilities, and the machines are not damaged or destroyed.

The following are the main non-physical crisis in the businesses: **1) Product Issue Crisis:** This type of crisis occurs when a manufacturer of a product finds that there are questions regarding the product's effectiveness, credibility, or satisfaction. It also includes the safety concern of the product in which the product is being accused of killing or hurting customers. Product tampering is one of the biggest threats to a manufacturing organization. For this reason, most manufacturing organizations have a plan to respond to a tampering incident. History will show that organizations lose their reputation in a matter of days if they fail to act adequately during this type of crisis.

**2) Public Perception Crisis:** Crisis in public perception can range from news stories depicting the organization negatively to destructive rumors appearing in email, on rogue websites, or by word of mouth. These perceptions may concern the nature of a product, the conduct and credibility of management, the financial health of the organization, or its conduct with regard to specific issues, such as the use of animals in testing, treatment of women employees, or its record on diversity or environmentalism. Crises in public perception can have particularly devastating consequences when they undermine investor confidence and stock values. Regardless of the form of transmission of a negative public perception, crises in public perception result in an increase in negative attention directed at the

organization. A lack of communication from the organization may contribute to the severity of these crises. Managers are often frustrated by the way the media covers a crisis compared to what they perceive to be the reality of the situation.

**3) Human Resource Crisis:** It takes a variety of forms, such as strikes, sexual harassment, discrimination, and workplace violence. Even top-management succession can create a crisis. The public often very strongly identifies with the leadership of an organization. Another kind of human resource crisis usually involves lower-level workers. Some of the most notorious examples involve workplace violence.

**4) Economic Crisis:** This type of crisis occurs when an organization experiences a cash problem, a difficulty meeting its obligations, or an accusation of fuzzy accounting. Arguably, all crises eventually become economic. However, cash crises are typically signals of other significant organizational problems. Hostile takeovers are potential economic crises for any publicly-traded company. When stock prices are low, organizations are particularly susceptible to takeovers. Obviously, the goals, direction, and often the personnel of the organization acquired in a takeover will change dramatically. There is at least an implied threat to the very identity of the organization, its culture, values, and the jobs it provides. Interestingly, there is often debate as to whether the takeover is actually hostile.

**5) Crisis of Organisational Misdeeds:** Crises of organizational misdeeds arise when management takes certain decisions knowing the harmful consequences of the same towards the stakeholders and external parties. In such cases, superiors ignore the after-effects of strategies and implement the same for quick results. Crisis of organizational misdeeds can be further classified into the following three types:

**i) Crisis of Skewed Management Values:** Crisis of skewed management values arises when management supports short-term growth and ignores broader issues.

**ii) Crisis of Deception:** Organisations face a crisis of deception when management purposely tampers data and information. Management makes fake promises and wrong commitments to the customers. Communicating wrong

information about the organization and its products leads to a crisis of deception.

**iii) Crisis of Management Misconduct:** Organisations face a crisis of management misconduct when management indulges in deliberate acts of illegality like accepting bribes, passing on confidential information, and so on. **6) Crisis due to Workplace Violence:** Such a type of crisis arises when employees are indulged in violent acts such as beating employees, superiors in the office premises itself.

### Stages of Crisis

The crisis can be broken up into three stages:

**Pre-Crisis Stage**



**Acute-Crisis Stage**



**Post-Crisis Stage**

### The Pre-Crisis Stage

When someone in an organization discovers a critical situation, they usually bring it to the attention of their supervisors/managers. This is known as either the pre-crisis warning or precursor. At this point in time, the critical situation is known only inside the organization and is not yet visible to the general public.

When managers are told of the critical situation, their job is to analyze it to determine if it has the potential to become serious. If managers are then comfortable with it and feel it will be resolved without any action on their part, they will not take any action. If, on the other hand, they see the critical situation as a serious problem requiring intervention, they will take action to mitigate it. Once the managers are made aware of it, it is their responsibility to manage it and prevent it from moving into the acute-crisis stage. This is considered a time of opportunity, to turn this from a negative situation into a positive one. The first issue

is to recognize the situation for what it is and what it might become. They need to determine if the situation is serious, or if they believe that it will resolve itself. Is it something that could damage the bottom line, or jeopardize positive public image, or cause close media or government scrutiny? If they determine that it could damage the organization, they need to take appropriate action.

Where most managers fail, is in not recognizing the seriousness of a problem. In such a case, the pre-crisis situation will move to the acute-crisis stage. The goal of a crisis management plan is to prepare managers to recognize that a pre-crisis situation exists.

### **The Acute-Crisis Stage**

A crisis moves from the pre-crisis to the acute stage, when it becomes visible outside the organization. At this point in time, managers have no choice but to address it. It is too late to take preventative actions as any action taken now is more associated with 'damage control'.

Once the problem moves to the "acute" stage, the crisis management team should be activated. Generally, a crisis management team is a group of people who specialize in managing a crisis. However, in the situation of a small business, this role might be taken on by yourself, the business owner, and maybe some of the company's key staff.

The crisis event stage begins with a trigger event that marks the beginning of the crisis and ends when the crisis is considered resolved. This crisis phase has two sub-stages:

- 1) Crisis Recognition:** It includes an understanding of how events are labelled and accepted as crises and the means for collecting crisis-related information.
- 2) Crisis Containment:** It focuses on the organization's crisis response. Communication with stakeholders through words and actions is a critical part of this phase.

### **The Post-Crisis Stage**

A crisis moves from the acute-crisis stage to the post-crisis stage after it has been contained. This is when the organization will try to recoup their losses. Managers must show the customer, the shareholder, and the community that the organization cares about the problems the crisis has caused them. In the post-crisis phase, the organization is returning to business as usual. The crisis is no longer the focal point of management's attention but still requires some attention. Reputation repair may be continued or initiated during this phase.

There is important follow-up communication that is required:

**1) Provide Additional Information:** Crisis managers often promise to provide additional information during the crisis phase. The crisis managers must deliver on those informational promises or risk losing the trust of the public wanting the information.

**2) Release Updates:** The organization needs to release updates on the recovery process, corrective actions, and/or investigations of the crisis. The amount of follow-up communication required depends on the amount of information promised during the crisis and the length of time it takes to complete the recovery process.

**3) The crisis should be a Learning Experience:** Crisis managers agree that a crisis should be a learning experience. The crisis management effort needs to be evaluated to see what is working and what needs improvement. The same holds true for exercises. Every crisis management exercise should be carefully dissected as a learning experience. The organization should seek ways to improve prevention, preparation, and/or the response. Those lessons are then integrated into the pre-crisis and crisis response phases. That is how management learns and improves its crisis management process.

### **Consequences of Crisis**

Following are the major consequences of the crisis for the businesses:

#### **⇒ Consequences of Crisis**

- Poor Capital
- Loss of Assets
- Infrastructure Destruction

- Threatened Stakeholders
- Damaged Reputation
- Lack of Cash Flow
- Others

**1) Poor Capital:** Capital represents the financial resources companies use to purchase goods or labour for their business operations. Crises frequently have serious negative effects on a company's available capital, since they must now spend money to restore assets rather than advance business operations.

Large companies can set aside a portion of their operational profits for future crisis recovery plans. They can invest this capital in short-term marketable securities to earn interest on these funds. If crises are particularly devastating, large companies may have additional capital for restoring business operations.

**2) Loss of Assets:** Assets are the physical items companies use in business operations. Crises often render physical assets unusable if the damage is significant to the business. Large companies can mitigate the loss of business assets from physical crises by operating multiple locations with multiple business assets. If crises / render one location inoperable, larger companies can transfer operations to another facility in an attempt to maintain normal production output.

Small businesses usually operate in a single location. Business assets are commonly at this location or the business owner's home. Physical crises that significantly damage a small business's assets sometimes prohibit the business from continuing operations. Business owners may spend copious amounts of time attempting to repair the asset or wait until they can obtain a replacement. **3)**

**Infrastructure Destruction:** Another major impact of crises may be the destruction of the infrastructure of the business or the company, Crisis either physical or non-physical ultimately leads to the imbalanced infrastructure. **4)**

**Threatened Stakeholders:** A crisis is a sudden and unexpected event that threatens to disrupt an organization's operations and poses both a financial and a reputational threat. Crises can harm stakeholders physically, emotionally, and/or financially. A wide array of stakeholders is adversely affected by a crisis including

community members, employees, customers, suppliers, and stockholders. 5)

**Damaged Reputation:** Crisis threaten to damage reputations because a crisis gives people reasons to think badly of the organization. Again, the news media and the internet play a critical role. Most stakeholders will learn about a crisis from news reports. In a smaller number of crises, stakeholders learn about crises through online social media. The exceptions would be victims or potential victims who are more likely to experience the crisis or to be informed directly by the organization about the crisis. If a reputation shift from favorable to unfavorable, stakeholders can change how they interact with an organization. Clearly, the benefits of a favorable reputation noted earlier may be lost. Furthermore, stakeholders may sever ties to the organization and/or spread negative word of mouth about the organization.

**6) Lack of Cash Flow:** Most businesses experience a lack of cash flow from business operations, which comes down to two primary reasons. First, customers of the business are cutting spending in light of the crisis, causing the cash flow coming into the business to slow down. Because of this lack of cash flow, many businesses turn to lenders to obtain small business loans or lines of credit. Since lenders have implemented stricter guidelines, it is more difficult for businesses to obtain the loans businesses need to get through slow cash flow times.

**7) Others:** The most obvious effect of a product crisis is the immediate loss in its own-brand sales or market share. Some businesses had to cut back on their employees because of budget cuts, so one of the major fallouts from the credit crisis is employee layoffs.

### **Managing Crisis**

Crisis management may be defined as the technique of managing/facing crisis situations. Crisis situations are those in the field of management, be it production, marketing, personnel, conflict resolution, interpersonal situations, group dealings, etc., when decisions have to be taken without loss of time.

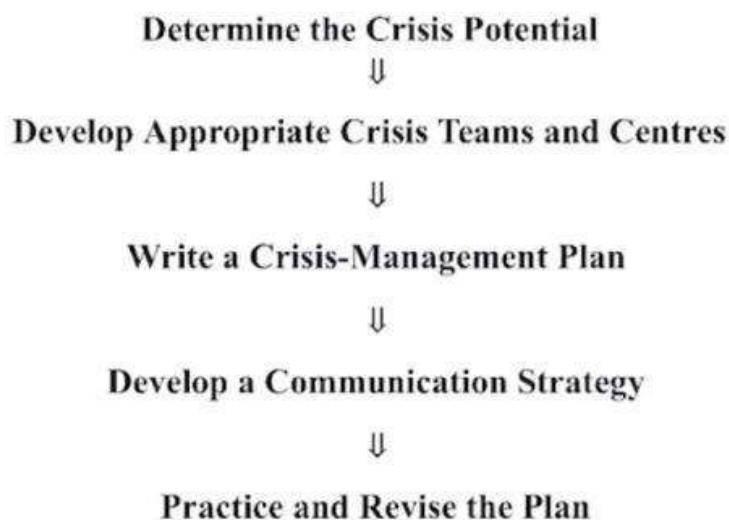
Crisis management is the nature of activities to respond to a major threat to a person, group, or organization. Crisis management is a relatively new field of management. Typically, proactive crisis management activities include forecasting

potential crises and planning how to deal with them, for example, how to recover if your computer system completely fails. Many people would refer to this, instead, as risk management and not crisis management.

Hopefully, organizations have time and resources to complete a crisis management plan before they experience a crisis. Crisis management in the face of a current, real crisis includes identifying the real nature of a current crisis, intervening to minimize damage, and recovering from the crisis. Crisis management often includes a strong focus on public relations to recover any damage to public image and assure stakeholders that recovery is underway.

### **Process of Managing Crisis**

Every organization should recognize that crisis management is a process. The time and energy spent in investigating and planning will pay-off should an actual crisis develop. The preparation steps allow management to ask hypothetical questions that are not thought of or that are too emotional to ask when a crisis develops. According to a study at Oxford University, organizations that actually take the time to prepare for a crisis (recoverers) regained shareholder value within 50 days. For organizations that did not plan (non-recoverers) recovery time was always more than a year. In order to ensure a favorable result, five steps need to be taken:



involve several department heads, key managers, and functional specialists. Field response management is developed based on the nature of each organization, its facilities, and its operations. The team must include multiple perspectives, such as legal, marketing, operations, communications, security, and corporate, as well as an external communications counsel.

Crisis centers are places where teams can assemble and carry out their activities. Anticipatory measures like adding telephone lines to a conference room, and pre-designating computers, printers, and copy machines can help the support-response operations and will save valuable time later. As teams develop they should be carefully trained to make decisions and empowered to be able to carry them out. If a crisis occurs and the team is unsure of what to do, the staff will sense it and the media will notice it, too.

### **Step Three: Write a Crisis-Management Plan**

Crisis management implies that to some degree each crisis situation can be managed. This management process takes place before, during, and after the crisis. For instance, the following things can be managed: anticipating a crisis, developing and training a crisis team, designing and equipping a crisis center, working through a plan for each potential crisis, developing the statements to be used in communication events, and handling media interviews. A smart organization develops all of these managerial processes into a Crisis Management Plan (CMP). Organizations put these plans into action if a crisis occurs. While the plan may not address "glass found in a company's product," it can address how the organization would respond to rumors of false media information, which executives would be responsible for talking to the media, and even things they would say.

### **Step Four: Develop a Communication Strategy**

When a crisis hits, a company must communicate. History is full of organizations that did not respond and their reputation suffered. One crisis expert defines crisis communication as "the process of managing the strategy, messages, timing, and distribution channels necessary to communicate effectively with the media, employees, core constituencies, clients, customers, and stakeholders. The focus of the crisis-communications function is to facilitate the rapid de-escalation

of the crisis through timely and effective communications methods." Time is of the essence for managers in the midst of a crisis, a communication strategy must be easy to understand and follow.

To be able to accomplish the above requires that strategy be developed and working at the time the crisis occurs. The crisis-management plan should designate who will take charge of the communication process. Usually, the public relations department takes care of the mechanics and a designated individual is selected to be the spokesperson

- 1) Determine the audience that needs information.
- 2) Determine who will be the spokesperson for the organization.
- 3) Determine the appropriate communication style.
- 4) Determine the appropriate timing.
- 5) Determine how to use the internet.

**Step Five: Practice and Revise the Crisis-Management Plan Practice the Plan:**

Writing the CMP is not an easy task. Consequently, an organization that has a plan in place may be tempted to rest, wait, and hope the crisis never hits. But unless the plan is practiced it is like having a football team that has never practiced.

**Revise the Plan:** The useful life of a crisis plan is three or four years. Restructuring, new personnel, and new goals require updating. Every three years the plan should be given a major revision. Yearly, human resources and operations departments should review it. Spokespeople and organizational leaders also change. That is why annual updates are recommended.

James E. Lukaszewski, past chairman of the Public Relations Society of America, lists five of the most important crisis communication plan updating procedures. While all are useful and encourage a contingent thinking mentality, the first and last items should be ongoing:

- 1) Ongoing preparation with annual simulations. An untested plan is an unworkable plan.
- 2) Sharing critical crisis communication experience case studies. 3) Useful right

way/wrong way video-based, situation-specific refresher programs. **4)** Interpreting and packaging as case studies other organizations' Crisis in terms of how your organization might respond if faced with a similar difficulty. **5)** Crisis-prevention/exposure management processes as an ongoing threat-reduction activity.

Ethical lapses by organizations sometimes lead to Crisis. At other times a totally ethical organization involved in a crisis may use unethical behavior in an attempt to end the crisis.

### **Strategies for Managing Crisis**

Various strategies for managing crisis are as follows:

#### **⇒ Strategies for Managing Crisis**

- Strong Leadership
- Swift Decision-Making
- Prompt, Effective Action on Behalf of Any People Affected
- Proactive Action to Mitigate Any Environmental Impact
- Clear, Proactive and Continuous Communication
- Robust Crisis Plans with Clear Roles
- Ensure Crisis Management Team (CMT) Regularly Trains and Rehearses Together
- Good Stakeholder Relationships
- Effective Spokespeople
- Apologies

**1) Strong Leadership:** Strong leadership is key to establishing confidence in the way in which the organization is responding to the crisis - it demonstrates the organisation and enables consistent clear communications. The management team should be identified and a leading spokesman nominated. It should be apparent to all those affected and the media that the team has the authority and capability to act

and resolve the crisis.

**2) Swift Decision-Making:** Delays and unnecessary debate will quickly undermine the confidence in the team and its approach. Decisions will need to be made promptly with no prevarication. This does not mean undue haste; the management will often need to assemble enough facts to make the right decisions. However, be aware that often a good, sound decision made promptly is far more useful than a perfect decision made too late.

**3) Prompt, Effective Action on Behalf of Any People Affected:** It is vital that the organization put people's interests far ahead of cost considerations - a passenger stranded or a customer hurt needs the attention immediately. All companies are expected to behave morally. Failure to recognize the implied duty of this expectation will translate to significant negative media and personal reaction, the exact opposite, in other words, of what has been attempted to achieve.

**4) Proactive Action to Mitigate Any Environmental Impact:** Any industrial accident that leads to contamination or damage to our environment will inevitably attract significant attention. Not only are there harsh penalties now available to national regulators and watchdogs, ensuring the polluters pay, but the added reputational damage will accelerate losses unless the organization is seen to act diligently to restore or rectify the situation.

**5) Clear, Proactive, and Continuous Communication:** Communication comes in a number of forms:

- i) There is communication to the government or regulatory bodies;
- ii) There is communication to direct stakeholders, and
- iii) There is broader communication with the press and media.

For each of these channels, it is important to maintain a consistent and accurate flow of information. Do not leave an information vacuum as this will be inevitably filled, at best with speculation, at the worse malicious or vicious rumor. Do keep a log of all communications, and not just for those to governments or regulatory bodies. A communications log should be set-up immediately during the crisis breaks. All communication should be through the appropriate channels, ones

that are agreed (beforehand, if possible), and understood within their own organization. It is perfectly acceptable for each of these channels to have different spokesmen, but it is essential that they convey not just accurate information but also communicate to ensure a common context across the channels.

**6) Robust Crisis Plans with Clear Roles:** Developing a clear set of crisis plans which explain the roles and responsibilities of the various team members, along with their authorities is key. These plans should be regularly reviewed and include general responses to a range of possible scenarios, these may include:

- i) Product recalls,
- ii) Industrial accidents,
- iii) Terrorist incidents,
- iv) The protest action,
- v) Adverse media coverage,
- vi) Industrial action and
- vii) Finance or regulatory issues.

By developing a consistent planning framework that is regularly reviewed can also enhance the company's capability to manage events more effectively. **7) Ensure Crisis Management Team (CMT) Regularly Trains and Rehearses Together:** Having a CMT team is not enough; it should have had the opportunity to rehearse and be properly trained to achieve its objectives. Establishing a clear command and control system within the business will also be necessary for effective management around the crisis. Regular rehearsals enable the CMT and operational staff to work together more effectively and collaborate in a more focused and directed way, thereby ensuring a better overall response. It is important to exercise or rehearse realistic scenarios; try to avoid a too light-hearted approach, as this will likely undermine the benefits the company is looking to gain.

**8) Good Stakeholder Relationships:** It is far easier to believe in the robust and diligent behaviour of a company that has conducted itself with virtue and efficiency in all its dealings, than in one that has perhaps taken a shoddy or lax approach to serious events in the past. Good stakeholder relationships are the

cornerstone. Have a good brand reputation. It is not about what the company believes in the end - it is about those around it, about what they believe. Do they trust in the organization to do the right thing? Will they have faith in management and systems? Will they be betting their money that will get through it?

**9) Effective Spokespeople:** Getting the message across clearly and with conviction it is absolutely vital. Carefully consider who within the organization can convey your message most effectively. Do not make the mistake of assuming that just because your CEO is the most senior of the management team, that they are the best placed or indeed the skilled person to deliver the messages that are needed to be conveyed. Depending on the nature of markets and the size of the organization, the organization may need to consider professional help in this area. This may be through hiring a spokesperson who would work on the company's behalf or training internal candidates to fulfil the role. Additionally, senior executives likely to regularly meet the press or media should consider undertaking some media skills training to enhance their ability to perform in front of a "media mob".

**10) Apologise:** Some organizations appear to be institutionally incapable of saying sorry. Often the consideration is how things might look to insurers or regulators, but this is frequently a false supposition. Demonstrating the understanding of the difficulties of the situation, and its impact on people is necessary to properly manage the impact of the crisis. Failure to connect with those affected, the media, and even observers will add the difficulties.

Remember an apology for a situation does not necessarily mean that the company is accepting full and complete liability. Instead of demonstrating empathy with people and, through the other actions and preparations, demonstrate that the company has acted reasonably as an organization.

**UNIT – V****LEGAL FACETS OF BUSINESS & INDUSTRY****Factories Act, 1948**

The Factories Act, 1948, regulates the working hours for all workers. According to the Act, a working week should not exceed 60 hours. The objectives of this Act are to regulate the hours or working time in factories so that workers are not overworked or unduly exhausted.

The objectives of this Act are to regulate the hours or working time in factories so that workers are not overworked or unduly exhausted. The Act's main objectives are also to protect workers' health and safety.

The Factories Act, 1948, mandates the payment of minimum wages to the workers by prescribing a fixed pay rate. An employer shall pay their employees at least the prescribed minimum wage rate. If an employee is paid less than minimum wage, the employer should pay that employee at least what the law requires. This Act reminds employers that any failure on their part to comply with its provisions will have serious legal consequences.

The Act requires employers to allow a weekly holiday to their workers. It further makes it obligatory for the employer to provide proper sanitary facilities and a clean potable water supply in the factory or workplace. Strict action will be taken against the employer if they fail in providing these facilities to the workers.

Employers are also required to set up first aid boxes in their factory, store first aid records, and ensure proper arrangements for transporting injured workers to a hospital or in-house medical facilities

The Act has several relevant provisions defining the duty of an employer who has in-house medical facilities and the duty of a doctor who is an official medical officer at the factory. The Act also defines the procedure to be followed if a complaint of any kind is received by or made to the government's labour department.

The Factories Act, 1948, also provides for implementing some administrative measures regarding which subsequent governments have framed appropriate rules.

**Some of these measures are as follows:**

- The Factory Act, 1948, has provisions for the constitution of a Child Labour Committee in every factory. This committee should consist of employers, workers, representatives from local authorities and a medical officer.
- An industrial dispute between the employer and worker(s) can be resolved by a Conciliation Officer appointed by the government. The authority of this officer is to conciliate and not to mediate.

- The governments appoint labour officers to look after factory workers' interests; this officer is a government official. The labour officers must see that no violation of any provisions of the Factories Act, 1948, takes place at any factory in their territories
- The state governments or local authorities have set up welfare funds in every factory. This fund may be established for general or specific purposes depending upon entrepreneurs' or local authorities' initiatives.

### **Objectives of Factories Act, 1948**

- To protect the health and safety of workers
- To ensure that factories adhere to global best practices in the factories
- To provide a fair and decent livelihood for all working-class people
- To reduce any social or industrial tensions

### **Provisions of Factories Act, 1948**

- Factories Act, 1948, limits work hours to 48 hours a week, and overtime work should not be more than nine hours a day. Factory Schedule Rules specify that a limited working day shall not exceed ten consecutive hours; this regulation does not apply during a public holiday or when an emergency requires immediate action and substantial loss has occurred.
- The Factories Act, 1948, sets the safety standards for workers employed in factories. It is applied to manufacturing goods, including weaving, knitting of hosiery and other knitwear, clothing and footwear production, dyeing and finishing textiles, etc.
- The Factories Act was passed in 1948 by the Parliament of India. The Act is landmark legislation aimed at deriving maximum profit for the industrial sector in India. The Factories Act is also known as the Factories (Amendment) Act, 1951, and it has been amended four times since its inception to meet the needs of India's industrial scenario and business practices. The Factories Act, 1948, falls under the category of Labour Laws in India.
- The Factories Act, 1948, repealed the Child Labour (Prohibition and Regulation) Act 1956; this Act was applied to factories only employing 20 or more worker.

### **Minimum Wages Act 1948**

The Minimum Wages Act 1948 is an Act of Parliament concerning Indian labour law that sets the minimum wages that must be paid to skilled and unskilled labours. An Act to provide for fixing minimum rates of wages in certain employments.

This is the type of wage provided for bare subsistence so that the workers can maintain a decent standard of living such as providing for education, medical requirements and an adequate level of comfort.

The main objective behind minimum wages of the workers should be primarily because of two reasons:

- **Social objective:** Minimum wage is essential for abolishing poverty by providing a basic standard of living to the employees.
- **Economic objective:** The rate of minimum wage should be fixed in such a way that would motivate the workers to put in maximum efforts at their jobs and thus improve the economy of the country and their standard of living.

### Objectives

- To fix the minimum rates of wages that are to be provided to the employees and revise such rates of wages every five years.
- To secure an adequate living wage for all the labourers in the interest of the public.
- To fix the daily working hours of the employees.
- To prevent exploitation of the workers by the employers.
- To ensure that the labourers can maintain a decent standard of living.
- To provide basic physical needs, good health and a level of comfort to the employees.
- To penalise the employers when they fail to provide minimum wages to the workers.
- To establish advisory boards to regulate and administer the provisions of the Act.
- To lay down the powers and duties of the inspectors for the purposes of this Act.
- To prevent any employer from wrongfully infringing the right of any employees.
- To establish appropriate authorities where the employees can seek redressal when the employer has failed to pay the daily wage.
- To authorise the Central and state governments to make rules and regulations for the purposes of this Act
- Under Section 3 of the Act, the minimum wages payable to the employees are to be fixed by the appropriate government. However, this Section also mentions that the rate of wages shall be revised every five years. The appropriate government may fix:
  - The minimum rate of wages for time work,
  - the minimum rate of wage for piece work,

- a minimum rate of remuneration to apply in the case of employees employed on piece work for the purpose of securing to such employees a minimum rate of wages on a time work basis,
- a minimum rate of wage to substitute the for the minimum rate which would otherwise be applicable, in respect of overtime work done by employees

### **Employment Insurance Act 1948**

An Act to provide for certain benefits to employees in case of sickness, maternity and employment injury and to make provision for certain other matters in relation there to.

The Employees State Insurance Act of 1948 has been enacted with the objective of securing financial relief in cases of sickness, maternity, disablement and for providing medical benefits to employees of factories and establishments, and their dependents.

The Employees State Insurance Act of 1948 has been enacted with the objective of securing financial relief in cases of sickness, maternity, disablement and for providing medical benefits to employees of factories and establishments, and their dependents. The act is also applicable to non-seasonal factories using power and employing 10 or more employees, and non- power using factories and certain other establishments employing 20 or more employees. Employees and employers contributes to the scheme, and various benefits are given to eligible employees like, sickness benefit, maternity benefit, disablement benefit, etc. All benefits are delivered thereof ESIs hospitals, clinics and approved independent medical practitioners

- **Maternity Benefits:** The Act provides for periodical payments to an insured woman in case of confinement or miscarriage or related sickness. Workers covered by the Act can claim maternity benefit upto 70 percent of their salary. (Section 46)
- **Discharge from Employment:** Employers are prohibited from dismissing, discharging, or otherwise punish an employee, during the period when the employee is in receipt of maternity benefit. (Section 70)
- Employees, a state insurance act 1948, plays a major role in the welfare of many employees. The functions of this act are as follows:
- Under section 17 of the constitution, the employee's state insurance act 1948 can recruit staff members. Along with this, it can also provide gratuity and some other fund related benefits to the eligible staff members.
- According to the powers of this act, it can invest or take money from the central government sanction for providing better facilities to employees.
- The Employees state insurance act 1948, can recruit or hire the social security officers to implement practices of the act among the other bodies of India. These officers have the power to enforce the implementation of practices of this act.

- The Employee's state insurance act 1948 also collects some amount of money from the compensation of employees to regulate all its functioning and to facilitate other employees.
- The Director-General of employees states insurance act has the authority to make decisions for facilitating the act's implementation. He can also modify the implementation strategies according to the need.
- It is the responsibility of the employee's state insurance act 1948 to maintain the budget of all expenditures, which are done to provide compensation and other facilities to the employees.

### **Employee Provident Fund and Miscellaneous Provisions Act, 1952**

An Act to provide for the institution of provident funds for employees in factories and other establishments

This is an Act to provide for the institution of provident funds, pension fund, and deposit-linked insurance fund for employees. Employees' Provident Fund Organisation (EPFO) is one of the largest social security organisations in India in terms of the number of covered beneficiaries and the volume of financial transactions undertaken.

EPF is a welfare scheme brought into force to secure a better future for employees. It is a statutory benefit available to the employees post retirement or when they leave the services. In case of deceased employees, their dependents will be entitled for the benefits. Under the Employees' Provident Fund Scheme (EPF Scheme) both employers and employees have to make their contributions towards the Fund. Interest earned on the amount is credited to the member's Provident Fund Account (PF account) and is available to the employee at the time of retirement or exit from employment as the case may be, provided certain conditions are fulfilled.

#### **Types of schemes under the Act**

1. **Employees' Provident Fund Scheme, 1952:** Employees' Provident Fund Scheme was set up under the Act for the purpose of providing a post retirement benefit for the employees or a class of employees or their legal heirs in case of death, employed under an establishment to which this Act applies.
2. **Employees' Pension Scheme, 1995:** Employees' Pension Scheme was framed under the Act for the purpose of providing the superannuation pension, retiring pension or permanent total disablement pension to the employees of any establishment or class of establishments to whom this Act applies; and widow or widower's pension, children pension or orphan pension payable to the beneficiaries of such employees.
3. **Employees' Deposit-linked Insurance Scheme, 1976:** Employees' Deposit-linked Insurance Scheme (EDLI Scheme) was framed under the Act for the purpose of providing insurance benefits to the employees of an establishment or a class of establishments to whom this Act applies in case of death while in service.

#### **Applicability**

The Employees' Provident Funds and Miscellaneous Provisions Act provides for compulsory contributory fund for the future of an employee after his/her retirement or for his/her dependents in case of the employee's early death. It extends to the whole of India except the State of Jammu and Kashmir and is applicable to:

- Every factory engaged in any industry specified in Schedule 1 in which 20 or more persons are employed.
- Every other establishment employing 20 or more persons or class of such establishments that the Central Govt. may notify.
- Any other establishment so notified by the Central Government even if employing less than 20 persons.

Every employee, including the one employed through a contractor (but excluding an apprentice engaged under the Apprentices Act or under the standing orders of the establishment and casual laborers), who is in receipt of wages up to Rs.15,000 p.m. shall be eligible for becoming a member of the fund. The condition of three months continuous service or 60 days of actual work for membership of the scheme has been removed.

### **Eligibility to be the member of EPF**

Enrollment for PF membership is mandatory for:

1. Any person employed for wages for any work of an establishment either manual or otherwise.
2. Any person employed through a contractor or engaged as an apprentice but not being an apprentice under Apprentices Act, 1961.
3. Any person under the standing orders of an establishment, earning less than or equal to Rs. 15,000 per month other than the excluded and exempted employees under Section 17 of the Act.

### **Withdrawals from EPF account**

1. The funds from an EPF account can be withdrawn completely in full settlements on attaining 58 years of age or at the time of retirement the employee can claim for a complete settlement or if an employee remains unemployed for a period of 2 months or more or in the case of death while in service before attaining the age of retirement, in which case the nominees or legal heirs are entitled to withdraw the accumulated fund.
2. The partial withdrawal of funds from the EPF is available for educational opportunity, medical treatment, repayment of home loan, marriage, purchase of land/house/flat, in case the establishment/factory is closed, natural calamity, an year before retirement and unemployment for a period of more than one month.

### **Benefits**

The employees covered under the various schemes of the Act are entitled for the following benefits

- Employees can take advances or make withdrawals.
- PF amount of a deceased member is payable to the nominees or legal heirs.
- The employer not only contributes towards the PF but also makes the necessary contributions towards the employee's pension which can be used by the employee post-retirement
- Under the EDLI Scheme employees are properly insured in order to avail the lump sum benefit at the time of death while in service.
- EEE (Exempt, Exempt, Exempt) tax benefit under the Income Tax Act enables tax-free returns for the employees.
- Employees receive special benefits in the form of added income to their savings in the form of interest.
- PF account can be transferrable if any member changes employment from one establishment to another where such Provident Fund scheme is applicable.

### **Contract Labor Act, 1970**

An Act to regulate the employment of contract labour in certain establishments and to provide for its abolition in certain circumstances and for matters connected therewith.

The Contract Labour (Regulation and Abolition) Act, 1970 was enacted to regulate the employment of contract labour in certain establishments and to provide for its abolition in certain circumstances.

#### **Applicability:**

The act is applicable to:

- Every establishment in which twenty or more workmen are employed or were employed on any day of the preceding twelve months as contract labour;
- Every contractor who employs or who employed on any day of the preceding twelve months twenty or more workmen

#### **Non- applicability:**

An establishment which performs an intermittent or casual nature of work.

- The appropriate Government shall decide upon the intermittent or casual nature of work after consultation with the Central Board/ State Board.

#### **Compliances under the Act**

##### **Principal Employer:**

a) Within 15 days of commencement or completion of each contract work under each contractor, submit a return to the inspector, intimating the actual dates of commencement and completion of such contract work.

b) Submit annual returns to the registering officer concerned not later than, 15th February following end of the year to which it relates.

**Contractor:** File half yearly returns with the concerned Licensing Officer not later than 30 days from the close of the half year.

### **Liabilities and responsibilities of Principal Employer**

- The Principal Employer shall provide the essential amenities like Canteen (above 100 contract labours), rest rooms, drinking water facilities and first aid facilities if the same is not provided by the Contractor (Sec 16 to 19).
- The expenses incurred on amenities by the Principal employer may be recovered from the contractor either by deduction of any amount payable to the contractor under any contract or as a debt payable by the contractor (Section 20).
- The Principal employer must ensure the disbursement of wages through Contractor within the expiry of prescribed period by nominating a representative. If the Contractor fails to make payment or makes short payment then, the principal employer shall be liable to make payment of wages in full or the unpaid balance and recover the amount so paid from the Contractor (Section 21)

### **Maternity Benefit Act 1948**

The Act applies to mines, factories, circus, industry, plantation and shops and establishments employing ten or more persons, except employees covered under the Employees State Insurance act, 1948. It can be extended to other establishments by the state governments. There is no wage limit for coverage under the Act. The Central Government is Appropriate Government in respect of the Circus Industry and Mines

ESIC provides 100% of average daily wages in cash up to 26 weeks in confinement and 6 week in case of miscarriage, during maternity leave and 12 weeks for commissioning mother and adopting mother.

### **Objectives**

- Maternity Benefit is payable for a maximum period of 26 weeks upto 2 surviving children in case of confinement of which not more than 8 weeks shall precede the expected date of confinement, on production of form 17, 18, 19, 20 and 21.
- Miscarriage or Medical Termination of Pregnancy (MTP)-payable for 6 weeks (42 days) from the date following miscarriage.
- Sickness arising out of Pregnancy, Confinement, Premature birth-payable for a period not exceeding one month-on the basis of Forms 7, 8, 9 and 10.

- In the event of the death of the Insured Woman during confinement leaving behind a child, Maternity Benefit is payable to her nominee on production of Form 24 (B).
- Maternity benefit rate is 100% of average daily wages.

### **Industrial Disputes Act**

Industrial Dispute means any dispute or differences between employers and employees or between employers and workmen or between workmen and workmen which is connected with the employment or non-employment or the terms of employment or with the conditions of labour of any person

Industrial disputes are a part of organizational life and arise out of various economic or non-economic causes. The economic causes relate to compensation such as wages, bonus, allowances, conditions of work, working hours, leave, holidays without pay, unjust layoffs, and retrenchments. The non-economic factors include victimization of workers, ill-treatment by staff members, sympathetic strikes, political factors, indiscipline, etc

### **Objectives**

- The act was implemented to provide for machinery and procedure for the investigation and settlement of industrial disputes, applicable to all irrespective of size and sector. It even has provisions regarding conditions for layoffs, retrenchment (reduction in the size of operations) and closure of industry.
- This clause arises controversy regarding the act, particularly as per Chapter V-B. There have been multiple amendments that have been made over the years for this clause. The chapter states the following:
- If an industrial establishment employs more than 50 persons, it needs to give 60 day's notice, citing reasons of closure to the appropriate government before the closure of the industry. It was increased to 90 days in 1982.
- If the establishment employs more than 300 employees, it must take prior approval of the proper government authority regarding approval for layoffs, retrenchment and closure. This limit was lowered to 100 employees in the 1982 amendment.
- The main objective of this provision is to ensure that an employer cannot hire or fire any employee at will. To take any such action, they need to seek permission from the labour commissioner. This subject is also under the concurrent list which is why individual states have made even stricter rules and conditions so that the lay off, retrenchment and closure become even more difficult.
- An act to make provision for the investigation and settlement of industrial disputes, and for certain other purposes.
- The objective of the Industrial Disputes Act is to secure industrial peace and harmony by providing mechanism and procedure for the investigation and settlement of industrial disputes by conciliation, arbitration and adjudication which is provided under the statute.

The main and ultimate objective of this act is "Maintenance of Peaceful work culture in the Industry in India" which is clearly provided under the Statement of Objects & Reasons of the statute.

- The laws apply only to the organised sector. Chapter V talks about the most important and often in news topic of 'Strikes and Lockouts'. It talks about the Regulation of strikes and lockouts and the proper procedure which is to be followed to make it a Legal instrument of 'Economic Coercion' either by the Employer or by the Workmen
- The provision for payment of compensation to the workman on account of closure or lay off or retrenchment.
- The procedure for prior permission of appropriate Government for laying off or retrenching the workers or closing down industrial establishments
- Unfair labour practices on part of an employer or a trade union or workers.

### **Indian Trade Union Act, 1926**

An Act to provide for the registration of Trade Unions and in certain respects to define the law relating to registered Trade Unions. Whereas it is expedient to provide for the registration of Trade Unions and in certain respects to define the law relating to registered Trade Unions.

In this Act 'the appropriate Government' means, in relation to Trade Unions whose objects are not confined to one State, the Central Government, and in relation to other Trade Unions, the State Government, and, unless there is anything repugnant in the subject or context, -

- (a) "executive" means the body, by whatever name called, to which the management of the affairs of a Trade Union is entrusted;
- (b) "office-bearer", in the case of a Trade Union, includes any member of the executive thereof, but does not include an auditor;
- (c) "prescribed" means prescribed by regulations made under this Act;
- (d) "registered office" means that office of a Trade Union which is registered under this Act as the head office thereof;
- (e) "registered Trade Union" means a Trade Union registered under this Act;
- (f) "Registrar" means -
  - (i) a Registrar of Trade Unions appointed by the appropriate Government under section 3, and includes any Additional or Deputy Registrar of Trade Unions; and
  - (ii) in relation to any Trade Union, the Registrar appointed for the State in which the head or registered office, as the case may be, of the Trade Union is situated ;

(g) "trade dispute" means any dispute between employers and workmen or between workmen and workmen, or between employers and employers which is connected with the employment or non-employment, or the terms of employment or the conditions of labour, of any person, and "workmen" means all persons employed in trade or industry whether or not in the employment of the employer with whom the trade dispute arises; and

(h) "Trade Union" means any combination, whether temporary or permanent, formed primarily for the purpose of regulating the relations between workmen and employers or between workmen and workmen, or between employers and employers, or for imposing restrictive conditions on the conduct of any trade or business, and includes any federation of two or more Trade Unions:

Provided that this Act shall not affect -

- (i) any agreement between partners as to their own business;
- (ii) any agreement between an employer and those employed by him as to such employment; or
- (iii) any agreement in consideration of the sale of the good-will of a business or of instruction in any profession, trade or handicraft.

#### **Appointment of Registrars.-**

(1) The appropriate Government shall appoint a person to be the Registrar of Trade Unions for each State.

(2) The appropriate Government may appoint as many Additional and Deputy Registrars of Trade Unions as it thinks fit for the purpose of exercising and discharging, under the superintendence and direction of the Registrar, such powers and functions of the Registrar under this Act as it may, by order, specify and define the local limits within which any such Additional or Deputy Registrar shall exercise and discharge the powers and functions so specified.

(3) Subject to the provisions of any order under sub-section (2), where an Additional or Deputy Registrar exercises and discharges the powers and functions of a Registrar in an area within which the registered office of a Trade Union is situated, the Additional or Deputy Registrar shall be deemed to be the Registrar in relation to the Trade Union for the purposes of this Act.

#### **Provisions to be contained in the rules of a trade union**

Section 6 of the Act enlists the provisions which should be contained in the rules of trade union and it provides that no trade union shall be recognized unless it has established an executive committee in accordance with the provisions of the Act and its rules, specifies the following matters, namely:

- Name of the trade union;
- The object of the establishment of the trade union;
- Purposes for which the funds with the union shall be directed;
- A list specifying the members of the union shall be maintained. The list shall be inspected by office bearers and members of the trade union;
- The inclusion of ordinary members who shall be the ones actually engaged or employed in an industry with which the trade union is connected;
- The conditions which entitle the members to any benefit assured by the rules and also the conditions under which any fine or forfeiture may be imposed on the members;
- The procedure by which the rules can be amended, varied or rescinded;
- The manner within which the members of the manager and also the alternative workplace bearers of the labour union shall be elective and removed;
- The safe custody of the funds of the labour union, an annual audit, in such manner, as may be prescribed, of the accounts thereof, and adequate facilities for the inspection of the account books by the workplace bearers and members of the labour union, and;
- The manner within which the labour union could also be dissolved.

### **Object and Scope**

The main aim of the Industrial Disputes Act, 1947 is to maintain a balance between labour and industry welfare by ensuring industrial peace and harmony. It focusses on the mechanism and procedure for the investigation and settlement of industrial disputes by conciliation, arbitration and adjudication which is provided under the statute.

To secure industrial peace and harmony by providing machinery and procedure for the investigation and settlement of industrial disputes by negotiations.

1. To encourage good relations between labor and industries, and provide a medium of settling disputes through adjudicator authorities.
2. To provide a committee for dispute settlement between industry and labor with the right of representation by a registered trade union or by an association of employers.
3. Prevent unauthorized strikes and lockouts.
4. Reach out to labor that has been laid-off, unrightfully dismissed, etc.
5. Provide labor the right to collective bargaining and promote conciliation.

The provision for payment of compensation to the workman on account of closure or lay off or retrenchment.

The procedure for prior permission of appropriate Government for laying off or retrenching the workers or closing down industrial establishments

The object of the Industrial Disputes Act is to make provision for the investigation and settlement of industrial disputes. The Act is primarily meant for regulating the relations of employers and workmen, past, present and future. The principal aim of the Act is to encourage collective bargaining and to maintain industrial peace by preventing illegal strikes and lockouts and to provide lay off and retrenchment compensation.

The act was drafted to make provision for the investigation and settlement of industrial disputes and to secure industrial peace and harmony by providing mechanism and procedure for the investigation and settlement of industrial disputes by conciliation, arbitration and adjudication which is provided under the statute

It extends to the whole of India [Sec.1 (2)]. It extends to all industries whether they are carried on by private owners or by the government. The Act has been amended from time to time

The main object of the Act is to provide for investigation and settlement of industrial disputes, the amendment Act seeks to ensure speedier resolution of industrial disputes by removing procedural delays. Besides creating an efficient statutory machinery for the settlement of industrial disputes and thereby promoting industrial harmony, the Act also seeks to achieve certain other objects, referred to as ‘certain other purposes’ in the preamble.

#### **Some of the other objectives are**

- Promoting measures for securing and preserving amity and good relations between employer and workmen.
- Enquiring into any matter connected with or relevant to an industrial dispute.
- Promoting the settlement of industrial disputes.
- Adjudication of industrial disputes.
- Reference of individual disputes to grievance settlement authorities.
- Voluntary reference of disputes to arbitration.
- Prevention of illegal strikes and lock-outs.
- Compensation for lay-off and retrenchment of workmen.
- Provision for the payment of wages from the date of the award till the suit pending before courts of law is decided.
- Prevention of unfair labour practices.

#### **Major Provisions of These Acts**

The major provision of **factories act, 1948** provides safeguard for workers to protect health, provides for safety at the workplace when dealing with machinery, improves the physical conditions of the workplace, and provides welfare amenities.

The major provisions of the **Minimum wage act 1948** is to prevent employee exploitation and ensure a decent living for a worker. The Act provides that the government will fix the minimum wage rate and revise it every five years. It appoints advisory committees to consider the proposals.

The major provisions of **Employment Insurance Act** can draw some cash compensation in case they fall sick. This compensation is generally 70% of their wages during the period of sickness for a maximum of 91 days in a year. In order to avail this sickness benefit, a worker must pay his contribution for 78 days out of 6 months.

The Employees' **Provident Fund and Miscellaneous Provisions Act, 1952** aims to provide a kind of social security to the industrial workers. The Act mainly provides retirement or old age benefits, such as Provident Fund, Superannuation Pension, Invalidation Pension, Family Pension and Deposit-Linked Insurance. The Act provides for payment of terminal benefits on the happening of various contingencies such as retirement, closure, retirement on attainment of the age of superannuation, voluntary retirement and retirement due to factors which result in incapacity of the employee to work.

The major provisions of **Maternity Benefit Act**, every woman shall be entitled to, and her employer shall be liable for, the payment of maternity benefit at the rate of the average daily wage for the period of her actual absence, that is to say, the period immediately preceding the day of her delivery, the actual day of her.

Major provisions of **Trade Union Act**: A Trade Union shall not be entitled to registration under this Act, unless the executive thereof is constituted in accordance with the provisions of this Act, and the rules thereof provide for the following matters, namely: -

- (a) the name of the Trade Union;
- (b) the whole of the objects for which the Trade Union has been established;
- (c) the whole of the purposes for which the general funds of the Trade Union shall be applicable, all of which purposes shall be purposes to which such funds are lawfully applicable under this Act;
- (d) the maintenance of a list of the members of the Trade Union and adequate facilities for the inspection thereof by the office-bearers and members of the Trade Union;
- (e) the admission of ordinary members who shall be persons actually engaged or employed in an industry with which the Trade Union is connected, and also the admission of the number of honorary or temporary members as office-bearers required under section 22 to form the executive of the Trade Union;
- (ee) the payment of a subscription by members of the Trade Union which shall be not less than twenty-five naye paise per month per member;
- (f) the conditions under which any member shall be entitled to any benefit assured by the rules and under which any fine or forfeiture may be imposed on the members;
- (g) the manner in which the rules shall be amended, varied or rescinded;
- (h) the manner in which the members of the executive and the other office-bearers of the Trade Union shall be appointed and removed;
- (i) the safe custody of the funds of the Trade Union, an annual audit, in such manner as may be prescribed, of the accounts thereof, and adequate facilities for the inspection of the account books by the office-bearers and members of the Trade Union; and
- (j) the manner in which the Trade Union may be dissolved.

The major provisions of **Industrial Disputes Act, 1947** is the primary legislation governing dispute resolution in India. It was enacted to provide for the investigation and settlement of industrial disputes, to prevent illegal strikes and lockouts, to provide relief to workmen during lay-off or after retrenchment or wrongful dismissal.

## Module 6

### INTERFACE WITH VOLUNTARY ORGANISATIONS

#### COMPANIES ACT, 2013

The 1956 Act has been in need of a substantial revamp for quite some time now, to make it more contemporary and relevant to corporates, regulators and other stakeholders in India. While several unsuccessful attempts have been made in the past to revise the existing 1956 Act, there have been quite a few changes in the administrative portion of the 1956 Act. The most recent attempt to revise the 1956 Act was the Companies Bill, 2009 which was introduced in the Lok Sabha, one of the two Houses of Parliament of India on 3. August 2009. This Companies Bill, 2009 was referred to the Parliamentary Standing Committee on Finance, which submitted its report on 31 August 2010 and was withdrawn after the introduction of the Companies Bill, 2011. The Companies Bill, 2011 was also considered by the Parliamentary Standing Committee on Finance which submitted its report on 26 June 2012. Subsequently, the Bill was considered and approved by the Lok Sabha on 18 December 2012 as the Companies Bill, 2012 (the Bill). The Bill was then considered and approved by the Rajya Sabha too on 8 August 2013. It received the President's assent on 29 August 2013 and has now become the Companies Act, 2013.

The 2013 Act is the culmination of several years of effort to enact a new legislation governing companies to replace the Companies Act, 1956 (the 1956 Act'). The 2013 Act marks a major step forward and appreciates the current economic environment in which companies operate. It goes a long way in protecting the interests of shareholders and removes administrative burden in several areas. The 2013 Act is also more outward looking and in several areas attempts to align with international requirements.

#### Important Definitions under Companies Act, 2013

- 1) Companies: It includes:
  - i) One-Person Company (Section 3(1)): The 2013 Act introduces a new type of

entity to the existing list i.e. apart from forming a public or private limited company, the 2013 Act enables the formation of a new entity a 'one-person company' (OPC). An OPC means a company with only one person as its member.

ii) Private Company (Section 2(68)): The 2013 Act introduces a change in the definition for a private company, inter-alia, the new requirement increases the limit of the number of members from 50 to 200.

iii) Small Company: A small company has been defined as a company, other than a public company.

a) Paid-up share capital of which does not exceed 50 lakh INR or such prescribed which shall not be more than five crore INR

b) Turnover of which as per its last profit-and-loss account does not exceed two crore INR or such higher amount as may be prescribed which shall not be more than 20 crore INR:

As set out in the 2013 Act, this section will not be applicable to the following:

a) A holding company or a subsidiary company.

b) A company registered under section 8.

c) A company or body corporate governed by any special Act.

iv) Dormant Company (Section 455): The 2013 Act states that a company can be classified as dormant when it is formed and registered under this 2013 Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction. Such a company or an inactive one may apply to the ROC in such manner as may be prescribed for obtaining the status of a dormant company.

2) Financial Statement [Section 2(40)]: Financial Statement in relation to a company includes:

v) A balance sheet as at the end of the financial year;

vi) A profit and loss account, or in the case of a company carrying on any activity

not for profit, an income and expenditure account for the financial year;

vii) Cash flow statement for the financial year;

viii) A statement of changes in equity, if applicable; and

ix) Any explanatory note annexed thereto or forming part of, any document referred to in sub-clause (i) to sub-clause (iv).

It is provided that the financial statement, with respect to one person company, small company and dormant company, may not include the cash flow statement.

3) Key Managerial Personnel (Section 2(51)): Key Managerial Personnel in relation to a company, means:

- i) The chief executive officer or the managing director or the manager;
- ii) The company secretary;
- iii) The whole-time director;
- iv) The chief financial officer; and
- v) Such other officers may be prescribed.

4) Promoter[Section 2(69)]: It means a person:

- a) Who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or
- b) Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
- c) In accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act. It is provided that nothing in sub-clause (C) shall apply to a person who is acting merely in a professional capacity

5) Regulators: it includes:

- i) National Company Law Tribunal (Tribunal or NCLT): In accordance with the Supreme Court's (SC) judgement, on 11 May 2010, on the composition

and constitution of the Tribunal, modifications relating to qualification and experience, etc. of the members of the Tribunal has been made. Appeals from the Tribunal shall lie with the NCLT. Chapter XXVII of the 2013 Act consisting of section 407 to 434 deals with NCLT and appellate Tribunal.6.2.

ii) National Financial Reporting Authority (NFRA): The 2013 Act requires the constitution of NFRA, which has been bestowed with significant powers not only in issuing the authoritative pronouncements, but also in regulating the audit profession.

iii) Serious Fraud Investigation Office (SFIO): The 2013 Act has bestowed legal status to SFIO.

#### Provisions of Companies Act, 2013

Important provisions are as follows:

1) Classification and Registration: It includes:

i) Concept of One Person Company (OPC limited) introduced;

ii) Concept of Small Companies have been introduced which shall be subjected to a lesser stringent regulatory framework;

iii) Provision for Conversion of Companies already registered has been introduced;

iv) Registration process has been made faster and compatible with e-governance;

v) For the first time, articles may contain provisions for entrenchment;

vi) A declaration, in the prescribed form, required to be filed with the Registrar at the time of registration of a company that all the requirements of the Act in respect of registration and matters precedent or incidental thereto have been complied with, will be required to signed by both - a person named in the articles as a director, manager or secretary of the company as well as by an advocate, a

chartered accountant, cost accountant or company secretary in practice, who is engaged in the formation of the company.

2) Registered Office: It includes:

i) A company shall, on and from the 15th day of its incorporation and at all times thereafter have a registered office capable of receiving and acknowledging all communications and notices as may be addressed to it.

ii) Company is required to furnish the Registrar verification of its registered office within 30 days of its incorporation in the prescribed manner.

iii) Where a company has changed its name(s) during the last two years, it shall paint or affix or print, along with its name, the former name or names so changed during the last two years.

iv) Notice of change, verified in the manner prescribed, shall be given to the Registrar, within 15 days of the change, who shall record the same.

3) Commencement of Business: A company having a share capital shall not commence business or exercise any borrowing powers unless a declaration is filed with Registrar by a director verified in the manner as may be prescribed that:

i) Every subscriber to the memorandum has paid the value of shares agreed to be taken by him;

ii) Paid-up capital is not less than 5 lac in the case of public company and one lac in case of a private company

iii) The company has filed with the Registrar the verification of its registered office.

4) Acceptance of Deposits: Under new Companies Act, there are elaborated provisions for acceptance and/or renewal of deposits. A company may, subject to passing of a resolution in general meeting and subject to such rules as may be prescribed in consultation with the Reserve Bank of India, accept deposits from its members on such terms and conditions, including the provision of security, if any, or for the repayment of such deposits with interest, as may be agreed upon between the company and its members, subject to the fulfilment of the following conditions, namely:

i) Issuance of a circular to its members including therein a statement showing the financial position of the company, the credit rating obtained, the total number of depositors and the amount due towards deposits in respect of any previous deposits accepted by the company and such other particulars in such form and in such manner as may be prescribed,

ii) Filing a copy of the circular along with such statement with the Registrar within thirty days before the date of issue of the circular;

iii) Depositing such sum which shall not be less than fifteen percent of the amount of its deposits maturing during a financial year and the financial year next following, and kept in a scheduled bank in a separate bank account to be called as Deposit Repayment Reserve Account;

iv) Providing such deposit insurance in such manner and to such extent as may be prescribed;

v) Certifying that the company has not committed any default in the repayment of deposits accepted either before or after the commencement of this Act or payment of interest on such deposits; and

vi) Providing security, if any for the due repayment of the amount of deposit or the interest thereon including the creation of such charge on the property or assets of the company: Provided that in case where a company does not secure the deposits or secures such deposits partially, then, the deposits shall be termed as "unsecured deposits and shall be so quoted in every circular, form, advertisement or in any document related to invitation or acceptance of deposits.

5) Registration of Charges: Companies Act, 2013 requires the company to register the particulars of every charge created by it on its property or assets or any of its undertaking including pledge.

6) Annual Return: Every company shall prepare a return in the prescribed form containing the particulars as they stood on the close of the financial year. Annual Return is required to be signed by:

i) A Director and the Company Secretary, or where there is no Company Secretary, by a Company Secretary in whole-time practice.

ii) It means that now in respect of all the companies (except one person companies and small companies), whether private or public, listed or unlisted, the annual return has to be signed by either a company secretary in employment or by a company secretary in practice, i.e., where no Company Secretary is appointed by the company, the Annual Return is compulsorily required to be signed by the Company Secretary in practice.

iii) In addition to the above, the Annual Return, filed by a listed company or by a company having such paid-up capital and turnover as may be prescribed, shall be certified by a company secretary in practice that the annual return discloses the facts correctly and adequately and that the Company has complied with all the provisions of the Act.

iv) It means, in case of a listed company and other prescribed companies, even if the Annual Return is signed by the Company Secretary in employment, it is further required to be certified by the Company Secretary in whole-time practice.

v) In relation to a one person company and small company, the Annual Return is required to be signed by the Company Secretary, or where there is no Company Secretary, by one director of the company.

vi) Every listed company shall file a return in the prescribed form with the Registrar with respect to change in the number of shares held by promoters and top ten shareholders of such company, within fifteen days of such change.

7) Place of Keeping Registers: The new Act permits a company to keep its registers or copies of returns at any other place other than the registered office in India (not necessarily within the city, village or town in which the registered office is situated) if following conditions are fulfilled:

i) More than 10% of the total members entered in the register of members reside at that place;

ii) The keeping of registers or copies at that place is approved by a special resolution passed by the members in the general meeting; and

iii) The Registrar has been given a copy of the proposed special resolution in advance;

8) General Meeting: Provisions related to general meeting are as follows:

i) Every Annual General Meeting (AGM) shall be called during business hours, i.e. between 9 A.M. to 6 P.M. on any day that is not a National

Holiday. ii) The Concept of Statutory Meeting has been omitted.

iii) First AGM is required to be held within 9 months from the end of the first financial year.

iv) A general meeting of a company may be called by giving not less than clear twenty-one days' notice either in writing or through electronic mode in such manner as may be prescribed;

v) To encourage wider participation of shareholders at General Meetings, the Central Government may prescribe the class or classes of companies in which a member may exercise their vote at meetings by electronic means.

vi) One person companies have been given the option to dispense with the requirement of holding an AGM.

vii) Every listed company shall prepare a Report on each Annual General Meeting including confirmation to the effect that the meeting was convened, held and conducted as per the provisions of the Act and the Rules made there under. A copy of the report shall be filed with the Registrar within 30 days of the conclusion of the AGM

viii) Quorum of the public company has been increased from 5 to 30 members personally present depending upon the number of members as under:

a) Upto 1000 members = 5 members personally present

b) 1001 to 5000 members = 15 members personally present

c) More than 5000 members = 30 members personally present

9) Corporate Social Responsibility: Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or

more directors, out of which at least one director shall be an independent director. The Board's report shall disclose the composition of the Corporate Social Responsibility Committee. Every company satisfying any of the above criteria has to mandatorily spend 2% of the average net profits of the 3 immediately preceding financial years on Corporate Social Responsibility.

10) Auditors: Every company has to appoint, at the first Annual General Meeting, an individual or a firm (firm shall include LLP) as an auditor who shall hold office till the conclusion of sixth Annual General Meeting and thereafter till the conclusion of every sixth AGM. Accordingly, the appointment of auditors is to be made for 5 years. The appointment is subject to the ratification of the members at every annual general meeting.

Listed and certain other prescribed classes of companies cannot reappoint:

- i) An individual as auditor for more than one term of five consecutive years;
- ii) An audit firm as auditor for more than two terms of five consecutive years:

All notices of, and other communications relating to any general meeting shall be forwarded to the auditor of the company, and the auditor shall attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

11) Cost Audit: The previous approval of the Central Government is no longer required for appointment of Cost Auditor as section 148 of the Act has dispenses with this requirement. Remuneration of the Cost Auditor also will be decided by the members.

12) Directors: Provisions related to director are as follows:

- i) The Board shall consist of individuals as directors.
- ii) Maximum 15 directors. Company may appoint more than 15 directors after passing a special resolution in this regard.
- iii) Such class or classes of companies as may be prescribed shall have a woman director.

iv) Every company shall have at least one of the directors who has stayed in India for 182 days or more in the previous calendar year.

v) Every listed company shall have at least 1/3rd independent directors.

vi) An independent director shall hold office for a term upto five consecutive years on the Board of a company, but shall be eligible for reappointment on passing of a special resolution by the company and disclosure of such appointment in the Board's report. No independent director shall hold office for more than two consecutive terms, but such independent director shall be eligible for appointment after the expiration of three years of ceasing to become an independent director.

vii) Every person proposed to be appointed as a director by the company in general meeting or otherwise, shall furnish his Director Identification Number (DIN) and a declaration that he is not disqualified to become a director under this Act. viii) Consent is to be filed within 30 days and the director shall act as director only after filing of such consent.

ix) A person who is not a retiring director be eligible for appointment to the office of a director at any general meeting, if he, or some member intending to propose him as a director, has, not less than fourteen days before the meeting, left at the registered office of the company, a notice in writing under his hand signifying his candidature as a director or, as the case may be, the intention of such member to propose him as a candidate for that office, along with the deposit of one lac rupees or such higher amount as may be prescribed which shall be refunded to such person or, as the case may be, to the member, if the person proposed gets elected as a director or gets more than twenty-five per cent, of total valid votes cast either on show of hands or on poll on such resolution.

x) No person shall hold office as a director, including any alternate directorship, in more than twenty companies at the same time. Provided that the maximum number of public companies in which a person can be appointed as a director shall not exceed ten. The members of a company may, by special resolution, specify any lesser number of companies in which a director of the company may act as directors.

xi) The provisions of qualification shares have been omitted.

13) Independent Director: Independent Director means a director other than a managing director or a whole time director or a nominee director:

i) Who, in the opinion of the Board, is a person of integrity and possesses relevant expertise and experience;

a) Who is or was not a promoter of the company or its holding, subsidiary or associate company;

b) Who is not related to promoters or directors in the company, its holding, subsidiary or associate company;

ii) Who has or had no pecuniary relationship with the company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;

iii) None of whose relatives has or had pecuniary relationship or transaction with the company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent. or more of its gross turnover or total income or fifty lac rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

iv) Who, neither himself nor any of his relatives:

a) Holds or has held the position of a key managerial personnel or is or has been employee of the company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;

b) Is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of:

- A firm of auditors or company secretaries in practice or cost auditors of the company or its holding, subsidiary or associate company; or
- Any legal or a consulting firm that has or had any transaction with the company, its holding, subsidiary or associate company amounting to ten

per cent. or more of the gross turnover of such firm;

c) Holds together with his relatives two per cent. or more of the total voting power of the company; or

d) Is a Chief Executive or Director, by whatever name called, of any non-profit organisation that receives twenty-five per cent. or more of its receipts from the company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the company, or

v) Who possesses such other qualifications as may be prescribed.

14) Meeting of the Board: Provisions related to board meeting are as follows:

i) Every Company shall hold first meeting of its Board of Directors within 30 days of its incorporation;

ii) Four meetings of the Board of Directors should be hold every year in such a manner that not more than 120 days shall intervene between 2 consecutive board meetings;

iii) The participation of directors in a meeting of the Board may be either in person or through videoconferencing or other audiovisual means, as may be prescribed, which are capable of recording and recognising the participation of the directors and of recording and storing the proceedings of such meetings along with date and time;

iv) Not less than 7 days notice is to be given for board meeting which may be given electronically;

v) Participation of directors through video conferencing shall also be counted for the purpose of quorum;

vi) Prohibition on insider trading on directors and key managerial personnel;

15) Managerial Personnel: Provisions related to managerial persons are as follows:

i) No company shall appoint or re-appoint any person as its managing director,

whole-time director or manager for a term exceeding five years at a time;

ii) Most of the provisions of schedule XIII of earlier Companies Act, 1956 have been incorporated in this Chapter;

iii) No person shall be appointed as MD as well as Chairperson at a same time except articles provides otherwise;

iv) Every company belonging to such class or classes of companies as may be prescribed shall have the following whole-time key managerial personnel:

a) Managing director, or Chief Executive Officer or manager and in their absence, a whole-time director;

b) Company secretary; and

c) Chief Financial Officer

Every whole-time key managerial personnel of a company shall be appointed by means of a resolution of the Board containing the terms and conditions of the appointment including the remuneration. If the office of any whole-time key managerial personnel is vacated, the resulting vacancy shall be filled-up by the Board at a meeting of the Board within a period of six months from the date of such vacancy.

16) Company Secretary and Secretarial Audit: Provisions related to Company Secretary and Secretarial Audit are as follows:

i) Every listed company and a company belonging to another class of companies may be prescribed to annex with its Board's report, a secretarial audit report. given by a company secretary in practice, in such form as may be prescribed.

ii) Functions of Company Secretary have been prescribed which includes:

a) To report to the Board about compliance with the provisions of this Act, the rules made there under and other laws applicable to the company;

b) To ensure that the company complies with the applicable secretarial standards; and

c) To discharge such other duties as may be prescribed.

17) Compromises, Arrangements and Amalgamations: Important provisions related to compromises, arrangements and amalgamations are as follows:

1) No compromise or arrangement shall be sanctioned by the Tribunal unless a certificate by the company's auditor has been filed with the Tribunal to the effect that the accounting treatment, if any, proposed in the scheme of compromise or arrangement is in conformity with the accounting standards prescribed.

ii) Separate provisions have been provided for the merger or amalgamation between two small companies or between a holding company and a wholly owned subsidiary company.

iii) Provision for cross border amalgamations between Indian Companies and companies incorporated in the jurisdictions of such countries as may be notified from time to time by the Central Government.

iv) Specific provision for purchase of minority shares in case an acquirer or person acting in concert with the acquirer becomes holder of 90% or more of the issued capital of the company, either directly or by virtue of any amalgamation, share exchange, conversion of securities or any other reason.

18) Winding-Up: Various provisions related to winding-up are as

follows: i) Only two modes of winding-up:

a) By Tribunal; and

b) Voluntary;

ii) Powers of courts have been shifted to Tribunal;

iii) Certain new grounds for winding up have been introduced and some has been omitted;

iv) Circumstances in which company may be wound up by Tribunal:

a) If the company is unable to pay its debts;

b) If the company has, by special resolution, resolved that the company be wound up by the Tribunal;

c) If the company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality;

d) If on an application made by the Registrar or any other person authorised by the Central Government by notification under this Act, the Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound-up; e) If the company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding five consecutive financial years; or

f) If the Tribunal is of the opinion that it is just and equitable that the company should be wound-up.

19) Restructuring and Liquidation: The entire rehabilitation and liquidation process has been made time bound. It includes:

i) Winding-up is to be resorted to only when revival is not feasible.

ii) The Tribunal may appoint an interim administrator or a company administrator from the panel of Company Secretaries, CAs, CWAs, etc. maintained by the Central Government.

iii) The Company Administrator shall prepare a scheme of revival and rehabilitation.

iv) If revival scheme is not approved by the creditors, the Tribunal shall order for winding up of the company.

20) National Company Law Tribunal: The Central Government shall, by notification, constitute, with effect from such date as may be specified therein, a Tribunal to be known as the National Company Law Tribunal consisting of a President and such number of Judicial and Technical members, as the Central Government may deem necessary, to be appointed by it by notification, to exercise and discharge such powers and functions as are, or may be, conferred

on it by or under this Act or any other law for the time being in force.

### **CSR Rules, 2013**

Corporate Social Responsibility (CSR), a term widely used for defining the responsibilities of the corporate world towards the society and environment. Although the term is not new in this corporate world but its scope and meaning has undergone major changes from treating it as a mere charity in comparison with the responsibilities/duties of the corporate towards the outer world.

The Ministry of Corporate Affairs (MCA) had introduced the Corporate Social Responsibility Voluntary Guidelines in 2009. These guidelines have now been incorporated within the 2013 Act and have obtained legal sanctity. Section 135 of the 2013 Act, seeks to provide that every company having a net worth of 500 crore INR, or more or a turnover of 1000 crore INR or more, or a net profit of five crore INR or more, during any financial year shall constitute the corporate social responsibility committee of the board.

There are many big entities who have been actively engaged in the CSR activities but unfortunately the number is relatively less. In order to encourage more entities to participate in the process of development of the society via - CSR, the Government of India has actually implemented the concept of CSR in the new Companies Act 2013, on 27th February, 2014.

### **Applicability of CSR Rules**

As per Section 135 of the Act, companies with a specified net worth or turnover or net profit are required to mandatorily spend 2 percent of its average net profit towards specified CSR activities:

- 1) Every company having net worth of INR 500 crore or more, or turnover of INR 1,000 crore or more or net profit of INR 5 crore or more during any financial year will have to comply with the CSR provisions as laid down under the Act.
- 2) If any of the above financial strength criteria is met, the qualifying company is mandatorily required to spend at least 2 per cent of the average net profit of past

three financial years on specified CSR activities.

3) While the threshold limit of net worth criteria and the turnover criteria are kept higher, the net profit threshold limit of mere INR 5 crore will bring the majority of companies under the CSR net. Under the draft CSR rules, net profit is defined to mean 'net profit before tax' as per books of accounts and shall not include profits arising from branches outside India,

#### **Appointment of CSR Committee**

Every qualifying company needs to constitute a CSR committee of the Board consisting of 3 or more Directors. Though the CSR provisions under the Act required minimum 3 Directors for the constitution of CSR committee, the issue that needs to be clarified is whether qualifying private companies (which requires minimum two Directors only) would be required to appoint one more Director only to constitute CSR committee and comply with the CSR provisions. The mandate of the said CSR committee shall be:

- 1) To formulate and recommend a CSR policy to the Board;
- 2) To recommend the amount of expenditure to be incurred on CSR activities;
- 3) To monitor the CSR policy of the company from time to time. In this context, the draft CSR rules specifies that following should be included in CSR policy - Details regarding list of projects/programmes to be undertaken, modalities of execution, areas/sector chosen, implementation schedules, etc.,
- 4) That the surplus arising out of the CSR activity will not be part of business profits of a company.
- 5) That corpus to include the following:
  - i) 2 percent of average net profits;
  - ii) Any income arising there from;
  - iii) Surplus arising out of CSR activities.

The term is used to distinguish such organisations from the other two sectors of the economy, the public sector ('government') and the private sector ('businesses').

The term 'third sector' embraces a wide range of organisations, including charities, community and voluntary organisations and other not-for-profit and civic organisations whose primary objectives are social rather than economic.

The third sector distinguishes all these organisations from the private sector and the 'public sector'.

Furthermore, they share two common characteristics, unlike private sector organisations they do not distribute profits to their owners, and unlike public sector organisations they are not subject to direct political control. They have the independence to determine their own future. Third sector organisations are seen to provide distinct benefits, including closeness to those who use services, strong community links and local accountability, flexibility and freedom from control, innovation and resourcefulness in the use of resources and planning.

Social economy refers to the third sector of an economy. The first sector refers to the business private sector which is privately owned and profit motivated; the second sector refers to the public sector which is owned by the state; the third sector refers to the social economy which embraces a wide range of community, voluntary, and not-for-profit activities.

In contrast to the Western experience, in India the third sector has indeed found popular and contradictory resonance among diverse institutional and mobilisational forms of the "non-profit sector," "voluntary sector," or more precisely "civil society" space populated by development-centric NGOs, Community-Based Organisations (CBOs), cooperatives, self-help groups, philanthropic organisations, and the "rainbow coalition" of social movements of various shapes and scales.

### **Importance of Third Sector**

The importance of third sector can be explained in following points:

- 1) Allocation of Resources: The third sector is involved in the allocation of

resources, through the production of many quasi-public goods and services in the fields of health, culture, education, social action, proximity services, sport, leisure, the environment, advocacy and so on).

2) **Redistribution of Resources:** The third sector has a role of redistribution of resources, via the voluntary contributions (in cash, in kind or through volunteering which many associations can mobilise and through the provision of a wide range of free or virtually free services to deprived people.

3) **Regulation of Economic Life:** The third sector is also involved in the regulation of economic life when, e.g., associations or social cooperatives are the privileged partners of public authorities in the task of helping low-qualified unemployed people, who are at risk of permanent exclusion from the labour market, and re-integrating them back into work.

4) **Empowerment:** Third sector organisations provide vehicles of participation and association among similarly situated people, making it possible for them to act in concert on matters of common concern. In the process, they help foster leadership, which itself is crucial to promoting inclusion.

5) **Monitoring:** Third sector organisations can be important not only in changing laws but also in ensuring their enforcement. This can take the form of monitoring implementation, publicising enforcement lapses, and initiating legal action where necessary to ensure that laws are effectively applied. Third sector organisations can also monitor the performance of private sector organisations and publicise instances of discrimination or exploitation.

6) **Tailoring Services to Community Needs:** Rooted as they often are in the communities affected by exclusion, third sector organisations are in a position to know community needs. They can therefore tailor responses to the needs of excluded groups and ensure more sensitive responses to their needs.

### **Present Status of Third Sector in India**

Third sector organisations show following trends:

Present Status of Third Sector in India

- Increasing Numbers of NGOs
- Increasing Employment
- Diverse Voluntary Sector
- Working on Global Issues
- Start-Up of New Organisations Due to Technology Setting
- Growing Funding for Voluntary Activities
- Conflict between Government and Civil Society Organisations

1) Increasing Numbers of NGOs: India has currently more than around 3.2 million registered non government organisations (NGOs). The Central Statistical Organisation of India states there are around four NGOs for every 1,000 people in urban areas and 2.3 NGOs for every 1,000 rural population. Their work spans a wide spectrum, from judiciary to legislatures to media. There is hardly any ministry that does not support or engage an NGO. Due to its wide reach it is often called the third sector.

2) Increasing Employment: The development or third sector in India is fast emerging as an attractive career option. As the sector is growing and getting more organised it is becoming the first professional choice for many youngsters. Apart from engaging millions of volunteers every year the development sector also employs approximately two million professionals at present, a figure that is set to rise by 20 per cent in the years ahead. Today opportunities in this sector are emerging in the areas of healthcare, education, skills development, civil rights, water and sanitation, climate change and advocacy.

3) Diverse Voluntary Sector: The voluntary sector of India is diverse and vast. It has been very instrumental in bringing positive changes into the lives of the downtrodden and marginalised. Many of their works and achievements have gone unnoticed in the absence of any documentation. However, the government is trying to regulate the sector by tightening policies like FCRA, taxation, visa regulations, etc.

4) Working on Global Issues: Currently, many voluntary organisations are working on the issues crucial at the global level like health, education, water and

sanitation and environmental issues that have linkages with the millennium development goals. Those who have agenda matching with the donors get funds, but not all of them are lucky. In their case, they become donor driven and may work on the donor's agenda even if that does not match their organisational vision. India has witnessed a rapidly changing society. This has resulted in the cropping up of numerous forms of VOs that undertake various developmental activities in order to address the multiplicities of societal issues. The voluntary sector has also evolved significantly in the last two decades.

5) Start-Up of New Organisations Due to Technology Setting: The current setting in technology, communication and market have together created immense opportunities and pressure to start many new organisations especially around the issues of global governance and policy advocacy. This is apart from being engaged in all sectors of social life like relief, rehabilitation, health, education, development programmes, peace, human rights, and environment and so on.

6) Growing Funding for Voluntary Activities: Although under-resourced in comparison to business and government, funding for voluntary activities has grown substantially in specific areas with support from major foundations and tailored funds. At the same time, there have been many developments at the national and the global fronts that have impacted the sector. Some of the crucial ones being introduction of FDI in most of the sectors including defence, global recession, India's strong foothold at the multilateral platforms like G20, IBSA, BRICS, etc., growing Indian aids to African Asian and some South American countries, tightening FCRA law for the voluntary sector and Multi-State Societies Registration Bill-2012.

7) Conflict between Government and Civil Society Organisations: The changed scenario has prompted the government to set new conditions while engaging with NGOs. The government does not want civil society to have any say in formulating rules. For instance, its views are not being taken while drafting the land acquisition and right to food legislation. This has created division between NGOs that take support from the government and "activist" groups which adopt aggressive policy postures. Community-based organisations and people's movements also look upon both kinds of NGOs with suspicion.

## **Organisations in Third Sector**

Various kinds of organisations in third sector are as follows:

1) Voluntary and Community Sector: This sector includes registered charities as well as non-charitable, non-profit organisations, associations, self-help groups and community groups. Most involve some aspect of voluntary activity, though many are also professional organisations with paid staff. Community organisations tend to be focused on particular localities or groups within the community, many are dependent entirely or almost entirely on voluntary activity.

2) General Charities: Charities registered with the Charity Commission except those considered part of the government apparatus, such as universities, and those financial institutions considered part of the corporate sector.

3) Social Enterprise: A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners. Mutuels and Cooperatives: Membership-based organisations run on a democratic basis for the benefit of their members. Members may be their employees or their consumers or be drawn from the wider community. Some employee cooperatives may be essentially private businesses but many mutuels and cooperatives consider themselves part of the social enterprise sector.

## **VOLUNTARY ORGANISATIONS (VOs)**

### **Meaning of Voluntary Organisations (VOs)**

A voluntary organisation is an alternative to the 'for profit organisation. It is a 'not-for-profit organisation'. It is set-up, organised, staffed and run by people who are working purely on a voluntary basis, usually for a good cause'. However, just because an organisation is run as a voluntary activity does not mean that it should not operate in a professional way. Voluntary organisations like any others use scarce resources - these need to be used to optimal effect, or else money and time will be wasted. Examples of voluntary organisations are the Women's

Royal Voluntary Service (WRVS) and Voluntary Service Overseas (VSO). Voluntary organisation can be defined as a group of people who spend their free time helping others without monetary compensation and do not make a profit from their activities.

People who work for these organisations will receive no more than is required for living, travel and other forms of expenses. However, the voluntary organisation needs to establish clear objectives, and then create structures, policies and practices that best enable the organisation to meet these objectives. Many voluntary organisations employ staff to undertake a wide range of activities and many are of the size and stature of successful medium-sized businesses, although operating independently for the public good without profit distributing

Voluntary organisations play a vital role in the shaping and implementation of participatory democracy. Their credibility lies in the responsible and constructive role they play in society. They have been contributing immensely for quite sometime towards various development programmes. They work at grassroots level even in remote areas and, therefore, their reach is much wider. They are closer to ground realities and know the needs of the communities. Their approach with the target group is direct, emphatic and therefore they are able to draw more contextualised plans of action. They also manage to develop intimate contacts with the people and develop confidence among them.

Voluntary organisations can play a crucial role in rural development by supplementing government efforts as they are close to the mind and hearts of the rural people. In the changing scenario of the liberalisation they can experiment new approaches to rural development and self-employment training. Nowadays there is huge investment by voluntary organisations in rural development and self-employment training in rural areas. Here, there is scope for researchers to measure efficiency of fund utilisation by the voluntary organisation in contrast to the government. There is a need to evaluate voluntary organisations owing to their changed role. Efficient measures would help us to evolve an appropriate auditing/accounting model for the voluntary Sector.

### **Characteristics of Voluntary Organisations (VOS)**

The voluntary organisations have distinct characteristics that make them different from other organisations in the society. Ideally, the chief characteristics of VOs are as follows:

1) Organised: The organisation has some form of structure to it. The rules for this structure are usually contained in something called the governing document. An organisation might still exist but not have a governing document if it has a committee and members and meets regularly. In this case these are simply unwritten and whenever someone does write them down, that document becomes the governing document. Even if the rules are never written down though, the group could still have a structure. Ad hoc, informal, and temporary gatherings of people would not therefore be considered voluntary organisations, but they are often the starting point.

2) Purpose: The organisation is set-up to carry out some benefit for the wider community than just its members (unless there is a very large and/or open membership). This community benefit could be social, educational, environmental, economic, etc., and is generally what a person in the street would easily recognise as being for community benefit.

3) Private and Self-Governing: The organisation is independent from any other organisation with its own internal procedures for deciding matters without consulting an outside group, such as electing its committee. This does not mean that voluntary organisations cannot be helped by other organisations, such as the local council or ourselves. It does mean that a voluntary organisation must be free to appoint its own management committee who are able to make their own decisions in the best interests of the voluntary organisation and not be instructed by any other group.

4) Not-for-Profit: This is a misleading term. In fact voluntary organisations can make profits but the money must be ploughed back into the work of the group, not given to the members, the directors or anyone else as happens with for-profit groups. A more useful term is 'non-profit-distributing'.

5) Voluntary: The organisation involves some meaningful voluntary activity in its actual activities or in the management of the organisation. This does not mean that all the income of an organisation must come from voluntary contributions, or

that everyone that works for it must be a volunteer. The minimum level of voluntary activity is that the management committee, who have a legal responsibility to put the organisation's interest ahead of their own, must mostly be volunteers.

### **Types of Voluntary Organisations**

Types of voluntary organisations are as follows:

1) Charitable Voluntary Organisations: The official definition of a charity is an organisation which benefits the community' in some way, but does not engage in political activity. Charitable organisations typically advance education, religion or relieve poverty. According to this definition of a charity, however, the organisation must not have any political or pressure group activity. A group such as the child poverty action group, which attempts to influence the public and the politicians to combat poverty more effectively, is therefore not a charity. If it confined itself to raising money for poor people, it would be. On the other hand, public schools (because they advance education) do have charitable status.

2) Non-Charitable Voluntary Organisations: The non charitable voluntary organisations includes:

i) Self-Help and Mutual Aid Groups: self-help and mutual aid groups, involving perhaps a small group of people involved in a specialised or rare cause or interest, but extending their benefits to as wide a group of people as possible within this constituency.

ii) Residents' and Tenants' Associations: They benefit as wide a group of people as possible within their constituency; they operate in an open manner and are seen as vital within their communities.

iii) Sports Groups: It is considered that most sports clubs offer some form of community benefit. Campaigning non-political groups are included in the voluntary sector. Many exist by virtue of people coming together in free association to seek improvement in their community. Such groups are seen as an intrinsic part of voluntary activity and can demonstrate wider public benefit.

iv) Credit Unions: Credit unions are acknowledged as important in their

contribution to regeneration, the relief of disadvantage and the promotion of social inclusion; they have an important public benefit, and they should therefore be encouraged as much as possible.

v) Community Businesses, Community Enterprises and Community Co-Operatives: Such enterprises can contribute significantly to a community and its regeneration, and to promoting social inclusion among some groups in society.

### **Roles of Voluntary Organisations (VOs)**

Voluntary organisations perform the traditional role of delivery of services to the deprived and under-privileged sections of the society. Another major role of VOs is the 'watchdog' role which is more fundamental for social development. These include prevention and misuse of governmental authority and economically powerful interests in perpetuating social injustices and arresting the trends of inefficiency and non-accountability of public administration. The third major role of Vos is cooperating with government agencies or supplementing their efforts in the implementation of their programmes. Following are the main roles of VOs:

1) Active Citizenship: The voluntary sector is also significant in the context of active communities, citizenship and a healthy 'civil society' - which can be argued to be determinants of economic growth. Getting involved with a voluntary organisation can lead to personal empowerment, self-motivation and capacity building within local communities.

2) Learning Environments/Pathways to Employment: The voluntary sector provides environments for training and skills development for paid workers, volunteers and service users. There is clearly also an entrepreneurial element to some work within the sector. Much of the sector is involved in providing services to excluded groups and communities. Often this work involves basic skills development such as confidence building, self esteem and communication.

3) Social Inclusion: The sector has a history of leading on equality of opportunity and challenging discrimination. Much of the work of the sector is focused on geographical communities and communities of interest/identity who face social

exclusion. Challenging social exclusion is a key factor in linking social and economic regeneration.

4) **Less Resources, More Work:** It should be possible for the voluntary agency to adopt simple, innovative, flexible and inexpensive means with its limited resources and less overheads to reach a larger population group with greater community participation. 5) **Welfare and Development:** There has been now a clear-cut shift in emphasis in the voluntary sector from care, charity and welfare towards empowerment, development and change. They are now more concerned about capacity building, conscious raising, conscientising and awakening and developing human resources

6) **Rural Development:** To show how village and indigenous resources and how human resources, rural skills and which local knowledge is grossly under-utilised at present, could be used for their own development. VOs are now widening their outlook towards area development and rural transformation. In fact, they were the early catalyst for a new thrust in rural transformation and their role was that of a pioneer, innovator and scientist.

7) **Relief and Rehabilitation:** Traditionally, VOs provide relief and rehabilitation services to the needy and destitute and the victims of natural and man-made calamities such as floods, cyclones, earthquakes, etc., and to refugees and displaced persons, bonded labour, aged, infirm and handicapped, children and so on.

### **Challenges Faced by Voluntary Organisations**

Despite an increasing recognition of the pivotal role of voluntary organisations in the process of people-centred development of the country, the voluntary sector has been facing enormous legal, structural, operational and financial problems in their endeavour. While they have improvised ways and means to overcome contain constraints, they have encountered new ones in their endeavour. posing serious functional bottlenecks.

The set of constraints that the VOs face today in their efforts are given below:

1) **Difficulties in Securing Social Acceptance:** People's perception and public

recognition of voluntary efforts are often with pre-conditions as well as critical success factors for the achievement of their social objectives. A conflict between the voluntary organisation and the people who stand to be benefited from their actions, could often pose serious constraints for effective voluntary work. The growing international recognition of voluntary efforts and the continuous flow of international funding to VOs have led many people to perceive them as privately-owned shops' and blame them on the grounds of siphoning-off funds. Vos experience great difficulties in securing social acceptance and appreciation. These stand as one of the major constraints in the implementation of many government programmes that involve people's mobilisation, awareness generation and people's participation.

2) Lack of Appropriate Form of Registration: The essentiality of acquiring a legal status through a form of registration under the common forms such as Indian Societies Registration Act, 1860, Trust Act, Cooperative or Trade Union Act, Companies Act, etc., restricts the overall autonomy of the organisations. In addition, the choice for a form of registration is rather limited. Organisations promoting income generation, asset creation programmes, find it difficult to create an appropriate form of registration. Thus, there is a need for simple and alternate forms of registration that can incorporate the wide range of roles that the VOs play today.

3) Lack Coordination and Cooperation: Most of the voluntary agencies in India are working in isolation and they are scattered, unorganised and operate at micro-level. They lack coordination and cooperation between themselves and with other institutions as well. This sometimes leads to multiplicity of agencies and overlapping of functions.

4) Lack of Professionalism: Most of the VOs working at the grassroot level, lack the technical expertise, professional competence, organisational infrastructure and capabilities which restrict their endeavours. They also face conflicts within the organisation among the diverse set of people particularly, on the question of roles and responsibilities.

5) Lack of Knowledgeable and Trained Social Workers: There has been a marked shift in voluntary efforts from the traditional activities to social development. The major thrusts are towards social justice, social development, social planning and

action. They are unable to promote community initiative and peoples organising capacity effectively due to lack of knowledgeable and trained social workers. Thus, in order to take up the contemporary developmental and social problems, they have to employ trained social workers who can tackle the new challenges and needs of development.

6) Financial Problems: The greatest challenges and the serious constraints faced by most of the voluntary organisations, however, have been the unavailability of adequate funds and the lack of knowledge regarding the sources and nature of funding. Due to the lack of consistent financial support, many organisations die out and others survive on limited resources. Many organisations function only on borrowings and thus face a serious debt crisis, critically restricting their efforts. They face difficulties in mobilising non-institutional resources from the community of the area of operation. which is in fact, the most potential resource base. They are heavily dependent on institutional funds, i.e., the grants from the government and international funding sources, which are rather limited and fluctuating sources of funding.

## **NON-GOVERNMENTAL ORGANISATIONS (NGOs)**

### **Meaning and Definition of Non-Governmental Organisations (NGOs)**

A Non-Governmental Organisation (NGO) is any non-profit, voluntary citizens' group which is organised on a local, national or international level. Task-oriented and driven by people with a common interest, NGOs perform a variety of service and humanitarian functions, bring citizen concerns to governments, advocate and monitor policies and encourage political participation through provision of information. Some are organised around specific issues, such as human rights, environment or health. They provide analysis and expertise, serve as early warning mechanisms and help to monitor and implement international agreements.

According to The World Bank, "NGO as 'Private organisation that pursues activities to relieve suffering, promote the interests of the poor, protect the environment, provides basic social services, or undertakes community development'".

NGOs in India are committed to social justice, sustainable development and human rights. The right to communicate freely is a basic human right and a necessity for sustainable development. Access to information is essential to informed decision-making at all levels. NGOs are committed to the dissemination of information and promotion of sustainable development initiatives, in response to the needs of underrepresented and marginalised sectors of society.

### **Characteristics of Non-Governmental Organisations (NGOs)**

The NGOs have following characteristics:

1) **Ethos:** Public sector systems are concerned with service delivery within the boundaries of institutional mandates. NGOs' concerns, while spatially bounded, are less narrowly confined by such mandates. Instead they focus on popular participation, through which the poor themselves should define the needs to which NGOs will subsequently respond. This philosophy of work allows NGOs to develop closer relationships with the rural poor, facilitating problem identification and feedback on local needs.

2) **Structure and Size:** NGOs tend to be small, avoid complex hierarchies and price flexibility in decision taking, although there are trade-offs between speed of decision and adherence to democratic decision making procedures and complex decision criteria. Small size also means inability to internalise certain economies of scale in the research process.

3) **Not Self-Serving:** NGOs are not self-serving in aims and related values. Their aim is to act in the public arena at large, on concerns and issues related to the well being of people, specific groups of people or society as a whole. They are not pursuing the commercial or professional interests of their members.

4) **No Profit:** NGOs are not created to generate personal profit. Although they may have paid employees and engage in revenue-generating activities they do not distribute profits or surpluses to members or management

5) **Voluntary:** NGOs are voluntary. This means that they are formed voluntarily and that there is usually an element of voluntary participation in the organisation.

6) **Financial Organisation and Accountability:** While Government Organisations' dependence on public funds facilitates longer-term research, and implies

accountability to government, NGOs' dependence on donated funds contributes to short time horizons, and a keenness to demonstrate rapid impact of donations. Some NGOs manage to create room for manoeuvre, by creating their own funding basis, but in general NGOs' financial arrangements discourage commitment to long-term research and development.

7) Formal Set-up: NGOs are distinguished from informal or ad hoc groups by having some degree of formal or institutional existence. Usually, NGOs have formal statutes or other governing documents setting out their mission, objectives and scope. They are accountable to their members and donors.

### **Scope and Coverage of Non-Governmental Organisations (NGOS)**

The scope and coverage of NGOs are wide. The areas of operation of NGOs are as follows:

1) Poverty Alleviation: Non-Government Organisations (NGOs) play a very important role in helping poor people in India. NGO's conduct several welfare programmes for serving various segments of the Indian society. PRADAN, an India based Non-Government Organisation (NGO). Its title stands for Fo o Assistance for Development Action. PRADAN believes that the path towards conquering economic povey is through enhancing the livelihood capabilities of the poor and giving them access to sustainable income earning opportunities.

2) Society Welfare: NGOs have helped and contributed to the development of the Indian society. Where government outreach programmes are hard to reach. e., people in the tribal belts, these organisations trying to fill this gap by bringing welfare programmes to people. Welfare programmes of these NGO Vary like serving various segments of the society, e.g., the slum children in Mumbai, a welfare programme for the upliftment of women, special programme in the face of a natural disaster.

3) Education: Several NGOs have worked hand in hand with the government to ensure that millions of out of school children are enrolled and continue their school education, thus making the right to education a reality. The NGOs can establish partnerships with the government to share their models rather than create islands of excellence.

4) Health: NGOs have implemented the Jeevan Dhara Programme for creation of wells for safe drinking water; promoted community toilets for total sanitation, and supported the public health programmes on immunisation and for eliminating tuberculosis and malaria.

5) Rural Development: Major rural development programmes of the NGOs are agricultural programmes, health programmes, human resource development programmes, community development and industrial and trade programmes. Also, the agricultural development policies of the government and its implementation mechanisms provide scope and space for NGOs.

6) Business: NGOs play an important role in business. The industrial policies have influenced the formation and relations between the businesses and NGOs. Some NGOs have very close ties to business or have been specially created by companies or business associations - such as the powerful International Chamber of Commerce or the influential Business Council on Sustainable Development.

### **Types of Non-Governmental Organisations (NGOs)**

A Non-Governmental Organisation (NGO) is a legally constituted organisation created by legal persons that operates independently from any government and a term usually used by governments to refer to entities that have no government status. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status by excluding government representatives from membership in the organisation. The term is usually applied only to organisations that pursue some wider social aim that has political aspects, but that are not overtly political organisations such as political parties. There are different types of NGOs according to different classification:

- 1) NGOs by Orientation
- 2) NGOs by Level of Cooperation

#### **NGOs by Orientation**

NGOs by orientation can be classified as follows:

1) **Charitable Orientation:** It often involves a top-down paternalistic effort with little participation by the "beneficiaries". It includes NGOs with activities directed toward meeting the needs of the poor distribution of food, clothing or medicine; provision of housing, transport, schools, etc. Such NGOs may also undertake relief activities during a natural or man-made disaster.

2) **Service Orientation:** It includes NGOs with activities such as the provision of health, family planning or education services in which the programme is designed by the NGO and people are expected to participate in its implementation and in receiving the service.

3) **Participatory Orientation:** It is characterised by self-help projects where local people are involved particularly in the implementation of a project by contributing cash, tools, land, materials, labour, etc. In the classical community development project, participation begins with the need definition and continues into the planning and implementation stages. Cooperatives often have a participatory orientation.

4) **Empowering Orientation:** It is where the aim is to help poor people develop a clearer understanding of the social, political and economic factors affecting their lives, and to strengthen their awareness of their own potential power to control their lives. Sometimes, these groups develop spontaneously around a problem or an issue, at other times outside workers from NGOs play a facilitating role in their development,

### **NGOs by Level of Cooperation**

On the basis of Cooperation, NGOs can be classified as follows:

1) **Community-Based Organisations (CBOs):** CBOs arise out of people's own initiatives. These can include sports clubs, women organisations, neighbourhood organisations, religious or educational organisations. There are a large variety of these, some supported by NGOs, national or international NGOs, or bilateral or international agencies, and others independent of outside help.

2) City-Wide Organisations: It includes organisations such as chambers of commerce and industry, coalitions of business, ethnic or educational groups and associations of community organisations. Some exist for other purposes, and become involved in helping the poor as one of many activities, while others are created for the specific purpose of helping the poor.

3) National NGOs: It includes organisations such as the Red Cross, professional organisations, etc. Some of these have state and city branches and assist local NGOs.

4) International NGOs: International NGOs range from secular agencies such as Redda Barna and Save the Children organisations, OXFAM, CARE, Ford and Rockefeller Foundations to religiously motivated groups. Their activities vary from mainly funding local NGOs, institutions and projects, to implementing the projects themselves.

### **Roles of Non-Governmental Organisations (NGOs)**

The functions of NGOs are as follows:

1) Stimulation: Conducting EDPs and other training programs for the target people with a view to stimulate enterprising attitude among them.

2) Counselling: Providing counselling and consultancy services to the needy ones how to prepare a project, feasibility report, purchase of plant and machinery, and performing other procedural activities.

3) Development and Operation of Infrastructure: The NGO's acquire, subdivide and develop land, construct housing, provide infrastructure and operate and maintain infrastructure. They also develop building material supply centres and other community-based economic enterprises. In many cases, entrepreneurs can take technical assistance from higher-level NGOs.

4) Supporting Innovation, Demonstration and Pilot Projects: NGO have the advantage of selecting particular places for innovative projects and specify in advance the length of time which they will be supporting the project - overcoming some of the shortcomings that entrepreneurs face in this respect. NGOs can also

be pilots for larger governmental and entrepreneurial projects by virtue of their ability to act more quickly than the government bureaucracy.

5) **Facilitating Communication:** NGOs use interpersonal methods of communication, and study the right entry points whereby they gain the trust of the community they seek to benefit. They would also have a good idea of the feasibility of the projects they take up. The significance of this role to the entrepreneurs is that NGOs can communicate to the policy-making levels of government, information about the lives, capabilities, attitudes and cultural characteristics of people at the local level. NGOs facilitate communication upward from organisations to the government and downward from the government to the organisations. NGOs are also in a unique position to share information horizontally, networking between other organisations doing similar work.

6) **Technical Assistance and Training** Training institutions and NGOs develop technical assistance and training capacity and use this to assist both entrepreneurs and governments.

7) **Research, Monitoring and Evaluation:** Innovative activities are carefully documented and shared by NGOs. The effective participatory monitoring would permit the sharing of results with the people themselves as well as with the project staff.

8) **Advocacy for and with the Poor:** In some cases, NGOs become spokespersons or ombudsmen for the poor and attempt to influence government policies and programmes on their behalf. This may come through a variety of means ranging from demonstration and pilot projects to participation in public forums and the formulation of government policy and plans, to publicising research results and case studies of the poor. Thus NGOs play roles from advocates for the poor to implementers of government programmes, from agitators and critics to partners and advisors; from sponsors of pilot projects to mediators.

### **Challenges Faced by Non-Governmental Organisations (NGOs)**

The most identified problems of the NGOs include:

1) Limited Financial Assistance: Fundraising activities were often the source of much tension in NGO. The strategies and images used to raise funds from the public were often felt to compromise the nature of the work done by other members of staff. These images often depicted beneficiaries as helpless victims in need of assistance, which other staff felt was inaccurate and lacked respect for the beneficiaries.

2) Decision-Making Processes: NGOs experienced decision-making processes. Tensions often occurred between staff and senior managers because of the staff expectations that they would be equal partners in the decision-making process.

3) Limited Management Expertise: Other problems are about staff, such as recruitment, assignment and layoff as well as human resources development and administration and finally everyday management of staff. NGOs were found to be weak at staff career development. Often organisations lacked a career structure in which staff could develop.

4) Economies of Scale: This problem faced by NGOs. Mostly NGOs are very small. They lack easy and cheap access to the specialist knowledge they require. For example, they may be aware that 'staff development is important, but have little idea about how to do it.

### **Non-Governmental Organisations (NGOs) in India**

Here are the NGOs who have truly worked in the best possible manner after taking up a particular cause:

1) Sammaan Foundation: The purpose of establishing Sammaan foundation (Jan 25, 2007) was empowering the downtrodden and linking them with the mainstream through education, training and financial support. More specifically, at the moment, Sammaan is working towards organising the rickshaw-pulling class of people by providing them with opportunities to earn their livelihood. Akshaya Trust: The mission of Akshaya trust is to care for the helpless, forsaken, mentally ill, old, sick and the roadside destitute who live in Madurai. This is accomplished by providing love and affection, healthy food, rehabilitation opportunities. Their sole aim is to restore human dignity.

3) Smile Foundation: Formed in 2002, the Smile foundation comprises corporate professionals who had a target of providing universal education and healthcare services to the underprivileged thereby changing their lives forever. They aim to set the foundation for nation building by making the downtrodden emerge as productive assets.

4) Udaan Welfare Foundation: The Udaan Welfare foundation was formed with a mission to empower lives of the downtrodden. Their main areas of focus are children, destitute women, senior citizens and environment protection. Till date, they have launched various health and education initiatives involving children and destitute women. They even have a cancer chemotherapy centre as one of their main projects.

5) Pratham: This is one of the largest NGO which works towards educating the underprivileged children in the slums of Mumbai. Their team comprises people from various fields who expertly bring their experiences and own unique perspectives and work together to create a bright future for our children. The programmes of Pratham are designed in such a way that enrolment of children in schools increases, their learning levels increase and those people who are unable to attend school receive education in a proper manner.

6) LEPROA Society: LEPROA society actively promotes quality healthcare through various initiatives. It aims to support various health programmes in the prevention and control of diseases like AIDS, Leprosy, and Tuberculosis, etc. Their programmes are mainly focussed to communities which are poor comprising women and children.

7) Deepalaya: It is a development-based NGO which works on issues pertaining to the poor and the downtrodden, especially children. It has successfully made inroads into slums of Delhi and initiated rural development in Haryana and Uttarakhand. It works in collaboration with both governmental and nongovernmental agencies and makes interventions in the state's policy-making. Their areas of focus include education, healthcare, gender equality, vocational training, empowering other NGOs which have the same vision and upliftment of the differently-abled.

8) Uday Foundation: Based in New Delhi, the Uday foundation provides support

to the families of children suffering from critical disorders, congenital defects and other diseases and syndromes which affects their health, growth and education. It has launched various health-related projects for the common man in general. Their special focus is child rights, i.e., providing a right to live with dignity.

9) HelpAge India: HelpAge India, since its establishment in 1978 has constantly been striving to raise resources to protect the rights of senior citizens of our country. They are involved with the local and national government to implement policies which will be beneficial to the elderly. Their objective is to make the senior citizens aware of their rights so that they can play an active role in the society.

## **NON-PROFIT ORGANISATIONS (NPOs)**

### **Meaning of Non-Profit Organisations**

A nonprofit organisation is defined as an organisation that does not distribute its surplus funds to owners or shareholders, but instead uses them to help pursue its goals.

Although the public organisations like central government, state governments and local governments are also included under non-profit organisations such as hospitals, private universities, private colleges, recreational societies etc. Public utilities like Transportation Corporation, water supply corporations, dairy corporations are in a grey area somewhere between profit and non-profit organisations.

Non-profit organisations assume importance as the society particularly the low-income people depends on these organisations. Further, they provide services, which cannot be provided by the profit-making organisations.

Non-profit or not-for-profit organisations, by definition, differ from profit-oriented business organisations. There are diverse types of not-for-profit organisations in India as in other countries, including research institutions, hospitals, educational, social, cultural, and political organisations, trade unions, and the like.

Non-profit organisations are engaged in voluntary and philanthropic activities.

The growth of non-profit organisations has been driven by a decreased role of public organisations in social services, along with an increased demand for such services, and an increased awareness of the need to provide such services, e.g., homelessness, street children, women abuse, and substance abuse. Non-profit organisations also offer an attractive, socially sanctioned work opportunity to women. Participation in non-profits gives women an opportunity to enter the social and political spheres in ways denied to them by the for-profit and public sector.

In many nations, the concept of 'voluntary activity' is deeply rooted in tradition. Philanthropic activities are deemed to be a religious and moral duty of each individual. In most nations, professionally organised voluntary activity or 'institutionalised philanthropy' emerged during the 20 century. The examples of non-profit organisations include - educational institutions, religious institutions, cultural institutions (e.g., museums, historical sites), health services (e.g., hospitals), and social services (e.g., Alcoholics Anonymous).

### **Characteristics of Non-Profit Organisations (NPOs)**

#### Characteristics of Non-Profit Organizations

- Passion for Mission
- Atmosphere of "Scarcity"
- Bias toward Informality, Participation and Consensus
- Dual Bottom Lines - Mission and Financial
- Program Outcomes are Difficult to Assess
- Governing Board has Both Oversight and Supporting Roles
- Individuals have Mixed Skill Levels
- Participation of Volunteers
- Third Party Funding

1) **Passion for Mission:** The passion for mission is a great source of strength for non-profit organisations. The impulse to "change the world" has brought about much important advancement in the society. A passion for the mission taps incredible creativity, energy and dedication for the work of an organisation. However, zeal for the mission can lead staff boards and volunteers to discount "business" realities, to turn strategic differences into interpersonal conflict, and to work with an urgency that borders on a crisis mentality.

2) **Atmosphere of "Scarcity":** There are factual and perceptual components to scarcity in non-profits. Most non-profit leaders could do more work if they had more money, more access to decision-making, more talented board members, etc. They are often, in fact, "under-resourced". Since money takes a lot of energy to acquire, hyper cost-consciousness is often present. In addition, organisations may carry an altruistic sense that most of our resources should go to the clients". As a result, many non-profit organisations frequently have underdeveloped infrastructures. Non-profit staff are often more willing to spend time (their own, volunteers', board members') rather than money to get work done.

3) **Bias toward Informality, Participation and Consensus:** A sense of friendliness and welcoming atmosphere with little attention to hierarchy are often described as attractive dimensions of non-profit culture. However, taken too far, informality can limit the appropriate exercise of authority. Over-participation can inhibit the division of labour and the tendency toward consensus can bog-down decision-making.

4) **Dual Bottom Lines - Mission and Financial:** Tension between mission and financial results is fundamental for non-profit organisations although one can debate to what extent this is unique. For-profit organisations have increasingly focused on the importance of mission, relative to the priority of return on investment. Governmental organisations have increasingly focused on the importance of mission, relative to the priority of political impact.

However, not-for-profits have always focused on the importance of mission and that continues to drive their financial decisions. Internally, the tension between bottom lines influences many strategic decisions, as well as the sense of "how

well the organisation is doing" at all operational levels. Externally, some stakeholders of a non-profit care about both bottom lines (funders, competitors, and regulators) and, internally, some stakeholders care primarily about mission (staff, clients, and community). The complexity of dual bottom lines figures in many consulting engagements.

5) Program Outcomes are Difficult to Assess: Most non-profit organisations have limited program evaluation capacity. This is partially caused by the absence of standardised program outcomes in most fields. For example, in childcare, standards for adult-child ratios exist, but little is standardised in terms of the quality of care delivered. Similarly, arts groups, advocacy organisations, mental health agencies and community development corporations face substantial challenges in measuring their effectiveness. Furthermore, most non-profit organisations do not have the benefit of unambiguous market feedback to let them know how well they are serving their clients. (Non-profit organisations exist because neither the market nor government is providing the service; most are funded in part or completely by sources other than the direct beneficiaries of their work.) Thus, assessing cost-effectiveness and comparing alternative actions is difficult. Different individuals also may make different assumptions about the relationship between cost and effectiveness. Some groups essentially ignore the issue assuming their efforts are as effective as they can be.

6) Governing Board has Both Oversight and Supporting Roles: The governing board of a non-profit has dual roles:

- i) It is responsible for ensuring that the public interest is served by the organisation, and
- ii) Unlike private sector Boards of Directors or government boards and commissions, is expected to help the organisation be successful.

The first role is analogous to protecting the interest of stockholders or voters. The second role complicates the distinction between governance and management because, in this role, board members do staff-like work. As helpers, board members may raise funds, send mailings, paint buildings, or do the book-keeping. This can lead to confusion about when and how it is appropriate for board members to be involved in initiatives. Furthermore, board members are not usually experts in either non-profit management or the organisation's service

niche. They may either be unprepared to make decisions, or may give-up their authority inappropriately to staff.

7) Individuals have Mixed Skill Levels: As a function of passion for the mission, limited financial resources, and a shallow pool of candidates, non-profits often hire managers with limited management training and program staff with little program experience. Though the staff is often composed of professionals (social workers, artists, and scientists) because most organisations are small there is seldom much internal capacity to provide training for staff for the particular roles they are playing.

8) Participation of Volunteers: Many non-profit organisations rely on the active participation of volunteers. Members of the Board of Directors are normally not paid for their work, and many other individuals contribute considerable time and effort in delivering services and providing administrative support. The contribution that volunteers make to the nonprofit sector is significant; indeed, without volunteerism, many needed social services would not be available to the public. However, volunteers usually have to juggle multiple commitments, and the relative priority they assign to their volunteer job may have to be balanced with their paid job, family responsibilities, and other volunteer commitments. As a result, staff often have to be willing to meet with a Board of Directors in the evening, facilitate a board and staff retreat on the weekend, and they must also find ways to keep busy volunteers up-to-date. Finally, there may be resentment on the part of certain volunteers, particularly if other people are being paid for the same type of work that they are doing for free.

9) Third Party Funding: Many non-profit organisations rely on third party funding - grants from foundations, government agencies, and corporations. Third party funding provides necessary support for services that cannot generate (sufficient) fees from the client population. However, this funding usually comes with strings attached – restrictions, excessive reporting requirements, and/or directives regarding which services the funder thinks are in the best interest of the community (or support the funder's own needs or focus). This can result in a "tail wagging the dog syndrome" where the funder drives the non-profit's programs rather than the non-profit being proactive and intentional about what services it should offer.

### **Types of Non-Profit Organisations (NPOs)**

Non-profit organisations are tax-exempt businesses that are deemed to operate in the public benefit. The government encourages people to donate to such organisations by allowing them to deduct their donations from their taxable incomes. Qualifying non-profit organisations fall under one of five categories:

1) Charitable: Non-profit charitable organisations might include homeless shelters, disability organisations, youth programs, hospitals, health care clinics, animal rights groups, military groups, human rights groups and emergency relief groups.

2) Educational: Nonprofits that focus on education offer educational services to children and adults to assist them in learning new skills. This includes schools, day care centres, colleges and universities, as well as adult learning facilities to name a few. These organisations offer many individuals educational opportunities they may not be able to afford otherwise. Non-profit educational organisations also create public awareness and seek out those who may benefit from these services.

3) Research: Some non-profit organisations establish this business to perform research to assist the medical community, the environment, wildlife and cultures. The goal of these organisations is to improve individuals or environments. These organisations may assist in finding cures for medical conditions and diseases, improve environments such as rain forests and ecosystems, assist in saving endangered species, as well as raise awareness and interest in their cause.

4) Community: Community non-profit organisations develop programs and raise awareness of services in specific communities. This includes child care, recreational activities, health programs and other services designed to assist in improving the lives of individuals and families in the community. Along with specific community services, these organisations often schedule events for the community that provides services or entertainment, as well as assists the organisation in raising funds for the community.

5) Religious: Some nonprofits are owned and operated by religious organisations,

and offer a variety of services to specific communities or cultures the religious organisation supports. They may also provide food, housing and other services to those in need. These organisations have the ability to create awareness through their churches and religious groups to fund the nonprofits.

6) Literary/Artistic: Non-profit organisations may also promote or support artistic and creative endeavours, such as art galleries, orchestras, symphonies, theatres and dance groups. These types of organisations may also provide youth services to teach children these arts and create interest in these areas. Fundraising is often provided by public performances and community events to support the organisation financially.

### **Role of Non-Profit Organisations (NPOs)**

Various roles played by non-profit organisations are as follows:

1) Social Capital: Non-profit organisations, regardless of origin, create networks and relationships that connect people to each other and to institutions quite apart from the organisation's primary purposes. Despite growing professionalism in the non-profit arena, most nonprofits still facilitate relationships and connect people to each other and to the constituencies they serve. Members and volunteers are critical to the success of many nonprofits. Volunteers serve in governance capacities on boards of directors, in staff management and service positions, as fundraisers, and in many other ways. Volunteers bring expertise from business, government, and the community to bear on local, national, and international problems.

2) Civic Activities: Many non-profit efforts inform and influence domestic social and economic policies as well as international affairs. Much public policy activity involves non-partisan research, writing, evaluation, and demonstration projects. Some groups try to influence executive agencies, others, the legislative branch. Nonprofit advocacy groups try to educate the public and encourage individuals to contact their representatives directly or to sign petitions for or against certain positions, they promote voter registration and inform voters.

3) Political Activities: Certain types of nonprofits are involved more directly in

politics, and some develop multiple organisational structures to permit them to be involved in a variety of ways. Some of the most profound social changes of this century have been promoted through a combination of research, public education, advocacy, legislation, and litigation fostered by non-profit organisations. Those nonprofits usually work in coalitions, sometimes in collaboration with government and business interests and sometimes in conflict with them and with other nonprofits. For example, civil rights groups, working with religious and other organisations, attacked racial segregation in this country through direct action, lobbying, advocacy, litigation, and public education.

4) Service Provision: Nonprofits of all types provide services they may offer to the community, special populations, members, governments, businesses, or other nonprofits. As service providers, nonprofits overlap with business and governments, for example, in education and medical care. They may be contractors for governments and businesses (providing preschool programs or drug abuse treatment), be collaborators with governments (maintaining national and regional parks or preventing diseases), or act in lieu of government (providing accreditation or protecting consumers). As the government has contracted out more services, the nonprofit's share of the workforce has increased by roughly the amount that government employment has decreased.

5) Value Guardian: Non-profit organisations provide a mechanism for promoting individual initiatives for the public good. Non-profit organisations provide a means by which members of a community can take action in an attempt to change the community they live in. These actions may take the form of developing a local neighbourhood watch program or, on a larger scale, developing an organisation that responds to world relief efforts.

6) Advocacy and Problem Identification: Non-profit organisations provide a means for drawing public attention to societal issues. Non-profit organisations make it possible to identify significant social and political concerns, to give voice to under-represented people and points of view, and to integrate these perspectives into social and political life".

### **Challenges Faced by Non-Profit Organisations (NPOs)**

Following are the challenges faced by non-profit organisations:

1) Philanthropic Insufficiency: This refers to the condition that the non-profit organisations may not be able 'to generate resources on a scale that is both adequate enough and reliable enough to cope with the human service problems', whether of an emerging market, or of an advanced industrial society. In the advanced industrial societies, the contributions may diminish during an economic downturn, precisely when the need for social service is greatest. In the emerging markets, the capacity to give may vary from region-to-region, and the need for social service may be greatest in the remote and underdeveloped regions where non-profit organisations may not be able to mobilise sufficient funds on their own.

2) Philanthropic Particularism: This refers to the condition that many non-profit organisations have a tendency to focus on particular sub-groups of the population'. Most are led by entrepreneurs with a strong belief in the need to support a particular group. Moreover, in specific activities or target groups attended to by the non-profits, a wasteful duplication of resources may occur. Non-profit organisations are motivated not alone by considerations of social need, but also by considerations of communal or individual pride. Each group wants its own agencies, and appeals to donors are frequently made along religious, ethnic, or sectarian lines. The upshot is that the number of agencies can increase well beyond what economies of scale might suggest, reducing the overall efficiency of the system, and increasing its costs'.

3) Philanthropic Paternalism: This refers to the condition that an overwhelming reliance on non-profit organisations may vest 'most of the influence over the definition of community needs' in the hands of their governing boards. The governing boards of non-profit organisations tend to have a disproportionately large number of wealthy members, who might encourage the organisation to promote self-serving activities. Further, non-profit organisations may create dependency relationships, unless their mission is specifically to empower and develop the members of the target groups.

4) Philanthropic Amateurism: This refers to the condition that the non-profit organisations usually need to rely significantly on volunteer effort, and often lack resources to provide adequate remuneration to attract professional staff. Consequently, they may be forced into 'amateur approaches to coping with

human problems'. One way non-profit organisations may overcome this limitation is by attracting inexperienced professionals by offering a rich context to gain work experience. They can also attract passionate professionals, both inexperienced and experienced, to work at low monetary compensation in an activity in which they derive substantial psychological benefits and enjoyment. Still, non-profits may suffer substantially high levels of staff turnover among inexperienced professionals, as they move on after acquiring training and experience.

### Difference between For-Profit and Non-Profit Organisations

between For-Profit and Nonprofit Corporations

Corporations

|                      | Non-Profit Corporations   | For-Profit Organisations   |
|----------------------|---|--|
| Owners               | None  | Stockholders   |
| Primary Mission      | Provide services needed by society.   | Earn profits for stockholders.   |
| Secondary Mission    | Ensure that revenues are greater than expenses so that the services provided can be maintained or expanded. | Provide services or sell goods.  |
| Examples of Revenues | Donor contributions, membership dues, programme fees, fundraising events, grants, and investment income.    | Sales of merchandise. Ices from services, investment income, gains on investments. |

|   |   |   |
|---|---|---|
| Non-Profit Expenses are Reported by these Functions         | Programme, management and general, and fundraising. |   |
| Sources of Money Other than Revenues and the Sale of Assets | Borrow from lenders.                                | Borrow from lenders, issue shares of stock.         |
| Additional Annual Reporting for                             | Internal Revenue Service (IRS) Form 990 (churches   | Securities and Exchange Commission (SEC) Form 10-K. |

|                           |              |  |
|---------------------------|--------------|--|
| Some Larger Organisations | are exempt). |  |
|---------------------------|--------------|--|

## CIVIL SOCIETY ORGANISATIONS (CSOs)

### Meaning and Definition of Civil Society Organisations (CSOs)

Civil society associations are organisations with formal structure whose members share some common interest. They pressurise the government to fulfil their interest. It is an important channel of communication. Civil Society Organisations (CSOs) are among the most important and potentially legitimate actors that can promote pro-poor agricultural development. The term relates to all voluntary associations and social groups in a given community, formal (e.g., trade unions, farmers' organisations) and informal (e.g., user groups). Civil society therefore occupies the domain between the state and the marketplace.

According to Veneklasen, "Civil society is a sphere of social interaction between the household (family) and the state which is manifested in the norms of

community cooperative, structures of voluntary association and networks of public communication, norms are values of trust, reciprocity, tolerance and inclusion, which are critical to cooperation and community problem solving, structure of association refers to the full range of informal and formal organisation through which citizens pursue common interests".

According to Connor, "Civil society is composed of autonomous associations which develop a dense, diverse and pluralistic network. As it develops, civil society will consist of a range of local groups, specialised organisations and linkages between them to amplify the corrective voices of civil society as a partner in governance and the market".

The key features of successful civil societies which emanate from various definitions include the following:

- 1) Separation from the state and the market;
- 2) Formed by people who have common needs, interests and values like tolerance, inclusion, cooperation and equality, and
- 3) Development through a fundamentally endogenous and autonomous process which cannot easily be controlled from outside.

Civil society can be conceptualised in two broad ways. The first and most common conceptualisation understands civil society as comprising non-market organisations that are between the household and the state. Sometimes referred to as the 'associationist approach', this includes:

- 1) NGOs, such as those implementing agricultural development interventions or rural policy think tanks;
- 2) Professional associations (of agronomists, academics, etc.);
- 3) Social movements, e.g., farmers' movements in India, membership organisations, e.g., farmer organisations in West Africa;
- 4) Trade unions, e.g. peasant unions in Bolivia, and
- 5) Traditional informal organisations.

A second interpretation understands civil society as the sphere within which

public debate occurs and in which dominant ideas about how society ought to be organised are discussed and formed. This might be referred to as a 'public sphere' or 'deliberative understanding of civil society. Examples of ideas that might be debated and formed at different levels of society include:

- 1) National Level: The desirability of national food security, or the place of small-scale and family farmers in national identity. Such ideas have significant influences on the directions taken by agricultural policy.
- 2) Local Level: The extent to which the local government should invest fiscal transfers in agriculture through mechanisms such as participatory budgeting.
- 3) Community Level: The role of women in local leadership.

### **Characteristics of Civil Society Organisations (CSOs)**

Following are the main characteristics of civil society organisations:

- 1) Participatory Engagement: Participatory engagement indicates that members of the society:
  - i) Enjoy access to and governance of resources used for the common good, ii) Are free to be involved in civic action and social change, and
  - iii) Are free to participate in group affiliations that provide a sense of belonging on a community level.
- 2) Constitutional Authority: Constitutional authority protects the rights and privileges of citizens in a civil society. Under the rule of law, citizens and social groups are constitutionally legitimised and empowered to hold economic and political actors accountable for their work as community servants and trustees. Local and national decision-makers, motivated by the common good rather than self-interest, are expected to design and implement public policies that strengthen the vitality and welfare of the community.
- 3) Moral Responsibility: Within this social context, all community members have moral responsibility to use their civil liberties in ways that do not violate the human rights of others. The practice of equity, justice, and reciprocity produces

social order and stability.

4) Associations: Civil society is advanced when citizens can openly and voluntarily participate in diverse social affiliations, groups, networks, and structures for self-governance and social transformation. "Association" refers to those social places where people gather and interact with others to exchange ideas, offer support, and receive a sense of belonging. Community-based civic engagement in systems of social exchange exists when diverse social groups and gatherings are present and permeable.

5) Trusteeship: Civil society is advanced when citizens hold decision-making power, work to strengthen and improve local and regional economies, and exercise sustainable and socially transparent stewardship of societal resources (e.g., human, social, material, and ecological) on behalf of the "common good". Community-based activities of civic responsibility in systems of economic development exist when citizens enjoy the legitimate authority of resource trusteeship.

6) Sovereignty: Civil society is advanced when citizens have the right to be involved in all aspects of political governance and the authority to make decisions and perform actions affecting all levels of public life, without the institutions of public life being "captured" by the interests of specific groups or individuals. The presence and legitimacy of community-based civic authority through systems of political governance increase the ability of citizens to exercise sovereignty over policies and programmes that can positively affect their lives and the quality of life in their community.

7) Accountability: Civil society is advanced when citizens, acting through community-based groups and associations, are able to use basic civic freedoms and rights (e.g., fair elections, free speech, a free press providing access to information, freedom to organise in groups) to hold economic and political actors responsible for the outcomes of policies, programmes and patterns of resource distribution, and the exercise of political power.

8) Equity: Civil society is advanced when each citizen is given equitable access to and use of resources required for constructing a satisfying life. A moral condition of equity forms the foundation of activities that expand and strengthen economic conditions for all community members. Economic equity of resources is

necessary for producing and sustaining an improved quality of life for all people, especially the poor.

### **Role of Civil Society Organisations (CSOs)**

Civil society has been widely recognised as an essential "third sector. Its strength can have a positive influence on the state and the market. Civil society is therefore seen as an increasingly important agent for promoting good governance like transparency, effectiveness, openness, responsiveness and accountability.

1) **Delivery of Social Services:** Ample evidence exists that improvements in education, health and nutrition not only directly attack some of the most important causes of poverty but also ensure sustained supply of productive labour - an important factor of production and contributor to economic growth. Providing training and capacity strengthening through entrepreneurial, vocational/technical training and workshops for upcoming business and grassroots organisations is, therefore, of core importance. Illustrations of the contributions of CSOs in providing education, improving curriculum to make it demand oriented, and providing training, are plentiful.

Furthermore, integrating low income or hard-to-employ workers and the targeting of disadvantaged groups is also an important cornerstone of poverty alleviation strategies. This implies institution of measures targeted at groups of individuals such as ethnic minority groups, poor, women, redundant workers, the unemployed and youths. There are examples of CSOs rising because the market fails to offer the goods and services these groups need. The potential measures may include re-training in skills for which there is local demand and job placement programmes, programmes focused on women employment/credit provision, etc.

The Self-Employed Women's Association in India is a striking example of how poor and disadvantaged people can enhance their bargaining strength through cooperation.

2) **Relief and Rehabilitation:** CSOs role in relief and rehabilitation is probably the oldest and the most common particularly in developing countries. Providing emergency services such as temporary shelter, after disaster or conflict,

community organisation for rehabilitation are the most traditional forms undertaken by USUS. CSOs bring five main strengths to relief and emergency work- early warning advocacy for international aid; speedy response; coopération with indigenous organisations; preparedness. In conclusion, it is clear that CSOs are playing an important role in promoting local development and poverty alleviation through improvement in local business and investment climate, programmes, delivery of social and economic services and relief and rehabilitation.

3) Accountability: Accountability and governance is another area where civil society has played a major role. Civil society organisations have brought these issues to the forefront. Organisations have developed a range of fairly technical tools to monitor the government's record. They have organised audits of government projects or services by affected communities. The importance of such audits is now recognised by the Supreme Auditing Authority of India, and is making its way into the private sector. Civil society has gone beyond its traditional role of watchdog to try inserting itself in the governments functioning. It has used the government's mechanisms to hold it to account - social auditing, budget analysis, monitoring outcomes of programmes; all these tools are traditionally government owned.

4) Building Evidence: One major role for civil society is to build evidence about existing social programmes and to inspire innovation. In a context where many social programmes have to be implemented and fine tuned, civil society has an important role to play in gathering data about successful social policies, and pointing out gaps or failures. It needs to generate information at the community level and bring it into a debate at local, national, and even international levels.

5) Develops Innovative Models: Civil society has a primary role to play in developing innovative models that can then be scaled up by the government. Here again the presence amongst communities is a key advantage. But beyond this, civil society has a freedom to experiment that other actors do not have. The government is unlikely to take the risk of trying out new models without guarantees of their success, and the private sector will not venture in a field where no stable benefit can be expected. It behoves civil society to try out new models, gather evidence proving their success and push for their adoption by the government.

### **Challenges Faced by Civil Society Organisations (CSOs)**

Following are the major problems facing CSOs:

1) **Financial Dependency:** Approximately ninety-five per cent of CSOs funding are from external sources. The dependence on external sources for subsistence though helpful can also be a source of major uncertainty in the delivery of CSOs programmes and projects. The lack of predictability of funding undermines CSOs hold on professional staff and sustainability of projects. CSOs long-term survival and effective implementation of programmes is linked to the availability of funds. When CSOs are in a state of dependence, their independence to make programme decisions and ensure that the right programmes are pursued for beneficiaries, is diluted.

2) **Human Resource Challenges:** The number one resource for a great social sector organisation is having enough of the right people willing to commit themselves to the mission. The resource constraints of CSOs are often underestimated. These constraints also have human resources implications. Often, the number of people with the capacity, critical perspective and inclination to be activists and CSO administrators are in short supply. Becoming an activist weighs much on compassion and conviction rather than prospects of wealth - it has a great deal to do with an understanding of, and deep concern about, injustice and a dedication to working for substantive reforms. CSO are challenged through human resource constraints to deal with leadership, recruiting and retaining talent, and managing and developing people that help them to meet the demands of an ever changing policy environment.

3) **Sustainability:** Achieving sustainability for projects and programs that stakeholders' especially local people take and own is a challenge. To gain the trust of communities within which they work, sustained engagement is useful. Besides, as CSOs move from radical approaches that promote sit-ins, strikes and constant confrontation with government, the onus is on them to build credible and professional organisations that constantly engage and are capable of sustained engagement with communities, donors and the government. Lack of sustained engagement undermines CSOs effectiveness overtime.

4) **Transparency, Accountability and Ethics:** The demands for transparency, accountability and ethical standards should not only be ascribed to public agencies and corporate entities, but should also serve as defining principles for the operation of all entities in a functional democracy. Inculcating values of transparency, accountability and ethical standards is a major challenge for CSOs. Moreover, there is the question that resonates today "to whom are CSOs/NGOs accountable - to the public or donor agencies? Accountability should encompass both financial and administrative information and records. Maintaining transparent, accountable and sound ethical standards are useful for cementing the standing of CSOs.

5) **Lack of Role Clarity:** The role of CSOs is to empower communities (perhaps with the creation of community organisations), ensure their participation in governance and then move to support roles - make the poor and their issues visible and provide legitimacy in the dominant discourse. But this is a tough call. CSOs are called to fill up gaps in government at short notice - for everything from mid-day meals to disaster relief. As the 2004 tsunami showed, it is difficult to stick to a rights based on watchdog role at all times. The clarity of a human rights and solidarity-based approach is not deep enough to provide clear direction as to when charity or corruption-free implementation roles should be assumed. This again leads to them backsliding to social contractor roles.

6) **Institutional Mechanism for Interacting with the State:** There is no institutional mechanism for civil society to engage with the state. There is no formally accepted institutional representation and mandatory consultation and incorporation of interests within state polity. Such an institutional mechanism needs to be created. Though a small step, the sharing of some reports and draft policies with the public on government websites is welcome. Many consultative processes are more a façade for credibility, or required procedure, rather than an honest attempt for an open and more democratic process.