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B.A.ECONOMICS
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ENTREPRENEURIAL ECONOMICS

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UNIT – I

ENTREPRENEURSHIP

1.1. Introduction

The entrepreneur is an important input of economic development. He is a catalyst of development: Defining the different definitions coined to illustrate an Entrepreneur is a step to understand the potential and dimension of this engine of Economic Growth. The definition of entrepreneur shall not be limiting to the individual but the activity undertaken i.e., Entrepreneurship. It shall also explore the structure of the venture along with the entrepreneur. As both are complimentary to each other. The entrepreneurs are the individual(s) who innovates, organizes, operates and assumes the risk for a new business venture. They are engaged in the process of running a business of one's own which is known as entrepreneurship. Entrepreneurship can be witnessed from all types of background and create all kind of businesses. All ages of people may choose to become entrepreneurs. Some own tiny craft shop, while other own huge construction companies. Entrepreneurs try to identify the need of the marketplace and to meet those needs by supplying a service or product. Entrepreneurship plays an important role for any country in promoting economic growth and technological changes. It is directly related to the socio-economic development of the society as well. Entrepreneurship provides greater opportunity for productive employment and also functions as an instrument of social and economic change in society.

1.2. Genesis of the term 'Entrepreneur':

Although there have been a number of generally acceptable definitions, most of which vary a lot in focus and scope, there is no official definition of entrepreneurship. The word entrepreneur in English is derived from the French word entrepreneur, which means to undertake. The Webster Dictionary explains that the term entrepreneur is applicable to one, who organizes, manages and assumes the risk of a business or enterprise. The general perception of the entrepreneur as a starter of business is reflected by the definition in the BBC English Dictionary, which refers to an entrepreneur as "a person who sets up a business". Perhaps one of the most important definitions of an entrepreneur was given by the Austrian economist Joseph

Schumpeter (1883-1950) in his work The Theory of Economic Development as an innovator playing the role of a dynamic businessman adding material growth to economic development. The New Encyclopedia Britannica elucidates that entrepreneur is an individual responsible for operation of business, including choice of a product, mobilization of necessary capital, decision on product prices and quantities, employment of labors and expansion or reduction of the productive facilities. The above definitions of entrepreneur highlight the various facets of an entrepreneurship. These are: • Firstly, entrepreneurship innovates, i.e. comes up with a new concept, product or service. • Secondly, entrepreneurship organizes a new venture, i.e. initiates or starts a new business enterprise. • Thirdly, entrepreneurship operates, i.e. run a new business venture and strives hard to sustain and grow it. • Fourthly, entrepreneurship assumes the risk, i.e. takes the responsibility of the outcomes of a business enterprise, both positive and negative. Obviously, a comprehensive and unanimously acceptable definition of the word entrepreneur and subsequently the entrepreneurship is yet to be adapted. However, by combining some of the salient characteristics or traits, it may be said that the term entrepreneur specifies precisely a dynamic individual who has creative talents, take initiatives, assembles necessary resources, risk own money and fortune, undertakes a new venture, introduces in the market something new and useful, and who is eventually rewarded with profit or loss. And the process involved in undertaking such activities is known as Entrepreneurship.

1.3. Scope of Entrepreneurship:

Entrepreneurship has varied and wide scope. There are many opportunities for entrepreneurs for each type of business which is broadly categorized into four:

- Manufacturing Businesses that actually produce the products they sell.
- Wholesaling Businesses that sell products to people other than the final customer.
- Retailing Businesses that sell product directly to the people who use or consume them.
- Service Businesses that sell services rather than products.

1.4. Definition of an 'Entrepreneur'

The term "entrepreneur" is defined in a variety of ways. Yet no consensus has been arrived at on the precise skills and abilities that make a person a successful entrepreneur. The concept of entrepreneur varies from country to country as well as from period to period and the level of economics development thoughts and receptions. A review of research done in different disciplines over the years would improve our understanding of the concept of entrepreneur.

The word "entrepreneur" is derived from the French verb enterprendre. It means "To undertake". In the early 16th century, the Frenchmen who organized and led military expeditions were referred to as "entrepreneurs". Around 1700 A.D., the term was used for architects and contractors of public works. Bernard Belidor applied it as the function of buying labour and material and uncertain prices and selling the resultant product at contracted price. Quesnay regarded the rich farmer as an entrepreneur who manages and makes his business profitable by the intelligence, skill and wealth. In many countries, the entrepreneur is often associated with a person who starts his own new and small business. Business encompasses manufacturing, transport trade and all other self-employed vocations in the service sector. But not every new small business is entrepreneurial or represents entrepreneurship. The term "entrepreneur" was applied to business initially by the French economist, Cantillion, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products. Another Frechman. J.B. Say, expanded Cantillion ideas and conceptualized the entrepreneur as an organizer of a business firm, central to its distributive and production functions. Beyond stressing the entrepreneur's importance to the business, Say did little with the entrepreneurial analysis. According to J.B. Say, an entrepreneur is the economics agent who unties all means of production, the labour force of the one and the capital or land of the others and who finds in the value of the products which results from their employment, the reconstitution of the entire capital he utilizes and the value of the wages, the interest and the rent which he pays as well as profit belonging to himself. He emphasized the functions of

co-ordination, organization and supervision. Further, it can be said that the entrepreneur is an organizer and speculator of a business enterprise. The entrepreneur lifts economic resources out of an area of lower into an area of higher productivity and greater yield. The New Encyclopaedia Britannica considers an entrepreneur as "an individual who bears the risk of operating a business in the face of uncertainty about the future conditions". "Leading economists of all schools, including Karl Marx have emphasized the contribution of the entrepreneurs to the development of economies, but Joseph Schumpeter who argues that the rate of growth in an economy depends to a great extent on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneurial function than any other economist". As Professor Jan Tinbergen points out: "The best entrepreneur in any developing country is not necessarily the man who uses much capital, but rather the man who knows how to organize the employment and training of the employees. Whoever concentrates on this is rendering a much more important services to his country than the man who uses huge capital."

Schumpeter's Definition of Entrepreneur:

Joseph A. Schumpeter thus writes: "The entrepreneur in an advanced economy is an individual who introduces something new in the economy - a method of production not yet tested by experienced in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of new markets and the like." He further states the entrepreneur's function is to "reform or revolutionise the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity…" Briefly, an entrepreneur is one who innovates, raises money, assembles inputs, chooses managers and sets the organization going with his ability to identify them. Innovation occurs through (1) the introduction of a new quality in a product, (2) a new product, (3) a discovery of a fresh demand and a fresh source of supply and (4) by changes in the organization and management. In the case of a developing economy like India, the concept is being understood differently. An entrepreneur in a developing economy is one who starts an industry (old or new), undertakes risk, bears uncertainties and also performs

the managerial functions of decision making and coordination. He also puts the new process based on technological research into operation. Even if he imitates any technique of production from a developed economy, he is called an entrepreneur. In point of fact, entrepreneurship in developing economies is one form of labour that tells the rest of labour what to do and sees to it that it gets things done. Unlike in the developed industrial word, emphasis is not put (nor is there any need for it) only on "Schumpeterian innovations" In the case of developing countries. Schumpeter's entrepreneurship only exists if the factors of production are combined for the first time. To him, maintenance of a combination is not entrepreneurial activity. As such; he differs from the theory of rent enunciated by Ricardo. Ricardo included the term "entrepreneurial ability" as an independent factor of production. To Ricardo, profit is the reward for entrepreneurial ability.

1.5. New Concept of Entrepreneur and Entrepreneurship:

The term "entrepreneur" has been defined as one who detects and evaluates a new situation in his environment and directs the making of such adjustments in the economic systems as he deems necessary. He conceives of an industrial enterprise for the purpose, displays considerable initiative, grit and determination in bringing his project to fruition, and in this process, performs on or more of the following:

i. Perceives opportunities for profitable investments.
ii. Explores the prospects of starting such a manufacturing enterprise.
iii. Obtains necessary industrial licenses.
iv. Arranges initial capital.
v. Provides personal guarantees to the financial institutions.
vi. Promises to meet the shortfalls in the capital; and vii. Supplies technical know-how.

Drucker's Views on Entrepreneurship: Peter Drucker has aptly observed that, "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate

opportunities for successful innovation. And they need to know and to apply the principles of successful innovation." Systematic innovation, according to him, consists in the purposeful and organized search for changes and in the systematic analysis of the opportunities such changes might after scope for economic and social analysis of the opportunities such changes might offer scope for economic and social innovation.

According to Drucker, three conditions have to be fulfilled. i. Innovation at work. It requires knowledge and ingenuity. It makes great demands on diligence, persistence and commitment. ii. To succeed, innovation must build on their strengths. iii. Innovation always has to be close to the market focused on the market, indeed market driven. Specially, systematic innovation means monitoring six sources for innovative opportunity. The first three sources lie within the enterprise, whether it be a business or a public service institution or within an industry or service sector. They are therefore, visible primarily to people within that industry or service sector. They are basically symptoms. But they are highly reliable indicators of changes that have already occurred or can be made to occur with little effort. These four source areas are: i. the unexpected- the unexpected success, the unexpected failure, the unexpected outside event. ii. The incongruity- between reality as it actually is and reality as it is assumed to be or as it "ought to be." iii. Innovation in industry structure or market structure that catches everyone unawares. iv. The second set of sources for innovative opportunity, a set of three, involves changes outside the enterprise or industry. 1. Demographics (population changes) 2. Changes in perception, mood and meaning 3. New knowledge, both scientific and non-scientific.

Some Observations

The term entrepreneur has now been attributed to all industrialists, small business, and traders. All people who are gainfully engaged in work manufacturing, distribution or service and other sectors are called entrepreneurs. Again, even the founder creator and risk-taker are called entrepreneurs. Each of these terms focus on some aspect of entrepreneurs. They have some attributes, but they are not entrepreneurs in the strict sense. Many successful people have been good at copying and/or imitating others.

The term "entrepreneur" can only be understood with a bearing on economic, psychological sociological, and cultural bearings. The social responsibility is essentially a part of entrepreneurial outlook on life. Entrepreneurship may be defined in various ways, but the four key elements involved in it are: (i) Innovation (ii) Risk-taking, (iii) Vision and (iv) Organizing skill.

Family Businesses All the four elements are inter-related and form a continuous process in business. Entrepreneurial vision encompasses the relentless pursuit for operational excellence, innovative technology and being responsive to the needs of the market place.

1.6. FACTORS INFLUENCING ENTREPRENEURSHIP

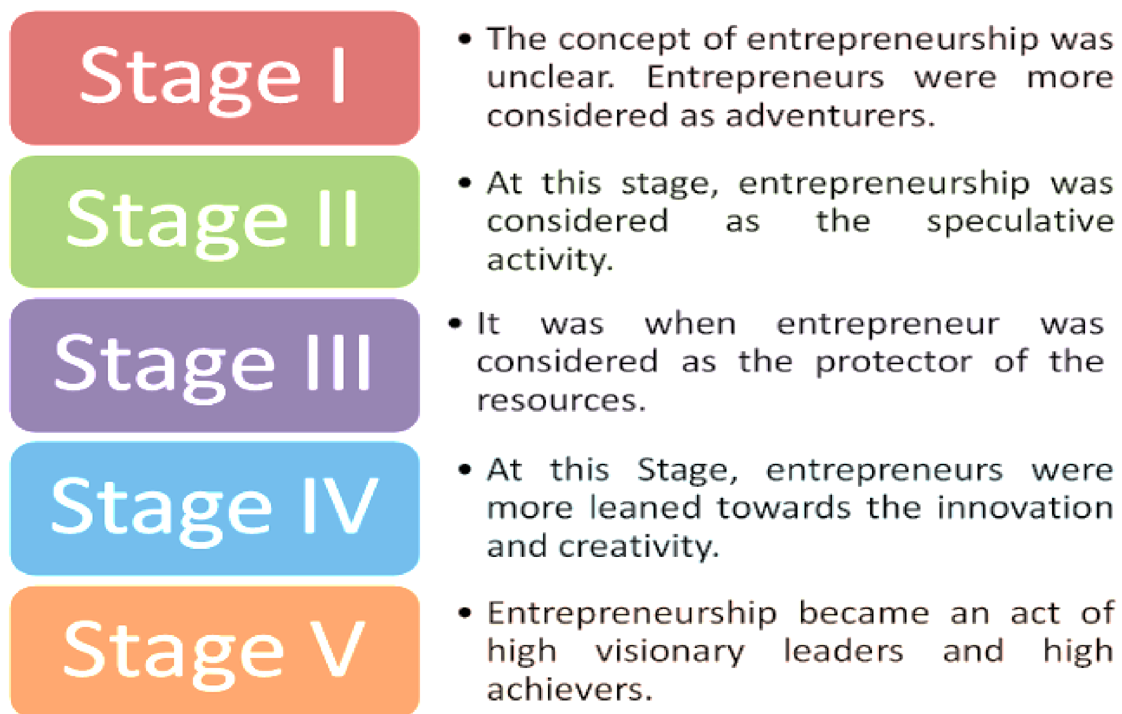
1.6.1. Theories of Entrepreneurship

Introduction: For scientist theory means relationship between facts. Entrepreneurship has been defined differently by different writers and thinkers. Various authors have developed various theories on entrepreneurship and popularized the concept among the common people. The concept of entrepreneurship is as old as civilization while the theories of entrepreneurship have evolved from over a period of more than two centuries. The theories of entrepreneurship can be explained from economists, psychologists and socialist's viewpoint, which are developed over a period of time.

1.6.2. Historical perspective: In early 17th century, Richard Cantillon, an economist who is originally called as developer of entrepreneurship coined the term "entrepreneur" and in late 17th century, it was defined that entrepreneur bears the risk, supervises and owns the factor of production. Later in 1803, Jean Baptiste Say proposed that profits earned by the entrepreneur are different from the profit earned by the capital owner and thus differentiated between both. Later in late 18th century distinction was further made clear between those who supply funds and earn interests and the one who earns from entrepreneurial activities. In 1934, Joseph Schumpeter defines entrepreneur as an innovator and later in 1964, Peter Drucker defined the entrepreneur as the one who maximizes opportunities. In 20th century, as technology improves and globalization takes place, it's further stated that entrepreneur not only has to make profits but also has to tap new markets,

develop new products and processes. Thus, entrepreneurship has taken new meanings in this century and a lot more has to be added.

1.6.3. Different perspectives on the emergence of Entrepreneurship: The concept of entrepreneurship is old back and has come through number of years with major changes over time but the concept of entrepreneurship is not clear and has become complex. Over the years different thinkers have interpreted the concept according to their perception and environment. On the basis of that entrepreneurship has been divided into five stages:



There are different opinions on the emergence of entrepreneurship which can be classified as follows: a. Economist's view b. Socialist's view c. Psychologist's view.

a. Economist's view: Entrepreneurship has been a topic of interest to the economists since 1700 and term entrepreneur has been first coined by Richard Cantillon and was popularized by James Stuart Mill in England. According to the economists, favourable economic conditions are the main motivators for the entrepreneurship. Entrepreneurs like to work in the situations which are positive for the economic growth. G.F Papanek and J.R Harris are the firm believer of this theory and strongly consider economic incentives as the main force of entrepreneurial activities. Lack of

entrepreneurship can be because of market imperfections and incompetent market conditions.

b. Sociologist's view: Social system has direct or indirect effect on the entrepreneurship. The power of customs, culture, values, religion, and rigidity has a significant impact on the entrepreneurs and thus helps in creativity and exposure. Researchers believe that entrepreneurship is most likely to grow under social values and cultural values, role expectations etc are accountable for the growth of entrepreneurship in the country. The theories of Max Weber, Hoselitz and Cocharan have propounded sociological theories. According to Max Weber, religious beliefs generate the drive for entrepreneurship by producing specific value orientations and thus chasing opportunities and the accumulation of assets. According to Cochran, entrepreneurs are the role model of the society and develop the solutions for their problems. Individual's performance depends on his attitude towards his occupation and understanding of the occupational requirement of the job. According to Stokes socio-cultural values guide economic deed. He put forward that personal and social opportunity and the existence of the necessary psychological distributions may be considered as situations for an individual's progress in industrial entrepreneurship. Hoselitz proposed that culturally marginal groups encourage entrepreneurship and economic development. Such groups, because of their unclear position are noticeably suited to make innovative change and thereby expand authentic innovations.

c. Psychologist's view: Different psychologists have given different psychological theories; Joseph Schumpeter, McClelland, Hagen and Kunkal are the few names among them. According to them, psychological aspects have significant impact on the entrepreneurship development. According to Schumpeter, entrepreneurs are motivated by the will to power and will to conquer. According to McClelland, high need for achievement is the prime drive for the entrepreneurship. People who have high achievement needs can work better and they give their best to achieve the desired performance. This achievement need can be inculcated through child rearing practices thus helps in achieving excellence. Hagen concludes that withdrawal of the status recognition is the main source of personality formation. People who have lost

their status from the previous groups try to attain their status by focusing on entrepreneurship. Kunkel proposed a behavior pattern model theory and is concerned with the explicitly expressed activities of humans and their relationships with the previous and present surroundings and the physical conditions. According to him behavior patterns can be formed by the stimuli exists in the present and past working conditions and also because of the social and economic incentives. According to the psychologists, when a society has the sufficient supply of the individuals having specified psychological characteristics, then there will be more chances of the existence of entrepreneurship. The main characteristics are:

- an institutional ability to look at the things in new way (vision)
- energy of determination and intellect to overcome fixed behaviour of thoughts
- a push to do something, an urge to fulfil a dream
- ability to resist social conflict; and
- High need for achievement.

Each of the above view is different and not any of the view is right or wrong. Entrepreneur can be influenced by the multiple factors and no single factor can enhance entrepreneurship. There can be large number of social, economic and psychological factors which can influence the entrepreneur.

1.7. CHARACTERISTICS OF AN ENTREPRENEUR:

There are certain characteristic features which make an entrepreneur successful in his venture. They have been briefly discussed hereunder:

1. Hard Work: A successful entrepreneur is one who is willing to work hard from the very beginning of his enterprise. An entrepreneur with his tenacity and hard work and pervasive perseverance can revive his business even from on the verge of collapse.

2. Business Acumen and Sincerity: Business Acumen stands for shrewdness and ability. Again, the success of an enterprise depends upon the sincerity of the people behind the enterprise. If a person is sincere about his venture, he will move heaven and earth to make it a success.

3. Prudence: A successful entrepreneur must be prudent in all his dealings. He should have the ability to work out the details of the venture from all

angels, assess the favourable factors and pitfalls and take suitable measures to overcome the pitfalls.

4. Achievement Motivation: The achievement motivation is the most important characteristic of an entrepreneur since all other characteristics emanate from this motivation. He must have a strong desire to achieve high goals in business.

5. Self-reliance and independence: A successful entrepreneur wants to follow his own policies and procedures and he does not like to be guided by others. He is found to be self, reliant by acting as his own master and making him responsible for all his decisions. He doesn't like to work for others.

6. Highly Optimistic: Successful entrepreneur is always optimistic about his future and he is never disturbed by the present problems. He always expects a favourable situation for his business.

7. Keen Foresight: An entrepreneur must have keen foresight to predict the future business environment.

8. Planning and Organising Ability: An entrepreneur is a firm believer in planning and systematic work. Above all, he must have the ability to bring together all scattered resources required for starting up a new venture.

9. Risk Taking: An entrepreneur is not a gambler and hence he should not assume high risk. However, he must love a moderate risk situation, high enough to be exciting, but with a fairly reasonable chance to win.

10. Secrecy Maintenance: A successful entrepreneur must be capable of maintaining and guarding all his business secrets. Leakage of business secrets to trade competitors will definitely lead to the downfall of his business. Hence, he should be very careful in selecting his subordinates.

11. Maintenance of Public Relations: The extent of maintenance of public relations or human relations has a vital role to play on the success or failure of an entrepreneur. A successful entrepreneur must have cordial relations with his customers to gain their continued patronage and support. He must also maintain good relations with his employees with a view to motivating them to higher levels of efficiency.

12. Communication Skills: Communication is the secret of the success of most entrepreneurs. Good communication skill enables them to put their

points across effectively and with clarity and thereby helps them to win customers.

1.8. TYPES OF ENTREPRENEURSHIPS:

Innovativeness Adaptability: Clarence Danhof classified Entrepreneur into four types based on Innovativeness and capacity to adapt to change based on his study of the American Agriculture in his book “Change in Agriculture: The Northern United States, 1820– 1870” (Danhof, 1969).

i. Innovative Entrepreneur:

- ✶ This category of Entrepreneur is an emblem of innovativeness.
- ✶ These types of Entrepreneur are capable of generating new innovative ideas, able to learn and adapt to new technologies. They keep scanning their environment in order to discover new markets for their products and ideas and develop organizations that employ disruptive methods for bringing about revolutionary change in the business environment.
- ✶ Such Entrepreneur need a befitting environment to thrive. This is one of the reasons why educational curriculum should create opportunities for students to get access to more practical aspects on a variety of subject areas so that students develop a broader mindset and a wider thought base.
- ✶ Such Entrepreneur adopts disruptive techniques and unconventional methods to bring about transformation in life style.
- ✶ These Entrepreneurs are pioneers of new products, services and ideas. They are builders who progress through new developments in various forms.

ii. Adoptive or Imitative Entrepreneur:

- ✶ Such Entrepreneurs are copy cats. They keep scanning the market for ideas that have clicked and products that show good selling potential. They employ reverse engineering and launch already existing products and ideas in their own manner of presentation.
- ✶ In case of production units they adopt technologies and methods innovated by others.
- ✶ Such types of Entrepreneur find relevance in under-developed or developing countries where they find usefulness in the form of providers

of relatively low cost goods and services as compared to that of developed countries.

iii. Fabian Entrepreneurs:

- Fabian Entrepreneurs are characterized by over precaution to do something new or to follow or change to something that is better. They rarely experiment when it calls for any change regarding their organization.
- They are driven only by a fear of insolvency or absolute failure if they did not adopt the change. So it's in their nature to maintain a status quo for as long as possible.
- These are mostly second generation entrepreneurs managing a family business, who due to their laziness or lack of foresight about the changing dynamics of market competition have a tendency to follow in the footsteps of their predecessors.

iv. Drone entrepreneurs:

- Such Entrepreneurs are conservative or orthodox in outlook.
- They are always resistant to change. They feel uncomfortable to move over and adopt new technology of production. They are thus in the danger zone of high failure rate and extinction by getting pushed out of the market by competition.

1.9. BARRIERS TO ENTREPRENEURSHIP

Entrepreneurial ventures begin with a big dream in mind of the person concerned. But to transform that dream into reality is not everyone's cup of tea. This is because the entrepreneurs face a lot of troubles and problems in the process of attainment of their respective. In spite of all the efforts made by individuals and the government to promote entrepreneurship, some societies are unable to produce sufficient numbers of successful entrepreneurs. It has been observed that some societies are more entrepreneurial than others. These societies promote and encourage entrepreneurial behaviour and as a result they throw up more number of entrepreneurs as compared to other societies. The importance of entrepreneurship to the society in general and its economic development

in particular. All governments encourage and promote entrepreneurship in all sections of the society. In spite of all their efforts some societies are unable to produce sufficient numbers of entrepreneurs. There are certain factors which either support entrepreneurship or act as barriers to entrepreneurship. Such factors are economic, social, political and psychological. Their negative influence creates an inhibiting milieu to the emergence of entrepreneurship.

A. Economic Barriers:

There are primarily three economic barriers whose inadequacy is the primarily course of lack of entrepreneurship in certain regions:

i. Capital:

Capital is the most important pre-requisite for setting up the new enterprise. Capital is a lubricant to the process of production. Money is the resource that helps mobilise other resources like men, materials and machines. Entrepreneurship in any society increases with the increase in the supply of capital. Thus, lack of availability of capital with any society or nation acts as a serious barrier for promoting entrepreneurship in that society.

ii. Labour:

It is the poor quality of labour rather than inadequate quantity of labour force that acts as a real barrier to entrepreneurship. Cheap labour of a developing country may primafaci appear to be strength in promoting enterprises, but the fact is that cheap labour is often unproductive or has a low level of productivity. This unskilled and low productive labour acts as a barrier in setting up modern enterprises. However, by using labour saving innovations, the innovative entrepreneurs have been able to overcome the disadvantage of high cost labour in developed economies.

iii. Raw Material:

In the absence of raw material no enterprise can be established and in the absence of enterprises the entrepreneurs do not emerge. The lack of raw materials is normally the greatest economic barrier for growth of entrepreneurship. Japanese society has been able to overcome the problem of lack of raw material through innovative management systems.

B. Non-Economic Barriers:

A large number of sociological and psychological factors act as non-economic barriers. Many societies and regions endowed with skilled labour and natural raw material have remained entrepreneurially backward because of such factors. The factors which prevent the emergence of entrepreneurs can be classified as environmental and personal barriers.

The environmental barriers are rooted deep in the society and are also known as societal barriers. In some societies such barriers are stronger than in others. However, with time many changes take place in society. Some of the societies are able to overcome these barriers easily while others may find it difficult to change the factors acting as barriers.

Some of the important environmental barriers are as follows:

i. Cultural Block:

People are bound by their cultural values. Every society lays down some unwritten norms of acceptable behaviour. All members of that society are required to follow these norms. If such norms are broken, the society does not approve of the resultant behaviour and exert direct and indirect pressure on the individual to conform to a particular way, purely because it is customary. Ground rules of social behaviour are learnt from the parents at a very early age.

During school days, the support and approval of others is conditional on certain standards relating to good behaviour, good exam-results and so on. Even at home and office, the conformity is at a premium. As against this, an entrepreneur is required to be innovative, thus, conformity and enterprise seldom go hand-in-hand. Enterprise needs the status quo to be investigated, challenged and if necessary changed. The dilemma for entrepreneurs lies in balancing the creative urge to 'improve' something with the natural human need for 'acceptance by others'.

Most people do not like to be too unlike their peers. They are sensitive to the reaction of those around them. There is a latent desire to conform to an accepted pattern. Such desire and cultural block prevent persons from setting up their own ventures in non-entrepreneurial societies.

ii. Practical Values:

Most of progressive societies discourage day dreaming, playfulness and fantasy by their adult members. Such behaviour is considered childish and unsuitable for grown up persons. The adults are required to be functional in their thinking. Psychologists agree that children are more creative than adults, as adults are more aware of their practical constraints. As a person grows and matures, more and more stress is placed on practical aspects of the achievement as a result mental playfulness, fantasy and reflectiveness are driven out.

Hence, instead of finding innovative alternative solutions adults normally end up with 'derivative innovations' that are based on logic, existing systems and products. When the new system is close to the existing one, it is easier to understand and work with, and people feel more secure as compared to the more imaginative innovations. The preponderance of practical values as a part of cultural blocks prevent innovation and act as a barrier to entrepreneurship.

iii. Importance of Logic:

Many people give higher importance to reason and logic as compared to intuition and subjective evaluation. Number of alternative patterns of logic are in conflict, the consumers and sellers can have conflicting logics. People have a tendency to see logic as fixed and this stems from the historical background of our culture. Pragmatism and logic are considered associated with masculinity while intuition, imagination, poetry, music and tenderness are associated with femininity.

Males and females have their preferred methods of thinking. Males use more of the left brain, the logical part. As men have dominated society for long, it is this type of thinking which is identified as most valuable. Right brain thinking, where women tend to excel, is not given importance in society. We have already established that entrepreneurship requires a high level of creativity, an area in which the right brain dominates. Thus, over importance of logic, the left brain, is a barrier to entrepreneurship.

iv. Respect for Entrepreneurs:

The socio-cultural setting of any society determines the degree of approval or disapproval of the entrepreneurial activities. Schumpeter calls it an appropriate social culture for entrepreneurship. The social status of the entrepreneur in a society is an important factor that has a direct bearing on the emergence of entrepreneurs in a society.

The societies which tend to view the entrepreneurs as role models and heroes, accord due status to the entrepreneurs, encourage their people to choose entrepreneurial careers. In most of the Indian societies, businessmen and entrepreneurs are not accorded a high status. Rather, business is considered a profession of lower hierarchy. This lack of legitimacy to entrepreneurship and lower social status of entrepreneurs in a society is a major barrier to entrepreneurship.

v. Tradition Binding:

Some people take pride in their traditional culture and preserve their dress, dance, architecture and traditional ceremonies. This provides emotional support to the individuals and shared interests and values to their society. Binding tradition represents a substantial block to change and progress. Social movements, attitudes, entertainment and dress styles are continuously changing.

Many people dislike such changes either because of fear or distrust or some unpleasant past experience. People prefer to live in the good old days. Some cultures place a great deal of emphasis on the preservation of traditional ways of life at the expense of innovation and development. Such societies resist introduction of any change. Thus, tradition-binding cultures are a barrier to entrepreneurship.

vi. Emotional Block:

Entrepreneurship involves risk, besides financial risk it involves emotional risk. Every entrepreneur runs a risk of making mistakes and incurring losses in his venture. People usually understand two situations, i.e., either a person is right or wrong. Throughout one's life one is trying to find right answers to the problems and avoid the wrong solutions. Right answer is considered synonymous to success and being wrong is

considered as failure. A fear of being wrong leads one to construct elaborate justification for own judgements and actions.

At work, people use a number of productive tools like sales forecast, market research, budgets etc., so that in case of failure their decisions are perceived as rational. In case the decision proves to be wrong one can defend it by claiming that a high level of prudence was exercised. People are afraid of not only making mistakes but more so appearing foolish because of such mistakes. This emotional fear is the barrier to entrepreneurship.

Barriers to Entrepreneurship in India:

Process of entrepreneurship can be affected by regulatory measures and other environmental factors. Barriers to entrepreneurship can stifle innovation if promoted enterprises are protected unnecessarily from the government and competitive forces which generate new ideas. Excessive promotional costs, uncertainty, ineffective political leadership make the potential entrepreneurs shy away from risk taking behaviour.

These barriers are as follows:

1. Regulatory Barriers:

Generally, the government regulates entry to markets, defining registration requirements and reporting and disclosure norms and ensuring tax compliance. In practice, there are different legal forms of business organisations each of which offers different merits and limitations, registration and reporting requirements. These situations force the entrepreneurs to weigh their relative costs and benefits. Normally, the procedure for registering as a sole trader and unlimited liability partnerships are relatively simple and costs are minimal. Formation of private companies is also easy and these forms are generally adopted by small entrepreneurs. Besides, for Government support, entrepreneurs are also expected to produce a business plan certified by technical consultancy organisations which attest to the enterprise's viability.

2. Mergers and Acquisitions:

Flexible merger and acquisition policy generally discourages entrepreneurs and forces them to shy away from entrepreneurial

behaviour. They apprehend that whenever they are able to bring success to the enterprise, other entrepreneurs will try to initiate the process of mergers and acquisitions. Effective mergers and acquisitions policy allows entrepreneurs to define their role and ensure smooth sailing for entrepreneurship. It also enables the entrepreneurs to think that they have to run their promoted enterprises for a long period. Small entrepreneurs are unable to compete with medium and big enterprises and that is the main reason for growing sickness in small enterprises. So, mergers and acquisitions should contain a reorganisation process which enables the small entrepreneurs to merge their enterprises making them viable. However, merger and acquisition or reorganisation should be transparent and governed by simple procedures.

3. Competition Policy:

Gentlemen's agreement among the entrepreneurs to monopolise the market may create problems for potential entrepreneurs. Actually, private barriers to entry can be stifling. Existing entrepreneurs might have an interest in suppressing competition among them in order to raise prices and exploit consumers. Such agreements invariably require some attempt to keep competitors from offering what the incumbents refuse to in the way of either quantity or quality of product. Collective boycotts could be used for example to deny new competitors supplies of raw materials components and access to distribution channels. In this context, it would be necessary to enact competition law so that it will be difficult for dominating firms to unilaterally seek to protect themselves from new competition. The intent to restrict firms to maintain large market shares solely governed by greater efficiency rather than artificial barriers to entry.

4. Defective Tax Structure:

Higher levels of tax doses tend to distort economic activity and reduce profit margin for entrepreneurs. High tax doses lead to a sub-optimal use of resources and a less efficient and dynamic economy. They reduce the returns available to entrepreneurs and discourage them from further creation or expansion.

High marginal income and corporate tax rates penalise very successful entrepreneurs. They also reduce firm's liquidity by reducing their capacity to retain more profits for further investment. Similarly, they provide an incentive for tax avoidance and evasion, tending to expand undeclared economic activity. Thus, low tax rates are not the only factor positively affecting the level of entrepreneurship. The relative tax structure on different forms of business organisations can also encourage one form over the other.

5. Delayed Payments:

Delayed payments from big enterprises to small enterprises are the normal feature of small business. They became a problem because of their vulnerability to cash flow constraints and because of their frequently weak bargaining position with respect to purchases. The Government of India has already introduced a separate act "Delayed Payment Act" to protect the interest of small entrepreneurs.

Legislation can offer such measures as statutory rights of interest on late payments and the right to sue late paying firms. The Abid Hussain Committee has already recommended the necessary resentments in Indian Companies Act, 1956 to make it mandatory for companies to indicate the amount due to small scale industries in their annual accounts.

6. Absence of Protection of Intellectual Property Rights:

Innovation is the basic root of entrepreneurship. Despite the potential benefits offered by research and development of new products and services, firms are reluctant to invest in R & D because the results of such spending on technological discoveries, new products and techniques, can fall easily into the hands of rivals due to the difficulty associated with attaching ownership rights to these results.

So, the Government should try to protect the innovative process developed by the entrepreneurs. It should also try to formulate a comprehensive "Intellectual Property Policy" to set an equilibrium between two objectives, first rewarding or compensating creators and inventors for innovation and second promoting the interests of business and the public at large in securing access to science, technology and culture.

This implies granting innovators the rights that are necessary to recoup their investment without stifling competition for an unduly long period of time.

7. Defective Administrative and Compliance System:

Government generally favours small entrepreneurs by granting them tax subsidies and tax incentives to achieve a wide range of economic and social objectives. These measures include tax benefits to promote employee training and R&D, special provisions to SSI's to help them to access financial support extended by financial institutions and special tax provisions to create export promotion zones etc.

Tax subsidies and incentives require definitions of the eligible activities, accountability requirements and other administrative procedures and these generate administrative expenses for government and compliance costs for business. The Indian bureaucratic system known for its red tapism also increases the delay in execution of compliance and its costs. So, it would be better to have a trade-off between using the administrative system to correct market imbalances and favour particular social goals on the one hand and the objective of cost effectiveness of the compliance system on the other. Thus, entrepreneurship ensures an accelerated pace of economic development of the country. It also encourages potential entrepreneurs to innovate for new products and services required by the society at large.

Barriers to Entrepreneurship Development

There are several barriers to entrepreneurship development. Some of them are discussed below:

1. Macroeconomic Environment:

Macroeconomic environment conducive to entrepreneurship is dependent upon the policies of the government in supporting private participation in business. Macro means large and the term macroeconomic means the larger view of the economy.

It is different from the micro (small) view which concerns a firm or a company in the market. For example, in India the process of liberalisation started during the mid-1980s whereby the government started the process

of encouraging foreign MNCs (multinational corporations) to create joint ventures (JVs) with Indian domestic companies.

This process created a macroeconomic environment in which many new small and medium enterprises (SMEs) evolved to become suppliers and vendors for the JVs created. Prior to that, the macro- economic environment in India was a big deterrent to entrepreneurship, as there was no freedom for entrepreneurs to set up their ventures without taking the "licences" (approvals) from the government.

That period is often known as the "License Raj." Macroeconomic policy also affects the entrepreneur's decision to invest, especially in projects that require a longer time to produce a return.

2. Legal and Regulatory Environment:

The legal and regulatory environment for entrepreneurship is formed by registration and licensing procedures, commercial and contractual laws, property rights laws, bankruptcy and collateral law, real estate regulations and labour laws.

If the administrative procedures and laws are unclear, time-consuming and cumbersome, they would pose barriers to entrepreneurship. If these procedures and laws are changed/revised frequently, it would create a sense of uncertainty and risk in the minds of entrepreneurs trying to establish a new business venture in the region.

3. Corruption and Unfair Competition:

A corrupt economy can lead to unfair competition, which in turn can become a major deterrent to entrepreneurial activity. Excessive regulations and approvals from the government required by entrepreneurs may make the government officials corrupt. They develop this attitude of taking bribes from entrepreneurs in return for speedy approvals.

4. Financial Obstacles:

Start-up ventures are usually dependent upon capital to be sourced from banks and financial institutions. It has been observed that in many economies (even developed ones), banks are reluctant to give loans to small start-up firms. In the caselet on Kiran Mazumdar Shaw, it is evident that often banks have gender bias as well in this regard. Banks often seek high

collateral amounts (as guarantee for repayment of loans) or charge high interest rates, which pose a major obstacle to entrepreneurs.

5. Tax Burden:

In many regions, the government charges high taxes from even small start-up ventures and has tedious procedures for compliance of tax submission formalities. In order to promote entrepreneurship, the governments would need to have rational tax structures with easy tax submission procedures. Otherwise, high taxes add to the cost of operations for a start-up company, thus weakening its competitive position for survival and growth. High taxes in a region also pose an entry barrier for entrepreneurs.

6. Challenges in Attracting Talent:

This is another big issue faced by small start-up companies. The best of talent in engineering, management and other disciplines wants to work for multinational corporations (MNCs) rather than for small start-ups. This attitude of professionals makes it difficult for entrepreneurs to attract them for their entrepreneurial ventures. Thus, there is a dire need to create an ecosystem for entrepreneurship so that budding professionals start valuing their association with entrepreneurial ventures compared to working for the MNCs.

7. Difficulty to Source Raw Material:

For entering a market with a product, an entrepreneur has to identify if the suppliers of raw materials and components, existing in the market have adequate capacity or are willing to expand capacity to meet the requirements of a new player in the industry. If not, then it becomes imperative to establish new suppliers in the market, which may be cumbersome for the entrepreneur. Thus, this difficulty to source raw materials and components often deters entrepreneurs from entering the market.

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UNIT – II

ENTREPRENEURIAL MOTIVATION

2.1. Introduction

Performance of every individual depends upon his ability to do work and level of motivation. In other words we can say that both of these factors largely influence efficiency of individuals. Without motivation, performance of even a highly competent employee will be very low. It also means that motivation is an utmost important factor that encourages individuals to give their best efforts and reach to their personal as well as organisational goals. A strong positive motivation will always facilitate an employee to increase his abilities, performance and output, whereas a negative motivation will lead to decreased level of performance. Therefore, in order to optimally utilise human resources of the organisation and to retain the same in an organisation, management should make all possible efforts to motivate its employees. The motivated employees always prove an invaluable asset to the organisation as motivated employees always tend to maximise their contribution in achievement of organisational goals and perform beyond their role profile.

2.2. Meaning and Definition of Motive:

The word motivation is derived from the Latin word which means 'to move'. Motivation is a psychological phenomenon which generates within an individual an urge to act in a certain manner. If an individual has some unfulfilled need, he will always be motivated to work more in order to satisfy the same. The behaviour of such individual will always be directed towards achievement of his needs. The process of motivation has three key elements viz: Intensity, direction and persistence. An individual's motivation towards his goal is explained by his intensity, direction and persistence of efforts towards his goal. The following equation can describe this phenomenon.

Motivation=Intensity*Direction*Persistence of efforts

- Intensity is how strongly we put efforts to achieve our goal.
- Direction in which efforts of an individual are directed determine how well an individual will perform. Efforts of an individual should always be directed in a direction which is beneficial.

- ✶ Persistence is for how long an individual keep on working hard to achieve his goals.

According to Stephen P. Robbins “motivation is the willingness to exert high levels of efforts toward organizational goals, conditioned by the effort ability to satisfy some individual need”. Here, the center of attention is on four words i.e.

- ✶ Willingness to exert high levels of efforts
- ✶ Organizational goals
- ✶ Effort and ability
- ✶ Satisfaction of individual need

Glueck explained motivation as “the inner state that energizes channels and sustains human behaviour”.

According to Joe Kelly, "Motivation is a process whereby needs instigate behaviour directed towards the goals that can satisfy those needs”.

According to Newstorm and Davis, “Work motivation is the set of internal and external forces that cause an employee to choose a course of action and engage in certain behaviour. Ideally, these behaviours will be directed at the achievement of an organisational goal. Work motivation is a complex combination of psychological forces within each person, and employers and vitally interested in three elements of it: Direction and focus of behaviour, Level of effort provided, Persistence of the behaviour”.

On the basis of above definitions, we can deduce following characteristics of motivation.

2.3. CHARACTERISTICS OF MOTIVATION:

According to Mitchell, following are the four common characteristics of motivation

- ➢ Motivation is an individual phenomenon
- ➢ Motivation is intentional
- ➢ Motivation is multifaceted
- ➢ The aim of motivational theories is to predict behavior.

Besides above given features, following characteristics can be inferred from various definitions.

- ✶ Motivation is based on unsatisfied needs

- ✶ Motivation is a cognitive process
- ✶ Motivation is an ongoing process
- ✶ Motivation is a driving force
- ✶ Motivation is the underlying cause of behavior
- ✶ Motivation is a complex phenomenon
- ✶ Motivation is multidimensional
- ✶ Motivation is responsible for direction, intensity and persistence of an individual for the accomplishment of a goal.

- **Motivation is based on unsatisfied needs:**

A majority of definitions mainly focus on satisfaction of a particular need/motive. Thus motivation is always directed towards a need. These needs could be primary or secondary needs. Primary needs are those which are related to basic necessities in life like food, water, air safety. Secondary needs are also called higher order needs e.g. affiliation, self-esteem and self-actualization needs.

- **Motivation is cognitive process:**

As lot of thought process, analysis and evaluation is involved in deciding which specific need to be to be satisfied, how it will be satisfied and which course of action to choose from various other options, hence we can say motivation is based on cognitions.

- **Motivation is an ongoing process:**

Motivation is definitely a continuous and ongoing process because human life is not based on one particular need/motive. After fulfilment of one need other need arises and the process of motivation go and on e.g. in social context once the basic needs of water, air, food is fulfilled or in an organizational context where after getting job one gets good salary and allowances and individual yearns for salary increments and then for promotion. So after fulfillment of lower order needs higher order needs become motivators and thus, this process of satisfying needs never ends, therefore, we can say motivation is an ongoing process.

- **Motivation is underlying cause of behavior:**

Every behavior is caused. According to Skinner, Behaviour is a function of consequences. If the consequences are desirable or enticing, obviously

person will indulge in that behavior. So that luring consequence will act as motivator for a person. Hence, we can say motivation is the underlying cause of behavior.

- **Motivation is a complex phenomenon:**

Different things motivate an individual at different point of time and different people have varying motivators e.g. increase in salary motivates one individual but may not motivate the other person. One person may be motivated by recognition, praise, acceptance or approval but other may not want these. If somebody is in the dire need of money so according to his needs/motives or personality characteristics and social position, money will acts as a motivator but once a person has enough money, it will cease to act as motivator and hence he may be desirous of something else. Hence, motivation is a complex phenomenon. There is no quick fix rule that can be used across the board because of individuals are unique and they have individual differences.

- **Motivation is Multidimensional:**

Sometime motivation comes from a belief (intrinsic), sometime, we need a push, may be positive or negative from outside to do something. Sometime money or material things motivate us at some point of time only, recognition, acceptance, approval, respect is enough for us to do marvelous job. Therefore, depending upon various psycho demographic factors, personality factors and factors in external environment like social, political, economic, geographic, ecological etc. help deciding motivator for an individual. Hence, taking into consideration all the factors and their permutation and combination will decide right motivator for an individual at a specific point of time.

2.4. IMPORTANCE OF MOTIVATION:

The importance of the concept of motivation in an organisational context is explained by following points:

a) Motivated employees always search for better and novel ways of doing their tasks. When employees seek new ways of doings the things, they usually find them.

b) Motivated employees are more conscious for quality of their work. Such employees contribute a lot in building image of the company amongst the customers as well as society.

c) Motivated employees are more productive than others.

d) All organisations need human resources in addition to non-human resources in order to achieve their goals. The concept of motivation is catching attention because it not only motivates the employees perform better and go beyond their profile, but also help in retaining them.

e) Motivation is a highly complex phenomenon which is affected by and affects multiple factors in an organisational context. In order to understand why people behave in a certain manner in an organisation, understanding the concept of motivation is very necessary.

2.5. THEORIES OF MOTIVATION

From the very initial stages, when organisations were established, various psychologists had tried to search out the answer to one question: What motivates the people? F.W. Taylor in his concept of Scientific Management advocated that individuals were primarily concerned with satisfaction of their basic needs viz. need for food, shelter, water and air. Therefore, their prime focus was on economic gains to satisfy their basic needs. Theorists of scientific management linked performance of individuals with monetary rewards and incentive gains. Thus, this theory focused on external motivation and pointed out that external motivation is sufficient to encourage an individual to satisfy their basic needs. But, this theory did not take into account the work climate, job situation and other factors related to the job of an individual. Since then, many researchers and academicians have been trying to find out what motivates the people? An in depth examination of theories will help us understand the concept of motivation in better way. All theories of motivation can be classified into two broad categories:

a) Content theories

b) Process theories.

In this module we will study content theories of motivation in the following section:

a). Content Theories of Motivation:

Content theories attempt to describe the basic needs and drives that motivate an individual to work more and better. These theories explain the linkage between human needs and their work related behaviours. The content theories postulate that:

The above figure elaborates that unsatisfied individual needs creates urge in the individuals to perform better to fulfil their needs. Theorists of content theories suggest that unsatisfied needs Individual needs Anxieties and worries Energized Behaviour directed at need fulfilment activate behaviour towards achievement of goals. Monetary rewards and incentive schemes can be used in organisation as a motivational tool to activate individual needs and to motivate the employees. Maslow's need hierarchy theory, Herzberg's two factor theory, Alderfer's ERG theory, McClelland's achievement theory are classified as content theories.

2.5.1. Maslow's Need Hierarchy Theory:

Abraham Maslow's Need Hierarchy theory of motivation is the most common and simplest theory of motivation. Maslow in his theory summarised that:

a) Every human being has a different set of needs and unsatisfied needs act as strong motivators.

b) As every individual has many needs, they are arranged in the order of their importance starting from most basic need to most complex needs.

c) The individual moves to the advanced level need only when the basic need is satisfied. If basics needs are not satisfied, the higher level needs will be postponed.

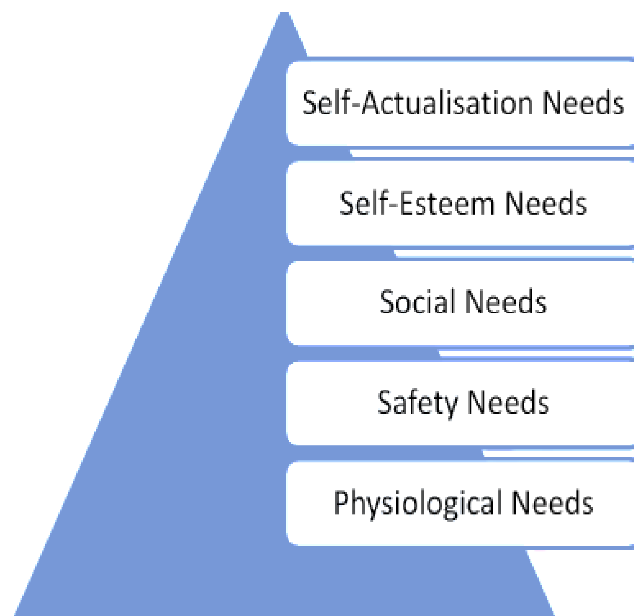
d) There are five basic needs and human beings tend to satisfy them in the order of their hierarchy.

e) A satisfied need does not act as a motivator, only unsatisfied need continue to motivate a human being.

f) Physiological and safety needs are finite in nature but higher level needs are infinite in nature.

g) Various levels of needs are overlapping.

Hierarchy of Maslow's needs is shown in the following figure:



1) Physiological needs: These needs include the most basic and obvious needs for survival of human beings. These are the most powerful needs which motivate an individual till they are satisfied. The need for food, water, oxygen, sleep, shelter, air etc may be categorised as physiological needs. This category of needs represent the need for basic necessities of life which are indispensable for the biological maintenance of a human being. If any of these physiological needs is unsatisfied, the individual will primarily strive to satisfy that particular need and will forget about other higher level needs. For example, a hungry person will never seek any luxury of life or dream of building a new world until his need for food is fulfilled. In the organisational context, employees' need for salary and basic working conditions represent his physiological needs.

2) Safety needs: Safety needs are next in the hierarchy of needs given by Abraham Maslow. Once the basic needs of an individual are satisfied, he will strive for fulfilment of second level of needs which are popularly known as safety or security needs. Safety needs here emphasise upon an assurance of

continuity of job, security of source of income, provision for old age, insurance, prediction of environmental factors surrounding an individual etc. In an organisational context, safety needs are represented by job security, salary hike, safe working conditions and unionisation etc.

3) Social needs: Social needs are at the third level of need hierarchy. When physiological and safety needs of a human being are met, he starts putting efforts to satisfy his social needs. These needs represent the need for love, affection, friendship, membership in groups, social acceptance etc. In an organisational context, social needs are fulfilled by participation in a work group, team and friendly supervision etc.

4) Self-esteem needs: Fourth level of need hierarchy is called self-esteem needs. These needs are concerned with self-respect, self-confidence, recognition, appreciation, prestige, power etc. These needs give a sense of self-worth and ego satisfaction. In an organisational context, esteem needs are satisfied by job title, recognition by leader, challenging work, responsibility, performance feedback and participation in decision making etc.

5) Self-actualisation needs: At the top of the hierarchy of needs is need for self-actualisation. These needs represent the need to be what a person is capable of becoming. This need constitute an individuals' mission of his life. An individual who has satisfied all levels of his needs tries to fully utilise his talent, potential, skills and capacities. This need signifies a person's desire of personal achievement. The sense of personal achievement leads to sense of psychological satisfaction. In an organisational context, self-actualisation needs are categorised as need to excel in one's job and career, successfully managing a unit etc.

Critical analysis of Maslow's theory:

Maslow's need hierarchy theory was widely accepted on following grounds:

a) This theory is very simple and easy to understand.

b) It helps the managers in understanding how to motivate their employees. This model helps the managers to identify varied needs of employees, recognising the fact that the every individual has different needs and thereby offering rewards to satisfy particular needs.

c) This theory helps in explaining inter personal and intra personal variations in human behaviour. The theory suggests that human behaviour changes with change of needs.

d) This model postulates that motivation is a completely dynamic phenomenon, changing from one level of needs to another level.

Despite of its simplicity and other advantages, maslow's theory was criticised on following grounds:

a) Some researchers have proved that there is no hierarchy of needs as suggested by Maslow. Some people may be deprived of lower level needs but may be motivated for higher level needs. Mahatma Gandhi is a renowned example of this. Likewise, the people who are motivated for higher order needs cannot forget about their need for food.

b) Assuming that the hierarchy of needs exists, the hierarchy is different in different countries. Not only in different countries, but the hierarchy is different amongst the people with in a country itself.

c) Need and satisfaction of need is purely a psychological phenomenon and some people especially illiterate people may not be aware about their needs.

d) The theory is also criticised on the grounds that managers will never find enough time to leisurely diagnose the level of need of every employee of their organisations.

2.5.2. HERZBERG'S MOTIVATION-HYGIENE THEORY:

Fredrick Herzberg established the motivation-hygiene theory which is popularly known as two factor theory of motivation. In late 1950s and early 1960s Herzberg and his associates conducted a survey of 200 engineers and accountants. Critical incident method was used for collecting the data. The respondents were asked two questions:

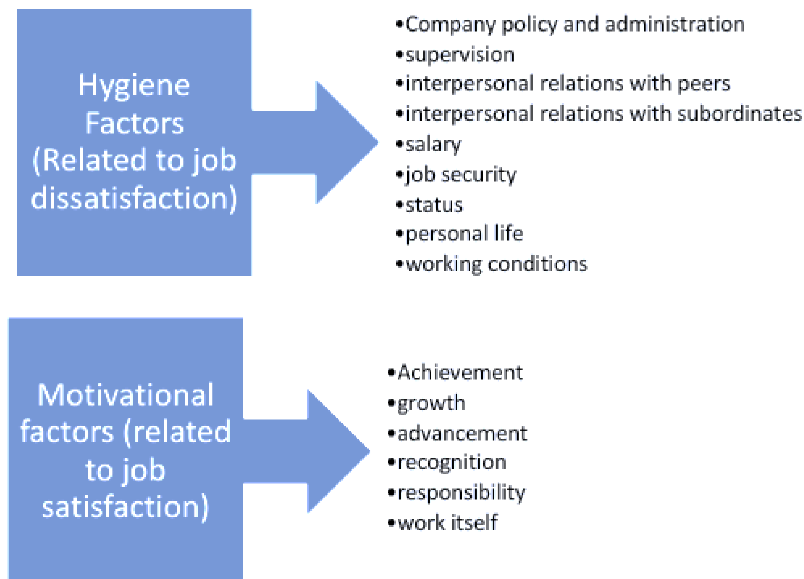
1) When did you feel good about your job?

2) When did you feel bad about your job? The responses revealed that factors which made employees feel good were entirely different from the factors which made the employees feel bad. Herzberg concluded that there are certain factors which tend to provide satisfaction to the employees and on the other hand there are certain factors which are related to job dissatisfaction.

He categorised these factors into two categories:

a) Maintenance or Hygiene factors

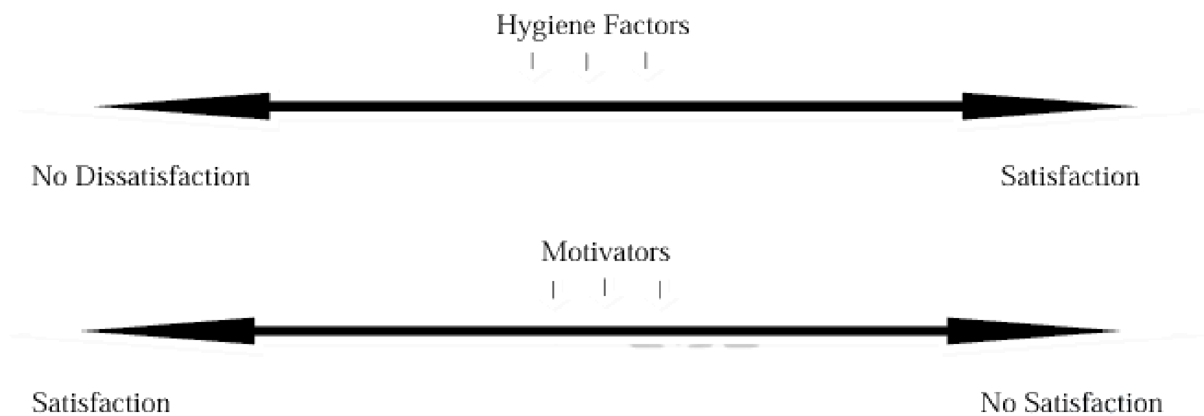
b) Motivational factors these factors are shown in the following figure:



a) Hygiene factors: Hygiene factors or maintenance factors do not motivate people, they just prevent job dissatisfaction. If these factors are not there on the job, they will lead to the sense of dissatisfaction amongst the employees, but on the other hand their presence will not satisfy them. In other words, it can be said as these factors don't act as a motivator. They don't provide any motivation to the employees but eliminate dissatisfaction. These factors are also known as dissatisfies, maintenance factors, job context factors or extrinsic factors.

b) Motivational factors: These factors are intrinsic factors. These factors are related to job satisfaction and are known as motivators, satisfiers, intrinsic factors, job content factors. These factors provide a sense of satisfaction among the employees and increase the level of performance by motivating them. Any increase in these factors lead to increase in the level of satisfaction and motivation among the employees. According to Herzberg, satisfaction and dissatisfaction are not opposite poles of same dimensions but they are two separate dimensions. Satisfaction is the result of motivators and dissatisfaction is the result of hygiene factors. To motivate the employees, managers must take into account both hygiene and motivational factors.

Hygiene factors will reduce the sense of dissatisfaction amongst the employees and motivational factors will provide the sense of satisfaction to the employees. The following figure presents the contrasting views of satisfaction and dissatisfaction as explained by Herzberg.



Critical analysis of Herzberg's theory:

This theory was appreciated on the grounds that this theory draws attention towards the job factors which are usually overlooked when it comes to motivate the employees. However, the theory was criticised on the following grounds:

a) The methodology followed by Herzberg for carrying out survey was limited to engineers and accountants only.

b) Moreover, respondents were asked to narrate the factors which they like about the job and which they dislike about the job, and it is a common practice that when things go well people take credit of it and on the other hand they put blame on extrinsic factors for their failure.

c) The theory largely provides the explanation of the job satisfaction. It is not really a theory of motivation.

d) This theory did not take into consideration the impact of situational variables.

e) The two factors given by Herzberg: hygiene and motivational factors are not actually distinct. They both contribute to job satisfaction and dissatisfaction.

Comparison between Maslow's and Herzberg's theories of motivation

Issue	Maslow's theory	Herzberg's theory
Order of needs	Five levels of Hierarchy	No Hierarchy
Effect of salary	Salary is a motivator, if it satisfies the need	Salary is not a motivator, it is a hygiene factor.
Role of Needs	All needs are motivators	Only few needs are motivators
View of Motivation	Macro view: Considers all aspects of existence	Micro view: Considers only work related motivation
Level of management	Relevant for employees of all levels	Probably relevant for only white collar and professional workers

2.5.3. Alderfer's ERG Theory:

On the lines of Maslow's need hierarchy theory, Clayton Alderfer gave ERG theory of motivation. Alderfer's theory was revised version of Malsow's theory, as he condensed the five needs given by Maslow into three needs. The E, R and G of ERG theory stand for existence, relatedness and growth.

These are the three sets of needs defined by Alderfer.

a) Existence Needs: These needs represent the basic needs of human beings for their existence and survival. This set of needs combine the physiological and safety needs of Maslow's hierarchy model.

b) Relatedness Needs: Relatedness needs are comprised of social and self-esteem needs of Malsow's hierarchy model. These needs represent the desire of human beings to maintain interpersonal relations and social interactions.

c) Growth Needs: These needs are similar to Malsow's self-actualisation needs. These needs represent an individual's intrinsic desire for personal development, achievement and utilising one's full potential in the existing work environment. Apart from the above discussed similarities between Maslow's theory and Alderfer's theory, Alderfer's theory was different from Maslow's theory in following aspects:

a) Instead of five levels of needs, Alderfer gave only three sets of needs.

b) Maslow's theory advocated the rigid and step by step progression of needs. Whereas Alderfer's theory assumed that more than one need may be operative at the same time.

c) Maslow assumed that an individual will move to the next level of needs only when the previous needs are fully satisfied. Whereas, Alderfer counters that when a higher level need is frustrated, individual's desire to increase lower level need takes place. In other words, we can say that if an individual is not able satisfy the higher level of need, he will increase his desire and efforts to increase his previous level need. For example, an individual who is not able to fulfil his social needs will increase his desire for money. This way Alderfer gave a Frustration Regression dimension.

Critical analysis of Alderfer's theory: This theory was appreciated because Alderfer's theory was consistent with the fact that every individual is different from each other and therefore their needs are also unique. Variables like age, education, family background, cultural context may influence one's needs and how much importance an individual give to one set of needs. Despite of this appreciation, this theory was criticised on the grounds that this theory does not provide clear cut guidelines and assumed that an individual may satisfy any of the three needs first. Therefore, this theory does not guide about how we will determine that which of the three needs is more important for a person.

2.5.4. MCCLELLAND'S ACHIEVEMENT MOTIVATION THEORY

David C. McClelland and his associates gave three sets of needs that motivate human behaviour. McClelland assumed that every individual has all three needs, but the degree to which these needs motivate an individual vary from individual to individual. The three needs are discussed as follows:

a) Need for Achievement (nAch): This set of needs represent the desire to excel, achieve given set of standards and become successful. Employees with a high need for achievement derive maximum satisfaction from the success and goal achievement. McClelland provided that need for achievement can be developed in the employees:

i. By providing them proper feedback about their performance. This will help them in correcting their performance.

ii. By giving them opportunity to pursue challenging tasks and responsibilities. Avoid the tasks which are extremely difficult or easy.

iii. By offering moderate degree of control to the employees, so that they may control their imaginations. They must be trained about how to think realistically and positively regarding goal accomplishment.

b) Need for Power (nPow): This need represent an individual's desire to for power and mould other's behaviour as per one's own wish. The employees who have high need for power derive satisfaction from being in the positions of influence and control.

c) Need for affiliation (nAff): This is the desire to maintain friendly interpersonal relationships. The people who have high need for affiliation gain satisfaction from participating more in social and interpersonal activities.

Critical analysis of McClelland's theory:

McClelland's theory was appreciated because it highlighted the importance of matching the individual needs with job variables. Employees with high need for achievement seek the tasks which are challenging, satisfying, stimulating and more complex. Employees with low need for achievement prefer the tasks which offer stability, security and predictability.

2.5.5. MCGREGOR'S AND ACHIEVEMENT THEORY:

Theory X and Theory Y: Theory X and Theory Y propounded by Douglas McGregor. Theory X postulated that people are lazy, work shirkers, never like to work on their own, hence they need to get some reinforcements or push. Autocratic leadership style is best to manage individuals as this theory believes the people lacks initiation and they are not self-driven. While, theory Y, proposed that all people are basically good people and are self-driven, likes to take up responsibility and are self-geared. Hence, participative leadership is required to manage people. If we deeply analyze both the theories, it is observed that both are exactly opposite to each other. So, it is basically perception about manpower that decides which sort of leadership is required for people. Theory X has a very negative attitude towards employee, hence, suggests strict leadership style and controlling etc. While, Theory Y has a positive attitude towards people, hence, liberal in managing them by participative leadership style.

2.5.6. Culture & Society – Values/Ethics

Introduction to Culture:

'Culture' broadly refers to the set of traditions, customs and values of a society, community, ethnic group or the nation. It can be said as the norms and social behaviour displayed in human societies. It is a central concept in the study of Anthropology, which encompasses the range of social behaviour displayed and transmitted through social learning in human societies. The term culture refers to a specific civilization, society or group and its distinguishing characteristics. As B F Skinner commented: "A culture is not the behaviour of the people 'living in it'; it is the 'it' in which they live- contingencies of social reinforcement which generate and sustain their behaviour". Organization culture, on the other hand, refers to a system of shared meanings, including the language, dress, patterns of behaviour, feelings, value system, attitudes, interactions and group norms of the members in the organization. In a nutshell, culture is the totality of human experience acquired during transmission of heritage from one generation to another and learning the ways of dressing, working, behaving, attitude, eating, drinking.

Definition of Culture:

"Culture is that complex whole which includes knowledge, belief, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society". -E B Taylor

Fig.2.1.

2.5.7. Features and Characteristics of Culture:

Some of the important characteristics of culture have been cited below.

1. Culture is learned: Culture is not innate, nor is it biologically inherited…it is learned and grasped over time by man in a society. It is acquired over time from the association of others example, through networking, dressing, eating together, ways of displaying behavior, way of a reaction to a situation, impulse etc.

2. Culture is Integrated: Culture is not imbibed in isolation…it is integrated and inter connected with other sub-systems like morality, beliefs, value-system, customs, traditions, religion etc.

3. Culture is transmitted: Culture is transmitted from one generation to the next, and the cycle goes on. It is not biologically transmitted through genes, but via language and understanding. Thus, communication plays a major role in transmitting cultural inheritance.

4. Culture co-exists in society: Culture develops in the society through social interaction. It cannot be acquired in isolation. It helps to develop qualities of human beings in a social; environment.

5. Culture is Accumulative and Accommodative: Culture assimilation is a continuous process and new cultural traits adds on to the existing traits, and combines the suitable cultural traits.

6. Culture is in a state of Dynamic Equilibrium: Culture is not static; it is dynamic…but with a stability. It undergoes various changes with time, but the speed of 'change' varies and depends on its transmitters' interactions and belief-systems. It is responsive to the changing environment.

7. Culture varies from society to society: Every society is unique in its own way of culture, cultural adaptation as well as its transmission. Every culture is unique by virtue of its values, ideologies, beliefs, practices etc.

8. Culture is Satisfying / Gratifying: Culture has the capability to satisfy man's needs and desires. Examples are desire for fame, name, money, status, self-esteem, etc.

9. Culture is linked with society: Culture and society go hand in hand. They complement as well as supplement each other. Society is formed of

people…and culture is the way people interact with each other. It helps to bind the people within the society.

2.5.8. Culture and Society:

Culture and society are intricately related. A culture consists of the "objects" of a society, whereas a society consists of the people who share a common culture. Society can be said to be the sum of interactions and people. In today's world of global village, an increasing number of people interact and share resources globally, either through visit or over the social media or through other e-sources. Culture and society are inter-dependent. Both affect each other, as well as both are affected by each other. The degree of power in a society varies according to the cultural, historical and geographical environments. Social Scientists understand culture as a society's norms, beliefs, objects, symbols and values. Culture and society co-exists in a way that neither society nor culture could exist without the other. This is because, a culture represents the beliefs and practices of a group, while society represents the people who share those beliefs and practices.

2.5.9. Cultural Ice-berg:

Culture is said to be like an ice-berg. It's because, when we see an iceberg, the visible portion is only a small part of the whole...almost 2/3rd of the iceberg may not be visible! Similarly, the observable characteristics which are 'visible' in the culture like food, dances, music, arts, or greeting rituals, may only be a small portion of the external manifestation of the deeper and broader components of culture -- the complex ideas and deeply-held preferences and priorities known as attitudes and values. The culture's 'core values' are deeply engrained and are deep within. The interpretation of our core values become visible in the form of Observable Behaviors, such as the way we act and behave, the words we use, the way we communicate, the laws we enact etc. It is to be noted here that the core values of a culture do not change quickly or easily; they are passed from one generation to another through various influencing factors. The numerous ways in which our culture gets molded may be through the teachings by our mentors, teachers, parents; opinions and ideas shared by our friends, relatives; opinion from media and society and also via the way our law, system and regulatory authority functions. New

as well as old ideas and beliefs (our Core Values) continually impacts our way of seeing and decoding the things and ultimately guides the way we act or behave (our Observable Behaviour). Thus, like an iceberg, there are things which we can see and observe....but there are also many innate deeply rooted ideas, which we can perhaps understand by analyzing values, reflecting our core values, understanding the difference between good and bad, what's acceptable and unacceptable and the like...and behave accordingly.

2.5.10. Elements/ Components of Culture

Culture is defined as the beliefs, value systems, language and artifacts etc., which are a part of any society. Thus, there are two basic components of culture, which includes material culture like physical objects viz. tools, technology, clothing, artifacts; and the non-material culture, which includes values, beliefs, symbols, language etc. Based on this, the elements of culture are as discussed below:

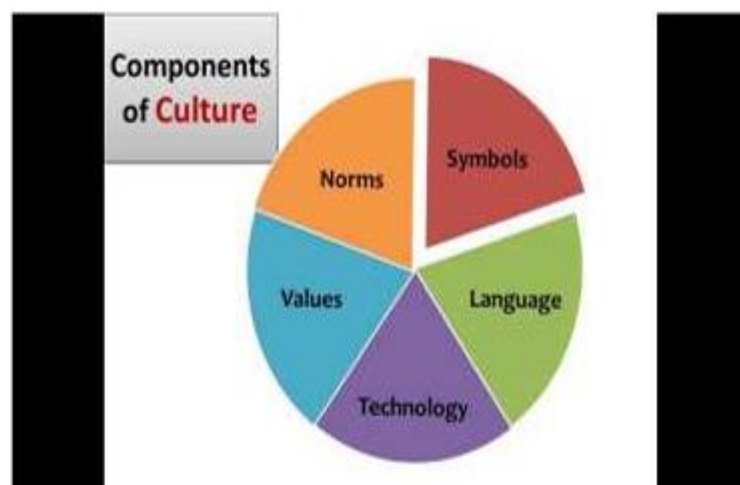


Fig.2.2 Components of Culture

1. **Symbols:**

   Every culture has some symbols or gestures, which may mean something different for two different cultures. Eg. A gesture which includes movements of hands, shaking of hands etc, means something and conveys some idea or emotion. Bowing of head, whistling, winking of eyes, pictures, statues, flags, religious symbols, acronyms etc are all various expressions for the identification of a situation or an object.

2. Language:

It is a group of words or ideas having a common meaning which is shared to a social situation. Differences in language can make it quite difficult to communicate across different cultures. Language may be oral or written. Even when two cultures use the same language, as a medium of communication, differences in terminology and inflection create new meanings.

3. Beliefs:

Beliefs fulfill the spiritual needs of a cultural. It speaks about the cultural orientation of a person/ group. A whole culture may be based on a certain specific belief system.

4. Norms:

Norms are organized and shared ideas regarding what members should do and feel and how this behavior should be regulated. Some patterns of cultural norms may actually inhibit or restrict the accomplishment of organizational goals, whereas others may facilitate. The pressure to conform to norms varies, allowing individuals some degree of freedom in responding to various pressures on how they perceive rewards or punishments. Norms basically forms the rules, regulations and morals within the culture. As a society changes, norms also change over time.

5. Rituals:

Rituals are established procedures and ceremonies that mark transitions in the life course.

6. Work-ethics:

Closely related to the work-ethic is a belief that if people work hard, they are also successful.

7. Values:

Values depends on culture. Values vary from society to society. An important element of culture that involves judgement of what is good or bad and desirable/ not desirable. Eg. Japanese value system, which emphasizes on group harmony, is more usually thought of as a value found in traditional societies. While the US emphasis on individuality is more commonly associated with a value found in industrial cultures.

2.5.11. Organizational Culture and Environment:

Organizational Culture and environment or society are inter-related and work in sync. We know that business is an integral part of the society and it influences other elements of the social system. This in turn affects business. The entire sphere of business activities are thus influenced by the social structure and culture of a society. The social system in turn is influenced by the way the business operates and functions as well as new innovations taking place. Business activities have greatly influenced values, traditions, perceptions, social attitudes, outlooks and traits. Business works in a social system and what is functional is a socio-technical system. Socio-cultural environment refers to the influence exercised by certain social factors which are functional beyond the boundaries of the organization. Some examples are family, need for work-life balance, education, religion, social responsibility, ethics etc.

Figure 2.3 shows this inter-play of the organizational culture and the environment. Leadership development, Team dynamics and Strategic planning depends and are affected by the organizational culture. This inter-play in turn facilitates change, cultivates awareness as well as results in growth and sustainability of the organization.

Fig.2.3.

2.5.12. Organizational Culture for Different Types of Organizations:

Industries and corporate display varied cultural mixes and usually display different ways to meet strategies that work for them and are very peculiar to their industry. For example, companies in industries like IT, ITEs, BPOs, Advertising Agencies, and Creative Marketing often display an organization culture which is quite open, and displays freedom, flexibility and creativity. This is because these industries work in quite a turbulent environment for top talent and rely on employees' creativity and motivation to bring in excellence. Meanwhile, the banking industry tends toward more serious and structured cultures as they are like the custodian and advocates of peoples' money. Financial institutions must keep strict controls and follow detailed protocols to comply with regulations, work in their customers' interests and safeguard financial assets, hence maintaining quite a structured culture.

- **Small & Medium Enterprises (SMEs) or Large Enterprises:** Micro, Small and Medium Enterprises forms the major backbone of any economy, whether it be a developed or developing economy. Research shows that in most of the SMEs, the culture caters around the entrepreneur and Founder Directors of the organization. Family-owned businesses, for example, may prefer to do business in a manner which is quite consistent with their orientation, family culture and tradition…which over time percolates at the organizational level. The cultures created by them percolates and is usually carried forward to the next generations.
- **Non-profit Organizations:** Objectives and interests of Non-profit Organizations like NGOs and the like, are quite different from their for-profit counterparts. Their culture's emphasis would perhaps not be profitability…but personal and social values. A culture of personal dedication and passion based on beliefs may drive a non-profit organization. Non-profit employees may not be striving towards dead-lines or lead generation…but rather face less pressure and enjoy the fact that their work serves a social or charitable cause.
- **Government Agencies:** Government agency cultures vary widely from highly bureaucratic to very forceful as many law enforcement agencies are. A government's main objective being 'welfare of the society', its values emphasis

on 'efficiency, productivity and financial performance' may be less as compared to welfare and social well-being.

2.5.13. Types of Culture

No two individuals are same….in the same way it is very difficult to find two organizations with almost the same type of culture. Types of culture may be the following:

1. **Charismatic Vs. self-sufficient culture:** Dramatic managerial personality dependent vs. culture with emphasis on independence, initiative and achievement.
2. **Paranoid vs. trusting culture:** A style based on suspicion and distrust vs. sense of trust, fairness, openness towards others etc.
3. **Avoidant vs. Achievement culture**: Seeking to avoid change & resist change as it can threaten the current organizational values vs. culture giving emphasis on logical analysis & rational process
4. **Politicised vs. Focused culture:** Culture lacking leadership leading to small coalitions & under-currents vs. culture where members share similar perspectives about sense of direction
5. **Bureaucratic vs. Creative culture**

Some examples of corporate culture are as follows with the 'dominant' value or culture of the organization being a part of the organization's mission/ vision/ company's tag-line:

- ✶ IBM has a customer-service oriented corporate culture
- ✶ Apple has a techo-savvy corporate culture…as well as innovation-oriented & employee oriented corporate culture
- ✶ Coca cola group has a customer-taste oriented corporate culture, through its diversified products across different markets and according to taste of specific country.
- ✶ HP (Hewlett Packard) has a very employee oriented corporate culture.
- ✶ Federal Express - 'fast-delivery' as its corporate culture.
- ✶ ONGC, a Maharatna company, too has a very employee-oriented company with a social orientation as well.

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UNIT – III

CREATIVITY AND ENTREPRENEURSHIP

3.1. Introduction

Creativity and innovation are special breeds of planned change that an entrepreneur actively seek to promote their business. Business is a creative activity. Success in business today demands constant innovation. Generating fresh solutions to problems, and the ability to invent new products or services for a changing market, are part of the intellectual capital. They also give a company or business organisation its competitive edge. Creativity is the root of innovation. It is a process and a skill which can be developed and managed throughout the entire organisation.

3.2. Definition of creativity:

Creativity is defined in many different ways. A number of scholars suggested that creativity is the generation of imaginative new ideas involving a radical new innovation or solution to a problem and a radical reformulation of problems. It also can be stated that creative solution can simply integrate

3.3. Steps in Creativity:

Creativity in decision-making is described as a vital element for successful problem-solving, especially in unique and non-repetitive situations where past experiences are insufficient. The definition of creativity is given as the ability to think originally and produce something new or novel. It involves generating unique or unconventional associations of ideas and looking at events from new perspectives. However, not all new ideas are considered creative; true creativity requires the ability to implement and accept these new ideas.

Creative Process

The process of creativity is outlined in four stages:

1. Preparation Stage:

This is the initial phase where creative ideas begin to take shape. It involves the creative thinker pondering and examining the problem from various angles. The subconscious mind plays a significant role during this stage, concentrating on potential new ideas or hypotheses. The process may lead to

anxiety and frustration, and it is linked to the intelligence phase of the decision-making process.

2. Incubation Stage

If no immediate creative solution is found in the preparation stage, the creative individual attempts to distance themselves from the problem and engage in other activities. However, the subconscious mind continues to work on the problem, formulating and modifying ideas unintentionally. This stage corresponds to the design phase of decision-making.

3. Illumination Stage

Often characterized by a sudden flash of insight or spontaneous solution, the illumination stage marks the point where embryonic ideas take definite shape. Inventors and creative individuals sometimes generate brilliant new ideas during moments when they are not actively thinking about the problem. This phase can be seen as analogous to the choice phase of the decision-making process.

4. Verification Stage

The final stage involves verifying, revising, and modifying the idea that emerged during the illumination stage. The solution is refined to be practical and acceptable. This stage is crucial as the creative idea must align with the decision situation and be continuously evaluated based on implementation experiences.

3.4. Innovation and Inventions:

Innovation is the specific tool of entrepreneurs, the means by which the exploit change as an opportunity for a different business or a different service. Now, if you see this definition given by Drucker it means two-three important. And you see one is the exploit change. Innovation is a tool and tool of entrepreneurs. So, one important thing we need to understand that it is a tool and with the help of this tool we all understand I hope the meaning of tool. Tools are those things which enable us to do something. So, if I am an entrepreneur, I need certain tools and innovation is probably is one of the most important tool of the modern day. And what I do with the help of this tool of innovation? I exploit change as an opportunity, whenever something happens in my environment; I consider it as an opportunity. For an example,

let me take you to some of the changes which are happening. Now, in India, the prime minister is focusing on clean India. We know it as Swatch Bharath. Now, for large number of people those who are of that kind of mind set, this becomes a good business opportunity.

But, what type of solutions I can generate around this clean India mission. There is another problem in India that is corruption and we all know that those sitting in IT companies, they thought that this corruption is a very good opportunity for developing the business. Because to eradicate corruption, we want to have more transparency and IT can provide that type of transparency. If you see the period of railway reservation before computerization a lot of corruption was there in railway reservation. Computerization happened and everything became transparent and all of a sudden it is complete removable of corruption from the railway reservation system.

So, the problems or the changes, the very recent example, we all know that how in our country we moved from sales tax VAT to GST and the change this change of GST gave opportunity to many entrepreneurs to develop software's, which can handle the GST calculations. Again, few months back, all most around one year back, we had another major decision of government of India that is demonetization and in that demonetization decision also, we had a sudden change and lot of companies which were involved in E-payment they use this as a good opportunity to sell their products. So, innovation is a specific tool of entrepreneurs the means by which they exploit changes. So, whatever changes are happening you will find two types of people in the society. They are people who will curse all types of changes; they do not want to change anything. And therefore, they will not be able to capitalize; they will not be able to leverage those changes. On the other hand, entrepreneurs they look for these changes because they think these changes can provide us opportunity for taking benefit of these changes. So, that is what Drucker means with innovation that it is the specific tool of entrepreneurs the means by which they exploit change as an opportunity for a different business or a different service. So, they may start some new business, some new service to exploit or to fulfil the requirement of change in the form of an opportunity.

Further to simplify this discussion of innovation that what do we mean by innovation; we have a very interesting concept of 3-I.

And in that **Idea is our first I** and in this Idea, we look forward that there should be a new Idea. Now, you will see that during the course of this complete discussion, we will find many new ideas; the only important thing is we need to keep our eyes, ears and brain open all the time. If we are open all the time, you will see that large number of new ideas will come to you. But do not evaluate the idea initially; do not evaluate the idea initially, at the movement. We are in search of ideas and we want more and more ideas to come to us. And therefore, idea is our first important I in the process of innovation; Now, we how the ideas will come that we will come to discuss later.

The **second important I is Implementation**, you have idea and then it is not only idea; but you need to implement that idea also. The idea might be executed and if you can execute the idea, if you can execute the idea; then it is known as implementation. So, execution is also very important. Now, as far as innovation is concerned, it is possible at both these stages. You may have a new idea; all together a new idea. So, that may lead to innovation. It is possible the idea may not be new; the idea is old; but you find a new way of implementing the idea that may also be innovation. For example, the idea of non-violence and which Father of Nation, Mahatma Gandhi popularized in our country. This idea is very old. The idea of nonviolence is coming from Jain religion, from Buddhism; all those religions are favouring the idea of nonviolence. [FL] But, the implementation of that idea for the freedom movement of the country is the novelty of Mahatma Gandhi and therefore, we all co that man as Father of Nation. So, idea may be new; obviously, it will be innovation. Idea may not be new; but the implementation the execution of that idea may be done in a novel fashion that is also innovation. The third important I is Impact. You have idea, you have executed that idea; but it must result in some kind of impact. If impact is not there, then it is not innovation. So, 3 I's; one I is of Idea, another I is of Implementation and another I is of Impact.

These are the **3 I's** and depending upon the nature of organization, you may have different types of **impacts.** If it is a business organization, then the

impact may be in terms of increased market share; it may be in terms of lower cost; it may be in terms of increased profits etcetera. And if it is a non-business organization, so here, the criteria of impact may be as per the nature of the organization. For example, if you are a school, your impact may be measured in terms of number of children going for higher education from your school. If you are a religious organization; so, may be your impact can be measured a number of people who left alcohol, who left drugs because of your influence. So, depending upon the type of organization, you may have different types of criteria to measure the impact.

But these 3 I's Idea, Implementation and Impact are very simple formula to evaluate. Whether a particular phenomenon can be classified as innovation or cannot be classified as innovation; because many a times we are confused with innovation and invention. And therefore, I have a specifically develop this idea that if you have one idea, you implemented that idea. So, these two I's make Invention and when you add Impact in this Invention, it is Innovation. So, Invention is let me put in a simple language; invention means something is up to the lab, something is at the experimental stage. So, you come with a new concept, you executed that concept in a controlled environment; you implemented that idea in a controlled environment and that is invention and when you take that invention to the commercialization stage, when you make some kind of impact out of your invention that becomes innovation.

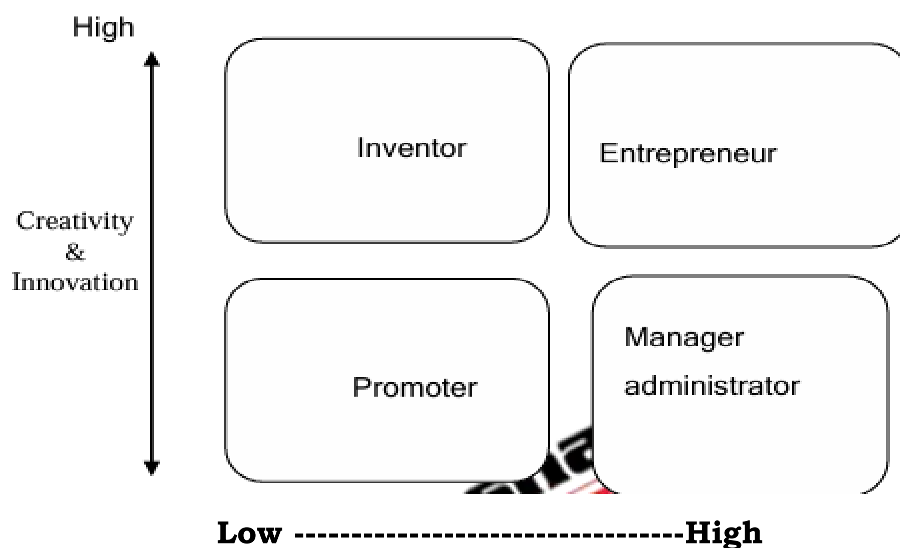
So, it is quite possible that in our higher educational institutions, where we do M.Tech; where we do Ph.D; where we do MBA projects; there may be large number of project reports available, where invention element may be there; where invention element may be there. But because that remained within the files; that remained within the dissertation, it is not the part of market. Therefore, it is not innovation. In some of you can search those reports in your colleges and take those reports make products make services, make some kind of processes out of those concepts which are mentioned in those reports and some kind of impact is done; then it becomes innovation. So, it is very important that we are clear about the terminologies; what the boundary of invention is and what is to be added in that boundary so that it becomes

innovation. And I hope that now you can understand various examples where these are inventions, but not innovations and when those things are becoming popular in the market, those things become the part of your routine life, these things become innovation. So, that is about the way we want to define innovation; one way is with the help of opportunities arising from change that is the concept of Peter F Drucker, where you capitalize the opportunities which are resulting from the changes which are happening in the environment. And in our session one, we already discuss that how different types of changes are coming in the society and those changes will help us in getting more and more opportunities. And the second thing is the concept of 3 'I's which also help us in differentiating between invention and innovation. So, after understanding that what is innovation, what is invention and the different ways of innovation, we move to another very important discussion which is very useful at this movement in the beginning of this course that is about myths of innovation. We have certain innovations; we have certain myth about innovation and one of the myth about innovation is that since I am not a creative person, I cannot innovate. People feel like that I am not creative; I cannot innovate and that is my myth number one. People say that innovation begins with creativity; but it is not the case.

3.5. Entrepreneurial Skills

Towards having a holistic understanding of the characteristics of an entrepreneur and their role in economic development on a domestic as well as international basis; assessing opportunities and coming up with an idea for a new venture; writing and presenting a full-scale business plan; knowing how to obtain resources; managing and growing the enterprise; and understanding the role of entrepreneurship within an enterprise centres around the skill identification and assessment of an entrepreneur. Entrepreneurs create wealth, generate employment and income and increase the standard of living of the people. The skills required by entrepreneurs can be classified into three main areas: technical skills, business management skills and personal entrepreneurial skills. Technical Skills: involves communication skills such as writing, listening, oral presentation, organizing and also interpersonal skills like coaching, being a team player, and also

technical know-how skills too. Business Management Skills: include those areas involved in starting, developing and managing an enterprise. Skills in decision making, marketing, management, finance, accounting, production, control and negotiation are essential in launching and growing a new venture. Personal Entrepreneurial Skills: involve inner control (discipline), risk taking, innovativeness, persistence, visionary leadership, and being change oriented. Millions of ventures are formed despite recession, inflation, high interest rates, and lack of infrastructure, economic uncertainty and the high probability of failure. Each of these ventures is formed through a very personal human process that although unique, has some characteristics common to all. Like any process, the entrepreneurial decision process from the present lifestyle to forming a new enterprise.



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By understanding the attitudes, behaviours, management competencies, experience and know how that contribute to entrepreneurial success, one has some useful benchmarks for analysing the role of opportunity in entrepreneurship. Successful entrepreneurs possess not only a creative and innovative flair, but also solid management skills and business know-how, and sufficient contacts. Inventors, being creative often lack the necessary management skills and business know how. Promoters, usually senior general management have business skills and true creativity. Managers govern, control and ensure smooth operations of the process; their management skills, while high are tuned to efficiency as well, and creativity

is usually not required. Although the management skills of the manager and the entrepreneur overlap, the manager is more driven by the conservation of resources and the entrepreneur is more opportunity-driven.

3.6. Decision Making in Entrepreneur:

Decision making is an essential part of management. Therefore, management and decision making are regarded as inseparable. Decision making is a process of selecting the best course of action among all available alternatives. Organizations need to take various decisions, such as decisions related to investment and capital, production, distribution, and consumption of goods and services, to deal with different economic problems. The main objective of decision making is to maximize profit, minimize cost, and achieve higher customer satisfaction.

According to P. F. Drucker – **"**Whatever a manager does he does through making decisions". All matters relating to planning, organising, direction, co-ordination and control are settled by the managers through decisions which are executed into practice by the operators of the enterprise. Objectives, goals, strategies, policies and organisational designs are all to be decided upon in order to regulate the performance of the business.

Decision Making and problem solving:

1. Setting Objectives:

Refers to the first step of the decision-making process. It is necessary for an organization to define the objectives of taking a particular decision. The decision-making process of an organization can be successful if the objectives are clear, realistic, and aligned with the present market conditions. In addition, it is preferred that the objectives should be in quantitative form, so that results can be measured more accurately. Apart from this, the objectives should clearly mention the goals that an organization desires to achieve and the time period to achieve those goals. For example, an organization can set an objective 'to reduce the cost by 5% in the next fiscal year.

2. Defining the problem:

An organization can be successful if it clearly identifies the problem for which a decision is to be taken.

3. Identifying the causal factors:

Involves determining the factors that may affect the decision. For example, for setting the price of a new product, it is required to determine the factors that influence the prices of the product. These factors can be availability of substitutes, climatic conditions, income level of consumers, demand and supply of the product, and costs incurred in manufacturing the product.

4. Finding out alternatives:

Refers to the step in which all the possible alternatives are generated for solving a problem. In this step, an organization precisely identifies the multiple solutions to solve a problem.

5. Collecting information:

Involves gathering data with respect to the alternatives generated so that they can be properly analyzed. The information collected is related to the important economic variables that influences the problem. Generally, an organization collects information from internal and external sources. Internal sources include records maintained by different departments of the organization, such as marketing, human resource, production, finance and personnel department. On the other hand, external sources include information collected through surveys, interviews, and research conducted.

6. Evaluating information:

Constitutes an important step of the decision-making process. In this step, the collected data is analyzed so that best alternative can be selected. Many of the alternatives are eliminated if they are not able to meet the requirements of the organization or do not match with the budget or other constraints of the organization. All the alternatives are analyzed on the basis of their advantages and disadvantages. After conducting a thorough analysis of the alternatives with the help of quantitative and qualitative tools, the best alternative is selected.

7. Implementing the alternative and monitoring results:

Moreover, the organization keeps a tab on the results generated after implementing the selected alternative.

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UNIT - IV

SOURCES OF FINANCE

4.1. Introduction

Business activities are concerned with mainly two kinds of activities namely, production of goods & services and distribution of goods and services so that it can satisfy the needs of the society. Here comes the need of finance that is, the money required to carry business activities. Businesses are often called as investment agencies or sometimes intermediaries. Their main role is to raise funds from the public, and from other investors. The initial capital brought in by the entrepreneur is not always sufficient to fulfil the financial requirements of the firm. So, a large proportion of money is invested by the owners or shareholders of the business and rest is taken from long-term lenders, and some short-term finances are provided by the banks (in the form of overdraft). Financial institutions and other business that are prepared to supply goods & services on credit (i.e. trade payables (or trade creditors) are also consider as a good direct/ indirect source of raising money. The fund requirement is a basic need of every business for its proper functioning. A clear assessment of financial needs and the identification of various sources of finance, therefore, is a significant aspect of running a business organisation. The money obtained from various sources is invested in real assets such as machinery, land & building, plant and inventories and in financial assets like making loans to, and buying shares in.

According to the Wheeler, "Business finance is that business activity which concerns with the acquisition and conversation of capital funds in meeting financial needs and overall objectives of a business enterprise."

According to the Guthumann and Dougall, "Business finance can broadly be defined as the activity concerned with planning, raising, controlling, administering of the funds used in the business".

In the words of Parhter and Wert, "Business finance deals primarily with raising, administering and disbursing funds by privately owned business units operating in nonfinancial fields of industry".

4.2. Categories of Financial Needs:

Finance and investment decision are very important decisions that significantly affect the success or failure of business activities. The reasons for this are such decisions involve financial amounts that are considered important from business perspective. When financial decisions are made, it is difficult to revert them, so the business is typically committed in the long-term to a particular type of finance or to a particular investment. Since all decision are taken in context of future that is uncertain so there exists risk in all business decisions. Financial needs of a business can be divided into following categories

1. Fixed capital requirement: Fixed capital requirement refers to the requirement of funds that are to be used to purchase fixed or durable assets like land & building, plant and machinery, and furniture and fixtures, are known as fixed capital or long-term capital. The funds required in these assets remain invested in business for a long duration. These assets continue to generate income and profits over an extended period of time. Amount of fixed capital requirement varies with the size and scale of business operations. For e.g. manufacturing activities require large investments in plant, machinery, warehouses and others. While, trading concerns need relatively lesser investment in such assets.

2. Working capital requirement: Some funds are needed to meet day to day expenses of business or for short term assets or current assets like stock of material, and for meeting current expenses is known as working capital. For example, purchase of raw materials, payment of wages and salaries, rent, fuel, electricity and water, repairs and maintenance of machinery, advertising, etc. Besides, sale of goods on credit leads to the holding of debtor's balance and bills receivable, which may also be regarded as current assets. The requirement of finance for all these purposes arises at short intervals. Working capital is also known as Circulating capital or Revolving capital because funds invested in such assets are continuously recovered through realization of cash, and again reinvested in current assets. The amount of working capital required varies from one business concern to another depending on various factors like nature of the business, the time required

for completing the manufacturing process, and the terms on which materials are purchased and goods sold. For e.g. trading companies require more working capital than manufacturing companies. Amount invested in fixed capital requirement and working capital requirement increases as the firm grows and expands its business operations. Sometimes, in between, the need of additional funds is generated to upgrade existing technology employed so that the cost of production or operations can be reduced. Similarly, larger funds may be required for increasing inventories. It is, therefore, important to evaluate the pros and cons of different sources from where funds can be raised to meet the business requirements.

4.3. Classification of Sources of Funds:

Financial needs of a proprietary and partnership business are fulfilled by raising funds either from personal sources or borrowings that can be taken from banks or any of the relatives, friends etc. whereas, when an organisation takes a form of a company, sources of capital requirement take various categories which are as follows:

1. On the basis of period
2. On the basis of ownership
3. On the basis of source of fund generation

1. On the basis of period: Capital requirement of the business on the Basis of Period of their use in business. It includes:

A. Long-Term Capital: When capital is required for a longer period. It includes funds requirements for five or more than five years. It is used to finance fixed assets as well as permanent part of working capital. The important sources of long-term capital finance are:-

- Issue of equity & preference shares
- Issue of debentures
- Loans from financial institutions
- Loan from banks
- Reinvestment of profits

B. Short-Term Capital: When capital requirement is for a shorter period i.e. less than a year. It is most common for financing the current assets such as

accounts receivable and inventories and meeting day-to-day expenses. The important sources of short -term capital finance is:-

- Banks
- Trade credit
- Factoring
- Instalment credit
- Commercial paper

C. Medium-Term Capital: Medium-term capital includes funds required for a period of 2 to 5 years. It involves financing some of the activities like renovation of buildings, modernization of machinery, heavy expenditure on advertising, etc. The important sources of medium -term finance is :-

- Issue of shares
- Issue of debentures
- Borrowing from banks and other financial institutions
- Reinvestment of profits
- Public deposits
- Lease financing

2. On the basis of ownership:

Capital requirement of the business on the Basis of ownership. It includes:

A. Ownership Capital:

Ownership capital is the amount of capital invested in a business by its owners who by investing the money become entitled to the profits of the business. In case of sole proprietorship, the individual owner normally invests capital from his own savings whereas, in partnership firm, each partner contributes capital as mutually agreed among partners. While in case of company's capital is raised by issuing shares. The investors who contribute towards the share capital of a company share as shareholders who become its owners by virtue of their shareholdings in the company. The rate of return on owners' investment depends on the level of profits earned and are entitled to receive dividend out of these profits. The owner's capital remains invested in the business for a longer duration and is not required to be refunded during the life period of the business. Such capital forms the basis on which owners acquire their right of control of management.

B. Borrowed Capital:

'Borrowed funds' on the other hand, refer to the funds raised through loans or borrowings. Borrowed money involves a fixed obligation to pay interest and repay the principal amount as and when due. In a sole proprietary business, the proprietor can borrow money on his personal security or on the security of his existing assets whereas, a partnership firm can raise loans on the personal security of the individual partners. While in case of companies, money can also be borrowed either by issuing debentures or bonds, or raise direct loans. Money may be borrowed for short-term and long-term i.e. to finance fixed assets as well as current assets. A fixed rate of interest is paid by the borrowers on such funds. At times it puts a lot of burden on the business as payment of interest is to be made even when the earnings are low or when loss is incurred. Generally, borrowed funds are provided on the security of some fixed assets.

On the basis of source of fund generation:

Capital requirement of the business on the Basis of fund generation: On the basis of generation, the sources of funds can be categorized into two parts:

1. Internal sources: When funds are raised from within the organisation (business). There are majorly five internal sources of finance.

a) Capital invested by owners: Amount taken out by the owner/s of the firm from their respective savings. It can be of two types i.e. start-up capital which is used to setting up the business and additional capital that is used when owner/s decide to expand business activities. The major advantages of this source are that it does not include interest payment and there is no obligation to repay after a particular time period. The disadvantage is that there is a limit to the amount that can be brought in by the owner/s.

b) Retained earnings: The benefit of retained earnings can be taken only when business activities are going on for more than a year because only then profit earned in one year can be reinvested into the business. the advantages of this are- no obligation to repay and no interest payment whereas, the disadvantages of this are- a new business firm does not have earnings and sometimes amount of earning is not sufficient to be ploughed back.

c) Sales of unwanted assets: It includes selling the fixed assets that are not being used from a longer time period and/or of no use. It is a good way to raise money from selling the unwanted assets but it is not possible to sell the assets immediately when the need of funds arises. It can be a time-consuming process.

d) Sales of stock: Money raised by selling unsold inventories. It is a quick way of raising money. Moreover, it reduces the costs associated with holding those inventories.

e) Debt collection: Debt is the amount that the firm is supposed to receive in future for its credit sales and the person who owes the money is known as debtor. It does not include any additional cost by raising money through this. There is a risk of bankruptcy of the debtor. In that case debts are considered as bad debts.

2. External sources: It includes money that is raised from the sources that are outside the business

a) Adding more partners: The money contributed by additional partner/s can be invested in the business bur it dilutes control of the partnership and profits are distributed in more ways.

b) Bank overdraft: Bank overdraft gives flexibility to borrow money from a bank at short notice through its cheque and current account. It allows business to overdraw their current account up to a specified maximum limit as agreed between the bank and the business. It allows business to have negative value in their account. It is considered as a very convenient way but the drawback is that is contains financial risk because of interest payment obligation regardless of the level of profit that the loan could generate.

c) Commercial bills: It is a written order of the amount that is required along with the guarantee by the business's bank. It helps in borrowing the money from other firms that have surplus of funds available with them. It carries interest payment. The money along with interest amount is repaid to a particular person or business on a certain day in the future. Usually, the terms are between 30 to 180 days. These bills are considered cheapest form of finance. Important thing to note is that the bill needs to be reassessed each time it matures.

d) Mortgage: it is a loan secured on property where the amount is to be repaid in instalments over a period of time which is good for budgeting. The property asset becomes the security for the repayment of the loan. The business again owns the property as and when final payment is done. This method is considered as an expensive method compared to buying with cash.

e) Trade credit: it means taking credit from suppliers. Typically, its duration is 30 days. In case of new businesses, credit suppliers will demand some sort of reference, either from a bank or from other suppliers.

f) Government grants: government often encourage the formation of new businesses and, from time to time and from region to region, help is also offered. Government grants are usually very small, and direct loans are rare because government see loan provision as the job of financial institutions. In other words, these are the financial assistance in the forms of grants given by the government and/or tax credit for start-up or expanding businesses. The benefits of getting grants from government is that it does not create liability for the business. The drawbacks of this source include certain conditions applied by the government for example location and all the businesses are not eligible for a grant.

g) Venture capital: it refers to financing that are provided to early- stage, young and high potential companies. They provide capital to the growth start-ups businesses in exchange for an ownership share of the business of the company they invest in. They prefer to invest in companies that have received significant equity investments from the founders and are already profitable. They generally prefer businesses that have a competitive advantage or have a strong value proposition in the form of a patent, or a very special (and protectable) idea. Venture capital investors often take a hands-on approach to their investments, requiring representation on the board of directors and sometimes the hiring of managers. Venture capital investors can provide valuable guidance and business advice.

h) Lease: A lease is a method of obtaining the use of assets for the business without using debt or equity financing. It is also considered as a legal agreement between two parties that specifies the terms and conditions for the rental use of a tangible resources such as a building and equipment. These

are similar to rental agreements. Businesses lease non-current assets, such as a company car, delivery vehicles, equipment and office or factory space in return for payments to the owner. This reduces the cost of acquiring these assets as the business does not have to outlay the full value of the asset in one transaction. Instead, it rents the asset over an agreed period of time. When a business leases an asset, it is agreeing to an ongoing, regular payment that allows it to use an asset that is owned by another business. The firm will have an obligation to pay another business and therefore a lease is a type of debt finance. This agreement can provide tax advantages as the lease payments are usually tax deductible. They are not shown in the balance sheet and do not affect the company's gearing. At the end of the leasing period, the business may re-lease the item, upgrade the lease for a different or newer item, or offer to buy the leased item, usually at the agreed 'residual value' that was negotiated at the start of the lease.

i) Debenture: Large, established companies can obtain finance by issuing debentures. Finance companies and other large firms are invited to invest in these businesses by lending large amounts of money to the businesses. These loans are used to buy buildings and equipment and are for a fixed amount, for a fixed time and at a fixed interest rate.

j) Bonds: bonds or unsecured notes are notes usually issued by finance companies to gain funds. They are not secured and do not provide any claim on the assets of the business. Therefore, they offer higher interest rates reflecting the greater risk to the investor. The unsecured note issuer is only backed by its creditworthiness and good reputation. The borrower must pay a specified amount of interest, often quarterly or half-yearly, and repay the entire amount borrowed on maturity. Interest is often higher than for debentures.

k) Equity: Equity financing means sale of a portion of the ownership interest of the business for a financial investment in the business. By this process, capital is raised through the sale of shares in an enterprise. Equity involves a permanent investment by investors in a company and company is not entitled to repay the amount at a later date.

l) Hire purchase: Hire purchase method involves making a down payment of certain amount and then regular payments for a specified period of time. In other words, it can be defined as a legal term for a contract in which buyer agrees to pay in parts or a percentage of the amount for the goods being purchased over a predetermined time periods or months.

m) Friends and relatives: Sometimes owners prefer to borrow money from their known people i.e. their friends and relatives. It may be in the form of debt where interest charged in lower than being charged in outside market.

4.4. Kinds of Private Placements – IPO

When a company needs to raise capital, it has several options available, two of which are private placement and an initial public offering (IPO). The term "private placement" describes the sale of securities to a select group of investors, such as rich individuals, private equity firms, or institutional investors. In contrast, an IPO entails the initial public offering of securities through a stock exchange. Private placements often have fewer investors, less liquidity, and less visibility than IPOs but are quicker, less expensive, and less regulated. The access to a broader pool of capital and the possibility for better values offered by IPOs, on the other hand, comes at a higher cost, with a longer time commitment, and with more stringent regulatory requirements. In this article, we have elaborated on the differences between private placement and IPO, and factors to consider when deciding which option is best for a company.

4.4.1. Define private placement:

A private placement is a way to raise money by selling stocks or bonds to a small group of investors as opposed to the broader public. Without going through the time-consuming and expensive process of a public offering, this might be an effective way for businesses to generate money. Private placements are often made with professional investors that have the capital and skills to assess and invest in private enterprises, such as institutional investors or high-net-worth individuals. Private placement offerings can be more adaptable and less expensive for businesses to carry out because they frequently are free from the registration and disclosure requirements that apply to public offerings.

How does private placement work?

An organization or issuer will often locate potential investors, such as institutional investors or individuals with significant assets, and present them with an offering memorandum or prospectus describing the parameters of the investment opportunity. The details of the investment, such as the price and number of securities being provided, can then be discussed if the investors are still interested. Private placements can be a more flexible and economical option for businesses to obtain capital since they are frequently free from the registration and disclosure requirements that apply to public offers. Private placements, on the other hand, are frequently subject to securities laws and regulations and may call for regulatory filings.

4.4.2. Types of private placement

While there are several types of private placements, two common types include:

1. **Preferential Allotment**:

This is a kind of private placement when a business issues securities to a small group of investors at a price that is frequently lower than the going market rate. These financiers could be current stockholders, sponsors, or other strategic financiers with ties to the business. Preferential allotments are frequently utilized by businesses to swiftly acquire money without the necessity for an IPO, however, depending on the jurisdiction, they could be subject to regulatory limitations.

2. **Qualified Institutional Placement (QIP):**

This is a type of private placement that is specific to India's securities market. It enables listed firms to acquire money without the requirement for a public offering by issuing securities to qualified institutional buyers (QIBs), like banks, mutual funds, and insurance companies. Companies frequently use QIPs to rapidly and effectively meet their financial needs, and they may have advantages over conventional public offerings, such as cheaper costs and more flexibility. However, QIPs may need to be filed with the Securities and Exchange Board of India and are subject to regulatory limitations, such as a minimum size requirement for the offering (SEBI).

4.4.3. Advantages and disadvantages of Private Placement

Being a popular method for companies to secure funding from accredited investors, Private placements also come with their own set of pros and cons that should be carefully weighed before making a decision.

Advantages:

- Confidentiality – Private placements offer confidentiality, benefiting smaller or early-stage businesses as company and investment information does not need to be made public.
- Direct Bargaining – Private placements allow companies to directly negotiate with investors and customize terms according to their specific needs and goals, providing more control over investment terms.
- Access for Non-Public Companies – Private placements are a valuable option for businesses unable to raise funds through a public offering or lacking the necessary track record or financial history to attract outside investors.

Disadvantages:

- Fair Market Value – Determining the fair market value of securities in private placements can be challenging due to their reduced transparency compared to public offers.
- Limited Market Liquidity – Exiting the investment can be difficult in private placements as the securities may have a small market, lacking a readily available market for trading. This poses challenges, particularly for investors requiring liquidity such as institutional investors or private equity firms.
- Suitability for Business or Sectors – Not all businesses or sectors benefit from private placements as some require greater public visibility or access to larger pools of capital.
- Administrative and Legal Expenses – Smaller or early-stage companies may face significant administrative, legal, and due diligence expenses, which can act as a barrier to participating in private placements.

4.5. Define IPO:

A private firm generates cash through an IPO (Initial Public Offering), in which shares of its stock are first made available to the general public. A

firm can become publicly traded through an IPO, and after that, its shares can be listed and exchanged on a stock exchange. An IPO serves two purposes: to provide liquidity for the company's existing shareholders and to raise funds for the growth and expansion of the business. Investment banks and other financial experts frequently assist companies with the IPO process to help them manage the market dynamics and legal requirements of going public.

How does IPO work?

A company is regarded as private and has few shareholders before going public. Going public allows the business to raise a lot of money, enhancing its capacity for development and growth. The business engages investment banks to oversee and underwrite the offering as the first step in the process. To decide the price at which the shares will be sold, the underwriters will do due diligence on the firm to ascertain its worth. After then, the shares are promoted to prospective buyers, including institutional investors and the general public, who can purchase them through brokerage companies. The proceeds from the sale of the shares go to the corporation, which can then utilize for development and growth. Following that, the shares start trading on a stock exchange.

4.5.1. Types of IPO

There are two types of IPOs: fixed price issues and book-building issues. Let's elaborate on these:

1. **Fixed Price Issue** – In a fixed-price offering, the issuing business establishes a preset price to make the shares available to the general public. Typically, the firm and its underwriters decide on this price based on the state of the market and the company's financial health. The public is subsequently presented with the shares at this set price.
2. **Book-Building Issue** – A book-building issue allows investors to bid for the shares within a predetermined price range rather than having a fixed price at which they would be sold. The corporation and its underwriters decide on the pricing range. The issuer business uses the book-building process to assess investor demand for its shares and decide the final price.

After then, shares are allocated following the final price, which was established through the bidding procedure.

4.5.2. Advantages and Disadvantages of IPO:

Advantages:

- Access to a Larger Pool of Investors – An initial public offering (IPO) allows a business to raise money from the general public, providing access to a significantly larger pool of potential investors compared to private placements.
- Growth and Expansion Opportunities – By raising additional funds through an IPO, a company can support its growth and expansion goals, leading to increased sales, profitability, and market share.
- Enhanced Reputation and Visibility – Going public can improve a company's reputation and visibility, positively impacting its brand image and increasing its overall market presence.

Disadvantages:

- High Costs and Continuous Expenses – Going public through an IPO involves significant up-front costs and ongoing expenses associated with running a public company.
- Management Distraction – Fluctuations in share price can distract management, as they may be evaluated more on stock performance than actual financial performance.
- Increased Disclosure Obligations – Going public exposes the business to enhanced disclosure requirements, potentially revealing sensitive information such as financial, accounting, and tax details to competitors.
- Consideration of Staying Private or Exploring Alternatives – Due to the aforementioned drawbacks, some businesses may opt to remain private or explore alternative strategies, such as seeking takeover offers or pursuing other funding options.

4.6. Securities Exchange Board of India (SEBI):

The SEBI of India was established in April 1988. It has been functioning the full administrative control of the Government of India. It works under the guidance of Ministry of Finance. It is the agent of the Central Government in

capital market. It is established for the regulation and orderly functioning of the stock exchanges. It also works for protecting the investor's rights, prevents malpractices in security trading and promotes healthy growth of the capital markets. It was granted statutory status in 1992 under Securities Exchange Board of India - SEBI Act. It has the full authority to control, regulate, monitor and direct the capital markets. It is the watchdog of the securities market. It is the most powerful organ of the Central Government in the capital market. After the repeal of the Capital Issue Control Act and abolition of the CCI the SEBI was given full powers on the new issue market and stock market. It has been issuing guidelines since April 1992 for all financial intermediaries in the capital market. The guidelines have been issued with the objective of investor protection. The guidelines also include the obligations of merchant bankers in respect of free pricing, disclosure of all correct and true information and to incorporate the highlights and risk factors in investment in each issue through the prospectus. It has been established for the healthy development and regulation of the capital market.

4.6.1. Objectives of the SEBI: The main objectives of the SEBI are

- To save the rights and interests of investors particularly individual investors and to guide and educate them.
- To prevent trading malpractices like rigging the price, insider trading, misleading statements in prospectus, etc.
- To regulate stock exchanges and the securities market to promote their orderly functioning.
- To registering and regulating the working of stock brokers, sub-brokers etc to promote the development of Securities Market.
- To Promoting and regulating self-regulatory organizations.

4.6.2. Constitution of SEBI: The Central Government has been constituted by a Board by the name of SEBI under Section 3 of SEBI Act. The head office of SEBI is in Mumbai. SEBI may establish offices at other places in India. SEBI constitutes of the given members, as follows:

(a) Chairman

(b) Two members which are selected from the officials of the Ministry of the Central Government. These people are dealing with Finance and administration of Companies Act, 1956;
(c) One member from the officials of the Reserve Bank of India;
(d) Five other members of which at least three will be full time members.
These are appointed by the Central Government. The management, general supridentant and direction of the affairs of SEBI lie in a Board of Members. It exercises all powers and do all acts and things which may be exercised or done by SEBI. The Chairman also has powers of general superintendence and direction of the affairs of the Board and may also exercise all powers and do all acts and things which may be exercised or done by the Board. The SEBI is a very powerful and important organ in the capital market. It represents the Central Government. It is a statutory body in the capital market. It leads, monitors, regulates and controls the activities of the capital market. The organization has divided its activities into the five operational departments. Each department will be headed by an executive director. The Legal department and investigation department also are headed by the executive directors. The following are the main departments which are functioning in the organization: **1. Primary Market Department:** The Primary market department is the most important division in the organization of the SEBI. It deals with the new issue market activities. It is headed by a division chief with specific responsibilities. It relates to the policy matters of the public issues. It looks after all the regulatory issues for the primary market in India. It also involves in regulatory matters with regard to the financial intermediaries. It also looks after the investor grievances. It deals with the investor complaints for refund of application money for non-allotted refund of excess money, non-receipt of dividends, non-receipt of share certificates etc. Therefore, it has the full authority with reference to the public issues.

2. Issue Management and Intermediaries Department: This particular department will take care about the critical examination of offer document. The offer document is the most important paper in public issue. It is the tool for attracting the investors. It is the basic document which is promised by the company to the newly becoming shareholders. The offer document should

contain only facts and a right projection about the future. Some companies can misguide the investors by creating a gloomy picture about their product and company. Therefore, this department shall closely monitor the contents of the offer documents. This department also involve in the registration of the financial intermediary. It also monitors the activities of various financial intermediaries.

3. Secondary Market Department: It occupies a vital role in the regulation of the capital market operations. It takes into account framing the policy matters regarding stock exchange activities. It controls the secondary market activities. It also guides and monitors the stock exchange administration. It continuously monitors the price movements in the stock market. It involves in the development of new investment products. It closely observes the market movements and gathers information through market surveillance. It also looks about the insider trading practices. It makes the policy and also develops the regulatory matters. It is basically done for the secondary markets in India. Also, it gives directions to the administration of stock exchange authorities on various matters. It also takes into the affairs of stock exchanges administration inspection by making inquiry towards financial intermediaries. It also regulates the sub-brokers activities.

4. The Institutional Investment Department: This department makes various the policy matters in regard to the institutional investors. These are more important in the capital market. They will keep the higher amount of investment in the stock markets. They are involved in the buying and selling of shares with crores o investment. The following members will be treated as institutional investors: (a) Mutual funds. (b) FII (Foreign Institutional Investors). (c) Corporate investors. (d) Institutional investors. It takes care of mergers and acquisitions in the corporate sector. It also concentrates on research and publications. It also maintains international relations in the process of globalization. It makes the policy matters for investors who are institutional. The education of the investor has also emerged as a important part of SEBI's efforts to protect the interest of the investors in securities market.

5. Legal Department: The legal department undertakes the job of providing legal advisory services to the organization. It also handles all litigations and other legal issues.

6. Depositories Department: This department regulates and promotes the market for derivative instruments.

7. Takeover department: This department takes care of the substantial acquisition of shares and takeovers of companies.

4.6.3. FUNCTIONS OF SEBI

SEBI has the responsibility to safeguard the interests of the investors in securities and to enhance the development of, and regulation of the securities market by such measures as it thinks fit. The measures referred to therein may provide for:-

1. Protective Functions:

- It stops and bans unfair trade practices in the securities market, e.g., price rigging, market misleading statements in prospectus manipulations etc.
- It controls insider trading and imposes penalties for such practices.
- It undertakes steps for investors protection
- It promotes fair practices and code of conduct in securities market.

2. Regulatory Functions:

- It involves regulation of the business in security markets and other stock exchanges;
- It involves registration and regulation of the working of a variety of agents such as stock brokers share transfer agent, bankers and sub brokers to a given issue, trustees belonging to trust deeds, registrars for a particular issue, underwriters, merchant bankers, portfolio managers, investment advisers and many other intermediaries who may be associated with securities markets in any manner;
- Registration and regulation of participants working, depositories, custodians of securities, FNIS, credit rating agencies and many other intermediaries for example SEBI may, by notification, specify in this behalf;
- Registration and regulation in the working of venture capital funds and collective investment schemes which includes mutual funds; regulating substantial acquisition of shares and take-over of companies;

- promoting and regulating self-regulatory organizations;

3. Development Functions:

- Promotion of the education of investors and their training of intermediaries of securities markets;
- Banning any company to issue prospectus, any offer document, or advertisement soliciting money from the public for the issue of securities,
- For conducting research and publication of information that is useful to all market participants.

4.6.4. POWERS OF SEBI:

The powers have been given to the SEBI with the enactment of SEBI Act, 1992:

1. Regulating the business activities in the capital market.
2. Power to grant registration to financial intermediaries.
3. Register and regulate how the depositories work. Working of custodians, FIIs, credit rating agencies is also seen.
4. Registering and regulating the working of venture capital funds and mutual funds.
5. Power to grant approval to bye-laws of recognized exchanges.
6. Power to prohibit insider trading.
7. Power to compel listing of securities by public companies.
8. Power to control and regulate stock exchanges.
9. Power to call for any information or explanation from recognized stock exchanges or its members.
10. Power to levy fee.
11. Power to regulate substantial acquisition of shares and takeover of companies.
12. Power to promote and regulate self-regulatory bodies.
13. Stopping fraud and unfair trade practices which relate to the securities markets.
14. Promotion of investors, education and training.
15. Performing any other functions as may be assigned by the government from time-to-time.

4.7. Foreign Direct Investment

4.7.1. Introduction

The belief in the growth-enhancing effects of FDI has influenced economic policy making. The foreign direct investment is the act of investing a certain capital in the chosen business enterprise that operates in foreign countries. FDI is usually a physical investment like building a factory or an office. It usually includes a parent company, which in the effort of expanding establishes its office as a permanent company in a foreign country. In this way the parent company gets the level of multi-national company (MNC) and its investment is known as FDI for the host country. There are a number of risks which are always there in FDI for both the host country and the MNC. Although there is substantial evidence that such investment benefits host countries, they should assess its potential impact carefully and realistically. However, FDI has been a contentious issue in international business. There are many reasons why FDI has become a much-discussed topic. Foreign Direct Investment Statistics: The data provided by agencies like UNCTAD, OECD, IMF, and BEA constitute the main source for the reported data on FDI flows. The discussion in this Unit is largely based on reports and publications of above agencies. Calculations of FDI and FPI are typically measured as either a 'flow', referring to the amount of investment made in one year, or as 'stock', measuring the total accumulated investment at the end of that year. The Triad: A great deal of global trade and FDI is conducted by companies in the US, Western Europe and Japan. The companies in Western Europe come from nations that are members of the EU and collectively areas of the US, EU, and Japan are called 'triad'. Multinational firms from Japan, Korea, EU and US play a key role as bringers of capital, technology, markets and management as well as agents of economic integration. Over time, popular destinations of FDI shift. The most popular FDI destination in the 1970s was Newly Industrialised Economies (NIEs) like Hong Kong, Singapore, Korea, and Taiwan. In the late 1980s it was ASEAN4 (especially Thailand and Malaysia). Since the 1990s to present, China and India have emerged as the popular FDI destinations in the whole group of emerging economies.

4.7.2. Concept of FDI:

Foreign direct investment (FDI) is called by various terms like 'direct foreign investment', 'direct investment', or 'foreign investment'. FDI is equity funds investment in other nations. It is an activity where foreign firms come to the host country to set up and/or run an enterprise like factory, hotel, farms, or other businesses. FDI intends to 'control' and 'participate in' the management of a business enterprise. It is undertaken by MNCs who exercise control of their foreign affiliates and involves foreign investors taking a controlling and lasting stake in productive enterprises in host countries. As such, FDI is considered 'an international financial flow with the intention of controlling or participating in the management of an enterprise in a foreign country'. FDI is not just a transfer of ownership as it usually involves the transfer of factors complementary to capital, including management, technology and organisational skills. Such inflows are commonly associated with multinational corporations (MNCs) that have operations and production facilities across the world. Therefore, they are widely perceived as important resource for expediting the industrial development of receiving (or host) countries. Most developing countries, therefore, have a welcoming attitude towards MNCs and FDI.

4.7.3. Features of FDI:

I. The following are important features of FDI:
II. an investment made to acquire lasting interest in enterprises operating outside of the country of the investor;
III. the foreign entity that makes the investment is termed the 'direct investor'
IV. The investor's purpose is to gain an effective voice in the management of the enterprise. Some degree of equity ownership is almost always considered to be associated with an effective voice in the management of an enterprise. The IMF's Balance of Payments Manual: Fifth Edition (BPM5) suggests a threshold of 10 per cent of equity ownership to qualify an investor as a foreign direct investor. An effective voice in management only implies that direct investors are able to influence the

management of an enterprise and does not imply that they have absolute control;

V. In most instances, both the investor and the asset it manages abroad are business firms. In such cases, the investor is typically referred to as the 'parent firm' and the asset as the 'affiliate' or 'subsidiary'; and

VI. operationally, FDI flows may take following forms:

  a. equity acquisition--buying shares of an existing or a newly created enterprise,
  b. profit re-investment--FDI firms re-investing their profits for further expansion, and
  c. Loans from a parent company.

Like exports and imports, FDI is a driver of international business and many companies use FDI to establish footholds in the world marketplace by setting up operations in foreign markets or by acquiring business there.

4.7.4. Types of FDI:

There are different types of foreign investment. With rapid growth and change in global investment patterns, the scope of FDI has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm's home country. As such, it may take many forms, such as:

(a) A direct acquisition of a foreign firm.

(b) Construction of a facility or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, and

(c) Licensing of intellectual property.

Greenfield Investment: If foreign firms come to build an entirely new factory (rather than buying an existing one) in the host country. Greenfield-type manufacturing FDI, most desired by the host countries, is only a small part of global FDI flows. This is the best kind of FDI as it creates new jobs. If Ford sets up a new factory in Chennai that is counted under Greenfield Investment. Google, Microsoft, Facebook, Amazon have all setup new establishments in India. Joint ventures (JVs): JVs firms indicate where foreign and domestic firms set up a company together. The ratio of ownership (shareholding) varies from company to company. In some countries there are restrictions on how

much foreigners are permitted to own (say, up to 49%). Such kind of ownership restrictions are generally imposed on certain 'sensitive' sectors. Brownfield investment: When the foreign investor buys an existing business and grows it. This is called acquisition of a foreign firm. Vodafone bought Hutch. Groupon bought Crazeal. They bought an existing business and are growing it. Such investments help get new technology and business innovation. For instance, Vodafone would train Indian managers with latest telecom ideas from the rest of the world. Some of these managers could later move to other Indian companies and pass on the best practices. According to Jeffrey P. Graham and R. Barry Spaulding over the years, 'the traditional concept of FDI has changed considerably. This notion of a change must be kept in the proper context. Over 2/3 of FDI is still made in the form of fixtures, machinery, equipment and buildings. Moreover, larger multinational corporations still make the overwhelming percentage of FDI. But, with the advent of the Internet, the increasing role of technology, loosening of direct investment restrictions in many markets and decreasing communication costs means that newer, non-traditional forms of investment will play an important role in the future. Many governments, especially in industrialised and developed nations, pay very close attention to foreign direct investment because the investment flows into and out of their economies can and does have a significant impact'. As such, the expanded role of technology and intellectual property has changed the foreign direct investment playing field. Companies are still motivated to make foreign investments, but because of the vagaries of technology investments, they are now finding new vehicles to accomplish their goals.

In this context Jeffrey P. Graham and R. Barry Spaulding have provided following important examples:

(i) **Licensing and technology transfer**: 'Licensing and tech transfer have been essential in promoting collaboration between the academic and business communities. Licensing agreements allow companies to take full advantage of new and exciting technologies while limiting their overall risk to royalty payments until a particular technology is fully

developed and thus ready to put new products into the manufacturing pipeline'.

(ii) **Reciprocal distribution agreements**: 'Actually, this type of strategic alliance is more trade-based, but in a very real sense it does in fact represent a type of direct investment. Basically, two companies, usually within the same or affiliated industries, agree to act as a national distributor for each other's products. The classical example is to be found in the furniture industry. A U.S.-based manufacturer of tables signs a reciprocal distribution agreement with a Spanish based manufacturer of chairs.

(iii) **Joint venture and other hybrid strategic alliances**: 'Joint ventures involving three or more parties are usually called syndicates and are most often formed for specific projects such as large construction or public works projects that might involve a wide variety of expertise and resources for successful completion. In some cases, syndicates are actually easier to manage because the project itself sets certain limits on each party and close cooperation is not always a prerequisite for ultimate success of the endeavour'.

4.7.5. Pattern of FDI: horizontal and vertical According to Caves FDI can be classified as vertical, horizontal and conglomerate. The motives for creating foreign affiliates are more complex than the stylised horizontal and vertical modes described in the literature. With increasing globalisation of many industries, vertical integration rapidly taking place on a global level. Let's understand these two terms – horizontal and vertical FDI.

(i) Horizontal FDI (HFDI): is investment in the same industry abroad as a firm operates in at home. In many cases, MNCs operate HFDI activities in order to expand their operations into another market. For example, an US retailer firm that builds a store in India is trying to earn more money by exploring the Indian market.

(ii) HFDI acts as a substitute for exports and therefore avoiding transportation costs, import tariffs and other trade barriers.

(iii) Vertical FDI (VFDI): VFDI invest abroad in order to reduce the production costs. They produce intermediate products in one country and

ship them for further processing to their affiliates located in other countries. VFDI replaces the labour-intensive production stages, like assembling and intermediate production, to cheap labour countries to reduce the costs. Therefore, vertical FDI is also known as efficiency seeking FDI. The VFDI can be further subdivided into:

(a) Backward VFDI: where an industry abroad provides inputs for a firm's domestic production process, and

(b) Forward VFDI: in which an industry abroad sells the outputs of a firm's domestic production processes.

In other words, VFDI, occurs when an MNC decides to acquire or build an operation that either fulfils the role of a supplier (backward VFDI) or the role of a distributor (forward VFDI). Generally, MNCs that seek to go for a backward vertical FDI normally try to reduce the cost of raw materials or the supply of certain major inputs. An example of such type of backward VFDI may be in the case of car manufacturing. In manufacturing of cars steel is a major material and if the car manufacturer acquires the foreign steel supplier, it would no longer need to deal separately with the steel supplier and face the consequences of fluctuations in steel prices. Similarly, the need for a forward VFDI arises from the problem of getting new distributors for a specific market. For example, suppose the same US car manufacturer wants to sell its cars in Indian auto market. Since many Indian auto dealers do not wish to sell US brand cars resulting in US car manufacturer facing a very tough task of finding a distributor. Given this situation, the US manufacturer of cars would build its own distribution network in India to fulfill its objective of distributing cars in India.

Aizenmana and Marion have observed that 'HFDI and VFDI production strategies can have very different implications for the distribution of income both within and across countries. VFDI may compress the skilled–non-skilled wage differential across countries as well as change the income distribution within countries. HFDI may increase income in each country with minor distributive impact'.

4.7.6. Impact and Implications of FDI in Recipient Countries: Recently, a new form of foreign investment has come up and that is of MNCs setting

up research centres abroad. In India IBM, Microsoft, GE, Sony-Ericsson, and many other MNCs have set up research centres. This also utilises a form of cheaper labour-Indian professionals and scientists could be paid less than their counterparts in the developed centuries. Research requires not just individual scientists but whole group of such scientists. India is by now well-known for the substantial supply of well-qualified scientists and technicians. MNCs research centres in India set up to tap into this supply are responsible for a lot of the patents that have been acquired out of India in the IT sector. The growing strength of India is in knowledge-based sectors, such as software and R&D and this is manifested in growing foreign investment in these sectors. The investment of foreign capital in setting up research centres in India and China is an important new trend in MNCs operations in developing economies. Non-investment Foreign-controlled Production: Foreign influences over host country economic activities can well occur without any capital investment at all. This occurs in a country in a number of new forms of relationship: (a) contracted manufacturing and farming; (b) outsourcing of services; and (c) franchising or licensing. All these are becoming very common form of global production in which contracted production within global production networks (GPNs) or global values chins (GVCs) takes place. In this context, the point to note is that, there are forms of foreign control over production that do not involve foreign capital investment. The growth of contracted production provides access to foreign buyers to control without capital investment is a new phenomenon and it has many implications that need careful consideration.

4.7.7. Impact of FDI: Although the importance of FDI as a source of capital and output generation has increased since 1990s, its impact on direct investment and growth is mixed as some FDI inflows possibly crowd in domestic investments while some others crowd it out. One way to maximise the contribution of FDI to host country's development is to improve changes of FDI crowding in domestic investments and minimise the possibilities of it crowding out domestic investment. Export-oriented FDI minimise the possibilities of crowding out of domestic investment and generates favourable spillovers for domestic investment by creating demand for intermediate

goods. Investment policy that can help in maximising the contribution of FDI inflows is to push them to newer areas where local capabilities do not exist as that minimises the chances of conflict with domestic investment. Policy may also foster diffusion of knowledge brought in by foreign enterprises by promoting vertical inter-firm linkages with domestic enterprises through various means such as local content regulations or by creating sub-national or sub-regional clusters that facilitate the spillovers of knowledge through informal and social contracts among the employees besides traditional buyers-seller links. However, it is of critical importance for the host governments to preserve policy flexibility to pursue selective policy in regard to FDI. It is important to note that advantages and disadvantages of FDI are often a matter of perspective. FDI is very risky since the political issues in several countries can instantly change.

4.8. Institutional Finance

After independence it was realised that the existing financial arrangement was incapable of providing the needs of long-term industrial finance. Therefore, term-lending institutions or Development Finance Institutions (DFIs) were set up in India at various points of time starting from the late 1940s to cater to long-term financing requirements of industry. Term loans are loans which are sanctioned for a period exceeding one year with specific schedule of repayment. They are mostly extended to industrial projects. The first step towards building up a structure of development finance institutions was taken up with the establishment in 1948 of the Industrial Finance Corporation of India (IFCI) with a view to providing medium and long-term credit to units in the corporate sector and industrial cooperatives.

4.8.1. Characteristics of Term lending institutions:

They do not mobilise savings from the ultimate surplus spending units. The major sources of their funds were funds from the RBI and government guaranteed bonds. These funds were available at concessional rates on long-term basis with maturity period ranging from 10-15 years. However, with the financial sector reforms in the 1990s, concessional lending by the RBI and the Government was phased out, leaving the financial institutions to rely for financing their needs on the equity capital and the debt markets. Recently

some DFIs have started extending short term/ working capital finance, although term-lending continues to be their primary activity. Of late a number of financial institutions have diversified into several new activities, such as investment banking, infrastructure financing, and providing guarantees for domestic and offshore lending for infrastructure projects. They have mostly been set up statutorily by the government, but some private sector participation in the ownership and functioning of some of them may also exist. They are usually special or specialised, but some of them may have a much general functional coverage. The distinctive characteristics of development banks lingers around promotion or “motivate” “encourage” and “stimulate” development in one sector or another. In a way, they play a catalytic role in development. Some other characteristics features of a development bank are:

1. It is a multi-purpose specialised financial institution
2. It strives to promote economic development
3. It provides refinance to other financial institution
4. It provides a package from services from identification to management.
5. It arranges for a package of incentives to entrepreneurs.
6. It brings institutional innovations entrusted with development
7. It is a visionary institution.
8. It is a link that spurs all-round development.

4.9. All India Development Banks (AIDBs):

These banks are the main source of medium- and long-term project financing. Development banks are different from commercial banks in several respects. Firstly, development banks do not accept deposits from the public as commercial banks do. Secondly, they specialise in providing medium-term and long-term finance while commercial banks generally provide short-term credit. Thirdly, development banks perform promotional role for industrial development of the country whereas commercial banks provide utility and other services to their customers. Among the AIDBs, IDBI, IFCI, ICICI, IIBI and DFC provides financial assistance to medium and large industries. SIDBI and SFCs cater to the needs of small and tiny enterprises.

4.9.1. Industrial Development Bank of India (IDBI)

Industrial Development Bank of India Act, 1964, is the principal financial institution for providing credit and other facilities for developing industries and assisting development institutions. Till 1976, IDBI was a subsidiary bank of RBI. In 1976 it was separated from RBI and the ownership was transferred to Government of India. IDBI is the tenth largest bank in the world in terms of development. The National Stock Exchange (NSE), the National Securities Depository Services Ltd. (NSDL), Stock Holding Corporation of India (SHCIL) are some of the Institutions which has been built by IDBI.

Organisation and Management:

IDBI consist of a Board of Directors, consisting of a chairman and Managing Director appointed by the Government of India, a Deputy Governor of the RBI nominated by that bank and 20 other Directors are nominated by the Central Government. The board had constituted an Executive Committee consisting of 10 Directors, including the Chairman and Managing Director. The executive committee is empowered to sanction financial assistance. The Head office of IDBI is located in Mumbai. The bank has five regional offices, one each in Kolkata, Guwahati, New Delhi, Chennai and Mumbai. Besides the bank have 21 branch offices.

Functions of IDBI:

The main functions of IDBI are discussed below:

(i) To provide financial assistance to industrial enterprises.

(ii) To promote institutions engaged in industrial development.

(iii) To provide technical and administrative assistance for promotion management or expansion of industry.

(iv) To undertake market and investment research and surveys in connection with development of industry.

IDBI Assistance:

The IDBI provides financial assistance either directly or through some specified financial institutions:

(i) Direct Assistance:

The IDBI grants loans and advances to industrial concerns. There is no restriction on the upper or lower limits for assistance to any concern itself. The bank guarantees loans raised by industrial concerns in the open market from the State Co-operative Banks, the Scheduled Banks, the Industrial Finance Corporation of India (IFCI) and other 'notified' financial institutions.

(ii) Indirect Assistance:

The IDBI can refinance term loans to industrial concerns repayable within 3 to 25 years given by the IFCI, the State Financial Corporation and some other financial institutions and to SIDCs (State Industrial Development Corporations), Commercial banks and Cooperative banks which extend term loans not exceeding 10 years to industrial concerns. IDBI subscribes to the shares and bonds of the financial institutions and thereby provide supplementary resources.

Developmental Activities of IDBI:

(1) Promotional Activities:

In fulfilment of its developmental role, the bank continues to perform a wide range of promotional activities relating to developmental programmes for new entrepreneurs, consultancy services for small and medium enterprises and programmes designed for accredited voluntary agencies for the economic upliftment of the underprivileged. These include entrepreneurship development, self-employment and wage employment in the industrial sector for the weaker sections of society through voluntary agencies, support to Science and Technology Entrepreneurs' Parks, Energy Conservation, Common Quality Testing Centers for small industries.

(2) Technical Consultancy Organisations:

With a view to making available at a reasonable cost, consultancy and advisory services to entrepreneurs, particularly to new and small entrepreneurs, IDBI, in collaboration with other All-India Financial Institutions, has set up a network of Technical Consultancy Organisations (TCOs) covering the entire country. TCOs offer diversified services to small and medium enterprises in the selection, formulation and appraisal of projects, their implementation and review.

(3) Entrepreneurship Development Institute:

Realising that entrepreneurship development is the key to industrial development; IDBI played a prime role in setting up of the Entrepreneurship Development Institute of India for fostering entrepreneurship in the country. It has also established similar institutes in Bihar, Orissa, Madhya Pradesh and Uttar Pradesh. IDBI also extends financial support to various organisations in conducting studies or surveys of relevance to industrial development.

4.9.2. Industrial Finance Corporation of India (IFCI)

The Government of India set up the Industrial Finance Corporation of India (IFCI) under IFCI Act in July 1948. Since July 1, 1993, it has been brought under Companies Act, 1956. The IFCI extends financial assistance to the industrial sector through rupee and foreign currency loans, underwriting / direct subscriptions to shares/debentures and guarantees and also offers financial services through its facilities of equipment procurement, equipment finance, buyers' and suppliers' credit, equipment leasing and finance to leasing and hire purchase companies. It also provides merchant banking with its Head Office in Delhi and a bureau in Mumbai.

The financial resources of the IFCI are constituted of the following three components:

(i) Share capital,

(ii) Bonds and Debentures; and

(iii) Other Borrowings.

The IFCI started its lending operations on a modest scale in 1948.

In recent years, the IFCI has started new promotional schemes, such as:

(a) Interest subsidy scheme for woman entrepreneurs;

(b) Consultancy fee subsidy schemes for providing marketing assistance to small-scale industries;

(c) Encouraging the modernisation of tiny, small-scale, ancillary units; and

(d) Control of pollution in the small and medium-scale industries. The IFCI has shown its increasing concern in the development of backward districts.

No doubt, the IFCI has experienced impressive performance over the years. At the same time, it is also true that there are certain flaws in its functioning which have invited criticism from different quarters.

To quote:

(i) The IFCI's lending operations have encouraged concentration of wealth and capital. It still pursues a discriminatory policy to the disadvantage of medium and small- scale units,

(ii) There are great delays in sanctioning of loans and, then making the amount of the loan available.

(iii) The IFCI has failed to exercise necessary control over the defaulting and misusing borrowers.

4.9.3. Industrial Investment Bank of India (IIBI)

The IIBI was set up in 1971 under the name of the Industrial Reconstruction Corporation of India Ltd (IRCI) in Kolkata, West Bengal. This entity was further given the status of a bank in 1985 with a view to creating a financial development institution and thus the Industrial Reconstruction Bank of India (IRBI) was born. A full-fledged banking organization was created in March of 1997 and was finally recognized as the Industrial Investment Bank of India (IIBI). Around 2012, the chairman of the bank, O.N. Singh confirmed to the press that the bank would be closing its operations shortly due to mounting debt and unviable functions.

The products and functions of IIBI

The IIBI was majorly entrusted with reinvigorating the small and failing industries in the country. It was originally touted as a financial development company however, since its establishment as a bank, it incorporated all industrial banking privileges and awarded them to suitable companies.

Although there is no record of the actual products used by the IIBI since its dissolution, listed below are the major functions of the bank.

1. Term finance – IIBL would periodically offer term-backed short-term loans for the purpose of financing projects for companies. These loans would span between 6 months to 5 years.

2. Short term loans – Many institutions need to maintain a regular cash flow or working capital. IIBL would provide short term loans as a means of maintaining working capital to a majority of firms in the 90s.
3. Credit facility – A long term line of credit was extended to regular customers of the bank backed by their commitments in case of non-repayment of said loans. These loans would be periodically paid off and reinstate the original amount of credit issued. In sense, the companies could take money out and use it to their accord as long as periodic payments were in place.
4. Equipment loans – Loans were given out to companies to buy assets other than real estate for the functioning of their respective businesses. These loans were backed by repossession rights by the bank in case of non-payment of said equipment. They were low cost, easily dispensable products that the IIBL used to issue regularly.
5. Money market loans – Offering to buy debt from government bodies, banks, financial institutions, industrial investors and corporations were given out by the IIBL. These short-term debt instruments would work for companies looking to make short term gains and raise interest for the firm through cash debts, stocks and bonds. These would include Deposit certificates, Bankers' acceptance, treasury bills and stock options.
6. Accounts – All companies interacting with the IIBL would need to have their accounts with the bank itself. The bank would maintain, audit, advice and secure these accounts on behalf of the companies in addition to providing finance options.
7. Overdraft facilities – In return for maintaining a certain balance in their accounts, IIBL would issue a percentage of that balance as a credit facility to the account owners. This could be used as a rolling capital and fund short term requirements and projects for the companies.
8. Other facilities – Maintaining lockers, financial advisory, creating business relations, following banking and finance guidelines, auditing top firms to make sure they were aligned with government regulations,

sharing goodwill of companies and providing business prospects with the government of India were some other facilities offered by the IIBL.

4.9.4. Industrial Credit and Investment Corporation of India (ICICI)

Industrial Credit and Investment Corporation of India (ICICI) was established in 1955 as public limited company under Indian Company Act, for developing medium and small industries of private sector. Initially its equity capital was owned by companies, institutions and individuals but at present its equity capital has been owned by public sector institutions like Banks, LIC, CIC and its associate companies. In March 2002, the ICICI was merger with the ICICI Bank and created a first universal bank in India. With this merger, ICICI does not exist anymore as a development financial institution.

Objectives:

The important objectives of the ICICI are as follows:

(i) To provide loans to industrial projects in private sector.

(ii) To stimulate the promotion of new industries.

(iii) To assist the expansion and modernization of existing industries.

(iv) To provide Technical and managerial aid to increase production.

Financial Assistance of ICICI:

To achieve its objectives, ICICI provides financial assistance in various forms such as:

(i) Long term and medium-term loans both in terms of rupee and foreign currency.

(ii) Participating in equity capital and in debentures.

(iii) Underwriting new issues of shares and debentures.

(iv) Guarantee to suppliers of equipment and foreign loaners.

Activities of ICICI:

The activities of ICICI are discussed below:

1. Project Finance:

The project finance is provided to industries for the cost of establishment, modernization or expansion of manufacturing and processing activities in the form of rupee and foreign loans, underwriting, subscription to shares and debentures and guarantees to supply of equipment and foreign donors.

The rupee loan is given for the purchase of equipment and machinery, construction and preliminary expenses. The foreign currency loans are provided for the purchase of imported capital equipment.

2. Leasing:

The leasing operations of the ICICI commenced in 1983. Leasing assistance is given for computerization, modernization/replacement, equipment of energy conservation, export orientation, pollution control etc.

3. Project Advisory Services:

The Project advisory services are provided to the Central and State Governments and public sector and private sector companies. Advice to the governments is provided on policy reforms and on value chain analysis and to private sector companies on strategic management.

4. Facilities for Non-resident Indians:

The information regarding on facilities and incentives given by the Government of India to the non-resident Indians for judicious investing in India are offered.

5. Provision of Foreign Currency Loans:

The ICICI has a provision of foreign currency loans and advances to enable Indian Industrial concerns to secure essential capital goods from foreign countries.

6. Other Institutions Promoted:

(a) ICICI promoted the Housing Development Finance Corporation (HDFC) to provide long-term finance to individuals in middle- and lower-income groups, co-operations, etc., for the construction and purchase on ownership basis of residential houses all over the country.

(b) Credit Rating Information Services of India Ltd. (CRISIL) set up by ICICI in association with Unit Trust of India (UTI) to provide credit rating services to the corporate sector.

(c) Technology Development and Information Company of India Ltd. (TDICI), promoted by ICICI, to finance the transfer and Up gradation of technology and provide technology information.

(d) Programme for the Advancement of Commercial Technology (PACT) set up with a grant of US $10 million provided by USAID (United States Aid) to assist

market-oriented R&D activity, jointly undertaken by Indian and US companies, ICICI has been entrusted with the administration and management of PACT.

(e) Programme for Acceleration of Commercial Energy Research (PACER) funded by USAID with a grant of US $ 20 million to support selected research and technology development proposals in Indian energy sector PACER was also launched by ICICI.

4.9.5. Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) under a special Act of the Parliament in October 1989 as wholly-owned subsidiary of the IDBI. The bank commenced its operations from April 2, 1990 with its head office in Lucknow. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small-scale sector.

The important functions performed by of SIDBI include:

1. To initiate steps for technological up-gradation and modernisation of existing units.

2. To expand the channels for marketing the products of SSI sector in domestic and international markets.

3. To promote employment-oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

The SIDBI's financial assistance to small-scale industries is channelised through the existing credit delivery system comprising State Financial Corporation, State Industrial Development Corporations, Commercial Banks, and Regional Rural Banks. The SIDBI introduced two new schemes during 1992-93; equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology up-gradation, modernisation, and refinance for resettlement of voluntarily retired workers of the National Textile Corporation (NTC). The other new scheme launched was venture capital fund exclusively for small -scale units, with an initial corpus of Rs. 10 crores. It enrolled itself as an institutional member of the OTC Exchange of India (OTCEI). SIDBI also provides financial support to National Small

Industrial Corporation (NSIC) for providing leasing, hire-purchase, and marketing support to the industrial units in the small-sector.

4.9.6. State Finance Corporations (SFCs)

The State Finance Corporations (SFCs) are the integral part of institutional finance structure in the country. SEC promotes small and medium industries of the states. Besides, SFCs are helpful in ensuring balanced regional development, higher investment, more employment generation and broad ownership of industries. At present there are 18 state finance corporations (out of which 17 SFCs were established under SFC Act 1951). Tamil Nadu Industrial Investment Corporation Ltd. established under Company Act, 1949, is also working as state finance corporation.

Organisation and Management:

The State Finance Corporations management is vested in a Board of ten directors. The State Government appoints the managing director generally in consultation with the Reserve Bank and nominates three other directors.

The insurance companies, scheduled banks, investment trusts, co-operative banks and other financial institutions elect three directors. Thus, the majority of the directors are nominated by the government and quasi-government institutions.

Functions:

The important functions of State Finance Corporations are:

(i) The SFCs grant loans mainly for acquisition of fixed assets like land, building, plant and machinery.

(ii) The SFCs provide financial assistance to industrial units whose paid-up capital and reserves do not exceed Rs. 3 crores (or such higher limit up to Rs. 30 crores as may be specified by the central government).

(iii) The SFCs underwrite new stocks, shares, debentures etc., of industrial concerns.

(iv) The SFCs provide guarantee loans raised in the capital market by scheduled banks, industrial concerns, and state co-operative banks to be repayable within 20 years.

Working of SFCs:

The government of India passed the State Financial Corporation Act in 1951 and made it applicable to all the States. The authorised Capital of a State Financial Corporation is fixed by the State government within the minimum and maximum limits of Rs. 50 lakh and Rs. 5 crore and is divided into shares of equal value which were taken by the respective State Governments, the Reserve Bank of India, scheduled banks, co-operative banks, other financial institutions such as insurance companies, investment trusts and private parties. The shares are guaranteed by the State Government. The SFCs can augment its fund through issue and sale of bonds and debentures, which should not exceed five times the capital and reserves at Rs. 10 Lakh.

4.9.7. Merchant Banks in India

A merchant bank is a highly specialized financial institution that operates at the intersection of banking and investment activities, providing a wide array of services that go beyond the traditional functions of commercial banks. One key aspect of their operations is their involvement in international finance. Merchant banks play a pivotal role in facilitating cross-border transactions, managing currency exchange risks, and offering expertise in navigating the complexities of global financial markets. This international focus positions them as crucial partners for multinational corporations, governments, and other entities engaged in global business activities.

Merchant banks are known for their involvement in various aspects of corporate finance. They actively participate in underwriting securities, assisting companies in raising capital through the issuance of stocks and bonds. Furthermore, merchant banks often engage in advisory services, providing strategic financial guidance to businesses. This may include assistance with mergers and acquisitions, financial restructuring, and overall corporate strategy.

History of Merchant Banks

The history of merchant banks can be traced back to medieval Europe, particularly the Italian city-states, during the Renaissance. In these early days, merchants engaged not only in trade but also in financial activities,

providing loans and other financial services to facilitate commerce. This dual role of merchants as both traders and financiers laid the function for what would later become formalized merchant banking. As trade and commerce expanded, merchant banks emerged as key players in providing financial support to businesses. During the 19th century, financial centres like London and Paris saw the rise of prominent merchant banking institutions that played a crucial role in financing the industrial revolution. These banks provided capital to growing industries, participated in underwriting securities, and offered advisory services, establishing the multifaceted nature of merchant banking. The 20th century marked a significant turning point for merchant banks as they underwent globalization. These institutions expanded their operations beyond national borders, becoming increasingly involved in international finance. The post-World War II era saw the emergence of merchant banks as important players in facilitating cross-border transactions, managing foreign exchange risks, and participating in global capital markets. The historical evolution of merchant banks reflects their adaptability to the changing economic landscape and the enduring significance of their role in shaping financial markets both domestically and internationally. Today, while the financial industry has undergone numerous changes, merchant banks continue to be integral players in providing specialized financial services to a diverse range of clients.

Features of Merchant Banking

1. Specialization: Merchant banks often specialize in providing financial services to specific sectors or industries. This specialization allows them to develop expertise and offer tailored solutions to clients in those sectors.

2. Risk Capital: Unlike traditional banks, merchant banks are more willing to provide risk capital. This involves taking equity stakes in companies, aligning their interests with the success of the businesses they support.

3. Advisory Role: A key feature of merchant banking is its advisory role. Merchant banks act as financial advisors to clients, offering guidance on various financial matters such as capital structure, investments strategies, and financial planning.

4. Global Operations: Many merchant banks operate globally, dealing with cross-border transactions and engaging in international financial markets. This global presence allows them to serve clients with diverse needs and facilitate international trade.

5. Innovation: Merchant banks contribute to financial innovation by structuring complex financial deals and instruments. They are often at the forefront of developing new financial products and solutions to meet evolving market demands.

Functions of Merchant Banks

1. Corporate Finance: Merchant banks assist companies in raising capital through various means, such as issuing stocks or bonds. They play a crucial role in evaluating financial structures and advising on the most effective ways to raise funds.

2. Underwriting: One of the primary functions is underwriting new securities issues. This involves assuming the risk of buying the entire issue from the issuing company and then selling it to investors. By doing so, merchant banks facilitate the process of companies going public.

3. Advisory Services: Merchant banks provide strategic and financial advice to companies. This includes guidance on mergers and acquisitions, restructuring, and other critical financial decisions. Their expertise in various industries allows them to offer valuable insights.

4. Project Counselling: Before providing financial assistance, merchant banks assess the feasibility and viability of projects. This involves a thorough evaluation of the project's potential risks and returns, helping clients make informed decisions.

5. Foreign Exchange services: Given their international focus, merchant banks are involved in dealing with currency exchange. They assist clients engaged in international trade by managing foreign exchange risks and providing hedging solutions.

6. Portfolio Management: Merchant banks manage investment portfolios for clients, including individuals and institutions. This involves making investment decisions on behalf of clients based on their risk tolerance, financial goals, and market conditions.

4.9.8. Non-Banking Financial Companies (NBFCs)

The Non-Banking Financial Companies (NBFCs) which are heterogeneous in nature in terms of activity and size are important financial intermediaries and an integral part of the Indian Financial system. They can help to fulfill the credit needs of both wholesale and retail customers. Their number is increasing considerably, while their functions and services they render are different.

Definition:

According to the Reserve Bank of India (Amendment Act) 1997, A Non-Banking Finance Company means:

(i) A Financial Institution which is a company;

(ii) A non-banking institution which is a company and which has as its principal business the receiving of deposits under any scheme or arrangement or in any other manner or lending in any manner;

(iii) Such other non-banking institution or class of such institutions as the bank may with the previous approval of the Central Government specify.

The definition excludes financial institutions besides institutions which carry on agricultural operations as their principal business. Non-banking finance companies consist mainly of finance companies which carry on hire purchase finance, housing finance, investment, loan, equipment leasing or mutual benefit financial companies but do not include insurance companies or stock exchanges or stock-broking companies.

Types of NBFCs:

The Non-Banking Finance Companies operating in India fall in the following broad categories.

(1) Equipment Leasing Company is a company which carries on as its principal business, the business of leasing of equipment or the financing of such activity. Apart from their Net Owned Funds (NOF), the leasing companies raise finds in the form of deposits from other companies, banks and the financial institutions.

Public deposits and inter-corporate deposits account for 74 percent of their total funds. Leasing is a form of rental system. A lease is a contractual

arrangement whereby the lessor grants the lessee the right to use an asset in return for periodical lease-rent payments.

There are two types of leases (i) operating lease, and (ii) financial or capital lease. The operating lease is a short-term lease which can be cancelled. Financial lease is a non-concealable contractual commitment.

(2) Hire Purchase Finance Company is a company which carries on as its principle business, hire purchase transactions or the financing of such transactions. The sources of hire-purchase finance are

(i) Hire purchase Finance Companies.

(ii) Retails and Wholesale Traders.

(iii) Bank and Financial Institutions.

Hire-purchase finance or credit is a system under which term loans for purchase of goods, producer goods or consumer goods and services are advanced which have to be liquidated under an instalment plan. The period of credit is generally one to three years. The hire purchase credits available for a wide range of products and services. Hire-purchase finance companies are the public or private limited companies or partnership firms engaged in giving credit for acquiring durable goods.

(3) Housing Finance Company is a company which carries on as its principle business, the financing of the acquisition or construction of houses including the acquisition or development of plots of lands for construction of houses. These companies are supervised by National Housing Bank, which refinances housing loans by scheduled commercial banks, co-operative banks, housing finance companies and the apex co-operative housing finance societies.

(4) Investment Company means any company which carries on as its principle business the acquisition of securities. These types of companies are investment holding companies formed by business houses. As such they provide finance mainly to companies associated with these business houses. As compare to open-end investment companies or mutual funds/units trust, these investment companies are close end companies having a fixed amount of share capital. Almost all prominent industrial groups have their own investment companies.

(5) Loan Company is a company which carries on as its principle business, the providing of finance whether by making loans or advances or otherwise for any activity other than its own. (This category excludes No.1 to No. 3 above categories).

These types of companies are generally small partnership concerns which obtain funds in the form of deposits from the public and give loans to wholesale and retail traders, small scale industries and self-employed persons. These companies collect fixed deposits from the public by offering higher rates of interest and give loans to others at relatively higher rates of interest.

(6) Mutual Benefit Finance Company (i.e. Nidhi Company) means any company which is notified by the Central Government under section 620A of the Companies Act, 1956. The main sources of funds for nidhis are share capital, deposits from their members and deposits from the public.

Nidhis give, loans to their members-for several purposes like marriages, redemption of old debts, construction and etc. The nidhis normally follow the easy procedures and offer saving schemes and make credits available to those whose credit needs remain unmet by his commercial banks.

(7) Chit Fund Company is a company which collects subscriptions from specified number of subscribers periodically and in turn distributes the same as prizes amongst them. Any other form of chit or kuri is also included in this category. The chit fund companies' operations are governed by the Chit Fund Act, 1982, which is administered by State Governments. Their deposit taking activities are regulated by the Reserve Bank.

The chit fund companies enter into an agreement with the subscribers that every one of them shall subscribe a certain amount in installments over a definite period and that every one of such subscribers shall in his turn, as determined by lot or by auction or by tender, be entitled to a prize amount.

(8) Residuary Non-Banking Company is a company which receives deposits under any scheme by way of subscriptions/contributions and does not fall in any of the above categories.

There are few unhealthy features of the operations of these companies; (i) Negative NOF (Net Owned Fund), (ii) Understatement of their deposit liability,

(iii) Forfeiture of deposits, (iv) Levy of service charges on the depositors (v) Payment of high rates of commission, etc.

To remove these features, RBI has extended prudential norms to these companies, introduced compulsory registration requirement, specified minimum rates of interest payable on their deposits under different schemes. Under the RBI (Amendment) Act, 1997, the RBI directly inspects and monitoring the activities of these companies.

Registration:

The Reserve Bank of India (Amendment) Act, 1997 provides for compulsory registration with the Reserve Bank of all NBFCs, irrespective of their holding of public deposits, for commencing and carrying on business, minimum entry point norms, maintenance of a portion of deposits in liquid assets, creation of Reserve Fund and transfer of 20 percent of profit after tax annually to the fund.

The act provides for an entry point norm of Rs. 25 lakhs as the minimum Net Owned Fund (NOF). Subsequently, for new NBFC's seeking registration with the Reserve Bank to commence business on or after April 21, 1999, the requirement of minimum level of NOF was revised upwards to Rs. 2 crores. No NBFC can commence or carry on business of a financial institution including acceptance of public deposit without obtaining a Certificate of Registration (COR) from the Reserve Bank.

Supervision of NBFCs:

The Supervisory framework for NBFCs is based on three aspects: (a) the size of NBFC (b) type of activity (c) the acceptance or otherwise of public deposits. Towards this end, a four-pronged supervisory strategy comprising.

(a) On-site inspection based on CAMELS (Capital, Assets, Management, Earnings, Liquidity, Systems and Procedures) methodology.

(b) Computerized off-site surveillance through periodic control returns,

(c) An effective market intelligence network, and

(d) A system of submission of exception reports by auditors of NBFCs

Task Force:

To review the regulatory framework and supervision of NBFCs, the Government appointed a task force which submitted its report in October

1998. The recommendations made by the Task Force covering different aspects like ceiling on public deposits, investments in real estate and unquoted shares, minimum of NOF to be raised, registration, inspection disclosures etc. have been implemented.

Flow of credit from banks to NBFCs:

(i) Bank credit to NBFCs for their advances against commercial vehicles has been brought under the ambit of priority sector advances.

(ii) The ceiling on bank lending to NBFCs registered with the Reserve Bank has been removed with effect from May 1999.

RBI Directions to NBFCs:

Reserve Bank of India announced a set of measures to protect the interest of depositors and provide more effective supervision over NBFCs on January 2, 1998. The regulations stipulate on the NBFCs, an upper limit both on public deposits to be accepted, on the rate of interest to deposits, in order to restrain then from offering incentives and mobilize excessive deposits. The disclosure requirements have been strengthened and responsibilities cast on the Board of Directors and auditors of the companies to ensure proper conformation deposit regulations and prudential norms prescribed by RBI.

The salient features of the Director are stated hereunder:

Categorization of Companies:

For the purpose of the new regulations, NBFCs have been divided into three broad categories an indicated below:

(a) NBFCs accepting public deposits.

(b) NBFCs not accepting public deposits are engaged in loan, investment, hire purchase finance and equipment leasing activities.

(c) NBFCs not accepting public deposits and has acquired shares/securities in their own group/ holding/subsidiary companies of not less than 90 percent of their total assets and are not trading in these shares/securities.

While NBFCs accepting public deposits will be subjected to all the provisions of the Directors, those which do not accept public deposits will be supervised in a limited manner.

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UNIT-V

RULES AND LEGISLATION

5.1. Introduction

An Industrial dispute is basically a difference of opinion between the employer & employees over one or more issues. Disputes are core to the industrial relations exercise of an organisation. The primary aim of industrial relation exercises is dispute avoidance. The various aspects of industrial relations are designed with a view of restraining industrial dispute & the resultant labour unrest. Industrial disputes typically manifest in the debilitating form of strikes, lock outs, picketing, go slows & gheraos. Hence, they require the development of appropriate strategies for prompt identification of employee's grievances & their resolution. In fact, a timely resolution of grievances can prevent them from becoming industrial disputes.

5.2. Define Industrial Disputes:

An industrial dispute as "any dispute or difference between employers & employers or between employers & workmen, or between workmen & workmen, which is connected with the employment or non-employment or the terms of employment or with the conditions of labour of any person". A dispute can become industrial dispute when the following conditions are satisfied:

1. There must be actually a dispute or difference between (a) employers & employees, or (b) employers & employers, (c) workers or workers.
2. Their dispute must be connected with the employment / non-employment or terms of employment or with the condition of labour of any person.
3. There must exist a relationship of employer & workmen as a result of the contract of employment & the workmen must be actually employed. An industrial dispute is not a personal dispute of one person. It generally affects a large number of workers have community interest. The parties to the disputes have direct & substantive interest in the dispute. The dispute is taken up in a concerted manner by workers/employer.

5.3. Characteristics of Industrial Disputes: Based on the definition of the term Industrial dispute given in the Industrial Dispute Act, its characteristics have been identified as follows:

1. An industrial dispute is a collective dispute between employer & employees. The disputes between an individual employee & employer are not normally viewed as an industrial dispute except for dismissal, discharge, retrenchment or termination of individual employee. Typically, the dispute should have been raised by a substantial number of employees.
2. The relationship existing between the parties to the industrial dispute must be that of the employer & employee or co-workers, that is, between workmen & workmen.
3. The dispute may arise out of disagreements between employers & employees over the terms of employment like wages & salary, incentives & benefits, workloads & so on.
4. It could also be connected to the conditions of labour like working conditions, occupational health & safety & so on.
5. The industrial dispute may even relate to non-employment cause of workmen.

5.4. Causes of Industrial Disputes: Organizations can effectively avoid an industrial dispute only when it is able to locate the causes of the industrial relations, tensions & disputes accurately. Generally, these causes are classified as Economic & Non-Economic.

1. Demand for Pay & Benefits hike: Employee claim for increased pay & benefits & the employer's refusal to concede their demand often gives to an industrial dispute. Employers & employees often make mutually irriconciable claim over the profits & wealth of the organisations. On the other hand, the rising cost of living, improved social status & lifestyle changes often force employees to seek increase in their monetary compensation at periodic intervals. On the other hand, survival, prestige & growth needs drive the employers to retain the major share of the profit.

2. Demand for Hygienic & Safer Working Conditions: The employee's insistence on good & safer working conditions may also form a ground for an industrial dispute. Specifically, the employee's demand for a proper physical

environment, adherence to statutory safety measures & workload-related issues can cause industrial dispute in an organisation.

3. Demand for better Labour welfare & social security measure: The employee's insistence on improvement in welfare facilities such as transport, housing, education, recreation, canteen, insurance, e-commuting & flexi-time can also cause industrial disputes. Similarly, the need for better social securities like retirement benefits, medical facilities & compensation facilities may also act as a ground for industrial disputes.

4. Demand for Recognition & Appreciation: Besides the primary needs like wages, incentives, benefits, health & safety, the employees may also demand the fulfillment of social needs like recognition, self-expression, appreciation & scope for personal achievements. When these demands are denied or delayed by the employers, it may provide a ground for industrial dispute.

5. Demand for justice for an Individual or a group of employees: Where there is a mass lay off or retrenchment of employees, it may provide reasons for the employees to develop a dispute with the employers. At times, even the disciplinary actions against individuals in the form of dismissal, discharge, demotions & suspensions may form aground for industrial dispute as per Section 2A of the Industrial Dispute Act, 1947.

6. One upmanship among the Unions: One-upmanship is the practice of always keeping one step ahead of the rest i.e. friends or competitors. In their quest to prove their credibility & dependability among the employees, the unions may adopt a negative attitude towards the management deliberately. In such a situation, the union may start a dispute with the management even on silly issues just to unite their members & expand their membership base.

7. External Interference: The system of allowing external leaders to manage the unions, like in India, also plays a significant role in an industrial dispute. In such a case, union activities are influenced more by political considerations than by organisational problems. The union's stand on organisational issues are dictated mostly by the ideology & leadership of the political with which the union is affiliated.

8. Numerous Labour Legislation: The government has enacted several legislations to protect the rights & interests of the workers in industrial

establishment. It becomes a legal necessity for the organisation to provide these facilities to their employees. Understandably, any violation of these provisions or denial of statutory facilities to the employees becomes aground for dispute between employers & employees.

5.5. Type of Industrial Disputes:-

Interest Disputes: This refers to the disputes relating to the economic interest of the employees. The interest disputes often arise at the negotiation or bargaining stage of a collective bargaining process. They may relate to wages, incentives & other benefits of the employees. In short, an interest disputes relates to the conditions of employment of workers.

Rights Disputes: These involve disputes over the understanding, interpretation & application of the rules & regulations which protect the rights of the employees. They may relate to the interpretation & implementation of statutory rules, company rules, collective bargaining agreements & employment contracts. The alleged violation of these rules provides a ground for rights disputes.

Outcomes of Disputes:

Strikes: A strike is an important tool in the hands of the trade unions to exert pressure on the employers to achieve their demands. According to the Industrial Disputes Act, 1947, a strike means "a cessation of work by a body of persons employed in any industry acting in combination or a concerted refusal or a refusal under a common understanding of any number of persons who are or have been so employed to continue to work or to accept employment.

5.5.1. Type of strikes:

1. General strike: It normally refer to a large-scale strike organised by the employees belonging to an industry, a region or an entire country. Normally, the employees of the region, state or nation are united by common goals & interest and as such struggle together.

2. Pen-down, tools-down & sit in strike: In pen-down, tools-down and sit in strikes, employees report for duty but do not work. In these forms of protest, the employees just refuse to leave their place after entering the work premises & remain idle.

3. Wild-cat strike: When employees resort to an unauthorised strike in violation of the labour contract or agreements, it is called a wild cat strike. Unions may resort to a wild cat strike to pressure their employers during negotiation.

4. Go-slow (slow down) & work to rule strikes: This is a form of strike in which employees work but not up to their usual levels or capacity. They reduce their output deliberately to show their protest to the employers. Strikes Picketing Gheraos Lock Outs General Pen Down Wild Cat Go Slow Sick Leave Hunger.

5. Sick leave & Mass leave strikes: Employees participating in these strikes apply for sick leave or casual leave in mass, mentioning sickness as the reason. The purpose of such mass casual or sick leave is to bring the work to a halt in order to achieve their demands.

6. Hunger strike: In this, employees undertake fasting by abstaining from both food & work as a means of protest. Since there is a cessation of work due to employee's participation in the fasting, it is viewed as a strike.

7. Sympathy strike: The purpose of a sympathy & solidarity with another group of striking employees belonging to a different category of employment in the same organisation.

8. Picketing: It is a form of protest by employees in which the primary intention is to prevent or dissuade the nonstaining employees from attending to their work during the strike period. In this method, the striking employees assemble in front of the factory gates & attempt to persuade the non- strikers to decide against going inside the premises & thereby participate in the strike.

9. Gheraos: It is a form of protest in which employees encircle their employers or top managers at the workplace with a view to restricting their movements. The Purpose of a blockade or confinement is to force the employer or managers to concede the demands of the workers. The wrongful confinement of any person is not legally tenable & therefore gheraos is an illegal act.

10. Lock outs: A lock out is the employer's response to the employees continued protest in the form of strike. According to Industrial Disputes Act, 1947, a lock-out means "the temporary closing of place of employment or the

suspension of work, or the refusal by an employer to continue to employ any number of persons employed by him".

5.5.2. Prevention of Industrial Disputes:

The following measures can be taken to avoid disputes in industries:-

1. Model Standing Order: The purpose of these orders is to prescribe guidelines for regulating between employers & employees under the Industrial Employment (standing Orders) Act, 1946. Standing order defines regulates terms & conditions of employment & bring about uniformity in them. These also specify the duties & responsibilities of the both employees & regulate standards of their conduct.

2. Code of Industrial Discipline: It consist 3 set of principles namely (a) obligations to be observed by management, (b) obligations to be observed by trade unions, and (c) principles binding on both the parties.

3. Grievance Procedure:- According to Micheal Armstrong, a well-developed & properly structured grievance redressal procedure provides: (a) a channel of avenue by which any aggrieved employee may present his grievance; (b) a procedure which ensures that there will be a systematic handling of every grievance; (c) a method by which an aggrieved employee can relieve his feelings of dissatisfaction with his job, working conditions, or with the management; and (d) a means of ensuring that there is some measures of promptness in the handling of the grievance.

4. Collective Bargaining: It is a process in which the representatives of the employer & of the employees meet & attempt to negotiate a contract governing the employer-employee union relationship. According to Jucious, "Collective bargaining refers to a process by which employers on the one-hand & representatives of employees on the other, attempt to arrive at agreements covering the conditions under which employee will contribute & be compensated for their services".

5. Work Committees: It deals with matters of day-to-day functioning at the shop floor level. According to the Indian labour Conference (1959) works committees are concerned with: - (a) Conditions of work such as ventilation, lighting, temperature & sanitation including latrines & urinals. (b) Amenities such as drinking water, canteens, dining rooms, medical & health services.

(c) Safety & accident prevention, occupational diseases & protection equipment. (d) Adjustment of festivals & national holidays. (e) Administration of welfare & fine funds. (f) Educational & recreational activities. (g) Promotion of thrift & savings Standing Order Code of Discipline Grievance Bargaining Work Committee Joint Management Suggestion Joint Consultative Labour Welfare (h) Implementation & review of decisions arrived in the meetings of work committee.

6. Joint Management Councils: These councils were set up in 1958 consequent upon the acceptance of socialistic pattern of society. These consist of equal representatives of management & workers, not exceeding twelve, at the plant level in selected industrial units, the units should employ at least five hundred workers, should have a well-established & strong central organisation of employee's unions & should have a record a good industrial relation.

7. Suggestion Schemes: Under this system, workers are invited & encouraged to offer suggestion for improving the working of the enterprise. A suggestion box is in installed. Any worker can write his suggestions & put it into the box. Periodically all the suggestions are scrutinized by the suggestions committee. Good suggestions are accepted for implementation & suitable rewards are given to the concerned workers. Suggestion schemes encourage worker's interest in the functioning of the enterprise.

8. Joint Consultative Machinery: - Service conditions in the government sector are dealt with at National Council (for Central Government employees), Departmental Councils & Regional or office Councils.

9. Tripartie Bodies: Several tripartie bodies have been constituted at Central & State levels. The Indian labour Conference, standing labour Committees, Wage Boards & Industrial Committees operate at the centre. At the state levels, State labour Advisory Boards have been set up. All these bodies play an important role in reaching at agreements on various labour matters.

10. Labour Welfare officer: The factories Act, 1948 provides for the appointment of a Labour Welfare Officer in every factory employing so or more workers. The officer looks after all facilities in the factory provided for the health, safety & welfare of workers.

5.5.3. Settlement of Industrial Disputes:

The following approaches & measures are used for the settlement of disputes in industry.

1. Conciliation: - It is the process by which representatives of workers & employers are brought together before a third party with a view to persuade them to arrive at an agreement through mutual discussion between them. It involves friendly intervention of a neutral person or groups to help the parties to settle their disputes peacefully. Arbitration Adjudication Court of Enqiry Conciliation According to the ILO, conciliation is "the practice by which the services of a neutral third party are used in a dispute as a means of helping the parties to reduce the extent of their difference & to arrive at an amicable settlement or agreed solution. It is a process of rational & orderly discussion of difference between the parties to a dispute under the guidance of a conciliator.

2. Arbitration: - It is a process in which a neutral third party listens to the disputing parties, gathers information & then takes a decision which is binding on both the parties in comparison with conciliation which involves compromise arbitration is a quasi-judicial process. The conciliator simply assists the parties to come to a settlement where as an arbitrator listens both the parties & then give his judgement. Arbitration has many advantages: (a) it is established by the parties themselves & therefore, They have a greater faith in it; (b) the process is relatively expeditious & result in prompt settlement of differences; (c) it is informal & flexible in nature; (d) it is not very expensive because parties can directly present their case without a lawyer; and (e) it is based on mutual consent of the parties & therefore, helps in building healthy industrial relations. Arbitration suffers from several disadvantages: (a) judgement can become arbitrary when the arbitrator is incompetent or biased; (b) delay often occurs in the settlement of disputes & (c) too much arbitration is not a sign of healthy industrial relations.

3. Adjudication: - It is the ultimate legal remedy for the settlement of industrial disputes. Adjudication means intervention of legal authority appointed by the government to make a settlement which is binding on the parties.

4. Courts of Enquiry:- The appropriate government may, by notification in the official gazette, constitute a court of inquiry for inquiring into any matter appearing to be connected with or relevant to an industrial dispute. A court of inquiry may consist of one independent person or of such number of independent persons as the appropriate government may think fit.

5.5.4. The Industrial dispute Act provides for a three-tier system of adjudication:

1. Labour court (state and central government).
2. Industrial tribunal (state and central government).
3. National tribunal (only by central government).

1. Labour Court: The appropriate government may by notification in the official Gazette, constitute one or more labour Court for adjudication of industrial disputes relating to the following matters: 1. the propriety or legality of an order passed by an employer under the standing orders. 2. The application & interpretation of standing orders 3. Discharge or dismissal of workmen including reinstatement of, grant of relief to, workmen wrongfully dismissed. 4. Withdrawal of any customary concession or privilege 5. Illegality or otherwise of a strike or lockout & 6. All matters other than those specified in the Third schedule.

2. Industrial Tribunal: The appropriate government may, by notification in the official gazette constitute one or more Industrial Tribunals for the adjudication of industrial disputes relating to the following matters: 1. Wages, including the period & mode of payment 2. Compensatory & other allowances 3. Hours of work & rest intervals 4. Leave with wages & holidays 5. Bonus, profit sharing, provident fund & gratuity. 6. Shift working otherwise than in accordance with standing orders. 7. Classification by grades; 8. Rules of discipline 9. Rationalisation 10. Retrenchment of workmen & closure of establishment 11. Any other matter that may be prescribed.

3. National Tribunal: The Central government may, by notification in the official gazette, constitute one or more National Industrial Tribunals for the adjudication of industrial disputes: (a) involving questions of natural importance or; (b) which are of such a nature that industries in more than one state are likely to be interested in or affected by, such disputes.

5.6. Industrial Disputes Act 1947

The Industrial Disputes Act of 1947 was ruled for many years and it was working effectively, very effectively in the country. So, this particular old Act has the lifeline of any workers in case of dispute between workers, employer and employees, and employer and employee. So, we are going to look into the differences and aspects of what you mean by layoff, lockout, retrenchment, strike and also workman industry. So, there is a jurisprudence, which is available under the Industrial Disputes Act, what constitutes industry and also what constitutes industrial disputes.

So, the Industrial Disputes Act 1947 defines what you mean by industrial disputes under the old section 2(k). So, Section 2(k) says industrial dispute means any dispute or difference between employers and employers, between employers and workmen or between workmen and workmen. So, it may be related to employment or not employment, terms of employment or conditions of labour of any person. So, this is the comprehensive definition, which was or I would say that which is still until the notification is made in place. So, the industrial dispute is a very simple and clear definition provided under the Industrial Disputes Act.

Protection of People under Industrial Dispute Act of 1947

The Industrial Dispute Act of 1947 includes provisions for the protection of people in the context of industrial disputes.

1. Layoff and Retrenchment: The Act places restrictions on the layoff and retrenchment of workers, ensuring job security to a certain extent.
2. Compulsory Recognition of Trade Unions: It provides for the compulsory recognition of trade unions by employers, allowing workers to collectively bargain for their rights.
3. Prohibition of Unfair Labor Practices: The Act prohibits unfair labor practices by both employers and trade unions, safeguarding the interests of employees.
4. Right to Strike: While it recognizes the right to strike, the Act lays down specific conditions and procedures to be followed before workers can resort to strikes.

5. Settlement of Disputes: It establishes mechanisms for the settlement of industrial disputes, including the formation of boards and labor courts.
6. Retrenchment Compensation: In cases of retrenchment, the Act mandates the payment of compensation to affected workers, offering them financial protection.
7. Reemployment of Retrenched Workers: The Act also provides for the reemployment of retrenched workers when job opportunities become available.
8. Health and Safety Measures: It includes provisions for the protection of the health and safety of workers, ensuring their well-being in industrial environments.
9. Payment of Wages during Strikes: The Act outlines rules regarding the payment of wages during strikes, balancing the interests of workers and employers.
10. Legal Remedies: Workers have access to legal remedies under the Act, allowing them to seek justice and protection against unfair labor practices.

5.7. Factories Act, 1948

The Factories Act, 1948, sets the safety standards for workers employed in factories. It is applied to factories manufacturing goods, including weaving cloth, knitting of hosiery and other knitwear, clothing, and footwear production, dyeing and finishing textiles, manufacturing footwear, etc. 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 Act's main objectives are also to protect workers' health and safety.

The Factories Act, 1948, regulates the hours of work and minimum wages

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. Apart from these, 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:

1. 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. The committee is responsible for regulating and controlling employment in the age group of 14 to 18 years at factories where more than 20 persons are employed.
2. 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.
3. 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.
4. 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.

Period of application

The Factories Act was implemented in India following the general elections held in 1951 for the Legislative Assembly of States and Union Territories that fall under the Indian Union, with effect from June 15, 1951. The Factories Act, 1948, was further amended in 1951, 1960, 1961, and 1972. In addition to this amendment, the Rules of 1951, 1960, and 1961 have been amended. The Factories Act was applied to the newly formed States in 1965 by the Chief Secretaries of these States. It applies only to certain factories employing ten or more workers (including apprentices).

Conclusion

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 workers.

5.8. Sale of Goods Act, 1930

The Act became effective on 1st July, 1930 and named as the Indian Sale of Goods Act, 1930. Before that the legal provisions of sale of goods were regulated by Chapter VII (sections 76 to 123) of the Indian Contract Act, 1872. Because of the enormous changes in the trade and commerce, the need was felt to modify the law in India regarding sale and purchase of goods. As a result, a new law was enacted by substituting the earlier section of 65th Contract Act 1872. The new law omitted the word "Indian" as omitted by the Indian Sale of Goods (Amendment) Act, 1963 (33 of 1965) and now the enactment is named as "The Sale of Goods Act, 1930". The Act deals with the contract of selling and buying of goods, the relative conditions and warranties of transfer of ownership and rights-duties of vendor and purchaser etc.

Sale According to Section 4 (1) of the Sale of Goods Act, 1930 "A Sale of Goods is a contract whereby the vendor transfers or agrees to transfer the ownership in goods to the purchaser for a price".

Essentials of Sale:

The Sale of Goods must fulfill following conditions:

- Two parties, the vendor and the purchaser.
- Goods be the subject matter
- Agreement to transfer the ownership (ownership) in the goods between vendor and the purchaser
- Such transfer of the ownership (ownership) is for the consideration known as "price" All other essential provisions of the Contract Act, of the competency of parties, lawful object of contract, etc. to make a valid contract do apply to the sale contract in the Act.

Meaning of Goods and its Classifications The term GOODS includes movable ownership of every kind excluding actionable claims and money; but includes stock and shares, growing crops, grass, and things attached to forming part of the land as agreed to be separated before sale or under the sale.

Different Kinds of Goods:

Goods can be classified in to following categories:

1. Existing Goods 2. Special Goods 3. Ascertained Goods 4. Future Goods 5. Contingent Goods. The classification of goods is essential to find out the time at which the ownership i.e. Ownership in the goods passes from the vendor to the purchaser.

5.9. Industries Development Regulations Act, 1951:

The Industries Development and Regulation Act, (IDRA), came into force from 8th May 1952 under a notification of the Central Government published in the Gazette of India. The Act extends to whole of India including the state of Jammu & Kashmir with a view to being under Central and regulation of a number of important industries, the activities of which affect the country as a whole and the development of which must be governed by economic factors of all India importance.

Objectives of the Act:

(i) To Implement the Industrial Policy: The Act provides the necessary means to the Central Government in order to implement its industrial policy.

(ii) Regulation and Development of Important Industries: The Act brings under the control of the Central Government the development and regulation of a number of important industries listed m the first schedule attached to the Act as the activities of such industries will affect the country as a w o e and, therefore, the development of such important industries must be governed by the economic factors of all India importance.

(iii) Planning and Future Development of New Undertakings: A system of licensing is introduced under the Act to regulate planning and future development of new undertaking on sound and balance lines and may be deemed expedient in the opinion of the Central Government. The Act confers on the Central Government power to make rules for the registration of existing undertakings for regulating he production and development of the industries specified in the schedule attached to the Act.

5.10. The Industrial Employment (Standing Orders) Act

Standing Orders means the rules related to Classification of workmen, working hours, Attendance, Conditions and Procedure for obtaining Leave

and the authority who may grant leave, Requirement to enter premises by certain gates, Rights and liabilities of the employer and workmen arising from Closing and temporary stoppages of work, Termination and Suspension or dismissal of the workmen, Means of redress for workmen against unfair treatment or wrongful exactions by the employer and Any other matter relating to industrial establishments in coal mines as specified in the Schedule of the Act.

Objectives of the Standing Orders:

1. To bring uniformity in terms and conditions of the employments.
2. To foster harmonious relations between employers and employees.
3. To make the conditions of service known to the workmen
4. To regulate the conditions of recruitment, discharge, disciplinary action, leave, holidays, etc. of the workers employed in industrial establishments.

Duration and modification of Standing Orders:

Certified Standing Orders shall not be modified until the expiry of six months from the date on which the standing orders came into operation. An employer or workman or a trade union or other representative body of the workmen may apply to the Certifying Officer to have the standing orders modified along with the application accompanied by the five copies of the modified standing orders and a copy of the agreement between employer and workmen.

5.11. Environment (Protection) Act, 1986

5.11.1. Introduction

Environment Protection is a much-discussed topic and has dominated the debates in the public fora, especially since the sixties. The quality of the environment has been degrading for centuries, ever since the mankind decided to exploit nature for its own good, but the degradation has escalated with the advent of the industrial revolution and the dawn of the era of machines. Increased human population, increase in demand, decline in vegetation to accommodate the needs of the increased population, release of chemicals in the environment, disruption of food chains due to Activities like fishing are very few examples of how the environment is being exploited and abused. The result of all this is an increased concern over the health and

safety of the environment, for which time to time numerous pieces of legislations and treaties have resurfaced. In the Indian context, many legislations have emerged specifically focusing on the kinds of pollution, like The Air (Prevention and Control of Pollution) Act, 1981 or The Water Prevention and Control of Pollution) Act, 1974. But the Environment Protection Act, 1986 is one of the most exhaustive legislations for the protection for the environment. It is a general piece of legislation for the protection of environment. It was enacted under Article 253 of the Constitution. The world community's resolve to protect and enhance the environment quality found expression in the decisions taken at the United Nations Conference on the Human Environment held in Stockholm June, 1972. India participated in the conference and strongly voiced the environmental concerns. While several measures had been taken for environmental protection, both before and after the conference, the need for general legislation further to implement the decision of the Conference had become increasingly evident. Therefore, the Environment (Protection) Act, 1986 [hereinafter referred to as The Act] was passed. The Act came into force on November 19, 1986, the birth anniversary of our Late Prime Minister Indira Gandhi, who was a pioneer of environmental protection issues in our country. The Act extends to whole of India. The Constitution of India clearly states that it is the duty of the state to 'protect and improve the environment and to safeguard the forests and wildlife of the country'. As compared to all other previous laws on environment protection, the Environment (Protection) Act, 1986 is a more effective and comprehensive measure to fight the problem of pollution.

5.11.2.Objects:

a. The Environment Protection Act is a means to implement the decisions of the UN Conference on the Human Environment held in Stockholm (June 1972).
b. The Environment Protection Act also seeks to enact a general blanket law on environmental protection, dealing with all aspects of pollution and harm to the nature and not limiting its scope to just one type of pollution or pollutants.

c. The exhaustive nature of Environment Protection Act also ensures that no ambit of environmental protection is left and all hazards to the environment are absolutely roofed and addressed under the Act.
d. The Act also provides punishment (deterrent in nature) to those responsible for causing harm to the environment or endangering it.
e. The Act provides for a scheme and a mechanism of working of various already existing regulatory authorities and also creates more agencies for furtherance of environment protection.
f. The Act also aims at promoting sustainable development as a means to achieve the end of prosperity and opulence.

5.11.3.Definition:

"Environment" includes water, air, and land and the interrelationship which exists among and between water, air and land and human beings, other living creatures, plants, microorganism and property [Section 2(a)].

"Environmental Pollutant" means any solid, liquid or gaseous substance present in such concentration as may be, or tend to be injurious to environment [Section 2(b)].

"Environmental pollution" means presence in the environment of any environment pollutant [Section 2(c)]. It causes imbalance in environment. The materials or substances when after mixing in air, water or land alters their properties in such manner, that the very use of all or any of the air water and land by man and any other living organism becomes lethal and dangerous for health.

5.11.4.Powers provided by the Act to Central Government:

The Act provides the Central Government with the power to take measures to protect and improve the environment. It endows the Central government the power to take all measures which it deems necessary to protect, preserve and improve the environment. It can take measures to curb activities causing harm to the environment it can control and bring a halt to activities discharging pollutants. In particular, and without prejudice to the generality of the provision such measures may include measures with respect to all or any of the following matters, namely:-

a. Co-ordination of Actions by the State Governments, officers and other authorities. a. under this Act, or the rules made there under, or b. under any other law for the time being in force which is relatable to the objects of this Act;
b. Planning and execution of a nation-wide program for the prevention, control and abatement of environmental pollution;
c. Laying down standards for the quality of environment in its various aspects;
d. Laying down standards for emission or discharge of environmental pollutants from various sources whatsoever: Provided that different standards for emission or discharge may be laid down under this clause from different sources having regard to the quality or composition of the emission or discharge of environmental pollutants from such sources.
e. Restriction of areas in which any industries, operations or processes or class of industries, operations or processes shall not be carried out or shall be carried out subject to certain safeguards;
f. Laying down procedures and safeguards for the prevention of accidents which may cause environmental pollution and remedial measures for such accidents;
g. Laying down procedures and safeguards for the handling of hazardous substances;
h. Examination of such manufacturing processes, materials and substances as are likely to cause environmental pollution.

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