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Directorate of Distance and Continuing Education
M.Com I Year
Paper - II Business Environment

Index

Lesson I

Meaning - Definition, Nature and Importance

Introduction

The success of business depends upon its capacity to cope up with its environment. By looking only at the business proper, one cannot fully understand the nature of business. The forces outside the business are influencing the decisions of business executives, nature and scope of business enterprise and its development

An elaborate study and analysis of business environment gives one a better insight into the techniques of successful management of business enterprise. Business forms part of the larger social system. It cannot be studied in total isolation, modem society offers many problems to business. The management of business lies in how efficiently one tackles these problems. The relationship of business with its environment has an impact on the direction of the business enterprise.

In early part of this century the life style of business and society were fairly consistent. As 'free trade policy' was in practice, governments did not intervene in business matters. There were very few conflicts between business and society. But since 1950, these conflicts grew in number as there was a move towards more social concern. Society has changed fastly and demanded more from all forms of institutions including business. Till then business performed only an economic function and neglected the social side.

Only those business men who are in constant touch with the changing environmental set up car hope for economic prosperity*

Suggested Questions

i. What are the different factors affecting business environment?
2. Explain the effect of demographic factors on the business environment
3. Bring out the significance of environmental analysis on business promotion
4. To what extent are the economic factors influential on business environment?
5. What do you understand by SWOP analysis?
6. Describe the nature of influence of social and culture factors on business environment.
7. Explain the impact of political and legal factors on environmental conditions of business concerns.
8. Explain the significance of economic factors on business environment.
9. Bring out the importance of dynamic nature of business setting.

Lesson - 3 Business and Government

Besides, Wadha also identified certain macro and micro economic indicators of the environmental conditions which also had significant impact on the business operation of the enterprise. Among the macro-economic indicators the main item to be listed are.

1. Foreign exchange situation in the country.
2. Government expenditure in the economy.
3. Degree of capacity utilisation in the industry.

Of the various micro economic indicators the main items which have the major external influence were.

1. Nature of competition offered by the public sector units as suppliers of the competing products.

2. Behaviour of the Government as a supplier.

All the factors of the environment need a detailed study and we shall discuss each and every aspect separately under separate topics. In this chapter we have proposed to discuss the need for Government Regulation of Private business and against free economy market mechanism and also the historical evolution of such control over years, in the Indian context. **Doctrine** of **Laissez Faire**

The classical economics like Adam Smith, advocated the policy of laissez Faire ie, business freedom on the ground that certainly liberty would bring specialisation, division of labour and increased production of goods and services. The policy of Laissez Faire has four distinct features.

1. The factors of production (land, labour capital) are privately owned and production takes place at the intiativc of the private enterprise.
2. People have freedom of choice in regard to consumption, occupation, saving, investment and production.
3. Income is received in monetary terms through the sale of goods produced or services rendered by factors of production from profits of private enterprise.
4. The free market economy is not planned, controlled or regulated by the Government which only satisfies the collective wants through public services. The two motive powers of free market economy are profit motive and competition.

X. State Small Industries Development Corporations.

State Small Industries Development Corporations (SSBDCs) have been set up to serve the needs of small-scale industries in the respective States/Union Territories. They have been incorporated under the companies Act.

They have the flexibility to undertake a variety of activities for the benefit of small-scale industries. Their activities include:

1. Procurement and distribution of raw materials
2. Supply of machinery to small entrepreneurs on hire purchase basis,
3. Management assistance to production units;
4. Operation of seed capital scheme on behalf of the state government.
5. Construction and management of industrial estates.
6. Participating with other institutions in setting up technical consultancy organisation, and
7. undertaking marketing activities.

Besides the above functions some SSEDCs are conducting surveys regarding availability of raw materials, markets and demand conditions. They also arrange for marketing of finished products of small industrial units both in domestic as well as international markets under their Market Assistance Scheme. Many SSEDC participate jn setting up emporia in metropolitan cities and places of tourist importance. SSICs also organise and participate in exhibition in various markets to promote the sales of handicrafts, handlooms, ready-made garments, sport goods and the like. Conclusion:

Lack of finance is a deterrent to economic development. Finance is the pre-requisite to mobilise real resources for organising production. Availability of finance, combined with other important factors like information flow, the entrepreneurship etc. will certainly lead to economic development. Right type of finance is the availability of finance in right type, in right qualities for the right periods and at right prices (Interests)

Financial institutions of various types are meeting these requirements. The more number of financial institutions we have, the easier we meet the requirements of finance and the quicker economic development we achieve. **Suggested Questions**:

1. Discuss the role of Life Insurance Corporation in the provision of industrial finance.
2. Bring out the part played by Asian Development Bank in shaping up the Capital market in Asian countries.
3. How do you rate the significance of State Bank of India and other commercial banks in meeting the industrial finance requirements?
4. Write short notes on
   i. Stock holding Corporation of India ltd.
   ii. National Small Industries Corporation
   iii. General Insurance Corporation
5. Examine the institutional structure for the provision of finance to small scale industries.
6. Explain the role played by National Industrial Development Corporation in financing.

Lesson -10 Control Over Foreign Capital

Introduction

All under-developed countries need direct foreign capital for their rapid industrial development. Even advanced countries like U.S.A., U.S.S.R., used foreign capital for their development. We also need foreign capital to achieve rapid growth and development. During the British rule, foreign capital played a dominant role in the development of mining, plantation, Industries, railways shipping etc. Even after independence efforts were taken to channelise and regulate direct foreign investment. **Need for foreign Capital**

Foreign capital brings in a number of benefits to our country. They can be listed as follows:

1. To support with domestic savings: In our country domestic capital alone is not enough for the economic development. The rate of capital formation is low. "Low-income, low savings, low investment and low income is a vicious circle, which we have to break through. To get out of this vicious circle, foreign capital is needed.
2. The bring in new lines of production Domestic entrepreneurs may not follow certain new lines of production, because of lack of knowledge, experience. Foreign capital show a way for domestic capital in such innovative areas arid line of activity.
3. To get the benefits of modem technology: It took number of years for an under-developed country to get the latest technology and scientific improvements. Foreign capital helps to reduce the delay in bringing the modern technology to the underdeveloped countries.
4. To avoid inflationary evils: After independence seven five year plans have been formulated for quicker development Quick development has an inherent defect of creating inflationary pressures. To avoid this situation, foreign capital is inevitable. Foreign capital is anti-mfla-tionary in character.
5. To finance prime projects. The local investors and entrepreneurs will hesitate to enter into certain fields in which rate of return is low, but such projects may be necessary for industrial development. Foreign capital is necessary to speed up the economic activity, and to finance, the projects needed for development.
6. To bring in scarce productive factors. Under developed countries are lacking in certain productive factors like entrepreneurial skills, managerial abilities etc. These are necessary for the success of projects and also for the economic development. Foreign capital helps to bring in such scarce productive factors.
7. To Rectify the balance of payment position: Rapid industrial development needs capital goods and equipments, which may not be available in their own country, and so they should be imported. Import of such costly items, may create an adverse balance of payment position. If foreign capital is allowed, this situation can be corrected.

Forms of Foreign Capital

Foreign capital may take any one of the following forms:

1. Foreign Aid: It includes the free aid provided by a foreign government, or an international institution like world Bank. The country which provides the aid may directly or indirectly give political pressure upon the receiptant country. The aid is also quite uncertain. The foreign government may stop the **aid** at any time. Moreover, the aid can be used only for the

specific purpose. Foreign capital in this form crc ,.u m-..-,. itiua in a: own coun-
try.

2. Foreign Debt: Some foreign governments may give . are repayable with or without interest. Some countries accept the repayment o? loan in our Indian currency. We borrowed heavily from other advanced countries. Bui, u created a lot of problem. We have to repay the loan with interest and now tne amount allotted for repayment of foreign loan is very high. They have damaged to self respect in the international scene.
3. Foreign Private Investment: IMF, defined private fo; ■ign n vestment as investment in enterprises located in one country, but effectively controlled by residents of another country. The capital takes the form of equity shares and debentures issued by Indian companies may be purchases by individuals, companies banks in foreign countries, and foreign governments. The investment and technical know-how are provided on the basis of collaboration agreement between Indian companies and foreign investors. Such investment are made with the sole object of making project. It is neither a loan nor a aid for foreign countries.- When compared with other two forms of capitals, the
: direct foreign capital is ideal and brings in a lot of benefit.

Benefits of Private Foreign Investment:

■ Risk Taking: In an \isdtrdrr-:**pcd CGUiiuy, domes.uc investors may hesitate to take risk in starting capital intensive industries and new lines of producti' n, When there is private foreign investment, the risk is transferred to foreigners. Transfer **of** High Technology

Private foreign capital, in the form of collaboration, and branches of foreign countries helps tc bring in the latest technology. This helps the recipient countries to -.:se the resources in the most efficient way, and so the cost of production can be reduced. In case of many industries like petroleum refinery, chemicals, light and heavy engineering etc., latest technology and modern management practices were used only because of private foreign investment. **Training Facilities:**

The employees of companies with foreign collaboration, c»r> «-* training j_n advanced countries. This helps to improve the efficiency of the employees. **Benefits to workers:**

Domestic labour may get higher real wages because of increase in productivity. Employment opportunities will be generated. **Benefits to consumers:**

^Foreign investment helps to bring in latest technology, which helps in increase the efficiency and reduce the cost of production. So consumers can get better quality goods at reduced cost.

Benefits to government:

Increase in production and foreign trade resulting from foreign capital may increase the fiscal revenue of the Government. It enables the country to increase its exports and reduce its imports. **Other Benefits:**

Foreign investment may stimulate domestic enterprises to support their own operation, the foreign investors may encourage and help domestic supplies and consuming industries.

Limitations and Dangers of Foreign Capital: 1) Absorptive capacity of the Recipient Country:

The capacity of the **country** to utilise **foreign** capital **effectively** is **very** low in under **devel-**

oj»ed counties. Lack of iiifrastructuru! facilities, technical know-how, personnel, input, market, inadequacy of administrative machinery etc. are important factors that affect the absorptive capacity.

2) Exploitation:

In many cases, foreign collaboration results in the exploitation of the poor countries. For example U.S.S.R sold machinery *o tin**! world countries at very higher rate than that of sold to western countries.

3) Drain on the Foreign *Eirbmgr* Earnings:

The main aim of foreign jr. c - is to earn maximum profit. So it involves in permanent drain on foreign exchange earnings of lie recipient country. Repayment of foreign Capital and earnings begin at an early state itself. This wi![1] constitute a permanent burden on the future foreign exchange earnings.

4) Restriction in Investment:

Private foreign investors restricts itself into limited fields of economic life. Foreigner prefer to investment in industries in which the rate of return will be more. They will not consider the needs under developed countries. Priority sector will be completely ignored.

5) Unwilling to collaborate with Public Sector:

Private foreign investors do not take much interest in collaborating with public sector. They prefer to deal with private

6) Artificial capital transfer:

According to charles P. Kindleberger, Yale University, "The Foreign investors do not generally take money with them to the host country. They raise capital locally from profits out of their imported goods or by borrowing in the local market.

7) Discrementation in providing Opportunities:

When foreign capital is used, there is an attitude of discrementation again employment of local labour in high salarised jobs and again local transport, insurance companies. Thus, money is extracted from the host country in many forms.

8) Increased dependence:

The use of private foreign capital increases the dependence of foreign sources. Technological and managerial skills are transmitted in a very slow degree to the under developed countries.

9) Political interference:

Foreign capital sometimes interferes in national politics. Foreign companies particularly multi-nationals get themselves involved in the local politics of the host country.

10) Unfair trade practices:

In some cases private foreign investors engage in unfair and unethical trade practices.

11) Conditions placed by foreigners.

The recipient country may be required to provide basic facilities like land, power and other public utilities, concessions in the form of tax holiday, development rebate subsidised inputs etc.

Steps Taken to Attract Foreign Investment:

The need for foreign investment is very acute in recent years. Even small countries like Japan, South Korea and Taiwan have attained success by encouraging foreign investment. So the government of India decided to simplify all unnecessary procedures in bringing the private foreign investment. The following measures have been taken to attract foreign investment. 1) Fast channel for clearance:

The Government promised a fast channel for clearance of proposals for the ups with Indian Government.

2) **Good record** in **fulfilling the commitments:**

Government assured to take all steps for payment of royalties, dividends and cost of goods purchased to foreigners. Now various procedural curbs are relaxed, and so foreign investors car receive their dues like dividend royalty etc. in time.

3) Equity participation in small sector:

Efforts are taken to get away from a secretarial compartmentalisation and more closer towards healthy co-existence of big, medium and small scale units. Now the government is nol favouring reservation policy. The Government proposed to allow foreign equity participation even in small sector. Bot Concept:

The Government is inviting foreign capital in selected industries through tlic new concept Build, operate and Transfer (BOT).

According to this concept the foreign companies invest their c capital for setting up project in our country at an assured rate of return. There projects are to be operated by them for a specified period and then the project should be transferred to the government or to the Indi'" art-ner. Infrastructural industries like power, steel and transport are considered to have potential for adopting the BOT concept. Moreover under BOT Plan, it is possible to obtain benefits of improved technology. Guarantee by company:

Before 1988, a bank guarantee is needed to safeguard against the sale of imported duty free goods. Now the guarantee from the concerned company is enough. **Remittance** of **Dividend:**

The RBI decided to allow all remittances of and royalties dividend abroad before final income tax clearance is obtained. A flat rate of 30% tax will be deposited with the R.B.I which can be adjusted subsequently. Other Concessions:

1. Senior managerial persons working in foreign companies will now be allowed to travel in the air line of their choice. Previously they shall travel only through Air-India.
2. The Government has appointed a committee to analyses the impact of foreign col laborations on indigenous technology generation in certain selected sectors.

Lesson-11 PRIVATE FOREIGN INVESTMENT POLICY

We had a general discussion on foreign capital in the previous lesson. Foreign capital takes the form of foreign aid, foreign debt and private foreign investment. With the liberalisation policy in many countries and especially in India, foreign private investment assumes specific significance. The world wide general trend towards globalisation of trade adds further importance. A detailed study of foreign investment is made in this lesson. **Private Foreign Investments**

Private foreign Investments denotes the capital inflow into an economy from foreign private sources. This capital inflow is made mainly in two forms. Loans (rather commercial loans) and equity. Commercial loans

These loans are raised from the foreign financial institutions like the banks. These loans are received usually at a normal rate of interest, which are higher than the rates of interest charged by the official agencies like world bank, ADB etc. These loans include the deposits made by NRI (non-resident Indians) repayable in foreign currency. They are for short periods and more expensive.

Equity capital

This is another form of private foreign investment. It may take two different forms. One is direct foreign investment,(DFI). It is a long term commercial production with a motive to get a profit. Another form is foreign portfolio investment (FPI). It stands for the purchase of stocks, bonds and other securities by foreigners. It is made with the objective of getting dividends. In addition to these forms, the domestic companies may float securities foreign market and raise foreign capital. India's Foreign investment policy

Before Independence Indian Industries owed its development to the British capital through British managing agents. However the development was not uniform and investments were made only to exploit the raw material availability in India.

After independence the Industrial Policy Resolution was adopted in 1948. Its tone was very strongly in favour of nationalisation and growth of public sector enterprise This affected the inflow of foreign capital. To remove the threat of nationalization Pandit Jawaharlal Nehru the then prime minister gave some assurance to the foreign investors through declaration. They are.

1. India would not make any discrimination between foreign and Indian undertakings.
2. Reasonable facilities will be given to the foreign investors for remittances of profits and repatriation of capital depending upon the foreign exchange position.
3. There is no chance of nationalisation of foreign enterprises. If nationalised, a fair and equitable compensation would be paid to the foreign investors.

Despite these assurance flow of foreign capital was very slow. It was mainly due to the government's attitude towards nationalisation as well its faith in socialism. The private investors preferred to invest in Indian Equity. Capital as the private investments" were not politically motivated. These investments came through collaboration like Voltas, Sen-Raleigh, TATA, etc.

Foreign Investment Policy After 1956

Industrial Policy Resolution of 1956 had no major changes in the investment policy. It insisted that ownership and effective control of the undertakings, receiving foreign equity participation, should be in the Indian hands. By the commencement of II five year plan, the country had acute shortage of foreign exchanges. So the government offered some concessions to the foreign investors. Industrial licensing procedure was also a debit liberalised for encouraging foreign investment. In 1961, the government set up the India Investment centre to bring Indian and foreign entrepreneurs together.

In 1965, prime Minister Lai Bahadur Sastri confirmed the announcement of Pandit Nehru to foreign investors. To look into the necessity and extent of foreign investment, a committee under the chairmanship of sir, A Ramaswamy Mudaliar was constituted in 1966. This committee brought big changes in procedures for foreign investment. The industries open for investment and collaboration were given three broad catagories.

1. List of industries open for foreign investment.
2. List of Industries where no foreign investment but only technical collaboration will be permitted.

It was considered necessary to review the list periodical intervals. The royalty rates permissible for different industries were also determined.

In 1968 the Indian Government set up me Foreign Investment Board with a view to deal all the matters relating to foreign investment and collaboration proposals.

Foreign Equity participation limit was reduced to 40% from 49% except in case where it is highly sophisticated production or export oriented production. Also conditions for foreign equity participation were tightened. Royalty payments were restricted to 8% on exports and lumpsum payment for royalty was discouraged.

In 1970 the Government announced a list of 120 items which were considered to have a technological gap and hence foreign collaboration would be permitted. Generally the Government decided to control and dilute foreign investment in non priority areas. 100% export units and priority sectors were allowed to be the areas of foreign investment.

In 1973, the Foreign Exchange Control Regulation Amendment Act (FERA) was passed with the following main objectives.

1. Conservation of foreign exchange by restricting activities of foreign investors in the non priority areas and thereby reducing dividend payable in the foreign exchanges.
2. Encourage the foreign investment more in the priority areas, in the high technology using activities and in export oriented units by allowing majority foreign equity participation.

Due to this amendment many multinationals in non priority sector diluted their capital and became indianised. Foreign direct investment fell down sharply in petroleum industry and plantations. Indian investors were given more opportunities in big multi-nationals operating in India like Hindustan Lever, Colgate-palmolive etc. Foreign investment and Janatha Rule

Janatha government took a tough stand with the foreign investors and as a result between 1977 and 1979 foreign investment dropped considerably. The government did not prefer foreign collaboration where adequate Indian skills were available. Also they preferred outright purchase of technical know-how instead of collaborations. During this period the provision of FERA was vigorously enforced in the consumer goods industries sector.

It is during this period, multi-national giants International Business Machines (IBM) and coco-cola were asked to fold up their operation in India. But multinational concerns continued their hold in even non priority sectors like tobacco, toiletaries, beverages etc. Some concerns like Alkali chemicals, dunlop Good Year, Asbestos Cement etc. continued their operations with more than 51% of equity by foreign investment. The Janatha Government had only a short period of regime and the Congress party regained the rule. Development after 1980

The Congress party came back to power and announced its policy in 1980. This policy was mostly the same which it had earlier followed. It relaxed the foreign Investment policy for investors from oil Exporting and Developing countries. Investors from these countries, (individuals, companies, Government, Banks, Financial Institutions Agencies and trustees) were allowed to invest either in the form of a contribution to the equity share capital of a new company or in the form of loans. The general political and economic policy had changed from the old track during the last years of Prime Minister Indira Gandhi. After the assassination Mrs. Indira Gandhi, Rajiv Gandhi became the Prime Minister and the policy of Government took a remarkable change. The nation was marching towards 21st century. Modern sophisticated technology was freely imported. A libera^ attitude in the formalities of import and exports were followed to enable the non-resident Indians and foreign investors to make direct investment in India. To enable faster development and

attract foreign investment **the infrastructure** in India was developed. **Remarkable developments** were made in communication facilities. Foreign investment were attracted at rate of Rs., 100/-crores per year.

Janatha Dal Government did riot change much from the trend set up by Rajiv Gandhi in its short period of rule. But the Industrial policy statement made in 1991 has made a big departure from the old policies. It has adopted very liberal stance towards foreign investments. **New economic trends**

The 1991 Industrial policy statement of offering attractive incentives to encourage the entry of foreign investments with the various areas of economy. **AIM**

The policy prefers the inflow of non-debt sources of capital. The foreign debts are carrying with them to burden of repayment of principal with interest. But private foreign investments do not carry such a burden. There is the necessity of payment of dividend or profit on this investment. But it **is** made only when there is profit out of such investment.

Moreover they bring latest, sophisticated know-how and technology with them, because only then they can get profit out of their investment. This will lead to overall development of industries in India.

Multinational concerns will treat the Indian counterparts as their branches and hence the Indian concerns would raise their level to that of International standard. It enables the Indian industries to acquire more competitive strength.

Foreign investors are permitted to hold 51% of the total equity. This has attracted many foreign concerns to invest in India. Foreign investment are encouraged in even non-priority sectors. It has liberalised the rules and procedures to the foreign investors to invest in India. For the purpose of negotiating with large international, firms, the Government has setup the Foreign investment Promotion Board. Investments from foreign lands are encouraged strongly in industries producing capital goods and basic materials.

In addition to production side, the new policy encourages flow of foreign money and help in the field of trading also. Because indigenous concerns lack technology and skill in marketing their products in foreign market. Foreign concerns are given encouragement in order to help Indian concerns to export their goods in foreign markets. To encourage the participation of foreigners in trading activities, foreign equity is permitted upto 51% of trading concerns.

To encourage the import of foreign technology royalty payment upto 5% of domestic sales and 8% of export sales of for lump sum payment of Rs. 1 Crore, are permitted.

As a result of this liberal policy foreign investment is playing a very significant role. During 1968-90 value of such investment is about Rs. 900 crores about Rs. 180 crores per annum. With recent policy changes the foreign investment in the form of direct investment is moving up faster. It is Rs. 150 crores in 91-92, Rs 31 crores in 1992-93 and Rs. 620 crores in 1993-94, The phenomenal growth of portfolio investment is due to the setting up of large policy and delicensing and due to NRI participation in huge level. **Why foreign investment preferred?**

The policy of Government is to prefer foreign investment to foreign aid and foreign debt. The foreign investment may be either Direct Foreign Investment (DEFI) or Foreign Portfolio Investment (FPI). Of this two the former i.e. DFI is preferred. Because it **is** not just an addition to domestic resources but also an addition to the productive assets of the country The following are the point in favour of preference of foreign investment.

1. Foreign investments have no fixed commitments. The return they expect out of foreign investment is only profit which is payable only out of surplus return of investment. In case there is no profit on the investment there is no need for any payment like interest obligation on foreign debt.
2. It leads to establishment of companies in entirely new lines of production. Because the foreign investors with their vast experience, knowledge of improved technology, huge financial strength, knowledge about the marketability of product etc. would invest their fund in new industries taking high risk like petroleum refining, pesticide manufacturing. Hi-tech electronics etc., the recipient country need not worry about such investment because there is no commitment of repayment.
3. They bring with their investment, technical know-how and improved methods of manufacturing, packing, marketing management etc. This improvement will spread to domestic industries also.
4. They introduce high standards in manufacturing, transporting, marketing etc. These high standards are helping to utilise the human resources in India in a better way. It changes culture and habit of the market and prepares the domestic concerns to face the international competition easily.
5. These investment lead to vast expansion of market. Both internal market and opportunity for international markets are becoming highly developed. It leads to open marketing opportunities for domestic traditional and non-traditional products in traditional and non-traditional international markets.

Shortcomings of **Private foreign capital**

1. Foreign private investments are concentrating on limited area where there is scope for large profit. Mostly they concentrate on investing on consumer goods industries.
2. Foreign investments are not prepared mostly to collaborate with public sector under taking which concentrate on provision of public utilities and key industries.
3. Foreign investors do not reveal secrets behind their success easily to domestic manufactures. They want to have their grip on the technological side. Domestic concerns learn the modern technology only by paying heavy prices like royalty payment etc.
4. Major benefits of foreign investments go to powerful foreign investors who exploit the vast marketing opportunities of India. Domestic counterparts get comparatively smaller benefits.
5. Though initially foreign investment give some benefits in the long runs it leads to remittance of large amount in the form of payment for technical services, royalty payments and profit remittances.
6. It may lead to political and economic interference in the recipient country. It may lead to continuous dependency on foreign investment.

Preseat position

Before independence and for a long period since independence, foreign investments meant to India, only investment from England. They invested in India through managing agents and they developed many industries in India in the early periods. Jute, Sugar, Cement, Cotton textile and many other industries owe the~~ir facce~~pt.">n to British capital. But the national government turned its attention to other countries also during the plan periods. They imported technology from USSR. Germany etc. For private investments they looked forward to American and European multi-national concerns. Nestle products, Ponds international, Lever brothers, Colgate-Palmolive and many multinationals entered the Indian market through collaborations and production units.

Recently India turned its attention towards Japan mainly and many non-traditional European countries. It has a strong connection with Japan, in automobile industry electronics goods production, computer parts etc. Maruthi Suzuki, Rajdoot Yamaha, Kawasaki Bajaj, BPL Sanyo, Onida etc. are the outcome of such a relationship. NRI

A major source of foreign private investment is the NRI (Non-Resident Indian). Under the Foreign Exchange Regulation Act (FERA), non-resident Indian is one who has gone out of India for business profit, service, employment etc. for an uncertain period of time Those who are having Indian citizenship and Indian passport or having Indian parent or Indian husband or wife etc. are non-resident Indians.

To continue to be treated as NRI, under the Income tax Act, so that their world income is not taxed in India, their stay in India during the first year of their residence abroad should be confined to less than 60 days. This stay for the second year should be in less than 150 days. After two years of such the NRI may visit India freely for the next 8 years.

These NRIs can open three types of bank accounts in India.

1. Non-Resident ordinary Account (NRO)
2. Non-Resident External Rupee Account (NRE)
3. Foreign Currency Non-Resident Account (FcNR)

The first two accounts are maintained in rupee currencies arid the third account is maintained in the currency remitted by the NRI.

The Government is encouraging the NRI investment in India as it increases the inflow of foreign exchange. The government is also borrowing foreign currencies from NRI accounts and it pays a slightly high rates of interest to NRE and FCNR deposits. In order to encourage. NRI investment in India, the Government has provided a single window and automatic clearance for projects involving NRI Participation upto 40%. Completely export oriented units are permitted with even 100% NRI capital. Their funds can be invested under portfolio investment management in the stock market, subject to their being kept in India for a period of 12 months.

Inspite of these facilities the inflow due to NRI is very small only. The amount invested by NRIs in India stood at around Rs.22 crores at the end of March 1992.

To attract NRI funds more the following steps are taken.

1. To SBI has issued special bonds for tapping the NRI Funds abroad for investment in India.
2. The Unit Trust of India started its second off shore fund "India growth Fund" in addition to India Fund launched earlier.
3. The can bank has launched in association with Indo-suez Asia Investment Services Ltd an offshore Fund "Himalayan Fund" to collect around $ 100 million from for eign Institutions and NRIs.

The environment may offer many opportunities, but a company may not have enough strength to exploit the opportunities. Similarly the company may not have sufficient strength to meet environmental threats. The environmental opportunities and threats should be evaluated in the light of the strengths and weakness of the internal factors like finance, technology sill etc. The 'Nirma' took advantage of the brand popularity of its washing powder in introduction the detergent cake, 'ponds' used its brand image and extensive net work of distribution to introduce ponds soaps. Choice of Strategy

Environmental analysis on the basis SWOP, helps to identify different alternatives to suit different environmental changes and select the best alternative to be included in the business policy.

SWOP analysis helps in formulating the company objectives and at the same time company objectives determine the range of SWOP analysis.

The selected strategy is not a sufficient condition for success. Because poor implementation may lead to the failure of good strategies. One should adopt suitable changes in implementing strategy of management to suit the changing environments. Evaluation of strategy

Environmental changes such as increase in competition changes in consumer preferences or attitudes, technological changes which could not be anticipated while formulating the strategies and the achievement of desired result Evaluation helps to study such drawbacks and prevent occurrence of such events in future. Why environmental analysis?

The success of a business enterprise depends upon its capacity to adopt to the changing environment Technology is fastly processing. Consumers are becoming more aware of changing business techniques. To safeguard the interests of consumers State has been playing significant role in with its legislative weapons. Keen competitions among rival firms and emergence of huge multinational corporations have introduced drastic changes in the marketing techniques. To keep pace with these changing environments the entrepreneur should have a keen insight into future with a clever environmental analysis.

Ail types of business enterprises-small firms, sole proprietorship concern, partnership firm and joint stock companies, and private and public sector undertakings need environmental analysis. Non business organisation, with no profit motive, too need environmental analysis. Planning without proper analysis on environmental factors would prove to be utter failure. Conclusion

Modern management is dominated by motivation theories. It is altogether a new set up, which can not be dealt with in a manner a person is motivated under traditional system. Present day workers have a rather different attitude towards the prospects of earning income. They want to earn money, but at the same time they are not preoccupied with it. Behavioural researches have pointed out variety of positive forms of motivation in the form of external rewards of financial rewards, such as salary, job security and other remunerations and in the form of informations and better skill to attain better quality and higher quantity in production.

- Shareholders and investors are more calculative and expect more from the concerns. They keep in constant touch with the growth of the concerns. Modern day consumers are having better information facilities and hence have more sophisticated demand.

Governments are no more interested in protecting their home industries and offer to allow open competition from other parts of the world. They now think more in the name of global economy rather man narrow home economy. All these have altogether changed the environmental set up.

4. The SBI has also floated on offshore fund" India Magnum Fund and has collected 157 millions.
5. The interest income on bank deposits under NRE and FNCR Accounts is exempt from income tax.
6. Under section 5(1) the amounts invested by NRI in Convertible "foreign exchange assets" are totally free from wealth tax and gift tax. These funds must have come from convertible foreign currencies such as Dollar, DM, Yen etc.
7. The NRIs are also given special import facilities if they are making investments in India.

The above and many more facilities and concessions will make the NRI investment in India, a major source of foreign private investment in future.

Conclusion

In general foreign private investment will play a key role in lifting up the Indian Industries to the world level. Only then India could get benefit from the globalisation of trade. The whole world is moving towards globalisation of trade. Almost all countries have opened their gates to foreign concerns. Even China has opened its doors to multinational concerns, without losing its control over its communist administration, it stands first among countries in getting foreign investment. SARRC countries by recent announcement have accept globalisation of trade. Foreign private investments could prepare India in a better way for the future global trade. Suggested questions

1. *How do you rate foreign private investment in comparison to other forms of foreign capital?
2. Discuss the merits and drawbacks of foreign private investment.
3. Trace out the changes in the policy of Indian Government regarding foreign investment since independence.
4. Explain the role of foreign private investment in the light of recent liberalisation policy.

Lesson 12 CREATIVITY IN ORGANISATION

In a fast-changing, competitive, environment, creativity and innovation are a necessity for the modern organisation. Although creativity facilitates the total managerial process, it is especially useful in planning. For example, generating and examining alternative courses of actions, as well as developing new products, can be facilitated through a systematic approach to creativity. Meaning and Definition:

In general usage, creativity means a talent for unique combination or unusual association of ideas. From an administrative perspective, creativity in the counselling of original and unique alternatives to the solution of existing problems. Creativity and innovation:

We can make a distinction between creativity and innovation. The term "creativity" often refers to the ability to develop new ideas. Innovation, on the other hand, usually means the use of these ideas. In an organisation, this can mean a new product, a new service, or a new way of doing things. Although this discussion centres on the creative process it is implied that organisations not only generate new ideas but also translate them into practical applications.

Steps in creative process

Although no two persons' r.iinds woik exactly alike, the testimony of investment and great scientists indicates that the creative process has several stages:

1. Saturation-becoming thoroughly familiar with a problem, with its setting, and more broadly, with activities and ideas akin to the problem.
2. Deliberation-mulling over these ideas - analyzing them challenging them, rearranging them, thinking of them from several view points.
3. Incubation- relaxing, turning, off the conscious and purposeful search, forgetting the frustrations of unproductive labour, letting the subconscious mind work.,
4. Illumination - hitting upon a bright idea, a bit crazy perhaps, but new and fresh and full of promise, sensing that it might be the answer.
5. Accommodation-clarifying the idea, seeing whether it fits the requirements of the problem as it did on first thought reframing and adapting it putting it on paper, getting other people's reaction on it.

By recognizing these stages of creative thought, we can look for and more effectively are, techniques that help us at the different stages.

1. Saturation

A manager uses creative thinking in solving specific problems, and each situation dictates where he should focus attention. For him, the saturation stage normally begins in a through familiarity with a problem itself-its history, its importance, its relationship to other parts of the business, and its setting. Of course, has lived with a problem a long while and participates in its diagnosis, he is already intimately acquainted with it. But if he has had only casual contact with a situation, as is often true of a staff person, he is more likely to make a useful contribution if he beings by soaking up background material.

2. Deliberation

Knowledge, alone, no matter how complete, does not produce creative ideas. Information must be mulled over until what we might call mental digestion takes place. Because we dp not know just where a bread through to an original concept will occur, no one can say exactly how material at hand should be analysed. In fact, an analysis of how 144 patented ideas were discovered in the standard oil of New Jersey laboratories revealed five different approaches.

(i) Finding a new issue for a product or process, perhaps in another field,
(ii) Substituting a better agent or way to accomplish or existing job,
(iii) Pure theorizing, or sitting down and thinking,
(iv) Going into the laboratory and experimenting, and
(v) recognizing the significance of a lucky accident.

The inventers who came up with the largest number of new ideas were quite adaptable in selecting the particular approach they used at any given time.

Although there is no single and sure path follow from information to a new and useful idea, deliberation usually includes three steps, (i) analysing,
(ii) building relations and patterns, and (iii)
seeking useful rearrangements or combinations.

3. Incubation

If we are lucky, the work we have done in the steps of saturation and deliberation has furnished us with as many useful alternatives as we want. Flashes of illumination may have occured while we were deliberating. If so, we can omit incubation entirely and more immediately to the accommodation stage.

But not all problems yield so easily. In spite of thorough preparation and much hard thinking, we may not have discovered really good solution to our problem. In foreign ourselves to think of yet another angle, we may only have added to our confusion. This sorf of stalemate is so common that some writers list frustration as one stage in the creative process.

Advice at this point in simple and unanimous. Set the whole problem aside: go fishing go to the theatre, pull weeds in the garden, take a long walk, listen to music, or do whateverelse is relaxing. But this time we are too steeped in a problem to wash our hands of it, but for the present we can turn it over to our subconscious mind. At least we will return to our work refreshed, and perhaps a creative idea will come to us.

4. Illumination

Often an ideals so simple and obvious that we wonder \ hy we had not thought of it before. We may learn later that other people have the idea before us. Nevertheless, for us it was a creative experience, a new and useful idea was born. But we cannot will such moments of ilhimination, the most we can do is to prepare ourselves along the lines already suggested and hope for inspiration.

So far we know at present, illumination apparently work - in the following way. We all know speedily a complicated dream that can transpire in a short interval of semit consciousness: this experience gives us some idea of the tremendous rapidity, of ideas flashing across our subconscious. It is reasonable to believe that the mind works at least as fast as an electric computer, and we know that the number of possible relationships between the ideas stored in our memory far exceeds the capacity of anything yet designed by the electronics industry. If in the subconscious the restraints of rational thought are relaxed, a miriad of new combinations and new ideas is possible. Using this hypothesis, let us consider what in truly remarkable atou Summation that, some hour utterly wild and useless ideas are screened out. It is as though there were a filter in the subconscious that permits only the more plansible ideas to rise upto the conscious level. In those usual cases in which illumination has unveiled a compiler process or financial structure, instead of just the germ of an idea, the subconscious has been able to recognise and select a whole cluster of ideas that fit together into a workable plan.

5. Accommodation:

Rarely is a bright idea in finished form when it is first grasped. Exciting as a new born idea often is, we usually find, upon exposing it to the cold light of testing, that it is far from perfect.

If the new idea is for a material invention, we need to take it to a laboratory and test whether it will really work. We must write out new mathematical formula and check it for correctness. We need to fit a new conception to the actual facts of a problem. Usually a check with cold reality reveals the need for adapting and refining the first conception of an idea. In this creative process, we are seeking practical alternatives for solving a problem, and our search may involve quite a little work to transform an original insight into a specific proposal for others to examine.

Thus, creativity ordinary emerges after five stages.

Lesson 13 ORGANISATION CREATIVITY

Management can improve participation by promoting creativity in the individual. The following factors are important.

1. Ability to recognise the problem distinctly.
2. Ability to produce ideas and alternative solutions in great quantity, eliminating evaluation,
3. Ability to be Flexible in the approach and to break the internal of thoughts and approach.
4. Selecting the best and novel ideas.
5. In an organisation creativity promoting atmosphere is very necessary, the basic requirements for which are as under.
   - a. Freedom of expression
   - b. Job Satisfaction
   - c. Good and unrestricted communication so that good ideas can travel to decision making levels.
   - d. Recognition and approval by co-workers and management

Climate for Organisation creativity.

It is not easy to be creative to see things that others do not see. As as soon as you conceive of something different, you become a minority, of one, organisations frequently make it difficult for individuals to maintain their unique perspectives on things.

Creativity should be viewed as an attribute that, to some degree all people possess. What is necessary is to stimulate this potential within members of the organisation, especially administrators.

We have stated that every one has some potential for creativity and that the highly creative possess certain specific characteristics. Now we need to investigate whether the organisations climate in which one operates, influences significantly has ability to develop original ideas.

Some organisations are more effective than others in allowing people with high creative talents to flourish. For example, organisations with the following characteristics have been found to have creative thought. Narrowly defined jobs, clearly defined authority relationship, formal sets of rules and procedures to guide behaviour, and impersonal relationships. The stifle diversity of opinions and opposing positions, require secrecy, which binders the dispersion of information, reinforce a high degree of specialisation, have control systems build around stability, predictability, and routinization, and rely more on extrinsic rewards, such as salary and benefits, than on intrinsic qualities like interesting, challenging, flexible, and self directed work activities. Large corporation, big-city school systems, international association, government bureaus, and even large sports conglomerates posses many of these qualities that stifle creativity. Since creative people inevitably experience tensions and frustrations from job specialisation, rigid job definitions, and a rigid chain of command, we should expect those with high creativity to either become passive or leave organisations with these characteristics. The inertia and inflexibility of these types of organisation contradict the environment in which such people flourish.

Lesson-14 CREATIVE PROCESS IN ORGANISATION

Although Psychologists have found no reliable machinery to generate flashes of insight, they have identified a number of common barriers to creative thought. By being alert to these barriers, we can overcome their interference to some extent The most common obstacles are cultural and perceptual blocks.

The push towards social conformity strongly influences our thinking. All of us, consciously or unconsciously tend to fit in with the modes of living and the attitudes of our associates.

In addition to the barriers that arise from our social background, we often have difficulty with new ideas simply because of the way we perceive things. Transferring habits is one cause of perceptual blocks. The transfer of past habits to new situations may block out the fresh perception of possible alternative courses of action. Techniques for developing creativity:

Creative thoughts are of the fruits of extensive efforts, and several techniques are available to nurture those kinds of thought, especially in the decision-making process. Some techniques focus on group interactiois, others focus on individual actions. Particularly, we will look at Attribute listing, directed instructions, brainstorming and synetics.

1) Attribute Listing:

The first two methods, attribute listing and directed instructions, are basically individual techniques. In attribute listing the decision maker isolates the major characteristics of traditional alternatives. Each major attribute of the alternative is then considered in turn, and is changed in every conceivable way. No ideas are rejected, no matter how ridiculous they may sound. Once this extensive list is completed, the constraints of the problem are imposed so as to leave only viable alternatives.

2) **Directed Instructions**

We find evidence that creativity can be increased by the mere action of instructing someone to "be creative", and to aVoid obvious approaches to the problem. This method is based on the assumption that people tend to accept obvious solutions, and that this tendency prevents performing upto their capabilities, so the mere statement that unique and creative solutions are sought to encourage such ideas.

3) **Brainstorming**

One of the best known techniques to facilitate creativity has been developed by Alex F. Osborn, who has been called "The father of brainstorming". The purpose of this approach is to improve problem solving by finding new and unusual solution. In the brainstorming session, a multiplication of ideas is sought. The rules are

a. No ideas are critisized
b. The more radical the ideas are the better.
c. The quality of ideas produced is stressed.
d. The improvement of ideas by other is encouraged.

Brainstorming, which emphasizes group thinking, was widely accepted after its introduction. However the enthusiasm was dampened by research which showed that individual could develop better ideas working by themselves than when working in groups. Additional research, however, showed that in some situations the group approach may work well, specifically when the information is distributed among various people and when a poorer group decision is more acceptable than a better individual action. Also, the acceptance of new ideas is usually greater when the decision is made by the group in charge with its implementation 4. Synetics:

Originally known as the Gordon technique, after its creator William J. Gordon, this system was further modified and became known as synetics. In this approach, the members of the synetics team are carefully selected for their suitability to deal with the problem a problem which may involve the entire organisation.

The leader of the group plays a vital role in synetics. In fact, only the leader knows the specific nature of the problem. This person narrows and carefully leads the discussion without revealing the problem itself. The main reason for this approach is to prevent the group from reaching a premature solution to the problem. The system involves a complex set of interactions from which a solution emerges - frequently the invention of a new product.

In conclusion, the creativity of most individuals is probably under utilized in many cases. Yet, usual innovations can be of great benefit to a firm. Consequently, individual and group techniques should be effectively used to nurture. Creativity is not a substitute for managerial judgement. It is the manager who must determine and reign the risks involved in pursuing unusual ideas and translating them into innovative practices.

Lesson 15 BUSINESS DECISIONS

(Business Policy - Nature, meaning and scope stages in formulating the policy -determinants of business policy - purpose) **Introduction**

We had an elaborated discussion on the organisational creativity in the previous lesson. We turn our attention to Business policy in this lesson. **Business Decisions**

Business concerns are established with different objectives. The path of business concern is very difficult as there are many unexpected turn of events which may upset the plan of businessman. As long as the firm is concerned with its survival and is engaged in efforts to reach a stable position in the market, it is thinking about the existing problems and the efforts to overcome them. But sooner or later the management has to think over the major changes over the nature of business. It has to make a decision as to whether the business is to be expanded, diversified or to enter a new market or not.

There may be many changes in the market conditions, product demands, taste of consumer, changes in technology, or governmental attitude etc. The choice between alternatives may involve deciding whether to continue in the business at all or to follow a suitable alternative in the place of existing activities. A decision must be taken by the top management at once. For taking a decision, the top management must be able to review and assess the evolving socio-political, economic and technological environment. It will help to adapt its goals and if necessary, modify its goals in accordance with the changing product-market situations. Business **Policy**

Business policies are guidelines, basically formulated by top management or the general management for guiding, directing and facilitating the thinking and acting of various functional executives. It is to ensure the best contribution towards the corporate objectives and goals.

Business policy refers to decisions about the future of an on going enterprise. Policy decisions are taken after investigating market opportunity, appraising the distinctive competence and total resources of the company and combining the present and potential resources with the opportunities. These decisions are vital strategic decisions which determine the relationship between the enterprise and its environment.

Business policy involves setting long term objectives. It determines size and positions of the enterprises and the resources like human ability, plant and equipment etc. to achieve the objectives.

Policy can either be formal or informal. It can be applied, implied or imposed. It originates from the top management for the express purpose of guiding themselves and their sub-ordinates to make use of their operational tools as effectively as possible. It helps to set objectives for the whole organisation in general and for a particular activity of the concern. **Significance** of **business** policy

Success of a business enterprise especially a large scale one, depends upon the guidance from the top management in the proper way. Failure to read the changes in the future period by the top management have proved fatal to these concerns. Cotton textile mills were having a very successful period in the past But only those mills which were modernised to suit to the production of synthetic textiles are successful in the long run. The Indian Tobacco company had diversified its business and entered the marine sea foods and hotel industries. Such diversification techniques could strengthen the base of the enterprise and give it a longer risk free life. **Nature and scope of Business Policies**

According to Learned and associates business policy is concerned with top management and its functions are follows.

1. It is concerned with shaping high level long range corporate objectives. It forms strategies to companies internal capacities with external realities in the world, con sisting of rapid technological, social and political change.
2. It shapes up a well-prepared set of general policies for the pursuit of those strategies.
3. It provides proper guidance to organisation according to the strategies.

The role of Chief executive or top executive group of leaders is entrusted with the task of formulating and executing the objectives strategies and major general policies of business.

The scope of business policy is,very wide. It determines every key factor of the concerns -production aspects, product determination, financial consideration, market development, social responsibility, relation with the Government etc. All environmental conditions are to be analysed and possibility of change in environmental conditions are to be predicted. Every change in the environmental factors is to bring a challenge to the business.

A major policy decision is to be taken by the top management to explore the different sources of finance for the long-term development like expansion, modernisation etc. In such major cases a single top executive may not be able to take a decision: It needs the involvement of many top executives in the process of policy making in such matters. However in case of small organisation the policy-maker may be a single individual. **Top Management**

Top management varies in different companies of different sizes. In smaller concerns one individual without much staff support or sometimes with marginal support, would function as top management. On the other hand top management can be top managing group with extensive staff support in big business houses. Such group may be the Board of Directors or the Executive Committee headed by the President or Chairman or the Managing Director. Sometimes it may be the general manager and the functional heads. However the top management has to undertake the following responsibilities.

1. Studying the environment
2. Policy and strategy identification which is suitable to the business.
3. Policy and strategy formulation
4. Review and approval of capital commitments
5. Formulation of master plans, programmes and budgets.
6. Selection of key executives.
7. Appraisal of goals
8. Knocking out of inappropriate goals and renewing policies.
9. Planning for future.

The top management should think in line of "what is our business and what should it be?" It is defining the nature of work of different personnels of the organisation. It is setting standard for everybody's responsibilities in the business and thus it creates the spirit of the organisation in the business policy.

It determines its relationship with the Government. Relationship with Government, political, mechanism, trade organisation, trade unions, dealers market and public at large would become necessary to any organisaton to thrive, especially in a country like India.

It has also to decide the extent of its social responsibility. Business concern being a social entity cannot ignore its social responsibility. Top management cannot frame the business policy without taking care to its social contribution.

An organisation is the aggregation of individuals. Goals can be achieved only when the morale of individual is boosted up. No business policy can be successful if it fails to take care of the needs of their own people. A policy of management by love and care can boost the morale of the individual executives at all levels as well as of the work force. **Top executive**

As Henry Fayol says, the top man in an organisation has to look after the role of planner, organiser, coordinator and controller. But in modem business management the top man need not do the controlling instead he must create a sense of belonging in the minds of personnel and workforce.

The top boss in a business organisation may be known as the Manager, Managing Director, Chairman, the President etc. He is the leader and the architect of the organisation. He is a task master, mediator, motivator, organisation designer and a corporate policy maker. He collects all relevant information needed and uses them cleverly for corporate planning. His distinctive personnel contribution is very decisive as far as the business policy is concerned. Business **Policy and** Corporate Strategy

Strategy may be defined as the set of goals and major policies of an organisation, that is, the basic objectives and the major means that will be employed to reach these objectives.

According to Schedule and Hatten,' "strategy refers to be basic goals and objectives of the **organisation, the** programmes of action chosen to reach these goals **and** objectives, **and the** major patterns ot resource allocation used to relate the organisation to its environment." Strategy determines what the nature of the entity is or will be. Strategic decisions are primarily concerned with the external rather than the internal problems. It tries to establish a bridge between the organisation and its environment".

Strategic decisions are different from operating decisions. The operating decisions are related to day to day activities of the concerns. It also differs from administrative decisions which is connected with establishing authority-responsibility relationship, communication channel of distribution, resource allocation etc. But corporate strategy deals with organisation wide policies covering a wide range of interests.

Many authors use corporate strategy and business policy inter-changeably: Because both are concerned with decision making at the top level management. However there are some differences between the two.

1. Corporate strategy embraces the whole enterprise while business policy has relatively a narrower outlook. It deals with the choice of the product, service or market of individual business within the firm.
2. Business policy determines the concern's approach of competition in a given business and its anticipated position among competitors. But corporate strategy explains the business in which the company will compete, aiming to attain a competitive advantage.
3. Strategic decisions deal mainly in using critical resources towards achieving aimed opportunities in a changing environment. Mostly it deals with company's external relations like suppliers, customers and society. But business policy is an intellectual process. Top managerial personnel, thinks analyses and chooses between different opportunities to achieve the goals.
4. Corporate Strategy is a continuous process. But policies are made to be implemented over a longer period. Both are changing with the changes in the environmental factors. But once policies are determined, they are to be changed frequently.

Stages in formulating Business Policy:

Determination of business policy is a difficult task. Only persons with considerable experience and better analytical mind can do it. It carry high responsibility with it. A careless approach in policy making would prove to be fatal to the concern. Moreover implementation of policy requires a lot of financial commitment and involvement of other resources. Hence a methodical approach in determining business policy is needed. The different stages generally involved in the policy determination are as follows.

a) An elaborated study of business environment

A general and detailed understanding of the industry as a whole, is to be made. It helps to make out a broad vision about the future.

b) Defining the business mission or purpose.

A clear insight into the purpose or mission for which the business has been started, gives a certain direction to the policy maker. It gives'* correct picture about the goals of the business concern.

c) Relating **the** objectives of **the** concern with **the** external environment

The external environment like political, economic, legal and/or industrial environment are matched to the organisation goals. Also the internal resources and internal capacities are examined in the light of goals.

d) Identifying opportunities and threats

The environmental analysis helps to identify the opportunities open to the concern in the future and also the threats involved in them.

e) Appraisal of internal capabilities

The policy maker should appraise the internal capabilities, i.e. the existing and potential strengths and weaknesses of the organisation.

f) Formulation of alternative decisions.

The whole study leads to identify different policies that could be adopted for future. Each policy could be evaluated with analysis of its pros and cons.

g) Choice of the appropriate policy

Of the various alternative policies the one which is appropriate for the concern is selected. It is in this selection the top management shows its calibre and accepts the responsibilities of the effects. h) Implementation of the chosen policy

The entire organisational set up has been geared up to the implementation of the policy chosen. The administrative and control mechanism is directed in the path of the policy for the successful implementation, i) Reviewing the policy

The business policy once implemented will lead to a certain result. A proper review of the policy men the ways of the concerns and helps to make correction in the future. Determinants of Business Policy

Policy formulation and implementation is the process by which an enterprise and its leaders develop an effective method to meet the enterprise objectives. Policy formulation is made on the basis of many factors. Each factor is contributing in its own way to frame the policy of the enterprise. Each and every organisation has its own set of factors to the determination of its business policy. Generally the determinants of business policies are as follows:

a) Objectives and goals

The business concern are organised with some primary objectives and goals. The policy of the business is formed in order to achieve these objectives and goals. Profit maximisation, business leadership, multi-national growth etc. may be the goal and they influence the policy of the business.

b) External environments

Business cannot escaoe the influence of external environments. Policies framed without considering the external environments cannot be realistic. The external environments affecting the business policies are:

1. Competition

The strength and nature of competing concerns in the same industry and other industries, claiming the same purchasing capacity are to be examined carefully. Smaller concerns are easily accepting the large scale producer as their price leaders. Competition from powerful foreign countries directly influence the business policy of indigenous concern.

2. Governmental policy

Every government is following a set of industrial financial and customs policies. The policy-makers should consider these Governmental conditions before making out their business policies.

Only those business men who are in constant touch with the changing environmental set up can hope for economic prosperity. Suggested Questions

1. What are the different factors affecting business environment?
2. Explain the effect of demographic factors on the business environment
3. Bring out the significance of environmental analysis on business promotion
4. To what extent are the economic factors influential on business environment?
5. What do you understand by SWOP analysis?
6. Describe the nature of influence of social and culture factors on business environment.
7. Explain the impact of political and legal factors on environmental conditions of business concerns.
8. Explain the significance of economic factors on business environment.
9. Bring out the importance of dynamic nature of business setting.

Lesson - 3 Business and Government

Besides, Wadha also identified certain macro and micro economic indicators of the environmental conditions which also had significant impact on the business operation of the enterprise. Among the macro-economic indicators the main item to be listed are.

1. Foreign exchange situation in the country.
2. Government expenditure in the economy.
3. Degree of capacity utilisation in the industry.

Of the various micro economic indicators the main items which have the major external influence were.

1. Nature of competition offered by the public sector units as suppliers of the competing products.
2. Behaviour of the Government as a supplier.

All the factors of the environment need a detailed study and we shall discuss each and every aspect separately under separate topics. In this chapter we have proposed to discuss the need for Government Regulation of Private business and against free economy market mechanism and also the historical evolution of such control over years, in the Indian context. Doctrine of Laissez Faire

The classical economics like Adam Smith, advocated the policy of laissez Faire ie, business freedom on the ground that certainly Uberty would bring specialisation, division of labour and increased production of goods and services. The policy of Laissez Faire has four distinct features.

1. The factors of production (land, labour capital) are privately owned and production takes place at the intiative of the private enterprise.
2. People have freedom of choice in regard to consumption, occupation, saving, investment and production.
3. Income is received in monetary terms through the sale of goods produced or services rendered by factors of production from profits of private enterprise.
4. The free market economy is not planned, controlled or regulated by the Government which only satisfies the collective wants through public services. The two motive powers of free market economy are profit motive and competition.

3. Foreign policy

The Government may follow a particular type of foreign policies. Political relations with other countries, import restriction, export promotion steps, protection policy of the Government etc. will have a direct impact on the policy an enterprise.

4. Resource Availability

One should consider the availability of resources like raw materials, power, trans port, facilities, capital market etc. in framing the policy of the concerns. Otherwise policy could not be achieved.

5. **Technological factors**

Technological changes are major factors in external environment. Technology connected with production, package, advertising distribution etc. is making a strong impact on business policy.

c) Internal resources

Internal resources like availability of capital both working and fixed, technical know how, availability of materials, quality of labour, capacity of machinery power, etc, are also determining the nature and limits of business policy of a concern.

d) Functional Policies

A business concern is having several functions like purchase, production, sales financial and personnel functions.

a) Purchase policy: The principle followed in purchase of raw materials and other re quirements must suit the general business policy of the concern. It determines whether to buy or make certain material, whether to buy from home market or foreign market etc.

b) Production Policy: It is the policy as regards to method of production, choice of power, use of machinery etc.

c) Marketing Policy: It is the policy concerned with area of market, character of consumers, distribution pattern etc.

d) Personnel Policy: It is all about the relationship between the various personnels of the concern and the method of human resource management.

All these functional policies influence considerably the general business policy of the concern.

6. Review of past policies

An analysis of the past policies proves to be very useful in determining the business policy of the concern. It helps not to repeat the mistakes committed in the past.

7. **Forecasting**

The nature of business policy depends upon the forecasts made about the future economic social and industrial climate. **Purpose of Business Policy**

It is very clear that vague, unknown and confusing objectives could not help in achieving the goals of a concern. A clear business policy is helping the concerns in achieving their business goals than mere central planning and empty slogans. A good business policy is based on the well defined purpose as follows.

a) Smooth administration: It ensures a smooth administration of the concern to anticipating the changes in business environments in advance.

b) Business policies are formulated to avoid unnecessary expense and increase profitability.

c) It aims at saving time of different operation. Activities of the concerns are pre planned and hence it discards unwanted experiments. It helps to concentrate on necessary activities and hence saves the time of operations.

d) Thoroughly discussed business policies are providing better understanding about the environmental conditions. It in turn helps to formulate ideal business policies. It helps to fit the concern perfectly to the changing social, economic, political and cultural environments.

e) Precisely it can be said that business policies are made to help the concern achieve its objectives and goals efficiently.

Conclusion

Business policy provides definite boundaries for future operation of the concerns. A well defined policy gives guidelines to the concern in such a way that the concern does not alienate from the existing environments. Suggested questions

1. Explain the characteristics or features of business policy and corporate strategy.
2. Why is business policy necessary?
3. Discuss the nature of business policy decisions which are of concern to the top management of an organisation.
4. "Business* policy formulation is an intellectual process" Elucidate.
5. What are the determinants of Business Policy?
6. Bring out the purpose and scope of Business Policy.
7. Explain the procedure of fixing the business Policy of a business concern.

Lesson -16 FORMULATION OF BUSINESS POLICIES

(Guidelines of formulation of business policies - Policy statement making process -levels of policies - classification of policies in key areas)

We had a discussion on the business policy covering the nature and scope of business policy in the previous lesson. The policy provides the basis for the nature of business operations of a business concern. The policy is determined after taking into consideration, several factors which are directly and indirectly connected with the business concerns. In this lesson we make an attempt to analyse some more aspects of business policy. Policy Formulation

An enterprise faces multifaceted environmental factors which provide several risks and opportunities to the enterprise. As already mentioned it is the task of the chief executive or the top management to undertake the work of policy formulation. He may or may not seek help of other executives initially. The process of policy formulation is identical to the process of formulation of business strategy. Because both are interlinked i.e. the policy is the guideline for action and the strategy is the plan of action.

Policy formulation requires a thorough understanding of the environment and a considerable knowledge of the deployment of resources and the capabilities of the enterprise. It consists of a deciding upon enterprises objectives b) knowledge of environmental trends and their impact on the business c) determining the needs for change d) deciding the moves to be adopted by the firm to suit the environmental changes and e) setting up of priorities, targets plans and strategies for the achievement of objectives. The resources of the enterprise is limited in character. Hence it is very important to plan for the deployment of resources in response to and partly in anticipation of business trends. The chief executives need the commitment and co-operation of all the executives.

Boundaries for Policy formulation

The boundaries for policy formulation are provided by the internal and external environment. Though the chief executive is free to fix the business policy, he has to take into consideration the limits provided by the owners of the business, partners or shareholders. In the same way the external environment is controlled by many institutions- Government, competitors, banks etc. The policy must be fixed only within the limits provided by these factors. Then only it would be realistic and practical. If the policy is determined with no consideration for these environmental factors and set without realising the boundaries, it could not be followed properly. Implementation of such a policy would create chaos and confusion among the sub ordinates and the business objectives could not be achieved. Major and Minor Policies

Depending upon the objectives to be achieved, there are major policies and minor policies. Major policies are formulated for major objectives. Some of the major policies are (1) Corporate Leadership Policy. (2) Overall Cost Leadership Policies (3) Differentiation Pol* / (4) Subsistence Policy (5) Competitive Policy (6) Focus Policy and (7) Profit maximisation Policy.

Corporate Leadership Policy aims at obtaining leadership for the company in the whole industry or area in all respects. It may be with regard to maximum production, highest, prcill, highest market shares etc.

Overall cost leadership aims at achieving cost advantage over the competing firms. This is achieved through technical supremacy or better administration or clever cost management.

Differentiation policy is aiming at differentiating the product of the company from the existing competitors. The differentiation is due to colour, flavour, appearance, fuel economy etc. This policy is creating a monopoly for the product.

Many Indian concerns follow subsistence's policy with the purpose of surviving in the market. They are not taking bold steps to make a big break in the market.

Competitive policy leads business concerns to compete with particular products in the market. "Ariel" soap powder aims to win over "Surf soap powder in the market.

With "focus policy" corporations plan to concentrate all their efforts in serving a distinctively defined market segment-like low income group or high income group.

Corporations with profit maximization policy function with the sole purpose of maximisation of profit. They follow any type of effort to achieve maximum profit possible. Minor Policies

Minor policies are formulated for achieving minor objectives. These policies may be followed for short periods and are subjected to frequent changes. These policies may be low growth policies or forced growth policies.

Low growth policies may include 'No change' policy, Retreat policy and 'Focus on limited special opportunity policy'. These policies insist on no change or modest change. Under 'Retreat' policy concerns may withdraw a portion of business activities which may be dangerous. Under "Focus on Limited Special opportunity policy" they concentrate on specific profitable opportunities only.

Forced growth policy may take the form of acquisition of competitors or integration with other concerns in vertical lines or expansion of market to new geographical areas or diversification of product lines. This policy may lead to acquisition of companies, building up of new plants, market expansion with market research programmes etc.

Li rvidition to major and minor policies the company may formulate supporting policies to support the main policies. When contingency problems arise due to unforeseen events hi business, to tackle them, the company may formulate contingency policies. A composite policy is combination of various constituent business policies like purchases policy, financial policies, inventory policy etc. Qualities of successful business policy

Business concerns should take maximum care in formulating business policies. All business policies cannot be successful and help in achieving the goals of business concerns. To be successful a business policy must have the following characteristics.

1. Policies should be realistic
2. It should be easily identifiable
3. It should have clearly defined objectives
4. Policies should be capable of exploiting the opportunities fully
5. Different functional policies should not be conflicting each other
6. As far as possible, policies should have the virtue of stability but at the same time they should have scope for flexibility.
7. Policies should have acceptability from all concerned. It should not contradict with the personal values and aspirations of key managers.
8. Policies should be capable of easier understanding. It should be easily interpreted by chief executive to functional heads.
9. Policy should be characterised by fairness and honesty with the organisational philosophy, objectives, goals and strategy.

Development of Business Policies

All business concerns need the service of a good business policy for the steady development of the organisations, many small and medium business concerns may not have the conscious of practice of formulating a formal policy and evaluating and modifying it frequently. However this does not mean that they do not have any policy at all. They do have well thought out business policies though not formally. They are instituted in many cases and in some cases they do not have business policies in writing and they have firm business policies though surrounded by an aura of secrecy.

The concerns should check whether they have the capacity to achieve a goal before aspiring for such a goal. "Deserve and then desire" should be the basic approach before fixing a business policy. In the absence of such an approach the policy becomes aimless and unrealistic.

In the same way the business policy should express a clear image of the company. The policy should help image building with integrity, efficiency, technical efficiency, employee relations, sales and service managerial excellence, product quality and financial soundness.

Consistency is yet another requisite of the company. The policy of the company should be consistent in operations and hence offer no irregularity in operations. The business policy should be formed on the basis of dependable factors. If it is formed on undcpendable and sky factors it is difficult to be implemented. Even if it is implemented it may not produce expected result.

The policy may be developed on traditional or rational way. In the traditional way the policy is formed after taking into consideration, the historical aspect, past policies background, attitudes, approaches and events as guidelines for future. They are not considering the environmental changes much. That does not mean that they are not successful as they fail to take into account the factorial and environmental changes. Many Indian family business houses are very successful by following their traditional business policies. In a traditional society traditional business policy may work well.

But modern dynamic social set up requires dynamic business policies. New dynamic social environment and more professional approach to management lead to *ihe* emergence of rational business policies. Rational policy is the policy which is framed under new conditions and hence suits well to the changing background.

The development of business policy is complete only when a method of self appraisal of the business policy is evolved. Self-appraisal includes a detailed evaluation of the existing policy. It is to find out the result of the policy in regard to the achievement of each objective, future changes of the existing policies etc. All factors, controllable as well as uncontrollable,, internal as well as external, and strength as well as weaknesses are analysed well and this appraisal leads to the framing of better future policies. SWOT analysis is used as an effective tool for this appraise.

Guidelines of formulation of business policies

Maximum care should be taken in formulation of business policy of a concern. The defect of the business policy will be reflected in the performance of the concern. Policy formulation is the responsibility of the top management. Policies are differing from concern to concern and for the same concern from time to time. There are different considerations on which the policies are formulated and these considerations too change from time to time. But there are some guidelines for the formulation of business policy, which do not change. There are as follows:

1. Policies should have consistency. This stability of policy avoids confusion in operation. This does not mean that the policies do not change. It means that policies should have consistency for a reasonable period and change in policy should be consistent with the changes in the factors of the concerns.
2. The policy makers should have a clear idea about the objectives and strategies of the concern. This understanding would have a reflection on the policy they formulate. In the absence of such understanding, the policy may not serve usefully to achieve the objective of the concern.
3. The policy may be in the verbal or written form. But a written policy is better. It avoids misunderstanding and misinterpretation, later. The subordinate can have a better understanding of the intention of the company through a written policy.
4. Policies should be comprehensive in character. It helps to cover the functions of the company. It leads to have a perfect co-ordination between the various groups of activities of the concern.
5. Policies are different from rules and procedures of the company. Policies provide broad principles to achieve the objectives of the company. But rules and procedure are concerned with operative aspects. They help effective performance of the various groups of performers within the framework of the business policies.
6. Policies should possess flexibility. Rigidity in the policy may render it useless and impracticable. This flexibility helps the policies to adopt to changes in objectives, strategies. Goals or major premises.
7. Policies should have gained acceptability by all. This could be achieved through proper communication and interpretation.
8. Appraisal of policy and its performance at intervals will be very helpful. This helps to revise the policy from time to time to meet the challenges of time.

Policy Statement

It is always better to have business policies in a written form. Policies in written form make it convenient to communicate and interpret. It is having firm commitment and policy makers could not deny their responsibilities later. Also the policy makers would take more care in making the statement of policies. From the conception of policy for business to finally approved business policy, the policy statement passes through various stages. These stages are as follows.

1. Conception of Business policy

The idea on what should be the policy of the concern may come from any person connected with the concern. Normally anyone of the top executives or the man at the top of the executive level may get the idea on the nature of the policy and communicate the idea to some top executives. They may join together to give shape to this idea and draft the statement of the policy. After initial and several discussions, they prepare a clear draft of the policy.

2. Review of **the** policy by the key executives

The policy statement is thoroughly discussed by the top executives. Mostly the persons who drafted the policy statements also join the discussion. This review leads to inclu-. sion of changes in the policy statement The policy takes a better shape.

3. Review by executive **staff**

Further the policy is given to the second line executives for an elaborated discussion. These executives have a better understanding because they are more connected with the oractical, application side. The policy makers, while including the recommendations of these executives should see that the original theme of the policy is not changed. Once the policy is approved by these executives it is sent to the chairman of the concern.

4. Final approval by the chairman

The chairman or the top man of the concern is having the last word in accepting the policy draft. In case the executives cannot approve the statement due to their difference of opinion, the chairman weighs all the opinions and settles the disputes. When the chairman is approving the draft it would be sent for reproduction and distribution.

5. Policy draft communications

The policy approved by the chairman is reproduced clearly and distributed to all concerned. Thus the policy statement is prepared and distributed, involving all executives. This participation of the executives makes them committed to the stand of policy and hence the policy will be implemented effectively. **Levels of Policies**

Business policies are covering the work of all the departments of the concerns and at different levels. The policy is framed in order to achieve the objectives of the concerns. It is finalised by the top management of a concern. But the contribution to the policy is made by subordinates at different levels. Middle level managers and subordinates are consulted before the final approval of the policies. Also the policy for working at different levels are determined. 1. The basic policy or originated policy is generally originated by top management. It is for the purpose of guiding themselves or their executives. It flows from top to bottom or from the general management to functional management. Its scope is very broad and affects the entire organisation. This policy is directing the company to achieve its original objectives. The policy may be formal or informal or written or oral.

2. General Policy

The general policy is the policy for the whole organisation. This policy is followed by the middle managers of all department. This policy is common to all departments.

3. Specific Policies

The specific policies are meant for a specific functional area. It may be for the achievement of specific objectives.

The policy of the concern may be used by managers of different levels.

1. The top management may use the policy as a whole to define the broad objective of the concern. They are concerned with the formulation as well as evaluation of the policy.
2. The medium level management, mostly the functional heads of the various departments are grasping the theme of the originated policy and interpreting them in such a way that lower level of management are getting the theme of the policy in the proper way.
3. Lower level of management consisting of supervisors and inspectors are defining the policy with regard to their functional area only. They interpret in their own way and manage the affairs of the company in an effective manner to achieve the objectives of the concern.

Classification of Policies

The general business policy covers the entire area of the business concern. But the concern may have many key areas under different departments. Each key area is important to the organisation and hence needs specific attention. The policy must also be specific for specific areas. The key areas and the policies to be followed in each key area are discussed here. **1. Marketing**

Marketing is a key area for any organisation. The success and failure of any manufacturing or trading concern is depending upon the implementation of marketing policy. The marketing policy covers all aspects of marketing activities. It should determine the following factors,

a) **Product, Product line and product mix**

It should determine the nature of product-quality, shape, colour, size, quantity etc. The number of new products to be added to the existing products, should also be decided. Decision should be taken on the product line policy like product line, expansion of product line contract, product differentiation, product modification, trading ups and down etc.

b) **Distribution** and Channel **Selection Policy.**

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Thetop management should decide whether to follow long channel or short channel of distribution. The number of middle men should be fixed. It should be also decided as to what extent the distribution cost should be met by the producer, wholesaler and retailers. These small decision may change the marketing factor totally.

c) **Sales Promotion Policy**

Sales promotion is made through advertisement, personal salesmanship and sponsorship programmes. Big companies spend very huge amount on these promotional measures. Policy should clearly lay down the proportion of each promotion method. Allotment of amount should match the quantity of goods to be produced and the capacity of distribution channel otherwise the expenditure on promotion may become futile.

d) Production Policy

Production policy of a company should specify two aspects clearly, quality of product and quantity of product.

The quality of the product may be high or low or mixed. The concern may be concentrating on the production of high quality product only and that too a single type of product. Sometimes it may concentrate on the production of variety of products with difference in colour, shades, flavour, package or size. This policy may be followed to cover different types of consumers. Cost factors should be carefully calculated for producing single type of product and variety of products.

With regard to quantity of products the policy should state clearly the method of production, machines to be used, and variety of products, taking into consideration the capacity of machinery. It should also decide the extent of utilisation of the capacity.

e) Financial Policy

This is a crucial policy. It is concerned with the sources of finance for the establishment and operation of the concern.

It deals elaborately with the following aspects.

1. Capital structure
2. Own funds/debt ratio
3. Long term or short term borrowing
4. Sources of borrowing
5. Time of availability of funds
6. Type of investments to be made
7. Dividend policy
8. Types of assets to be possessed
9. The nature and extent of risk to be undertaken

Financial policy is very important because it has a direct impact on all aspects of business. It is directly connected with the strategy of business concern. Defective financial policy may have serious consequences in the concern.

f) Research **and** Development Policies

Both bigger and smaller concerns are trying to achieve development. This development is possible only through exploring new markets, new areas, new products, new uses for the products etc. Hence all concerns are trying to achieve development through researches. The research maybe undertaken elaborately or in a smaller way. Bigger concerns do have their own Research and development department. Smaller concerns could not afford to have such department separately yet they also do some research on smaller scale or they enjoy the services of research institutions. Policy as to the formation of Research and development wing, amount to be allotted, way of pursuing research nature and direction of research etc. are to be established very clearly.

g) Public Relations Policies

This policy assumes greater importance as a result of increasing awareness on the social consciousness. The concerns cannot treat themselves, as having separate identity and having nothing to worry about the social problems. This policy is clearly laying stress on the relationship of the

company with external environments, it deals with company relationship with competitors, other non-competing firms, government, its dealers etc. The smooth running of the concern is depending upon the public relationship policies. h) Legal and Personnel Policies

Of the different factors of production, labour ie. the human resources assumes greater significance in modern days. If it is not well-developed, it becomes too difficult to achieve the objectives of the concern. The company should have clearly defined policies regarding (1) Human resources recruitment (2) Training to them (3) Compensation to. them in the form of remuneration (4) systems of provision of benefits other than pay (5) development of understanding between various personnels and (6) proper net work of communication to human resource.

The human resources are justifiably entitled to proper security provisions while working, health facilities, healthy conditions of work and other facilities like, education to them and then wards, facilities for social interaction etc. The personnel policy should cover all these factors. It should be framed in such a way that proper work-environment is created in the concern to bring out the maximum efficiency of the human resources.

The legislation regarding the industries and trade and commerce are often changing. The policy should be framed or amended to suit existing legislation. The government is using legal tools like MRTP Act, Drug price control order etc.

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Thus, in unplanned economy, the Government follows the policy of non-interference in the business. Normal laws of demand and supply would themselves lead to an equilibrium and labour could form part of this invisible hand. The duties the government consisted only in defending itself against the external enemies and internally in policing the community for which it could raise revenues.

This situation was called by a constitutional expert "Dicey" in individualism. The laissez-faire policy served eminently well both as description and prescription. Hence the policy of free enterprise did no harm to the society till the Industrial Revolution. But the Industrial Revolution which took place in England during the second half of the 18th century and the first half of the 19th century brought many changes in the Industrial methods and organisation. Power driven machines were introduced. In Industrial organistation there was a change from work at homes to work at the factory. Under new conditions, large scale production became the rule. Consequently the nineteenth century became a period of rising production. Moreover, it was also a period of rising population, rising living standards and rising educational levels for the Western world.

During the great part of the 19th past century, the policy of laissez Faire, was followed strictly in all Western countries, and also in U.S.A. The basic faith was that business should be left completely uncontrolled by the Governmental regulation. Any such regulation would destroy the normal healthy growth of commerce industry. Almost all the classical economists strongly opposed any sort of government, intervention even in a slight way. But in due course, the uncontrolled and unregulated free trade policy along with the Industrial Revolution produced many undesirable consequences. In Great Britain and in all other western countries and even U.S.A. giant corporation acquired monopolistic control with all its attendant evils. It created a new class i.e. the capitalist who exploited the poor to the maximum possible. Economists and social thinkers began **to realise the evils of free trade economy.**

The first motioned reaction came from Britain Sidney Webb in his article, "The First Revolt" strongly condemned the policy. As early as 1843. Carlyle, another economist, declared that the principle of let alone was no longer possible "Benthan also strongly advocated for positive of the actions by the state in several directions.

The misery of the working class gave rise to the new political philosophy of socialism. Both Karl Marx and Engles wrote die Communist manifesto in 1848. The manifesto attacked free trade economy or capitalism as a system of maked, Shameless, direct, brutal exploitation. Marx also **advocated a class struggle** to put **an end to** capitalism.

U.S.**A.** is not also an exception **to this,** American social thinkers and economists also felt the need for regulation of Private Business. The first such law, the inter state commerce **Act** of 1887 was passed to regulate the nation's rail roads and thereby American's gave a good bye to the age old policy of **laissez faire. In 1**890 **congress enacted** the Sharman Anti Trust Act to control monopolies. Latter in 1914 the Clayton Act and the Federal Trade Commission. Act were also passed to protect the citizens from the exploitation by the American business leaders.

Thus, it is clear that the need for state intervention i.e. Government regulation was felt in the last century itself, in almost all the countries of the world. **Reasons for Government's intervention**

So far we have stated that there was a complete disapproval of free **trade economy all over the world. The brutal consequence of such economy compelled the Government, social thinkers, economist to stress for some sort of state intervention. There are many justifiable reasons for this need, They are.**

1. Provision of Non **Market** Products **and** Indivisible Service:

Certain products and services are necessary for the very existence of the society. They include nations' defence and related services, price protection, flood control, protection of public monuments, buildings etc, These services are called non-excludable public services or goods. The market mechanism cannot and shall not provide such services. Hence, they cannot be left to the market mechanism.

Some of the services or activities can be carried on by voluntary agencies and service organisations like Red Cross etc. But it is difficult to promote and administer such organisations. Again the difficulties involved in collecting the fees from the beneficiaries is not very easy, not only a competent Government can orga~~nise~~ ~~such~~-activities and provide finance to carry on mem.

2. Provisions of Basic Infrastructure :

The Provision of basic infrastructure like power, communication, port facilities, banking and other institutional facilities is sinquanon for the growth of the national economy. It involves a huge capital outlay. At the same time, the return is very poor when compared to the captital investment involved in them. Moreover, it is not also advisable to leave mem in the hands of private individuals or market participants to bear the budden. Moreover they may also exploit the society if they have a free hand in them. In such a situation the Governments and its organisations alone should be called upon to finance such activities, particularly in underdeveloped countries and even in the developing economics.

3. Improvements in Market Functioning:

Perfect market in its original sense, does not exist anywhere in the world. Even developed economics are no exception to this. The imperfections in the market cannot be corrected by the Government absolutely. However, as pointed out by Gerald Sirkin these imperfections are capable of at least partial correction by the Government action. He further declared that the state may help to correct some of the imbalances in the market mechanism in the following ways.

(1) Provision of Correct Information :

Market system will work better only when the individual participants ie. consumers, resource owners and entrepreneurs have prefect and correct information on various aspect. They need information regarding the quality and prices of raw materials, end product, factor costs, labour exchanges and so on. In developed markets, more market information is available without the help of the Government Curious private service organisations are furnishing such information by directly conducting market surveys etc. But in a less developed market the Government alone can provide such information and the private agencies are not competent enough to collect and disseminate data regarding market trends etc, Even in case of developed markets, the private information services are not available to small consumers, unorganised labour and the small investors.

(However, now-days, the need for state's help is not felt much in al the countries and in all the markets)

(2) Promotion of competition

Competition, in its real sense gave never existed in all free market economics. The past history shows that how business people and industrialists avoided competition and exploited the society by using certain devices like mergers and amalgamations, syndicates, pools and cartels. The leading business magnets built up their own empire and practiced all undesirable trade practices. Hence the need for state intervention to protect the interests of the society and to promote real competition arises.

The Government in this regard can help in many ways. In particular it can (1) Control the size of private enterprise i.e monopoly houses and (2) Regulate and prohibit monopolistic, restrictive and unfair trade practices. (3) Prevent mergers and amalgamation of competing units. In extreme cases, it can even open domestic market to foreign competition, streamline its own licensing etc. (3) Allocation of Resources Among Better Alternative Uses.

The investors will prefer to invest their surplus only in profitable avenues. On the other hand, they will not invest be state or even avoid investment in areas which are socially desirable but less profitable. Such a situation wil! really restrict the movement of resources among alternative uses, which is undesirable form the completion point of view.

This can be remedied only by State Intervention. The Government may, through rewards and incentives encourage movement of productive resources among alternative uses, Examples of this type are provision of subsidies to industrial units started in backward areas. Tax holiday benefits, Special incentives to certain type of industries etc. It can also enact suitable legislation to curb monopolistic and restrictive trade practices, control capital issues etc (iv) Provision of Institutional Support:

Government can provide cheap credit facilities to certain sectors and stimulate their growth. For example small business and agriculture. These sectors provide employment opportunities 10 million of people but the private credit agencies are not extending a helping hand to this sector.

hi a free market economy, small business men, village artisans, agriculturists shall find their very existence in trouble. (^Standardisation of Business Practice:

Standardised commercial practices are not necessary to bring stability in commercial inter changes. Customs and Trade usage etc, are of course, there. But they are only voluntary. It is now recognised all over the world (including U.S.A) that the Government is the only competent agency to set standard business prtactice. The Government through designation associated with a competent administrative machinery can check most of the unethical and unfair trade practice. (v) **Stabilisation** of **Aggregate Demand:**

One of the most important function of the Government is to provide a sound monetary system which is necessary for conducting business transaction. The rules and regulations relating to the money system constitute the official monetary policy. Where the amount of money in circulation is to be increased or decreased also depends on the Government policy. Hence the government through its appropriate monetary and fiscal policies can facilitate smooth functioning of the market at the full employment level. (4)Correction of inherent Defects in the Market Mechanism:

Free market, in its literal sense exists no where in the world. The market mechanism have certain inherent defects which cannot be corrected without the intervention of the state. Situations which all for state intervention include the following. **(i) Ignorance of the Consumer:**

In a free market it is presumed that the individual consumer knows his interest and is aware of the economic alternatives. In other words, the individual consumer would jain the greatest material satisfactions with the least cost.

But in reality the situation is not so. The individual consumers are not aware of the happenings in the market seen. Moreover, the cost acquiring knowledge of the market is also abnormally high and the poor consumer cannot afford to bear such cost. Even the information available is not also perfect in many respects.

In such situation, the state has a natural duty to come to his risk and combat his ignorance. Otherwise, the individual consumer cannot form any rational judgement after analysing the realities of the situation, (if) Natural Monopolies:

The exponents i.e advocates of economic freedom did not anticipated the evils of the factory system, the development of giant corporations etc. The advantages of large scale production associated with a favourable market condition, enable many businessmen to engross the entire market for a commodity.

With a view to avoid true competition the business man employed the devices combinations, like mergers and amalgamations, pools and cartels etc., and exploited the society to the maximum possible, the situation was too worse when the product has an inelastic dema; '.. The only remedy to solve the situation is the governmental regulation through leg' on. (iii) Absence of Relevant Information:

Many environmental forces and the changing conditions in the modern business world, made it imperative for every business firm to have a well managed information system. The ..„ed for Market information at present is more stronger than at any time in the past. The present day market is more complex and in the absence of a well arranged information system business risks cannot be reduced and suitable decisions can not be taken immediately.

But in the actual practices relevant information is not available even if the businessmen i» prepared to bear the cost of obtaining it. The Government is in a better position to collect the relevant the information and supply them to the manufacturers, (iv) Allocation of Resources in Time of Emergencies:

In times of emergency certain sectors of the economy require additional resources urgently. Price mechanism (through free trade) cannot bring about the requisite reallocation of resources in those times quickly and promptly. Hence the Government has no other alternative other than to intervene directly into the market and exercise control over it Certain controls such as price freezing allocation or rationing of consumer goods, industrial raw materials restrictions on foreign exchanges are normally considered as temporary measures to meet the economic problems arising in times of war ;or during other external emergencies, (v) Speculation:

Speculation is by and large an useful economic activity in as much as it increases the volume of transactions in the markets. It also has a stabilizing effect on the prices because speculators buy when prices are low and sell when prices are high. In spite of this market advantage, speculation should not be allowed to grow beyond a certain limit. Excess speculation shall distort the market mechanism. Moreover, mistaken forecasts by speculators shall have a destabilizing effect.

In such situation, the government intervention shall become necessary.

(1) to provide correct information to the market participants and

(2) to regulate and control the speculative transactions by providing necessary rules and procedures.

In our country, the Government exercises tight control over the securities market through legislative action, (vi) **Inequalities is the Distribution of Income and Wealth:**

In a market economy, income and wealth of individuals depends on the number of productive units which they own. The number of units of productive service which they own depends on inheritance effort **and** luck. As stated by Prof. Thomson, "the benefits of inheritance, effort and luck are not equally distributed in the existing social order and are not likely to be so distributed in any conceivable scheme of social organisation" So ineffect market system is incapable in bringing about equality in the distribution of income and wealth.

Undue variation in income and wealth cannot be tolerated in any decent society, Some sort of Government intervention is, thus necessary to combat inequalities in income and wealth distribution, (vii) Restrictions in Imports:

In a free market economy, goods are allowed to move freely and hence home industry has to face stiff competition from foreign manufactures. Hence restrictions on imports have become necessary to protect at least a few select home industries. In some cases, there may exist a justification for protection but there is ample scope for abuse of the same. To deal with such a problem, it is proper for the Government to formulate suitable import policy.

(5) Optimisation of the Rate of Savings:

Any country, in which capital formation is very low, the rate of development shall also be low. It is more so in developing countries, Mobilisation of savings to its optimum level is impossible without government support. By forcing and encouraging individuals to maximise the rate of savings. Government can make available the requisite capital for the establishment and the growth of industries and other sectors of an economy.

In our country, both voluntary and compulsory savings schemes are formulated to mobilise savings to its optimum level. In spite of the sustained efforts taken by the Indian Government and other public financial institutions, the rate of capital formation is still low. Now the public enterprises are also allowed to go to the capital market and they are issuing bonds and debentures.

(6) Provisional of Humanitarian Services:

The Government of every industrial society has found it necessary to pass legislation regulating matters such as minimum wages, maximum working hours, the prohibition or regulation of women or child labour, and the establishment of minimum health and safety standards in factories, work shops and establishments. As the industrial societies mature, this type of legislation is frequently extended to include old-age and retirement pensions and health, accident, unemployment andinsurance.

The market is an impersonal agency. It takes into account or recognises only those virtues or valued which are marketable. It never cares for humanitarian considerations and non economic reasons. Hence Government intervention through legislation have become inevitable in all economics.

The free market economy has become an outdated concept and has no relevancy today, even in the so called capitalist economics. Government intervention has become frequent. A Mussulman and John HJackson well known Professors of the American Universities, enlist the reasons for Government control in a summarised form. The reason given by them are.

1. To protect the welfare of the individuals and to promote higher standards of public health safety, morals and general well being.
2. To maintain, equality of opportunity for all persons regardless of their sex, national origin or religion,
3. To restrain business from engaging, in practices that would be harmful to the public.
4. To protect small firms from unfair competitive abuses by the big firms.
5. To prevent unfair practices resulting from merger or other forms of combinations such as price fixing.

6. To conserve our national resources-notably forests, fuels and water-and to prevent dangerous pollution of the atmosphere. Conclusion

To conclude it may be remarked that private section is very weak, short sighted, too tradition bound, cautions, and therefore incapable of taking of bigger tasks for economic development. The market mechanism on which it depends has no element of public interest in it. The market mechanism, itself has many defects which cannot be corrected without state intervention. Therefore, the state should take the initiative and intervence wherever necessary.

At the same time it should not be misconstructed that private business has no role to play in the national economy. Expecting a very few countries where socialistic economic system is prevalent, other countries in fact follow only mixed economic system. Even in socialist economics like U.S.S.R the importance of private business in the economic development is now recognised. Thus, it may be remarked that market (private business) and Government are the key institutions in a society. Failure of either of them to live up to the expectations shall give rise to certain problems. Moreover, market mechanism shall be made meaningful and eradication of all its evils is possible only when the Government intervenes wherever and whenever necessary.

NATURE OF INTERVENTION

Government has a decisive role to play in the modern societies, irrespective ot tne pattern of political or economic framework adopted. The American economy is often referred to as the example of capitalist economy. But most of us have a false impression that private enterprise in U.S.A. is controlled at three levels-local, state and national levels.

These regulations, in fact, encourage and make positive contribution to the success of the American system. They prevent practices that restrain trade against the public interest. Public Sector is also there though the Government is also encouraging the private sector through is grants and subsidies. Therefore American economy is only a "modified free economy"

By carefully analysing the role of the government in various economics and the nature of intervention with all their difference in the degree of control and direction and influences, three distinct measures appear to be prominent. Governments taking over the ownership of business by nationalising or promoting a new industrial unit in public seems to be an extreme case. In this respect the Government acts as a regulator. Finally incentives and subsidies in which the role of the Government is a promoter or caretaker. Therefore we shall study the role of the Government from the three angles.

1. Government as an entrepreneur
2. Government as an Regulator
3. Government as a promoteer and caretaker

Government as an Entrepreneur:

Entrepreneurial role is more pivotal which is moreso is planned economics. Among the different measures of intervention. Government's taking over the ownership of business by nationalising or producing the goods under newly created public enterprises is in fact an extreme case. In most developing countries including India public sector enterprise has become a straggle instrument of the public policy. It has been used to pioneer new industries, reduce imports and achieve national self-sufficiency in strategic goods, achieve commanding height for the state in the important sectors of the economy, develop backward areas and maintain employment.

Why Public Sector?

There **has been a** tendency in many developing countries to assign a dominate role to the public sector. There **are** compelling reasons and purpose to justify the state's participation in industry and commerce. These purposes could not be better served by the private enterprises and be served better only by **the** Government. The important reasons which necessitate state ownership are listed below.

1. Need **for a Planned** Economy

Modern trend is in favour of **a** planned economy. The responsibility for planning lies only with the Government The concept of planned economy inevitably leads to the Government to play an entrepreneurial role and not of a mere regulator of business.

2. Lack of Capital and Insufficient Industrial Base:

Most of the countries in the world are yet to develop. Some of them are developing while some others are still undeveloped. There is no sufficient industrial base and the private sector is also financially weak. The private entrepreneurs in such countries have no sufficient capital to establish capital intensive industries like shed. Capital goods, petrochemical and fertilizers which are essential for rapid industrialisation and development of the national economy. Moreover the rate of return is also too low in such industries, at least in the short run. Hence, the government alone should take up the responsibility of nation building.

3. **Protection** of **Consumer Interest**

An average consumer is considered as less competent to form a rational judgment about the goods supplied to him. Particularly when monopolistic tendencies prevail, there would be a higher degree of exploitation of the general body of consumer. Therefore, it becomes the duty of the Government by entering into such fields that can protect the consumer and avoid the evils of monopoly. For example, in our country, public transport companies compete with the private transporters. There are also public and private fertilizer units which compete with each other.

Of course, the evils of monopoly can be prevented through legislative measures. But the interest of the consumers can be protected well only when public enterprises compete with private enterprises.

In addition to MRTP Act the Government has also recently passed the Consumer Protection Act which gives wide powers to industrial consumers to protect themselves against exploitation through unfair trade practices.

4. To Augment the National Dividend:

Large scale participation by the Government in the industrial and commercial activities, is bound to increase the national dividend. Now our public enterprises are earning a higher rate of profit. Even loss making units are managing to reduce their losses. There has been an impressive rise of Rs. 800 crores in the profit of the public sector enterprises during 1986-87, according to the latest official estimates, The income earned by these units will ultimately go to the common pool of the Government and shall be made available for redistribution or reinvestment.

5. To Reduce Regional Imbalances:

Concentration of industries in a particular area shall create, several problem difficult to solve. Firstly it shall create regional dlisparties in growing and income distribution Secondly, it shall create large scale unemployment in backward areas. Thirdly the unemployed masses in the backward areas shall migrate to cities and towns where they can get better opportunities. This sort of immigration will create ecological problems and in the creation of slums.

Changing Society

Society has faced changes in all aspects - social, educational, technological cultural and other aspects - and these changes are closely related to each other in the social system. As a result a change in any one aspect leads to change in all other aspects.

Socio-political arrangements condition the design and structure of any economic system. Under democratic system, decisions taken by the governments are directly or indirectly influenced by public through a system of voting. But a single individual takes crucial decisions for the entire country under dictatorship. Under presidential form of government, the President takes or makes decisions. But most of the decisions are processed by the Cabinet ministers under a Parliamentary system. These political environment have far reaching impacts on the economic activities.

Under capitalistic set up, economic "decisions to invest, produce and distribute are determined by the private sector, induced by profit motive and guided by free market mechanism. Under socialist form of society Central Planning and social welfare motive direct the public sector to make decision. Bom private and public sectors, jointly take major decisions in mixed economic society.

Moreover it remains a fact that almost all resources are scarce even in the case of 'affluent societies'. Individuals are to make choices between different decisions. The general economic surroundings pose different questions and decisions are to be made as to what to produce, how to produce, when to produce, how to distribute, what to distribute and for whom to produce.

Governmental intervention in day-to-day economic affairs is on the increasing scale in most of the economic systems. Welfare state concept and planning give significance to State role

In most modem-economics, Planning exists with free market mechanism. Added to this, modern economics follow 'open policy'. They gradually free themselves from protection policy. This leads to the increased international trade and co-operation. The presence of powerful multinational corporation offers a changed environment.

It is under these environment and set of constraints the modern business operate. Management has to take into consideration, functions of marketing, objectives of national planning policies of government, social responsibilities and-forms of international co-operation before making any business decision. Dynamic entrepreneurs keep themselves continuously informed about the magnitude and direction of changes in national as well as international economic environment

Definition

Business environment refers to those aspects of the surroundings of a business enterprise which affect or influence its operations and determine its effectiveness. According to the Oxford English Dictionary the word Environment is the surrounding object, regions or circumstances.

Bayard to. Wheeler defines Business Environment as the total of all things external to firms and industries which affect their organisation and operation", the external environments cover all aspects of our social, cultural, economic, political and scientific life having direct or indirect on business.

Environment analysis is defined as " the process by which strategists monitor the economic, government/legal, market/ competitive suppliers/ technological, geographic and social settings to determine opportunities and threats to their firms" (William F. Glueck)

Nature of Environment

The role of enterprise is mostly determined by the nature of environment. Hence it is important to understand the nature of environment. It differs from country to country and economy to economy. In a developing economy, with a large population and low standard of living and with a planned mixed economy like India, the environmental factors would have a significant influence on the business enterprise.

Besides, such kind of localisation shall create, several problem difficult to solve. Again there are they strategic reasons to avoid concentration in a few areas.. Hence dispersal of industries over a wide area and a balanced development has become essential to solve this issue.

Backward areas are subject to certain inherent defects and private entrepreneurs shall generally hesitate to start industries there. In such a situation the Government itself should take initiative and establish its industrial units disregarding the economic and technological consideration. Since the Government has huge resources (Capita) at its diagonal it is in a better position to eradicate all the inherent defects of those areas and make mem better localities to start other industries by private entrepreneurs. When the Government takes up the initiative and the lead others will not hesitate to follow. Government as a Regulator

The ~~entrepr~~eneurial role of the Government in India a very conspicuous in the tremendous growth which the public sector has achieved in the past In the country, the public enterprises owned by Centre and State Government and departmental undertaking are estimated as produce goods and services worth Rs. 100,00 crore, which more than half of the nation's industrial output Itis needless to say that the investment in tins sector has also increased tremendously during the last fou? decades. The total foreign exchange earned by our public sector units amounted to Rs.5831.5 crore in 1985-86. The share of employment of the public sector has also marked a substantial growth in the past public sector has employed 54.5 5% of the total organised labour force in 1961. Bui it has grown to 68% in 1981. These figures throw light on a very prominent fact, that sector employs only a little over 32% organised labour force in India.

All these figures are given here only to enlight the growing importance of public sector in our economy. Whenever, private enterprise is allowed to function in the economic system, it should be regulated and controlled. Whether it is mixed economy or capitalistic economy, Government regulation is unavoidable. Hence Government intervention is found all over the world.

Government regulations are available for all the areas of business and industrial activities. The Government regulations, and control on the basis of their nature, enforcement can be classified into two categories viz (1) Direct control and (2)Indirect control.

Direct control can bring the desired results more effectively and promptly and also economically. Hence they are considered as more drastic in their effect. Only because of this advantageous factor, direct controls are assuming more importance in all developing countries including India.

A direct control measure usually stems from a legislation. Many developing countries have instituted a variety of controls over the economy only through legislation Industrial licensing system is practiced in almost all developing countries, hi our country also Industrial Policy Resolution and the Industrial licensing policies are the main instruments of the Government regulation. These policies shall be discussed in detail in the subsequent chapters in this book. Monopolies and Restrictive trade practices regulation and Foreign Exchange Regulations passed by the Government have also a considerable regulative role. Even in U.S.A monopolies are regulated and controlled through various legislative measures. The American realized the evils of monopolies even in the last century itself. As early as in 1980 The American Congress enacted the Biennen Antitrust law was very limited in its scope and passed a variety of enactments with the passage of time. The Clayton Act Federal Trade Commission Act The Caller Kefauver Antimerger Act are a few note wormy statutes of mis type.

Next comes the direct control over investment The domestic saving should not be allowed to go into wasteful channels and into unproductive ventures. Hence Control of Capital Issues Act was passed in our country. Likewise; *ci\agn investment in India, Indian investment abroad and ibreign collaborations agreement* are also regulated by the Government here.

Other objectives of industrial control include development of small and new entrepreneurs, balanced Regional developn,*sax* etc., According to our Industrial policy certain industries are exclusively reserved for small land tiny sector. To promote a balanced regional development we have both direct and indirect comix.' device. Indirect controls are usually exercised through various fiscal and monetary incentives and disincentives and penalties. Industrial units started in the backward areas are placed in advantageous position. They can avail several incentives and subsides. Tax holiday benefits are also available to them. Public financial institutions are also very liberal in providing financial support. These measures shall be discussed under the next topic "Government as a promoter anda caretaker." Government a Promoter and a Caretaker:

The importance of this promotional role is duly recognised in all developing: as well as developed countries. Even in USA the federal Government aids and protects business through tariffs, monetary, loans, grants and subsidies. A Government agency, called small competition. This agency provides business and disaster loan. Form subsidies are also being paid to growers to tobacco, com, wheat, seed, grain of sugarcane and sugar bets. Farmers producing some specific crops are grunted a certain minimum price. Besides when from imported goods, they are paid unemployment benefits. It this is the case of a well advanced aids in developing countries.

But in 1979, the Janatha Party came to power and it laid more emphasis on cottage and village industries, Small sector was given active encouragement and a number of industries were started.

We all know that our pnvate sector is financially weak and less efficient Capital formation is also very low. Therefore, the Government and its public sector units have come forward to extend a helping hand to the private entrepreneurs and encourage tb*sn to undertake business ven-tures in all three sizes-large, medium and small. They render various services and provide various loans etc., are also liberally provided to the innovative private entrepreneur. The Government looked into> certain specific areas of operation-parucularly in the export front In this respect the Government acts as a promoter and caretaker.

In order to achieve both rural and urban industrial growth, the Government and its public sector units provide various assistance in various forms and in varied directions. The most important ones are

1) Provision of infrastructure.
2) Development of Industrial Estates
3) Development of Industrial area locations and plots.
4) Tax incentive for domestic and foreign investment
5) Special incentives for the development of backward areas
6) Special schemes for ancillaries and auxiliaries to the public sector.
7) Tax incentive to small units and certain selected items

Recent Liberalisation Movement

Now, after Mr. Rajiv Gandhi has come to power the Government is playing a more promotional role rather than a regulator role. In order to reduce the rigidities and improve of environment for industrial growth, various liberalised measures are taken recently.

1) Most industries and product groups have been delicenced
2) The textile policy wis modified m order to enable the milt sector to come back to a strong position.
3) Technology Imports have been liberated.
4) Availability of finance is made easier
5) The exemption limit for individual units or groups regarding registration (under chapter in of the MRTP Act) has been based to Rs. 100 crores.
6) Number of industrieshave also been exempted from the operations of sections 21 and 22 of the MRTP Act

These measures have imdottfefedly been initiated to be fester development of industry to accelerate the pace of ecos~~mnip~~ growth. Conclusion

So far we have discussed thenature of state intervention, the spectrum of intervejBtion is extremely wide. For the present purpase^netty sosaesj^fieeot issues which are relevant to iadus-try m India arcconstdemd. FuitW saeacopfeof the discussion is confined to measures undertaken by the Central Govoriimrpf

From a careful anatyaisef metwe/iplps ~~promo~~tional role and regulatory role i.e. incentives and control, it is undetected &at thste ieyot another dilemma in the selection. Controls have a tendency to grow to become more ~~cosapiex~~ and terKHo-conttnuc long after they have outlived their utility. The history also makes point clear. Many controls whi '.. vere very once found inevitable are still in existence, though they are meaningful in the present situation. On the other hand if a business decision can be influenced^ incentives it would be far better to provide the incentives than to impose a control. Wethinkthat our Prime Minister has started the liberalisation movement only with this ultimate object in mind. But what had happened in the past was both control and incentives operated with similar objectives.

We shall study both rules of the state elaborately in the subsequent chapters.

Lessen -4 DEVELOPMENT OF INDUSTRIAL POLICIES

Introduction

In the previous chapter we have discussed the need for State intervention and also the various forms of such intervention in * general way, In this chapter and also in the subsequent chapters we have decided to discuss the role of the Government in the process of industrialisaton and the various forms of intervention of the state in tile private business.

The policies of the Government were also subject to frequent change. In the early days of Independence, the Government laid more emphasis on tiw public sector and the private sector was subject to the rigid control of the Government In fact very few areas of economic life remain free of state regulation of control. Various legislative measures were taken to curtail the freedom of private enterprise and thereby avoided exploitation of the society. At the same time, the Government was also aware of the fact that it alone cannot fulfill the responsibility of nation building without the help of the private sector. That is why we have adopted mixed economic system of our country. The Government took up the responsibility of providing suitable institutional framework to the private entrepreneurs to encourage mem to take up big venture. In fact they were given and

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are being given all sorts of assistance and helps financial, technical, marketing etc., Even the public sector agencies were asked to provide libera! help to the private entrepreneur. In spite of all these, operational controls over private sector continued for several years, Particularly late sixties and early seventies witnessed a tightening of various measures reserved for small sector. The Janatha Government, however, was short lived. Hence the Janatha Government was not able to make any considerable progress in respect of implementing the policy they have formulated.

In 1984, Mrs. Indira Gandhi again came to power and announced a new Industrial Policy. Unlike the Janatha Policy which passed more stresses on Small and Cottage industries the new policy of the Congress Party placed equal emphasis on both large and small sectors.

Mrs. Indira Gandhi in her later days realised that the economic environment which we have created since Independence had failed to offer either a strong incentive for improving productivity or a strong penalty for tolerating a low productivity. In order to reduce the rigidities and to improve the environment for industrial growth, a does of liberalisation in the areas of industrial licensing, import restriction and price controls were given. These measures have fostered a measure of competition and an urge for increasing productivity.

However, the liberalisation movement in its real sense started only aftgr Mr. Rajiv Gandhi came to power particularly during the last couple of years. The Government has initiated several policy changes with a view to make the industrial climate more congenial to economic development The seventh Plan is now in force and the Eighth plan will start soon. We have to face several road blocks and the Government believes that these change will enable us to encounter these blocks.

Here, we have given only a brief review of our Industrial, policy, It is also stated that our policy has been frequently revised and now a total departure from the original policy has become visible.

Due to these complexities involved we should study the implication of the industrial Policy and the changes made in it only in its historical perspective. The orginal Industrial Policy was revised by Pandit Nehru himself in the light of the experience gained. Mrs. Indira Gandhi took different stands in different times. Mr. Rajiv Gandhi has almost closed the chapter of operational controls and opened many doors to the private sector which remained closed to them for the last four decades since Independence. The focus on current debate mainly revolved about the proposals for privatisation. Even minister are canvassing support for this move and thereby trying to put a full stop to the entrepreneurial role of the State.

In this lengthy introduction, we have given a birds eye view of the over all policy and the changes made there in. The industrial Policy forms only one important aspect of the economic policy. This will include trade and fiscal policies (especially taxation)industrial planning and other relating to the economy as a whole and to the industry in particular. Over aM Economic Policy

Most authors on Economic believed that the ideology of planning emerged only after Independence. There are two strong reasons for their belief. The British rulers made no positive attempts to industrialise the country and in fact they have no clear cut policy for industrialisation of our country. The National leaders also have no definite policy which the free India should adopt. In those days, their ultimate, perhaps the only object was the attainment of freedom. They rarely thought about the overall economic policy of the free India. The National leaders themselves have even no opinion. They propagated their own policies and programmers. Mahatma advocated for a Panchayat Raj and self sufficiency. He in fact had no definite opinion about the heavy industries. But he was definitely against imposing control over private business.

In spite of all these, it was only Pandit Jawaharlal Nehru who was always thinking of the economic system of the free India. His speeches and writings give us a reliable clue, about his ideology. We can infer from his writing mat he was firmly wedded to socialistic ideology. He had a great regard for Soviet Russia and its Revolution. He carefully watched the quick and spectacular development of heavy industries in U.S.S.R. under the dynamic leadership of Lennin. He was also convinced by the achievement made through Central Planning there. At the same time he was also aware of the fact that how consumer good industries were neglected and thereby caused privatitation and misery to the Russian people. Hence he wanted a mild type of indicative planning instead of the Russia type imperative planning.

He was sure that neither pure socialism nor pure capitalism could enable use to attain economic Independence. Therefore be evolved the idea of mixed economy which has all the advantage of Central planning and free market economy. He also believed that mixed economy with indicative planning system shall certainly improve the conditions of the people without causing my acute social complication or public discontent.

He also placed his plea before the congress session and sponsored the idea of constituting a National Planning Committee. A Committee was constituted accc rding by the Congresaparty with Nehru himself as its chairman. "The Committee began it dilel a nations before second World War and its reports, except the final one were published before peace was restored.

In 1914, a few prominent industrialists voluntarily joined and prepared a plan which was popularly know as "Bombay Plan" The plan also accepted that a central directing or planning authority was essential if economic development was to be fe. ?Me on the lines envisaged. "Besides" the plan declared in the initial stages of the Plan vigorous measures of state control would be required."

The then British Government also made a few attempts and they will be outlines elsewhere better. Soon after independence Nehru became the F .ime Minister and responsibility for planning also fell on his shoulder. He made various pronouncements, declarations, proposals, policies and programmes. In fact, there is abundance rather than dearth of policy statements and proposals. The statements are followed by restatements clarifications and notif. ns. Of them the Industrial Policy Resolutions of 1948 and 1956 can be considered as definite documents from which the industrial policy in India can be certained. But there is no such documentary evidence which clearly outlines the overall economic policy of our country. Though there are a number of statements and proposals, these documents do not provide a reliable clue about the overall economic policy of our country. It is also difficult to summarise them all together and then project a singularly constructive and cohesive policy stand of the Government. Neither it is possible to trace the policy wholly from administrative actions.

Issue relating to regulation of the market, continuity versus change, modernity versus tradition in industrial growth, role of agriculture and industry, private and public sector etc., are to be determined while designing the overall economic policy. But the administrators have no clear cut policies on these vital issues. Hence, the practices and policies expressed by them on these issues quite often very considerably appear that political leaders want everything, market freedom, consumer protection, faster growth of industrialising, agriculture, traditional and cottage industries, public as well as private sector, social justice- the emphasis on each changing with time. In a situation like this the implications of economic decisions can be explained only in terms of the ideologies of powerful groups.

In spite of these difficulties and the apparent absence of a well defined over all economic policy, each pressure group has accepted economic planning as the only possible way to attain quick development With this back gorund we shall now proceed to discuss the development of Industrial policies and planning. Political Constitution of India

In the previous chapter, we have discussed the need for state intervention and also the various forms of intervention in a general way. In any discussion of the control of private business, a brief study of our constitutional framework is essential at the outset itself. This is because the basic guiding principles of the state functioning are clearly laid down in the Preamble of the Constitution. Part HI of our Constitution i.e. the Fundamental Rights and Part IV of the Constitution i.e. the Direct Principle of the State Policy. The Preamble of the Constitution

The Preamble of the Constitution lays down that the attainment of social, economic and political justice and equality of status and of opportunity should be among the most important basic guiding principles of the functioning of the state. As if these were not enough the constitution was amended, in .1976 to add among other things mat India should be socialist state.

Thus, the Preamble gives some indications of the need and scope, for state intervention in the functioning of the economy with a view to discharging its dates and responsibilities for realisation of economic and associated objectives. The Fundamental Rights

Though the Preamble declares that our aim is the attainment of a socialistic society, the constitution offers a wide range of fundamental rights to all the citizen individually and collectively. The fundamental Rights enumerated in Part IV of the constitution are i) Right to Equality ii) Right to Freedom iii) Right against Exploitation iv) Right to Freedom and Religion v) Cultural and Educational Rights and VI) Right to Constitutional Remedies

The fundamental Rights in a sense implies the limitations of the Government and the legislative from becoming totalitarian or authoritarian.

At the same time, it must be remembered that undue freedom shall frustrate the very object of die Preamble of the constitution i.e. the attainment of a socialistic state. Hence these rights themselves are not made absolute. The Constitution itself declare that the fundamental rights are subject to limitations imposed by the state in order to secure rights for all individuals or to promote the greater interest of the community or state or to severe the ends of a planned society

Therefore, we can conclude that our constitution provides limited fundamental rights and not absolute rights. At the same time the State also has no power to deny these rights totally. It has power only to impose reasonable restrictions and that too when public interest demands so. This loophole enabled the Government to impose a number of statutory controls under the banner of public interest and resulted in a substantial expansion of the entrepreneurial or participative activities of the Government. Directive Principles of the State Policy

The Directive Principle of the State Policy are a unique feature of the Indian Constitution. The Directive Principles relating to social and economic matters (Article 38,39,40 to 43 and 43 A)

discarded the old doctrine of laissez faire and established the Right of the Government to regulate and control private business in a drastic manner. Of the various Article in which the Directive Principles were incorporated Article 39 has a special significance.

Article 39 directs that the State shall in particular direct its policy towards securing, i) That the citizen men and women equally have all the rights of an adequate means of livelihood, ii) That the ownership and control of the natural resource of the community are so .distributed as best to serve the common good, iii) That the operation of the economic system does result in the concentration of wealth and means of production to the common detriment, iv) That mere is equal pay for equal work for both men and women. v) That the health and strength of workers, men and women and children are not abused and that citizens are not forced by economic necessity to enter a vocation unsuited to their age or strength, vi) That the children are given opportunities and facilities to develop in a healthy a manner and in conditions of freedom and dignity and that childhood and youth are protected against exploitations and against moral material abandonment.

It can be see from the selected list of directive Principle stated above, mat the Founding Fathers of the constitution have in all their wisdom, provided the guiding principles for the evolution of a just social and economic order. They have anticipated all the possible ills such as concentration of wealth and means of production in the hands of a few persons, gross inequalities income, child labour and exploitation of the weaker sections of the community.

In particular sub sections (ii) and (iii) are relevant for our present study. They constitute the driving force behind a number of laws or policy measures affecting business. In pursuance of these provisions our Government has on one hand introduced remedial legislations and reforms on a business firm and concern, and established a number of public enterprises and confirmed monopoly on most of the public sector units in several fields of business activity example-Insurance - both life and general insurance, extraction of oil and mineral gas etc.,. In fact the adoption by the Parliament of the socialist pattern of Society as the objective of our social and economic policy in December 1954, followed directly form these directive principles of our Constitution. Directive Principle Vs Fundamental Rights

There have been many occasions when the Directive Principle of the state have come into clash with the Fundamental Rights. In the early days, the Supreme court held mat fundamental Rights were a Sacro Sant Part of the Constitution and nothing including the Directive Principles could override them. Hence, there was a false impression that the Directive Principles are not justifiable. But those days have gone. In recent years the view that Fundamental Rights Should be subordinated to the Directive Principles had been gaining ground. They should not be taken lightly and it is not correct today that they have no binding force. They represent the broad sign posts which state policy must follow.

In Kesavanatha Bharathi case Justice Mathew declared as follows.

"In building up a social order it is sometime imperative that the Fundamental Rights should be subordinate to the Directive Principles they are fundamental in the Government of the country Economic goals have an incontestable claim for priority over ideological ones on the ground that excellence comes only after existence. It is only if men existed that there can be fundamental riishte"

Development of Industrial Policies

While examining about the overall economic policy, we have stated that the planning ideology emerged much before Independence. It was also stated that Pandit Jawaharlal Nehru, was clearly wedded to socialistic ideology and centraised planning. Fortunately he became the first Prime Minister of the Free India. He took an active part in shaping the industrial policy of the country and also in framing the constitution. He was aware of the fact that ours is an under developed economic and the means of production are primitive and inefficient. He was also sure that unless sufficient efforts were taken to industrialise the country, economics development would be practically impossible.

Industrialisation is primarily associated with the establishment of large scale enterprises, equipped with power and the machines and using modern technology. The problems of poverty, insecurity, over population, unemployment etc., can not be overcome more effectively unless measures for rapid industrialisation are taken. At the same time our overall economic environment was not also in a position to provide sufficient stimuli of rapid time should be established. Basic Key industries which were altogether absence in our country by that time should be established. This task should not left to the Private sector. Neither the private sector had sufficient resources to undertake such risky as well as low yielding ventures. Moreover, even if the private sector was allowed in these fields of industrial activity the ultimate result would be brutal exploitation of the society.

Bearing all these rectifies in mind, Pandit Jawaharlal Nehru prepared an Industrial Policy for our country and announced it in April 1948 itself i.e writing eight months of Independence.

Industrial Policy Resolutions of 1948

We have so far given the historical background in which the Government announced its Industrial Policy. The readers should also remember that our constitution did not came into existive at that time. Only preparatory measures were taking place. However, the First Industrial Policy Resolutions in all counts clearly reflect Nehru's ideology and his fascination towards the public sector and planned economic development.

Being the first systematic and comprehensive Industial Policy, the Resolution laid down the general guidelines for development of industries in our country. It contemplated a mixed economy. In a mixed economic system, both public and private sector co-exist and shall march hand to accelerate the pace of industrialisation. However, in our mixed economic system more weight age was given to the public sector and the state was assigned a progressive active role in the development of industries. Objective of the Policy

The Policy was formulated to achieve the following objectives.

1) Establishment of a social order where justice and equality of opportunities.
2) Promotion of Standard of living of people by exploiting the later resources of the country.
3) Increasing production and
4) Offering opportunities to all for employment to the community.

Main Features of **the** Policy

From a quick glance of the wordings and clauses of the policy, the important features of this policy can be outlined as follows. 1) Classification of Industries

The Resolution classified industries into four broad categories with a view to define the spheres of public and private sector in the process of industrialisation. The classification as per this

resolution was as follows.

i) Industries which have strategic importance and exclusive monoply of the State.

ii) Basic Key industries- All new units in this category were exclusively reserved for public sector. iii) Basic industries in which private sector was allowed but subject to the control and regulation of the Central Government, iv) The remaining which were left open to private sector as well as to co-operatives.

2) Role of Small Industries

Small industries were not over looked. The role of small industries and cottage industries was explained and appreciated in the nation building.

3) Foreign Capital

Since the rate of Capital formation was low the role of foreign capital was emphasised. It permitted the inflow of foreign capital in various forms particularly in the forms of technical kno-whow with a view a to muster the peace of industrialisation of the Indian Economy.

4) Protective Tariff Policy

The policy assured the implementation of a sound tariff policy to prevent unfair competition from foreign countries and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer. Evaluation of the Policy

While evaluating the Industrial Policy Resolution of 1948, it is important to bear in mind the time of its formulation and announcement and also the factors behind this Policy Resolution. Of them the following historical factors are noteworthy.

1) Factors behind the Policy.

At the time of announcing the policy, the constitution of India had not taken a final shape and the "Socialistic pattern of the Society" was not officially adopted as the national objective. Planning Commission was not constituted and there were still three years to go for punching of the First Five Year Plan. In spite of these, the Policy Resolution gave an indication about the future course of action.

2) Foundation of Mixed Economy

A social foundation of mixed economy for India was laid by the Policy Resolution. Where Public Sector was assigned the responsibilities for the development of the infrastructure and the setting up of large capital intensive industries the private was made responsible for the largest sector of the economy and also a vast range of manufacturing industries.

The resolution, however, contained a blunder in the form of a possible nationalisation of certain industries after ten years.

3) Increased Intervention of the State

Socialist welcomed the policy and admitted it is a great advance toward the socialistic pattern of the society. They found the needs of increasing intervention by the state to curb the expansion of capitalism in the country.

On the other hand, the leading industrialists attacked as one sided and strongly biased against private enterprise. Their contention was that private enterprise could contribute a great deal to the industrial development of the country and in fact more than the public sector. Increased state intervention would only slow down the rate of such development Thus, it was evident that the Resolution evoked a mixed reaction.

Defects of the Policy

The Policy of course can be considered as the fundamental one on which subsequent ones are founded. In spite of all these credit it has many demerits and deficient in many respects. In particular the policy suffered from the following defects.

1) It was a bare piece meal policy without any coordinated efforts.
2) It exhibited lack of co-ordination between the Centre and Stat Governments.
3) The policy has failed to clarify the Government progammed of industrialisation in relation to the economic development in a concrete and effective manner.
4) The policy was more idealistic. Therefore, it suffered from the evils of bureaucracy.

Events occurred After the Adoption of the Policy

Many notable events occurred after the policy was announced.

1) Setting up of the Planning Commission

The most immediate step taken to implement the poicy was the establishment of a Planning Commission.

2) Enactment of the IDR Act

The industries (Development and Regulation) Act was passed in 1951. The bill in fact was introduced in 1949 itself but it took two years to pass the bill. This time gap itself is an evidence of the mixed reaction it created and the public discussion took place.

The DDR Act envisaged for a licensing system not only for starting a large new industrial undertaking but even for expansion, production, of new articles, change of location of the Industrial unit. The Act also empowered the Government to take over the management of the industrial unit if circumstances demand so. Further the Act empowered the Government to investigate into the affairs of the licensed units in certain cases.

Thus, in short the Industrial licensing is a unique instrument of direct control designed to implement major part of the industrial policy. In short, the Act is a milestone in the history of Government control over private investment

3) Enactment of the Political Constitution

We have already discussed detail about provisions of the Constitution under various topics. Pandit Nehru took active part in shaping the constitution. He was very cautions while drafting the wordings and managed to confer broad powers on the state to intervene wherever circumstances demand so. Each word in the Constitution was adopted after much discussion and thought. Every differ was taken to avoid ambiguity in wordings. 4)Passing of the Economic Objectives Resolution of 1954

Besides the Constitutions and Policy Resolutions there is yet another important document out of which the nature and extent of Planning and control techniques to he followed the Indian economy emerged.

The economic Objective Resolution was passed by the Parliament in December 1954. It declared a socialistic pattern of society as the objective of the country. The Resolution besides recognising the necessity of a faster rate of growth and an equitable distribution of income, wealth and opportunities, laid stress on the point that basic criterion for determining lines of advance must not be private profit, but social gain. "Further the Resolution classified heat" major decisions regarding productions distribution, consumption and investment and in fact all significant socio-economic relationship must be made by agencies informed by social purpose. This part of the Resolution was the basis for the Government to take certain important socio economic decisions.

In a controlled economy these factors **are** sometimes conducive to a set of business enterprise, and **may** not be so to another set of business enterprises.

The national set up like geographic factors, rainfall, water etc. may not be easily controlled. Hence business enterprises have to adjust themselves to these factors till technological advancement are able to conquer them (Eg. Air conditioning, Mechanical heating etc.)

Man made environments like protection policy, customs barriers, labour legislations are changing from time to time and place to place. Business enterprises have to adopt the procedures in practice.

Business environment consists of a number of elements. A substantial change in any one element or more or an interaction between different elements of the environment is bout to lead a corresponding appropriate change in the policy and behaviour of the business enterprises.

According to Energy and Trust, the nature of environment vary form placidity to turbulence at least in four types. **1. The Placid Randomized Environment**

Opportunities and dangers are randomly distributed and they are not changing much.

2.The **Placid- clustered Environment**

The environment is a complex. Opportunities are there. But threats are more.

3. The disturbed- Reactive Environment

Environment is highly competitive. Business enterprises are to adopt different strategies and techniques to meet the objectives.

4. The turbulent environment

Enterprises are meeting changes that are no hitherto present. Changes are **from different factors influencing the market. Business enterprises are to be watchful to unexpected changes in** different factors.

Business environment includes micro environmental factors.

Micro Environment

Micro Environment includes the factors that affects the performance of a Company. They affect mostly a single company only and need not affect all the firms in the same way.

" The macro environment consists of lager social forces that affect all the actors in the company's macro environment -namely the demographic, economic, natural, technological, political and cultural forces". Philip Kotlar.

The different forces in micro environment are.

1. Suppliers

Suppliers are those firms and persons who supply raw material and other components to the company. Certainty the supply of raw materials helps to reduce stock and hence investment on stock. Mostly multiple sources of supply reduce the risk of supplies.

2. Customers

A business survives only because of customers. Maintaining the satisfaction of customers is therefore the prerequisite for the success of the business. A company may have many types of consumers and a marketing approach with the help of market segmentation will be very helpful. Depending upon a single or single type of consumer is often risky.

3. Competitors

Competitors form another major micro environment. Competitors include firms who are making similar products and firms who make different products but claim the same discretionary

5) Implementation of the First Year Plan

In underdeveloped countries, more than a half of their populaltion is engaged in agriculture and allied activities. Particularly in our country agriculture is the only source of livelihood for over 70% of the population in the country.

On the other hand for rapid industrialisation priority should be given only to industry and not to agriculture. Some authors are of the opinion that industrialisation should take place only at the cost agriculture. But this opinion is totally incorrect. If concrete effort are taken industrialisation will facilitate an increase in agricultural output. A major push towards industrial expansion will also constitute main alternation need not take place at the expense of agriculture. The two should be taken as complementary. History also reveals a notable fact that agriculture cannot be neglected but it can be and should be advanced by using sophisticated technology. It should be fo-^tten that despite of all its industrialisation unit a few year ago, the primary export -""""■•. T^T^r -^ States was agricultural products it was these that helped them to avoid trade deficits t., . ?cently. If this is the case of a well developed country of the world, it is needless to stress the importance of agriculture in a country like ours. In a nutshell, Agriculture and industry must go hand in hand.

Bearing all these points in mind, the proponents of the First Year Plan, laid major emphasis on agriculture. Next to agriculture high priority was given to investment in agricultural industries in the public sector programmes, the development of large scale consumer goods industry was le^r-entirely to the private sector. However such large industries are subject to the controls *r* nvisaged in the Dm Act 6. Continuance Controls

The present system of controls data back to the Second World War. Even before the War too, there were certain isolated examples of controls. In fact some control devices date back even before the 1 St World war, But controls in their present form and manner as also in their pervasiveness and impact, commenced with the promulgation of the defiance of India Rules under the Defence of India Act on 3rd September 1939 after the out break of war. Some controls were introduced even at the sunset of the British empire in India. By July 1944 almost all important commodities had been brought under one of form control, or other.

After Independence Pandit Nehru felt that these controls were essential and hence managed for the continuance of such controls through legislation. Several significant enactments which provide the legal basis for me controls were passed soon after Independence, Notable enactments of this type were: Foreign Exchange Regulation Act, Imports and Exports (Control) Act, The capital Issues (Continuance of Control) Act, the Railway (Transport of Goods) Act, the Controls of Shipping Act and Rubber (Production and marketing) Act Various corrective controls particularly price controls and distribution controls on certain commodities were introduced. Another significant development was die passing of the Essential Commodities Act of 1955. The Act empowered the Government to exercise wide powers of supply, distribution, stock holding etc., of any item declared as essential and the Government was empowered to declare any other item as essential.

The development occured during the period from 1943 to 1956 clearly illustrate one particular fact that Government was very keen in exercising and arming with wide powers to control and regulate the private sector. During the period the First Five Year Plan (1951-56) was also implemented. There is no doubt that the First Plan was a success especially in the field of Agriculture. But really speaking the First Plan contained no strategy for Planned development. Heavy industries were altogether overlooked without which industrialisation was impossible. Hence the planners decide to lay more emphasises on heavy industries during the Second Plan (1951-1956).

At the sametime must also be remembered that the Resolution of 1943, contacted a blunder of possible nationalisation ten years after. The Government in fact, had either the resources nor the inclination to take over these industries. Pandit Nehru was over enthusiastic and hence committed this mistake. Hence the declaration confused the private industrialists considerably and so a sluggishness prevailed in the performance of the private corporate sector. (Particularly large units) Besides, the continuance of various controls over productions as well as over distribution alloyed their fear. The consumer did not benefit either because a black market began to be developed. Hoarding assumed gigantic dimensions. Now we shall discuss the second phase of Industrial Policy of the government in its historical perspective. Industrial Policy Resolution of 1957

The Resolution of 1948 was in force for 8 years i.e, up to 1956. Later in view of the changed circumstances the government announced its second Industrial Policy in 1956. This policy replaced the original policy announced in 1948. Reasons for adopting the New Policy

There are several reasons for adopting the new industrial Policy They are

1. Enactment of the Indian constitutions guaranteeing certain Fundamental Rights and ennuciating the Directive principle of the state Policy.
2. Acceptance of the socialistic pattern of society as the objective of social and economic policy.
3. Completion of the First Five Year Plan and success in achieving the targets particularly in the agricultural front.
4. Constitution of the Planning Commission and the inaugration of development planning.

Objective of the Policy of 1956

To accommodate the requirements of the new situation, the new resolution specifically laid down the following objectives.

1. Acceleration of the rate of industrialisation
2. Development of the heavy industries and machine marketing industries.
3. Expansion of the public sector.
4. Building up a large and growing co-operative sector.
5. Reduction of disparities in income and wealth
6. Prevention of private monopolies and concentration of economic powers in the hands of a few
7. Increasing gainful opportunities and improving living standard and the working conditions of the working class.

The accomplishment of these objective is likely to increase not only national production but also its equitable distribution. The Resolution also made a pointed reference of the state direct responsibility for promoting new industrial undertaking and for developing transport facilities.

Features of the Resolution of 1956

The new policy reclassified the industries into three categories in contrast to original policy. The re-classification of industries is as follow.

Category A

Industries in this category were listed in Schedule A of the Resolution. The schedule contained 17 industries. The future development of these industries would be the exclusive responsibility of the state. However, the expansion privately owned units was not prohibited. Category B

Industries in this category were listed in schedule B of the Resolution. The Schedule B contained 12 industries. In included industries which would be progressively state owned in which state (government) would generally take initiative in establishing new undertakings. However private enterprise would also be expected to supplement the efforts of the state. Category C

It contained all the remaining industries. They were generally open to private sector through it would be open to government to start any industry even in this category

As far as the government is concerned those categories are well ucfined and are wider in their coverage it was also clear that the government has an inherent right to under take any type of industrial production.

2) Encouragement to the Private Sector

The earlier Resolution of 1948, contained a blunder in the form of a possible nationalisation of certain industries after years. The government in fact had either the resources nor th -•; inclin^ir to take over those industries. But the declaration confused the private sector. This Resolution removed the fear and assured that the future policy of the government will be to facilitate and encourage the private sector which requires substantial capital outlay the government also assured to take part either in the form of equity or debenture capital.

3) No Water light Compartment

It was also made clear by the Resolution that the allocation of industries into distinct categories does not imply mat they are placed in water light compartment In appropriate cases the private units may also be permitted to produce an item falling with in Schedule A for meeting their own requirements or as by products. Heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector. Similarly, the private sector can also reply on public sector units for may of their needs. The same principle should be applied in greater degree between the large scale and small industries.

4) Small and Cottage Industries

The vital role of cottage and small industries in the industrial development of our country has been fully recognised by the government. The Resolution envisaged various proposals to support small industries from the competition created by large industries.

5) Reduction of Regional Disparties

The policy laid emphasis on the need progressively reduce the disparities in the levels of development between different regions. It was also declared that in backward areas basic facilities like power, water, transport, etc., would be encouraged to develop industries in these areas.

6) Technical and Marginal Personnel

Competent managerial and technical personnel is necessary for the public and small industrial establishment. Hence the policy made a pointed reference that steps would be taken to meet the shortage in technical and managerial personnel at supervisory level.

7) **Amenities and Incentives for Labour**

Improvements in the working conditions and efficiency are very important to maintain healthy and peaceful industrial relations. The Resolution stressed need for the industrial peace and its importance for industrial progress. Labour participation in management is to be encouraged in all establishment particularly in the public sector units. Critical Appraisal of the Policy of 1956

The Resolution of 1956 is very comprehensive in its scope and it can be even described as the Economic Constitution of our country. In incorporate the fiscal, monetary tariff and labour policies of the Government and its attitude towards public and private sectors, in spite of them strong criticisms were leveled against this Policy Resolution.

1) The Resolution greatly reduced the scope of private sector
2) Flexibility was through envisaged in the Resolution it was really intended to operate in favour of public sector. The private sector was expected to play only a supplementary role.
3.) The Resolution laid more emphasis on Public Sector. But the government in fact had either adequate resources nor competence to set up and run enterprises on sound business lines. 4) If this policy is rigidly imposed, it would result only in imposing heavy additional burden on the public sector which is already overstrained. Ultimately the role of development in important fields will be reduced

Thus thesis Resolution faced strong attack from the advocates of private sector particularly from capitalist. They also argued that this policy will only pave way for state capitalism. Some even questioned the competency of the government to run business enterprises on sound business lines.

All these criticisms arouse only because of the misconceptions of the provisions of the Resolutions. Under planned economy, the public sector should develop more rapidly because nothing there can be left to chance The Resolution has also recognised the place of private sector in the planned economy and it is given wider scope to show its talents.

Thus, it is obvious that the criticisms have no validity and the Resolution has various credit mark of its own. It was drafted with foresightness and high expections. At the same time there are also some black spots that mark this bright picture. Therefore, before we form any final view it is necessary to take stock of these two

The policy infact, suffered at two levels partly at the conceptional levels and large the level of implementation. The failure of the policy at the implementation level are the following.

1. The choice of technology was too much items with capital intensive rather than labour intensive. This increased the number of unemployed.
2. The growth rate of industries was not high
3. Third weakness is the under utilisation of the industrial capacity created. The statistical data for various industries at various times but the figure of unused capacity at 15% to 60 - 75%
4. Fourthly many inefficient and high cost industries emerged.
5. Finally the police was unable to fulfill its objective of monopoly and reducing the regional imbalance.

Thus the final results of the policies in the industrial sphere were not to the expections or declared objectives.

Industrial Policy Statement of 1977

In March 1977, the Congress Party was defeated in the general elections and the newly formed Janatha Party came to power at the Centre. It wanted to make some radical changes in the Industrial Policy of 1956 The real intention for introducing the changes as stated in the statement itself was to remove the distortion of the past so that the genuine aspirations of the people can be met with in a time bound programme of economic development Hence in December 1977 the Janatha Government announced its new Industnal Policy Statement of 1977. Features of the Statement

The policy statements is realistic in its approach. The principle features of the policy are the following. 1) Promotion of Small sector

The main thrust of the new policy was on the effective promotion of cottage and small industries widely dispersed in rural areas and small towns. The policy statement categorically declared that "Whatever can be produced by small sector it would produce so. Hence the role of small sector was significantly expanded. It was also decided to establish District Industries Centres which can provide all the service and support under a single roof. 2)Areas for Large Sector

The statement made it clear mat the rule of targe scale industry would be related to the programme for meeting the basic minimum needs of the population through wider dispersal of small scale and village industries and strengthening the agricultural sector. The areas of large sector woe thus clearly defined in the statement Policy towards Large Houses

Another noteworthy feature of the statement was a visible changes in attitude of the government towards large houses. The need for regulation and restricting further growth was appreciated. The large houses were asked not to depend upon financial institutions for assistance and help for future expansions. They were advised-to depend on their own internally generated resources for financing. It is no doubt mat every one who is really a socialist will appreciate this features. 4)Role of Public Sector

The public sector was not also overlooked by the Janatha government as misunderstood by many. It was also assigned an expanding rote in several fields including productions of consumer goods. The statement declared that the public sector should provide a countervailing power to the growth of large houses and monopoly undertakings in the private sector 5) Development of Backward Areas

Most of the industries in the past, get concentrated in and around metropolitan and large urban areas. It resulted in a deterioration in the living conditions in these cities. Slums have grown and the workings class were forced to live in unhealthy and polluted environments. To remove this handicap, the government decided not to issues any new license to start industrial units within certain limits of large metropolitan cities. Besides the state government and financial institutions were requested not to support new industries started in these such as those which do not require an industrial license. Critical Appraisal Statement of 1977

The main thrust of the statements was to encourage small scale and cottage industries as against the large scale industries dominated by monopoly houses and multinationals. Besides it tried to avoid concentration of industries in large town and cities. Yet there are certain draw backs. They are

1) An immediate changes in the attitude towards large scale sector cannot be appreciated.
2) Though the main thrust of the statement was to encourage small scale industry the definition of small industry was modified. Hence the ultimate purpose is not served.
3) Assigning a too big role to the small sector shall create a many other problems to the country.
4) Encouragement to handloom sector has created some problems to the cottons textile industry which is treated.
5) The policy failed to recognise the importance of Indian equity participations in the join ventures abroad.

Inspite of these drawbacks, the policy on the whole had a new look and was satisfactory. But due to the fall of the Janatha Government within very short term, no significant achievements were made as far as the implementations of the policy is concerned. **Industrial Policy Statement of 1980**

In March 1980, the Congress Party under the dynamic leadership of Mrs Indira Gandhi again came to power. The government modified the policy of the former Janatha government announced its new policy on 23rd July 1983. The policy statement spunght promising attitude towards both sector small and large sector. The statement further reiterated the essentials of the 1956 policy and also streamlined certain areas overlooked during the Janatha Rule. **Socio Economic Objectives of the Present Policy**

The socio economic objective of the Industrial policy statement of 1980 are as follows.

1) Optimum utilisation of installed capacity
2) Maximising production and achieving higher productvity
3) Higher employment generation
4) Correction of regional imbalances
5) Strengthening of the agricultural base
6) Foster promotion of export oriented and import substitution industries.
7) Promotion of economic federalism
8) Consumer protections against higher price and bad quality.

Features of the New Policy

We shall now discuss some of important feature of the new policy in the light of the above mentioned socio-economic objectives. **l)Revitalisation of Public Sector**

The public sector in our country constitutes a substantial segment of industrial activity. A majority of the public have lost confidence in the public units due to their poor performance. Hence the government proposed to streamline the management of public sector units by developing management carders in functional fields. **2) Help for Small Units**

In Order to promote rapid growth of small industries the policy redefined small scale units. This was due to the increase in the cost of machinery and plant. The investment limits have been raised as follows.

i) For small units from Rs 10 lakhs to Rs 20 lakhs
ii) For ancillary units from Rs 15 lakhs to 25 lakhs
iii) For tiny units from Rs 1 lakhs to Rs 2 lakhs

Besides a scheme for the building of buffer stock materials is also envisaged in the statement **8)Economic Federalism**

Another innovative feature of the policy is the concept of economic federalism. It gives a concrete shape to the approach of an integrated industrial development Economic Federalism means setting up of a few nucleus plants in industrially backward districts to generate as many ancillaries and small and cottage units as possible. The nucleus plants were set up within its orbit. It would also produce inputs for the ancillary and small units and improving their technology.

4) Correcting Regional Imbalances.

The policy renewed its faith in the industrial development as tool of correcting regional imbalance so as to lead the economy to the take off stage. For this purpose, the policy aims at encouraging dispersal of industries and setting up of units in backward areas.

5) **Concession to the Large Sector**

The statement also have special concessions to large industries in the private sector for further expansion and modernisation. These concession include i) Income Tax concessions ii) Liberalisations of the excess capacity and iii) Allowance of automatic expansion to certain industrial establishment

6) **Energy Conservation**

The policy is laid greater emphasis on the energy conservation irrespect of the traditional source of energy to reduce their use and to the development of new sources of energy like solar energy. Special assistance in the form of soft loan are also envisaged for investment in these directions.

7) **Ecological Balances**

The policy is committed to the preservation of ecological balance and for in improving the living conditions in the areas of the country. For this purpose and also for encouraging dispersal of industries step have been taken to prevent the growth of industrial in the metropolitan cities and large towns. Similarly, special concern is shown about the effect of industrial growth on environment and pollution of air and water.

8) Industrial Peace

The new policy also attaches greater importance to industrial peace and labour welfare. At the sametime the interest of the empolyer is not ignored altogether. What is needed is a constructive and a cordial relation between them so as to co-operative in a responsible manner. **Critical Appraisal of the** New **Policy**

To .put it in nutshell the new policy essentially restores the 1956 policy.

At the same time the policy has not failed to look into the realities of the situation. For instance realising of the investment limits in the small sector is quite justifiable. A few concessions to large sector are also appreciable.

The policy in spite of the various points to its credit also suffers from certain drawbacks.

:V Firstly the new thrust given to small sector during the Janatha regime was unjustifiably reversed. It is really illogical and unsuited to Indian conditions.

2) Raising of the investment limits of the small units and modifying the definitions are, of course, appreciable. But they will in no way help to curb benami ownership.

3) The Government proposed to allow the privilege of automatic expansion of capacity in all industries. This proposal is, if course welcomed by business houses Early in 1975 also such liberalisation was made. Now the basic question that aries is, in case year after year the government is to regularise the illegally installment capacities then what is the rational behind the government legislation to control economic activity so as to curb the growth of monopoly capital?

4) The decision of the government to close the District Industries Centre is reality unjustifiable. This decision is mostly political rather than rational. The decisions of the Congress government to do away even a good scheme merely because it was started by the predecessors regime is illogical and unjustifiable.

However the policy no doubt, contains many welcoming proposals. The policy is still enforce and is being followed by the government headed by Mr. Rajiv Gandhi. But the Pertinent question is how effectively these proposals will be given pertinent shape is a matter yet to be decided Recent Development

The Industrial Policy Resolution of 1980 which is based on the Resolution of 1956 it is claimed is still in tact But the super structure development during the last four years is totally different from the foundation laid down by the policy of 1956 Every things has been done and being done and to bring revolutionary changes in the industrial atmosphere, Particularly various concrete steps were taken to revitalise our public sector. The government is even preferred to private loss making public units.

In fact the importance of private sector is growing and the liberalisation movement is in full swing. Concession after concession is being heaped on industry to inject dynamism in our industrial sector. Private sector is now freely allowed to enter into the areas which are exclusively reserved for public sector even foreign collaborators are assured of a red carpet welcome to improve our technology and export earnings.

To-day the main thrust is on export promotion. Export promotion will be possible only when our industrial climate is made competitive. Competitive spirit will develop efficiency and productivity. Therefore the time has come to discard our old ideologies Though our government has not openly scrapped our policy Resolution it is doing everything informally because the so called leftists who have no practical vision and foresightedness will include the public against the government.

Of course, the youngster, who are below 20 may not beware of the qualitative changes taking place in our to-day life. When we compare the quality of goods available today to that of past, we can certainly come to a conclusion what our Prime Minister is doing definitely right. He is now leading us in a right direction, and we shall all hope that the march will continue.

At the same the students should not misunderstand that we are accusing our forefather. What they did was entirely right to that time. But now the time has obsolete ideologies which are relevant to-day.

We can feel comfort and enjoy the comforts of the life only when a congenial environment is created Our Prime Minister is doing all his best to create congenial business environment.

Lesson -5 LICENSING POLICY AND REGULATION

In the previous chapter, we have elaborated Industrial Policy pursued by our government since Independence. Certain industries were exclusively reserved for public sector and private entrepreneurs cannot enter into those industries. However the private industrialists were allowed to operate in certain basic industries which not be allowed to operate without any control. Hence operational controls are necessary to give a desired direction to the investment, production distribution, etc in various segments of unproductive avenues and should be channalised accordance with the plan priorities the implement this policy controlling legislation is essential.

We have adopted mixed economic system and planned economic development for rapid industrialisation of the country. For a planned and balanced development of the economy the indus trial undertakings in the private sector had necessarily fit into the framework ial and economic policy of the state. To achieve this end the government should ^c conferred with enough powers for regulation of important industries involving fairly large investment which have an all India importance. The Parliament therefore passed the Industries (Development and Regu[1]" on) Act in 1951 and conferred various powers upon the government to regulate production manage ment and to undertake investigation into the affairs to undertaking etc. With these powers conferred on it by the country and also the priorities indicated by each Five Year Plan.With the pas[c]"'ge of *t[Ua]* *TDR* Act the Industrial pattern took a new shape and licensing system was introduced.

History of Controls in India

The licensing system originated only after Independence. But various administrative controls were introduced even before the First World War. However before the First War the administrative control were very few. But controls in their present form and manner as also in their pervasiveness and impact commenced only after the outbreak of Second World War. In the Year 1939, the Defend of India Rules were promulgated which constitutes a land market in the history of administrative controls in our country. The DIR was mainly concerned with control over essential supplies. In May 1970 certain import restrictions were imposed for the first time and in 1914 Iron and Steel (Control of Distribution) Order was issued to control the use of steel and to conserve it for the war effort.

In May 1944, Control over Capital Issues was promulgated to prevent misuse or misdirection of the limit funds available for investment. Soon a comprehensive systems of control was introduced over cotton textile. Through this system every phase activity of cotton textile industry was brought under official control, Before 1944 almost all important commodities were made subject to one form of control or other.

The Defence of India Rules expired in 1944, to safeguard the public against the lapse of the DIR the British Parliament passed India (Central Government and Legislature) Act of 1946, empowering the India legislation to legislate for control in respect of certain commodities. Consequently various control measures introduced during war the time were continued even after Independence. The national government was also unwilling to lift the control and hence passed various enactment enabling for their continuance.

However the licensing system is a unique type of control designed to implement a major part of our Industrial policy. Classification of Operational Controls

Operational controls may be either positive or negative depending upon their nature and approach. All positive and negative controls may either discretionary or non discretionary depending upon the way in which they are applied. From the view point of objectives the controls serve, they may be categorised as promotional and corrective.

Classification on the Vasts oi mature

All operational controls as stated already may be classified into two groups viz.l) Positive Controls 2) Negative Controls

Positive controls are aimed at stimulating encouraging, facilitate and motivating productions or consumptions examples are Tax holiday benefit subsidies and investment incentives, Financial assistance etc.,

Negative controls, on the other hand are meant to prevent or limit production or consumption generally or in a special sector. Examples are control over Capital Issues Foreign Exchange Regulation, Import restriction etc. The negative controls are imposed when becomes necessary from a broader socio-economic point of view in certain specific lines of activities.

In should also be noted that certain controls are both positive as well as negative in their nature. For example imposing restriction on import has both positive and negative effects. Such restrictions discourage the consumer from buying foreign goods and encourage the local producer and assures them a good market for their product. **Classification on** The Basis **of Application**

All the control measures whether positive or negative can also be classified on the basis of application into two types 2) Discretionary control and 2) Non-discretionary controls. When the administrative authority is given discretion to apply or impose a particular controls it is called discretionary control. If no discretionary powers are sanctioned to the administrative authority and he is bound to there to the regulation, it is called non-discretionary control.

Some authors are of the opinion that discretionary controls are indirect while non discretionary controls are most direct. In the earlier days, the government through the world particularly, the government in western countries favoured to corruption and similar other mal-practices The expected results were not achieved. Hence, at the end of the war, the Government resorted to non-discretionary controls. **Classification on the Their Purpose**

On the basis of the purpose for which the controls are introduced they can be classified again into two categories 1) Promotional Controls are defined as these which help in achieving certain long term objectives. Examples, Provisions of incentives to industrial units started back ward areas, Liberalisation from licensing formalities etc.,2) Corrective controls are mainly concerned in correcting the distraction developed. They help in achieving short term on objective. Most of the price controls are corrective controls because they are often introduced to achieve price stability ie periods of actuate imbalance between demand and supply.

INDUSTRIES(DEVELOPMENT AND REGULATION) ACT OF 1951

In our country, industrial licensing is a unique instrument of direct control designed to implement a major part of our Industrial Policy Government regulation and control of private industrial development has become a common phenomenon in early all the developing countries and even in some developed countries. Countries Like Pakistan, Taiwan have opted for the system of direct and discretionary control through licensing of almost every cases like us. But there does not seem to be any parallel even in developing countries as well as developed countries for exercising so much direct control over industrial investment. Our licensing systems operates through the Industries (Development and Regulation) Act of 1951. The Act has been described as the Single most impor-

income of the consumers. A company making two wheelers face competition not only from other two wheelers manufactures, but also from firms producing Television, cooking ranges, refrigerators, stereo sets and so on. 4. Marketing Intermediaries

Merchants, agents, brokers and other middlemen form the marketing intermediaries. They provide the vital link between the company and the ultimate consumers. They look after the physical distribution of products, promotion activities like advertising, research etc. and provision of fr.ance. iblics.

Many companies face certain publics in their environment. "A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest". "Philip Kotlar states that. Publics may be media Publics, citizens action publics or local publics. Growth of consumer movements has a serious impact on business environment Macro Environment

Macro environment refers to the set of external forces which affect the operation of the business firm. Important macro environment forces are given below.

1. Economic Environment

It consists of economic conditions of a distribution of a country, economic policies and the economic system. They affect the nature of production and distribution of goods and services of a country. Presence of large low income group population necessitates the production of black and white T. V. in India.

2. Socio-Cultural Environment

One cannot ignore socio-cultural forces like customs, taboos, traditions, tastes, ceremonies etc. in shaping up business strategies. Buying habits of people largely depend upon the society which they belong to. Value system also differs from one set of society to another.

3. Demographic Environment

Factors like the size, growth rate, age composition, sex composition etc. factors population family size, educational levels, language, caste religion etc. form demographic factors. These factors determine the growth of industry, development of multi national concern and development of research prospects.

4. Political Environment

Political set up and government play a dominant role in shaping up the business environment. It has direct influence over the formation of rules and regulations of business activities, legislative reforms to protect consumer interests, restrictions or free movements of resources and composition of ownership of business organisations. Geographical Environment

Location of industry and business houses is largely influenced by geographical and ecological factors such as natural resource endowments, weather and climate conditions, post facilities topographical factors etc. In modern days government policies favour preservation of environment purity and ecological balance. So business managers are forced to be aware of minimising and preventing the pollution caused by their concerns. Technological Environment

Fast growing technology offers many problems. Manufactures are given lesser time for marketing their products. Product life cycle is often cut short by hewer technological developments

Thus the environment conditions offer opportunities and threats to companies. Business managers have to understand and follow the dynamic nature of environment factors.

tant piece of Economic Development Legislation in our legal structure. The Act as the name implies is concerned with accordance with the principle indicated by the Industrial Policy Resolution adopted from time and also the priorities indicated by each Five Year Plans. Along with the Companies regulations and control over of the working of the MRTP Act, it can be said to confer on government powers of almost total regulation and control over the working of the Private corporate sector in a manner almost unique in the world.

The Act was not passed over night. Though three was an urgency to regulate industries, the government had to wait three years to get the Bill passed. The Bill was introduced as Industries (Development and Control) Bill of 1948. It was referred to the Select Committee. Before the Select Committee inserted the world Regulation in the place of control considerable discussion took place in the Parliament Finally it was passed in October 1951 and came into force on 8th may 1952

Objectives of the Act

When the bill was introduced in the parliament a Statement of Objectives and Reasons was also made. The statement declared that the main object of the Industries Act is to provide the Central Government with means of implementing their industrial policy. Among other the principal objective of the" Act are to secure:

1) Optimum utilisation of the country's resources.
2) Balanced regional Development
3) Even distribution of essential and scarce materials and commodities.
4) Prevention of concentration of ownership, of the means of production.

Scope of the IDR Act

The Act contains only 31 sections but its scope is very wide. The Act brings under Central Control the development 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 import. This Act aims at establishment of new industrial undertakings in the Scheduled Industries in a systematic and regulated manner. According to the provisions of the act all new industrial undertakings in the Schedule industries should obtain a license from the Central Government especially for producing or manufacturing new articles. Besides every existing industrial undertaking should also get itself registered with Government. A licensing is also necessary for undertaking substantial expansion or to change the location. The government is also empowered to order for an investigation into the affairs of certain industries covered by IDR Act in certain cases it can also take over the management. Besides it has also power to control supply distribution price etc., in certain cases

MAIN PROVISION OF THE ACT

Some authors have classified the provisions of the Act into three broad categories Since this classification seems to be logical, we have also decided to follow the same pattern to elaborate the main provisions of the Act According to Memorial and Srivastsava all the provisions of the act can be grouped into three broad categories.

1) Preventive Measures
2) Curative Measures
3) Positive construction and creative measures. Now we shall discuss them in little bit detail.

1.PREVENTIVE MEASURES

Preventive measures are those measures which aim at preventing Industries from acting against national interest or national economic policy. They include.

1) Registration of Existing industries
2) Licensing of Industrial undertakings
3) Investigation into the affairs of the industrial undertakings
4) Revocation of Licenses if needed.

1 Registration of Existing Industrial Undertakings.

Existing industrial undertakings means an undertaking pertaining to any of the industrial activity mentioned in the First scheduled of the act. The list of industries specified in the first schedule may have additions and deletions from time to time. Addition and deletions in the First Schedule can be made only by the parliament and not by the government. But the government can exempt an industry or include an industry which was previously included by it for Licensing. Both the situations are covered here. Hence if an industry is included in the schedule the undertakings already in existence in the field or one for the establishment of which effective steps had been taken to bring it into existence on the date of inclusion should get itself registered with the prescribed authority in the prescribed manner. Such undertakings should be registered within 3 months from the date when it comes under the definition of existing undertakings.

Further industrial undertakings as referred to in the definition will be applicable only when the production is carried on in a factory, according to Sec3(c) and (d) of the IDR Act means any premises in any part of which a manufacturing process is being carried on (1) with aid of power provided that fifty or more workers are working or (ii) without the aid of power provided that 100 or more workers are working. This definition is similar to the definition for the term factory in the Factories Act

If an industry previously not included in the schedule is added afresh the owners of the undertakings operating in such industries is obliged to get their undertakings registered under the Act. The power is a person who or authority which has the ultimate control over the affairs of the undertakings. Even if the state government has the power of an undertakings it should also get the unit registered under the Act If the undertaking consists of more than one factory separate applications will be made in respect of each factory. Procedures for Registration

1) There is a prescribed application form for purpose of obtaining registration. The application after duly field in should be submitted long with the treasury receipt for the specific fees
2) The applications should be submitted within the specified period.
3) On receipt of the application an acknowledgment will be issued.
4) After scrutiny a Certificate of Registration will be issued to the owner the certificate whichshall contain the prescribed particulars including the productive capacity of the under takings.

Criteria for Specifying the Productive Capacity

In specifying the productive capacity in the Certificate of registration, the government should take the following aspect into consideration.

1. The productive or installed capacity as specified in the applications.
2. The level of production immediately before the data on which the application for registra tion was made
3. The level of highest annual production during the three years immediately proceeding the introduction of IDR (Amendment) Bill of 1973 in the parliament.

4. The extent to which production during the said period was used for export and
5. Such other factor as may be considered relevant including the extent of under utilisation of capacity if any.

Revocation of Registration

The Central Government is arso empowered to revoke the licence issued to any undertakings if it is satisfied that

1. The license was obtained by mis-representation
2. The undertaking is exempted from obtaining a registration or
3) The Registration becomes useless or ineffective due to any other reason.

However the government before revoking the registration should give an opportunity to the owner of the undertakings and ascertained his views.

LICENSING OF INDUSTRIAL UNDERTAKING

The DDR Act specifically use the world license. The term is not defined anywere in the act. A license in the common usage refers to a permission given by the government or any other competent authority to carry on or pursue some activities An industrial license is an official permission given by the Central Government to carry on certain industrial activities specified in the First Schedule of the Act

The Act provides for five types of licenses namely

1) New Undertaking
2) Substantial Expansion
3) ^Production of new article
4) Changes in the location either in part or whole of the undertaking
5) Carrying on Business

The power to issue a license for any one of the specified purposes is conferred upon the central .government. The document issued by the Government itself is called as a License. The License should contain certain specified particulars and it is always subject to a validity period.

l)License for New undertaking

According to Sec 11 of the Act, a license must be obtained before a new undertaking in the schedule industry, is established. Even a state government if it wants to start a new undertaking should get a license.

There is no reference to the size of mvestment. However it is specified in the Licensing Rules. Originally the investment limit was Rs 1 lakh or raore. Now it is Rs 10 crores in case of undertaking started in non-backward areas and Rs.25 crores for undertakings started in notified backward areas.

The Central Government is empowered to impose contain condition with regard to the location, size manufacturing process etc., 2)License for Production of A New Product

An existing undertaking which is registered as above proposes to produce a new product, a fresh license should be obtained. An undertaking according to the Act can produce only the licensed product. This limiting provision resulted in under-utilisaticn of installed capacity in many cases. Moreover some plants are suitable to produce a variety of products without adding any additional facility. Their capacity should be fully utilised to make them to avail all the benefits of large scale operations.

Therefore this new provision was introduced by an amendment made to the act Act in 1953 and it came to force on 1st October 1953 The aim of this provisions as stated already is to allow the industrial products and thereby utilise the plant capacity to its optimum level. The government farther clarified that no fresh license is necessary to produce a new article if the following conditions are satisfied.

i) No additional plant and machinery will be required for the purpose, ii) No royalty would be payable iii) The product would be marketed under trademarks already in use and no new patent was

involved, iv) No special concession in regard to the import of basic raw materials and ingredient would

be made in relaxation of general import policy in force from time to time. Thus we can conclude that new article for this purpose means an article.

1) Which needs extra plants for production
2) It should fall under an item in the first schedule
3) The article would require a separate trade mark distinct from the existing trade marks of
4) New patent must be acquried

Revocation of The License Due to Failure to Take Effective Steps:

Sec 12 of the DDR Act empowers the government to revoke the license issued for producing a new article if the owner who get me license failed to take effective steps to execute the scheme covered under the license.

Effective steps here means one or more of the following

1) That 60% or more of the capital issued by an industrial undertaking owned by a company has been paid up
2) That a substantial part of the factory building has been constructed
3) That afirm order has been placed for a surjstanHal part of me machmery required for the undertakings

The licenses is required to submit returns in form G prescribed under RLPJ Rules within one month of the expiry of every half year ended on 30 th June and 31 st December from the date of issue of license until such time as the industrial unit commences production. This bi-anituat returns shall enable the government to form an opinion about the progress made is not sufficient or not satisfactory, the government can take steps to revoke the industrial license. Here also, the license should be given an opportunity of being heard before ordering for revocation. Further the license can be revoked only when the licensee fails to satisfy that there was some reasonable cause which prevented the execution of the of the project within the prescribed time or he has taken effective steps to establish the industry. Therefore if the license can satisfy the Central Government on any one of the grounds the license shall not be revoked. Why Revocation?

The licensing authority generally issues a number of licenses to fulfill certain targeted capacity as fixed for the Five Year Plan. If the targeted capacity is exhausted or booked, they will not issue further licenses. Besides they follow the practice of "First Come First Served" method in the matter of issuing licenses.

The Hazari Committee pointed out that some large houses obtained multiple license and kept themtmimplemerrted for a fairly longtime only to surrender them at a latter date.

Since the targeted capacity is already preempted but actually not fulfilled an artificial scarcity shall be created for the products. This various techniques paved way for the brutal exploitation one the consuming public. Therefore the licenses are required to execute their project with in the time lime specified. Hence the power of revocation is vested in the hands of the Government

3)Licensing for Substantial Expansion

The license issued to a owner of an industrial undertakings generally fix a ceiling upto which he can produce the proposed article. The installed capacity i.e. the productive capacity of the plant may be equal or more than the licensed capacity may be increased by

1. Multiple shift operation
2. Technological improvements
3. Improved labour productivity

When the owner wants to enhance the productive capacity by 25% of the licensed capacity it shall be considered as substantial expansion. Therefore industrial undertakings are free to increase production upto 25% over and above the licensed capacity without a license. However if the owner desires to expand further it shall be a substantial expansion under the Act and hence a fresh license is essential. Even to increase the productive capacity upto the 25% without a license the following conditions are to be satisfied.

1) No additional plant and machinery need be installed excepting a few minor balance equipment Such equipment must be produced in our country.
2) No additional expenditure of foreign exchange should be involved
3) The extra production should not create any additional demand for the scarce raw material and
4) The item concerned is not exclusively reserved for small sector

Diversification and Expansion

The terms diversification and expansion are often used interchangeably in the business field. But strictly speaking they cannot be two different things in law. Diversification refers to the manufactures, of an altogether new article. Expansion in the legal sense refers to the increase of the production of the same article already licensed. Since diversification refers to the production of a new article a fresh licenses is necessary. **Liberalisation of Licensing Formalities**

By limiting the production capacity through the license many firms found it uneconomical and they were unable to utilise the plant to its optimum capacity. Hence they were unable to to enjoy the benefits of economy of large scale operations without extra or additional capital investment. Therefore many industrialists appealed to the government to liberate the formalities regarding substantial expansion. To meet their demand, their government had liberalised the requirement of a license for substantial expansion.

Most often liberalisation was resorted

1. To allow specified industries to make full use of their installed capacities.
2. To allow specific engineering industries important in the export front (an automatic growth of 5 percent annum or 25percent in five years in one or more steps)
3. To allow higher productive capacity resulting from replacement and modernisation of obsolete plant and machinery.

The government has recognized that modernisation of obsolete euquipment would call for replacement of worn out equipment of a different size or a different range yielding a higher productive capacity. Hence the government officially recognised such expansion by due procedure instead of issuing a fresh license.

4) Licensing For Change in Location

Some times, owners of an industrial undertaking may not be for a change in the location of undertaking from one location to another particularly when the social and political climate is not conventional for the smooth running of the enterprises he may even go to the extreme of the changing the location of his plant disregarding the extra expenditure involved. In the last two decades particularly in 60s and 70s number of industrial undertaking were transplanted from Kerala and West Bengal to some other states due to the adverse political law and order situation prevailed there.

Such locational changes, of course, are not fair to both the employer and employee. The employer shall go to this extreme only when the long term interests are in a dilema. The employees are the worst sufferers. In some cases, the whole economy of that particularly area shall collapse due to transplantation of the giant undertakings. To restrict these activities the government has made it obligatory that no undertaking need not change its location either wholly or partly, without a license from the Government.

However, if an undertaking wants to shift a part or whole of its operation to a backward area within the same state, the undertaking need not obtain a license from the central government under the act. But it should get the prior sanction of the state government concerned. 5)Licensing for Carrying on Business

The relevant provisions regarding the COB License are given below.

l)Statutory Requirements for Making COB Applications.

In terms of the provisions contained in various classes of the Sec 13 (1) COB licence is required when

1. An existing industrial undertaking which should have applied for registration within the specified time did not do so.
2. The registration of an industrial undertaking is revoked but the industrial undertaking desired to carry on its business
3. The provisions of the Act did not originally apply to an Industrial undertaking but become applicable later for any reason.

The COB License system enables the existing industrial undertaking to carry on the business. This COB License is also required in respect of industrial undertakings to which the provisions of the Act, becomes applicable consequent upon cancellation or withdrawal of an exemption order. 2)Circumstance Calling for COB Applications

Broadly, the circumstances under which the COB license is required may be classified as follows, i) Inclusion of an Item

If an item is included in the first schedule of the Act, the undertaking producing such item should get itself registered under the Act with in the specified time. If for any reason die applications for registration was not made or the registration certificate was not obtained before the date specified, the owner of such undertaking should obtain a COB license to carry on his business activity.

For example Pressure Cookers were added to the First Schedule with effect from 30 th December 1978. Since that date, this item fall under the First Schedule and became a schedule industry licensable under the Act. However, it was only on 22nd October, 1981, the Government issued a notification specifying a period of 6 months within which the owner of each undertaking engaged in the manufacture of pressure,' cookers should obtain a Certificate of Registration. Thus, registration was required to be obtained before 22nd April 1982. If for any reason a particular manufacturer fails to apply for registration or unable to get the registration certificate before that date though he had submitted his application, he should get approval by applying for a COB License. ii) Extension of the Act to New Territories:

Originally the Act was not applicable to the state Jammu and Kashmir. Hence the industrial undertaking functioning in that territory were not bound by the provisions of the Act. Later on 15th February 1962, the Act was extended to the State of Jammu and Kashmir by an ^nciidmeat Act. Sin-Marly the State of Sikkim was not a part of country till 2nd March . *83. TiU mat date, the undertaking operating in the State of Sikkim was not subject to IDR Act. Ir me owner fails to obtain a registration certificate within the period specified in the formal notification, the owner the should obtain a COB License. iii) An Item Being Deemed to be Already included

Whether a particular article falls within any of the schedule industries is essentially baseH on technical considerations. There are instances where entrepreneurs in the absence oi any clear cm indication in his regard had taken up production of an item with a honest belief that the item did not fall under and of the schedule industry and therefore, a industrial license was required. Suppose subsequently the government came to hold the view mat the item did not fall under schedule industry and therefore license is to be obtained by the existing as well as future manufacturers of the item in such occasions COB license should be obtained. iv)Non Industrial Undertaking becoming Industrial undertakings

Let this be explained by way on illustration. An industrial undertaking known as A Ltd owns a plant wherein 50 workers are employed and a manufacturing activity relating to an industry included in the first schedule is being carried on without the aid of power. At this stage it does not require a license under the Act, because the unit is not a factory within the meaning of the IDR Act, subsequently, new workers are appointed and their number increase to 100. At this stage the unit shall become an undertaking and a factory within the meaning of the Act. Hence it should obtain a COB License. v) Withdraw if Exemption Under i>e-Lfeensiog Scheme:

We all know mat various industries were added to the list form time to time depending on the circumstances. Similarly from 1966 when the liberalisation movement made a humble beginning the government exempted certain industries form the purview of the Hcensing provisions of the DDR Act Accordingly an entrepreneur need not obtain a license for starting a new unit or for expansion or for diversification if the industry falls within the de-licensed zone. Between 1966 to 1968 various new units were started without license. With the announcement of the new industrial policy in February 1970 (which envisaged a different scheme of exemption form the licensing provisions) the government withdrew the earlier exemption and directed to industrial undertakings carry on the business without license under earlier exemptions to obtain an industrial license by a certain date. These industrial licenses have come to be known as Cany -On- Business (COB) licenses. Thus licenses for carrying on business of existing industrial undertakings are issued to those who had set up manuj^turing capacity during the period of exemption from industrial licensing but find themselves covered by the hcensing provisions after the withdrawal of the exemption.

The following illustration can make the posit more clear.

Cotton spinning upto the capacity of 50000 spindles and spinning of rr.an-made fibres, also upto the capacity of 50000 spindles were de-licensed subject to certain conditions in November 1975, and delicensing facility on 31st August 1984, and called upon the existing industrial undertakings which are not licensed (by virtue of exemption) but which had gone into production or taken effective steps prior to 31 st August 1984, to obtain a COB License within 6 months from due date.

REVOCATION AND AMENDMENT OF LICENSES

It is already discussed that the government has the power to revoke the registration of an industrial undertaking. Similar power is also vested in case of licenses issued to produce a new article or to start a new Industrial undertaking. Under this section the Central Government may revoke any license granted for establishing a new undertaking or a license granted for production of a new article if the license failed to establish the undertaking or produce the new article or has failed to take effective steps to implement the license.

Here the students should note that only a discretionary power is given to the government in regard to revocation. The government's initiative to revoke the license may be based on the fact that the license is required to submit returns if form prescribed under the RILU Rules within one month of the expiry of every half year ended on 30th, June and 31st December from the date of issue of license until such time as the industrial undertaking commence production. If during the review, it is found that the progress made in this regard i.e. to implement the license, was not satisfactory the government may revoke the license. The following points should be noted in this context.

1. The government need not revoke the license even if no steps taken to implement the license.
2. There is no provision in the Act permitting for automatic revocation after the expiry of the period within which the industry was to be established.
3. The government can invoke this power not only motto but also on a complaint made to it by anyone against the failure of the license to implement the project
4. However before revocation the government should be given an opportunity to the licensee to state his case.
5. In the revocation order the wording must be clear and it should contain explicit reasons in support of the order.

Modification of Industrial License:

The Act also empowers the government to modify the conditions of the licenses. The owner who seeks modifications of the conditions ,or a variation or an amendment of the conditions laid down in the licensing should apply to the Ministry of Industry.

Any condition imposed while issuing the licensing can be relaxed of waived only when the government is satisfied that

1) Such relaxation is essential for the speedy implementation of the license.
2) Similar conditions are not imposed in identical cases.
3) They need for imposition of the obligation itself has changed substantially with the passage of time and there is no rational for its continuance.

Illustrations:

1) At the time of issuing a license the entrepreneur might not have envisaged by need for import of any component or raw material and he had therefore made an industrial license

application on that basis. Due to rapid technological development, the entrepreneur my later consider that it is essential to import some sophisticated machinery and plant. Besides there may not be a matching development in indigenous knowledge and technology. In this situation the government can relax the condition and allow the entrepreneur to import the necessary machinery or technology. 2) In some cases, a compulsory export obligation might have been impiosed at the time of issuing thelicence. But due to changed circumstaces, the prodcuct may not be in a poition to attract foreigners in the international market. The owner in those cirumstance can apply to the governent requesting relaxation of the export obligation.

PROCEDURE TO OBTAIN A LICENSE For a clear understanding of the procedure to obtain a license and abo the subj ect matter, we have proposed to discuss the licensing procedure briefly here. The procedure to be followed for obtaining a license is laid down in the Registration and Licensing of fciJ atrial Undertaking Rules of 1952(RLRJ Rules) The rules were framed in pursuance of the powers conferred up on the government by the IDR Act. A brief summary of the rules are given below. l)Invitation for **Applications**

By a notification in the Gazette, the industrial Development Ministry usually invites applications for the grant of license for the establishment of new industrial undertakings in any schedule industry. However, undertakings which seek a license for substantial expansion of a new article or change in the location can apply at any time, however, subject to certain limitations. 2) When to Apply?

It is already stated that application for starting new undertakings can be made after an official notification if issued. However, this notification is not conditions precedent in all cases. Rule 7 of the RLIU requires that an application for the l)Manufacture of new article 2) for establishment of a new undertaking 3) for effecting substantial expansion should be made before, i) Issue of capital to the public ii) Commencing construction of factory'building iii) Placing orders for plant and machinery

An application for a change in the location of an industrial undertaking should be made before,

i) Acquisition of land at the new site.

ii) Construction of premises for housing the industrial undertaking at the new site,

iii) Dismantling any machinery at the existing site. **3)How to apply?**

Earlier form for various types of applications were prescribed under the RELU Rules Subsequently these were committed from the Rules and instead a new application form namely from IL was specified in 1974 Until 31st august 1986* this was in force. But with a view to streamline the licensing procedure four new forms were developed and prescribed namely. Form D(I) Form D(H) Form E(I) Form E(H) form 1st September 1986 onwards. This replacement avoided the confusion that was faced by the entrepreneurs in choosing the right form for different types of licenses

The application form was so devised as to ensure that all the details required by the government for processing different industrial license applications are available in a consolidated fashion. This form too lias now been revised to facilitate has disposal of the application as also to facilitate quick retrieval of information as and when required. However, Form E for change in location and Form EE to obtain COB License continue to be in vogue. In addition the government has devised special forms for making application for the grant of industrial license.

i) By non-resident IndiansfForm H/NRI)]

ii) For setting up 100% Export oriented Units.

iii) For setting up of industrial undertakings in the Free Trade Zones.

4) Fees for Application

The application should be made only in the prescribed forms, The new applications are to be submitted to the Secretariat for Industrial Approvals (SIA) Department of Industrial development, Udyog Bhawan. New Delhi with 8 spare copies of both application and forwarding letters and a crossed demand draft for Rs 2500 drawn on the State Bank of India. Nirman, Bhawan, New Delhi, in favour of pay and Accounts Officer, Ministry of Industry, New Delhi.

The particulars entered by the application in the applicant will be used to create a computerised data base. Therefore, it is now prescribed that the applicants should fill in only one copy of the application properly and legibly and then got the required number the size of the form.

One Receipt of the applications the receiving officer shall note thereon the date of its receipt and shall send to the applicant acknowledgment stating the date of receipt

So far we have briefly discussed about the procedure to be followed for submitting an application which-should pass through several processes.

STAGES FOR PROCESSING THE APPLICATION

It is already stated that on receipt of the application, a proper acknowledgment shall be given. The application will also be registered and a registration number will be allotted to each applications. In all future correspondence this registration number should be sr scified as a reference. The various stages which the applications should pass through are given below. l)Scrutiny of the Application

Upon receipt the application shall be scrutinised by the SIA to ensure whether the application is complete in all respects. If any. deficiency is found out the applications will be returned to applicant asking him to resubmit the application after rectification of the deficiency, If any other additional information is needed, the SLA may also call for such additional information. Licensing Committee for Approvals:

Sec 14 of Act says that central Government empowered to appoint any committee to consider the applications for grant of licenses. Since a single committee cannot deal with all proposals and this would also create undue delay in issuing licenses. The government has appointed a number of committe^to deal with various types of applications. These committee are.

1. Proj ect Approval Board
2. Licensing cum MRTP committee
3. Licensing Committee
4. Sub-Committee of the Secretaries for Fertilizer project
5. Kandala Free Trade Zone board.
6. Santa Cruz Export Processing Zone Board
7. Board of Approval of 100% Export oriented undertakings
8. Special Approval Committee(NRI)

These committee are mere recommendatory bodies and the authority to issue a license lies only with the Minister-in-charge or any other officer of the Central Government specifically empowered to issue a license. Applicants concerned with non MRTP companies should be cleared within 30 days and in case of MRTP companies applications, must be cleared within 60 days. Hence to facilitate the process of appraisal of each project several committees are appointed.

Importance

An entrepreneur cannot succeed in his business adventure if he fails to not and understand the changes in the environment factors. A thorough understanding of the characteristics of different environment factors helps to foresee future changes. Like in petrol wheelers.

Environment factors are not static. They change frequently. Hence a continuous study and analysis of environmental factors is a must for business success. Improvement in general educational standard leads to the increasing awareness in the minds of consumer as to the quality of goods.

ensure guaranteed sales for their new products. By cleverly manipulating the people's awareness for cleanliness, a vast market has been created for pocket shampoo.

A detailed study of business environment is significant on the following grounds.

1. Changes in environmental conditions be it political, economical, technological or financial- do have direct or impact on the functions of business.
2. A good understanding of the effects of environments helps in planning business activities.
3. It helps in preparing schemes for alterations in business contraction of product line, expansion, addition, new market venture etc.
4. It helps to understand social reactions for tne business activities.
5. It helps to prepare the market for the product-advertisement and sponsorship of any programme.
6. It helps to foresee changes in political set up and legislative reforms-
   Eg. scrapping and re-introducing prohibition has affected the growth of breweries.
7. The environmental factors are beyond the control of a firm. Hence the success of a business firm depends upon, to a very internal yaribles to face the environment

Conclusion

Companies, which fail to assess the strengths and weaknesses in the light of environmental threats and opportunities, are so often doomed to failure. Constant monitoring of environment is a great success today, due to its capacity to adopt to the changing environments. But it is to be noted, that hasty responses to environmental changes result in failures. In India many new two wheeler manufactures find themselves to be victims of hasty response. William. F. Glueck put it like this" When the company ceases to adjust the environment to results are lessened achievement of the corporate objectives. Suggested Questions

1. Define Business Environment.
2. Explain the scope and nature of Business Environment
3. Explain the importance of study and analysis of Business environment
4. Describe the significance of environmental factors to different type of enterprise.
5. Distinguish between macro and macro environments and bring out their influence on business decisions.
6. What do you understand by 'Business Environment'? How does it affect the business?

3)Circulation of the Application:

Copies of the application shall be circulated among the members of the concerned approval committee for their comments on the proposal. The concerned Ministers should also send their comments within a specified time. 4)Preparatk>ns of Summary for Approval Committee

On receipt of the comments from the various authorities a summary containing the details of the proposal is prepared as per the proforma devised for the purpose and submitted for consideration of the Approval Committee. Even if the comments are not received in time, the preparation of summary shall not be postponed. In such situation the comments or the view of the concerned ministries are expressed orally at the meeting. ^Consideration by die Approval Committee

Every application or license should be referred to the Approval Committee. Apart from obtaining comments from the individual members their meeting should also be arranged. The proposal is considered in the light of comments made by each individual is properly investigated Criteria for Consideration

Rule 12 of RLIU indicates broadly the factors that have to taken into accounts by the approval committee while considering an application for an industrial license. These statutory criteria are

1) **Approved plans of the central Government for the development of the industry**
2) **The existing capacity of the industry**
3) **Demand and supply positions.**
4) **Availability of Raw materials. Plant and machinery Guidelines**

Issued by the Government For Examining Applications.

In January 1982 the Central Government issued a set of guidelines, pursuant to these statutory criteria, with reference to which industrial license applications are to be examined.

1) **The priority given to the industry in the relevant Five year Plan**
2) **Whether the proposed investment conforms to the policies outlined in the industrial policy statement made by the government from time to time.**
3) **The Net effect on balance of payments**
4) **Locational aspects in the light of the regional demand and also whether the project can be set up in a backward area.**
5) **The extent to which the proposed unit wiil reduce our dependence on import**
6) **The extent to which the proposal postulates the utilisation of indigenous know how design etc.,**
7) **The direct and indirect employment potential.**
8) **Whether the components are proposed to be sub contracted to small and ancillary units and the extent to which it would be appropriate or feasible**
9) **Whether the processes proposed to be adopted are efficient from the techno-economic point-of-view.**
10) **The extent to which diversification and expansion proposals will result in fuller utilisation of the capacity and the economics of scale.**
11) **Whether adequate attention has been given to the following matters while preparing the project report**

i) Availability of raw materials. . ii) Utilisation of by-products.

•ii) Availability **of power**

iv) Transport and power

v) Arrangements for safety disposal of effluents and gas into air, water and other relevant factors.

12) Competence of the entrepreneur- his technical qualifications, has record in implementing other licenses.

13) Whether commercial production is proposed to be achieved in a realistic time period.

6. TECHNICAL SCRUTINY BY DGTD :

A Technical appraisal is also necessary before a decision is arrived by the concerned Approval committee. The guidelines that govern the processing of the applications are.

1) Does the production capacity offer scope for economic production.

2) Are the assumptions made for investment on plant and machinery are adequate?

3) Is the provision for raw material consumption is reasonable ?

4) Has the investor ensured adequate supply of electricity power and fuel

5) Is the phased manufacturing programme sound and practicable starting basic production from indigenous raw-materials?

6) If obnoxious (dangerous) by- products or effluents arose there are satisfactory arrangements for disposal in a safe manner proposal

7) Is the location of the manufacturing units satisfactory with respect to raw material supply power, water and fuels supplied and also regional distribution of industries and development of backward areas?

8) Is the proposed unit having an economic distance from another unit making the same product to assure reasonable market when the unit commences production?

9) Is there potential for developing exports of the product?

10) Is there any need for collaboration?

11) Are there any identifiable areas which lend themselves to anceillarisation?

7.RECOMMENDATIONS OF THE **APPROVAL** COMMITTEE

After due deliberations the committee will make its recommendations approving or rejecting the proposal. If for any reason it is unable the come to a decision it can post pone the issue to a subsequent meeting or even leave the matter to the concerned ministry to come to a decision on the proposal. 8.APPROVAL AND CIRCULATION OF MINUTES

The minutes of the committee containing its recommendations for approval or rejection of the proposal is prepared for approval by the Ministry for Industry. It is for the mimster to accept or to react the recommendations. The decisions of the Minister is final. The minutes as approved by the Minister are circulated to the concerned Mimster. 9JSSUE OF LETTER OF INTENT OR LICENCE:

If the proposal does not involve the import of capital goods or foreign collaboration, and does not relate to high pollution industries the government followed the practice of granting the license straight away. But on the basis of the recommendations of the Swaminathan committee the system of issuing a letter of intent was introduced in all cases. Hence, a letter of intent will be issued first and it shall amount to a green signal to the entrepreneur to go ahead with the work of promotion. Incases which involves further clearance from various nurnsuic.., the government nas oeen following the practice of the issuance of a letter of intent and then a lie vase.

The letter of intent is an indication that his application U favourably. This letter should be issued to the applicant within 30 days from the 'ate , application. The letter of intent usually contains the conditions to be satisfied. On fulfilling the c ..Virions mentioned in the letter of intent an industrial license will be issued. TIME **LIMITS** FOR DISPOSAL OF APPLICATIONS:

Previously no time limit was fixed for disposal to applications. However the government to ensure speedy disposal of the application, has drawn up a time -oheJule for disposal of the applications of various types, within expressed time limits The limits prescribed are shown below.

(1)	100% export units promoted by MRTP and FERA companies	—	60 days
(2)	100% export units promoted by Non MRTP cases	—	30 days
(3)	Composite Applications	—	90 days
(4)	Application MRTP companies	—	90 days
(5)	Other applications	—	60 days
(6)	Application from NRI	—	45

days REJECTION OF THE APPLICATIONS:

An application for an industrial license can also be rejected on the following grounds.

(1) Adequate capacity already exists,
(2) Raw materials constraints.
(3) Proposed location is not in conformity with the governments location policy
(4) Proposal is ill-conceived and not properly formulated and
(5) Not in accordance with the current licensing policy.

Decisions in the matter of industrial licensing are considered to be in the nature of executive decisions taken at the highest level. Therefore, a no system of statutory appeal have been provided. The decision to reject an application shall be formally communicant uirough a reject letter.

EXEMPTION TO SMALL AND ANCILLARY UNITS

Our Government, since Independence has been following a policy of supporting small village and cottage industries on various grounds. Reservations of selected items for exclusive development in the small sector is one of the instruments of this policy. By reserving certain item exclusively for small sector, the small enterprises were protected from any adverse competition from the large-scale sector. This reservation policy remained unquestioned for three decades since Independence. More and more items were included every year and the list had became very large

This policy was challenged by sri Vidhya Paper Mills Limited and the Bombay High Court held that the IDR Act does not confer any power on the Government to reserve certain items exclusively for small sector. With a view to meet this difficulty arising out of the judicial verdict, an ordinance was issued on 12th January 1984,to amend the act to provide for a statutory reservations of specific items for exclusive production by small scale industrial under takings. The ordinance was replaced by an amendment Act of 1984 which came into force with effect from 21st March 1984. At present the Act confers specific powers on the Central Government to define small and ancillary undertakings and to reserve selected items for exclusive production by the small and ancillary industrial undertakings.

The investment limit is the only criteria for determining whether an undertaking belongs to small sector or large sector. The small sector comprises of three different categories of undertakings and their investment limits are given below.

(1) Small Industrial Undertakings - Rs 35 lakhs
(2) ancillary Industrial Undertakings - Rs 45 lakhs
(3) Tiny units - Rs 2 lakhs

The small sector units are exempted from the licensing provisions under the DDR Act, however, subject to certain conditions.

CONDITIONS FOR EXEMPTION FROM LICENSING

Small and ancillary industrial undertaking will be exempted from licensing provisions if the following conditions are satisfied.

(1) The undertaking should not belong to one or other of the following categories,
   (i) MRTP companies having assets more than Rs 20 ctores
   (ii) Dominant undertaking under MRTP Act.
   (iii) Foreign companies in which more than 40% of the equity holding are held by foreign investors, (iv) Subsidiary of or owned by any other undertakings
(2) The item of manufacture involved should not relate to one or other of the following categories of industries
   (i) Industries listed in the Schedule A of the Industrial Policy Resolution on 1956
   (ii) Specified industries subject to special regulation **EXCEPTIONS TO THE POLICY OF RESERVATION:**

However in the national interest the government can allow large undertakings to enter into certain lines of activities which are exclusively reserved for small sector if (i) The item is meant for captive consumption and the market for small sector does not shrink due to the allowance of the large sector, (ii) By manufacturing the item in the large undertakings the environmental pollution can be reduced considerably than by manufacturing the item in the small sector, (iii) The item is to be manufactured through re-cycling of waste products.

INDUSTRIES CALLING SPECIAL REGULATION

The policy of reservation should not be allowed to go against the socio-economic policies and our industrial policy. Therefore, even while reservating certain items for exclusive excess capacity is not created quality does not suffer or technical considerations are not flegated to the background. For these reasons even industries otherwise reserved for small sector may have to be specially regulated. Therefore the government issued a notification attaining many schedule and schedule IV which are subject to licensing regulation under the IRA Act. Hence all existing undertaking on that date should obtain a registration and new undertaking etc., requires a license under the act.

OBJECTIVES FOR SPECIAL REGULATION.

The objectives sought to be achieved by inclusion of these iteins in schedule IV are as follows.

(a) Faster and better indigenisation of the industry.
(b) Dkourage CKDNSKD Imports
(c) Ensuring that entrepreneurs take up the industry in accordance with phased manufacturing

programme prescribing certain norms for indigenisation.

(d) Better Quality of Product.

(e) Ensuring proper after sale services by elination of certain units which have been manufactured on the basis of imported components and parts and screw drive assembly operations.

(f) Discouraging the manufacture of items by assembling the locally available components or imported components.

(g) Minimising hazards on roads (e.g. Automobiles) as in the absence of testing facilities, safety operations cannot otherwise be ensured.

INVESTMENT EXEMPTION LIMITS FOR LICENSING

The act empowers the central government to exempt any industrial undertaking from alone any of the provisions of the act. The government however, cannot remove any industry from the first schedule. However by executive orders and Rules it can exempt any undertaking in the scheduled industry from the provisions of the act. The government is granting exemptions to industrial undertakings only on this basis. Exemptions were granted in the past on the basis of investments involved the nature of the industry, foreign exchange requirements, backward area concessions etc.,

The IDR Act enacted only to regulate the functioning of large scale undertakings. Hence, small industries are totally out of the purview of the Act The investment involved is an important consideration in granting exemption since the passing of the enactment. Originally the investment limit was fixed at Rs 1 lakh. Later it was raised to Rs 5 lakhs. In 1964 the limit was further raised to Rs 25 lakhs, hi February, 1970, it was raised to Rsl crore and to Rs 3 crores in April 1979. Again in April 1983, the investment limit was further enhanced to Rs 5 crores considering the general escalation in project costs in the last few years. Now it is raised to Rs. 15 crores in Non backward area and Rs 50 crores in case of backward areas.

Therefore industrial units which involved investment in fixed assets Land and building, plant and machinery below the cei ling limit need not obtain a hcense under the IDR Act. However this investment ceiling shall not apply to industries which require special regulation. In addition to the above mentioned ceiling limit, the undertaking should not require foreign exchange however subject to certain-limitations. LICENSING **CONDITIONS:**

The central Government is empowered to impose certain conditions at the time of issuing the hcense or the letter of intent Most of the conditions are in the nature of procedural compliance. They deal with matters which call for clearance or approval by other government authorities. Most of the conditions relate to

(1) Import of capital goods and raw-materials.

(2) Phased manufacturing programme.

(3) Typing up of financial assistance with public financial institutions.

(4) Foreign Collaboration (both financial or technical)

(5) Satisfactory arrangements for movement of raw materials (and finished goods by rail)

(6) Anti pollution measures.

.(7) Permission of the RBI utilisation of foreign exchange or for investment up to 40% by non

resident Indians.

In addition, depending on the type of the industry, certain other standard conditions are often attached to a letter of intent or industrial license. The letter of intent shall be converted into a hcense after the applicant has fulfilled the conditions as Hiiwrt*** m additions to the various aspects of the IDR Act, discussed already various other without present study are.

(1) Diversification or Flexibility in production

(2) Re-endorsement of productive capacity

(3) Broad banding of industries

(4) De-licensing of industries

l.Drversiflcation

It is already stated that an undertaking licensed under the Act can produce only the licensed article. This resulted in under utilisation of installed capacities and in many cases the undertaking were unable to avail the full benefits of the economics of large scale production. Therefore, the government in order to promote faller utilisation of the productive capacity evolved a special procedure to provide facilities to certain industries for diversification on the line of production within the existing overall installed capacity. In terms of these special diversification schemes, industrial undertakings currently holding a license or registration certificate for manufacturer of certain specified items are free to diversify K i.e. are eligible to produce certain other specified items also without any fresh license.

Originally the non-MRTP Companies were allowed to diversify freely. But from 30th June 1988 on wards even MRTP and FERA companies are given a free hand to diversify their operations. However, the undertaking which wants to diversify should submit an application and the government shall treat the application more favourably. Hence even diversification requires the prior sanction of the government. H)Broad banding of Industries

The scheme of broad categorisation of industries for the purpose of industrial licensing is yet another step towards implementing the policy of liberalisation intended to encourage fuller utilisation of capacity. For the first time in July 1983,the government introduced the system in case of certain select industries. Objective of Banding:

The objectives of introducing mis system can be outlined as follows:

(1) Achieving optimum utilisation of installed capacity

(2) Scope for flexibility in changing the product mix according to the demand.

As a result of the scheme, it is expected to lead better capacity utilisation high over all production and lower cost Feature of the Scheme:

The broad banding facility has now enabled the companies to apply for manufacture of a broad category or categories of item rather than for narrowly defined individual items. However this system has the following characteristics.

(1) The facility of broad banding will be available within the existing over all licensed capacity of the relevant item.

(2) For purpose of broad banding certain industries have been divided into a few categories and sub-categories. It must be noted that broad banding is permissible with the sub-category only.

(3) the scheme of broad banding is not available for items exclusively reserved for the small sector.

(4) In case of MRTP companies this facility will be provided subject to certain limitation.

ULKe-Eadorsement or Capacity

The year 1982 was declared as **the** year of productivity. Hence this government announced various schemes to provide a positive production orientation to the industrial economy. Of them the re-endorsement capacity scheme is noteworthy. The scheme remained in force for the years only. However the government has now re-introduced the scheme in a modified as well as in a more liberalized form. Features of **the scheme:**

The scheme has certain salient features. These features are also its limitations in a sense.

1. This facility is available to all licensed units which have achieved at least 80% of their licensed capacity during any of the proceeding five years from the date of application.
2. Re-endorsement will be even in cases were the actual productions exceeded 25%of the licensed capacity.
3. The scheme does not apply to small sector units
4. The scheme does not apply to 21 identified industries where there are actual shortage of raw material or high pollution risks or severe infra structural constraints
5. The scheme does not apply to undertakings located within the standard urban area limits with population of more than 10 lakhs and within the municipal limits with population more than 5 lakhs.
6. MRTP(FERA Companies are not eligible in respect of certain industries.
7. This scheme will be subject to certain limitations in ca[r] e of drugs and Pharmaceutical industrial undertakings.

Normally the capacity shall be re-endorsed to the extent of the highest production achieved (during any of the five preceeding year plus one third therefore) If production exceeds even the additional re-endorsed capacity further-re-endorsement to the tune of one third will be allowed. IV. DELICENSING OF INDUSTRIES

The main plank of the IDR Act is the licensing of industries. The government is empowered to regulate the growth of certain industries specified in the schedule -T the Act.

The need for licensing requirements will arise only when the industries undertaking is engaged in the scheduled industry and the manufacturing activities are carried on in a factory. These two conditions are cumulative conditions and the question of obtaining a license will not arise if any one of the conditions is not satisfied.

However, the government is empowered to frame the regulation for effective control. It is also empowered to allow certain relaxation even in case of scheduled industries, It can even exempt certaio undertaking from the licensing formalities, such exemptions, relaxations are the result of the policy changes made by the government In the initial days the governments policy brought in the matter of expected results. Therefore in 1966 the £>vernment thought of relaxing certain stringent provisions in the policy and a few relaxations were also made, Subsequently another dose of liberalisation was given in 1973. Various other relaxations were also announced subsequently and the entire system of licensing was completely overhauled after Rajiv Gandhi came to power.

Since we are elaborating mis aspect subsequently is a separate chapter we shall confine our discussion on this matter upto mis stage.

INVESTIGATION INTO THE AFFAIRS OF THE UNDERTAKING

The scope of the Act is very wide. It is not merely concerned with the issue of industrial license to undertaking in the scheduled industries. It should also be remembered that at the Act is intended to regulate all the schedule industries as a whole. Further the mere issue of a license shall not ensure effective regulation of individual undertaking as well as the industry in accordance with the government to ease investigation of an individual undertaking or the industry as a whole under certain specified circumstances. All the undertakings belong to a particular scheduled industry in collusion with other or by mutual undertakings may indulge in some unfair practices. Hence the industry as a whole can be investigated.

, The powers of investigations are conferred upon the government under Section 15 of the Act, Section 15A covers the cases of individual undertakings in the process of liquidation.

CIRCUMSTANCES IN WHICH AN INVESTIGATION CAN BE MADE:

The government can make or cause to be made a full and complete investigation of the affairs of a schedule industrial undertaking under the following circumstances.

(1) If there is a reduction in the volume of production without any economical justification.

(2) If there is a marked deterioration in the quality of goods produced by the undertakings which could be avoided and easily avoidable.

(3) If there is a price rise without any economically justification.

(4) If there is a need to conserve any resources of national importance which are utilised by the industrial unit.

(5) If the undertakings is being managed in a manner highly detrimental to the interests of the industry concerned or to the public interest.

Powers to Investigate into the Affairs of a Company in Liquidation.

Section 15 A deals with the special case of an undertaking which has closed its operations. If a company owning a scheduled industrial undertaking is being wound up by an order of the court or under the supervision of a High court and the business of the company is not being continued the Central government may apply to the Court for permission to investigate into the possibility of reviving the industrial undertaking. If an application is made to the High court it should give the permission to make the investigation. This investigation is made if it is necessary to run company in the public interest and in the interest of production and distribution of the company under liquidation.

It should be noted that the government need not seek the permission of the High Court if an investigation order is passed already before the passing of the winding up order. POWER TO ISSUE GUIDELINES AFTER COMPLETION OF THE INVESTIGATION:

After receiving the report of the investigation, if the central government is satisfied that further action is desirable it may issue appropriate direction to the industrial undertakings concerned to secure all or any of the following objectives namely

(1) ' Regulation of production of any of the article or or class of article

(2) Fixing the standards of production,

(3) Requiring the undertaking to take steps necessary to stimulate the development of the industry.

(4) Prohibiting the undertaking from taking any step which might reduce its production capacity or economic value.
(5) Controlling the prices of any article or classes of articles.
(6) Taking over the management of such undertaking.
(7) Revoking the registration or license of the undertaking if it is necessary or justified in the public interest

During the pendency of an investigation, the government is also empowered to issue any interim direction for securing any of the objective specified above. III.CURATTVE MEASURES

The government cannot discharge its responsibilities by taking regulatory measures or preventive measures. Prevention can prevent an ill from attacking But curative measure are also essential when the government without knowing the ills of an activity allowed to occur. The government of course acts in good faith and issues licenses to the entrepreneurs. If the entrepreneurs fail to act upto the expectation of the government and deteriorate the industrial culture, curative measure will become ejsential. The IDR Act also provides for certain curative measures. Two important curative measures are envisaged in the IDR Act

(1) Direct takeover of the management
(2) Imposing control over supply, price etc.

1.DIRECT MANAGEMENT BY THE GOVERNMENT The act empowers the government to takeover the management of an industrial undertaking either after investigation and issuance of directive.

Sec 18 of the IDR Act clearly specifies that the Central government may take over the management either partly or wholly.

(1) If the Central government is of the opinion that the directives issued to an undertaking has not been followed or comply with such directives.
(2) If the investigation report reveals that the company is being managed in a manner highly detrimental to the interest of the industry to which the undertaking belong or to interest of the public.

When the whole of the management is takenover the owners of the industrial undertaking are deprived of the power to exercise control over the management. However, the act permits that certain aspects of the management may still be left to the owners of the undertakings if the central government so desired.

The act however limits the period of take over. In the first instance the period may be up to Five. Year and not more than that. However the government can continue the period of take over by 2 years every limit By way of extension the government can continue the take over for another 12 years ie, extensions are allowed. Thus, the take over may be continued up to 17 year. EXTRAORDINARY POWER TO TAKE OVER MANAGEMENT WITHOUT INVESTIGATION;

Sec. AA confers the powers on the government to take over the management immediately without any formal investigation either as a preventive measure or in the public interest. The government shall resort to this extreme only when any delay in the face of the facts of the case would cause prejudice to the interest of the public or industry. It is really an extraordinary power conferred by the parliament upon the government in 1971. It was a really an embarrassing period for Mrs

Indira Gandhi, who was our Prime Minister then. By that time she returned to the Parliament with a massive majority defeating the old congress through the country.

The government shall invoke the power under this section and assume direct management of any undertaking if.

(1) The person in chance of the management of the undertaking are making reckless investment creating unwanted encumbrances on the assets of the undertaking, diversifying the funds into unauthorised uses, and thereby causing trouble or

(2) The undertaking is closed for a period of not less than 3 month and such closure is prejudicial to the industry as well as to the financial conditions of the company. More over, plant and machinery should be in good condition so that there should be a possibility of re-starting the undertaking.

The following points should be noted in this connection.

(1) The government is empowered to takeover the management suomoto and without any prior investigation.

(2) The whole or a part of the management can be taken over.

(3) This section shall not apply to an undertaking owned by a company which is being wound up.

CONSEQUENCES OF THE TAKEOVER BY THE GOVERNMENT Section 18 B to 18E specify the consequences of takeover of the management by the government The following consequences shall follow.

(1) All the person in charge of the management holding office as managers or directors shall be deemed to have vacated their office.

(2) Any contract made between the undertaking and any managing agent or managing directors or manager shall be deemed to have been terminated.

(3) The persons or body of person authorised by the Government to take over the management should take all necessary steps to take into the custody all properties, books of accounts and actionable claims belonging to the undertaking.

(4) The authorised person or person shall be considered as the Board of the company for all practical purposes and they are entitled to exercise all the powers vested to the Board.

(5) The new management should take all reasonable steps to run the business as per the direction issued by the government

(6) All contract made by the previous management with any other party with bad faith or which is determental to the interest of the company can be cancelled with the prior approval of the High court.

(8) The powers of the shareholders shall come to an end. They will lose their right to appoint director. All the resolutions passed by the shareholder as well as by the directors, prior to the takeover shall become ineffective.

(9) All winding up proceedings will come to a stay.

CANCELLATION OF THE TAKEOVER ORDER: The Central Government at any time on its own accord or on the application of the owner of the undertaking can cancel the takeover the order and restore the management to the owner. However, the power of cancellation can be exercised only on any of these grounds.

(1) The purpose for which the management was taken over has been fulfilled or

(2) That for any reason it is not necessary that the order should remain in force

Lesson-2 FACTORS OF BUSINESS ENVIRONMENT

Factors influencing the business-Ecological or natiional-Demographic-Economic-Political and legal social and cultural-Physical and technological-dynamic selling of business-need for environmental analysis. Introduction

The previous lesson discussed just the introduction of business environment and what it is about. This lesson brings elaborate analysis of the different factors influencing the business.

The success of a business house depends largely upon the effective manner in which it adapts to its environment. There are different factors of environment influencing in different manners. Successful handling of different factors of environment with different tactics leads to the success of business. Environmental Factors

The different factors influencing the business are as follows:

1. Economics factors
2. Demographic factors
3. political and legal factors
4. Ecological factors
5. Social and cultural factors
6. Physical and technological factors

Economic Factors influencing business

Economic environment is closely related to business houses. It includes the structure of the economy, the industrial, agricultural tariff, transport and trade policies of the country, the growth and pattern, of national income and its distribution, the position relating to balance of payments and other miscellaneous conditions of the economy.

During the first 4 decades since independence India followed a policy of tight state control. Licensing system, tight import control, larger role of public enterprises etc.iiad led Indian industry to become less competitive in the world arena. Many commodities were in short supply. The market was essentially a sellers market. Quality control was just a mockery. MRTP (Monopolies and Restricted trade Practices Act) Act could prevent to a certain extent economic concentration. But it also led to many formalities to be followed by business concern, preventing faster growth of economy. The piece meal policy changes introduced in the 1980s and the new economic policy have unleased a new wave of competitive forces. Industrial licensing is abolished in most of the industries. Scope of private sector has been expanded. Policy towards foreign investment and technology is very much liberalised and MRTP Act is much curtailed. All these have lead to a new wave of competitive forces. Many firms which enjoyed.

protection previously are put to face the competition from powerful multi concerns. New economic policy - a new economic environment

New economic policy of India has taken India in a new path. Business firms face new environments as a consequence of new economic policy. ♦Most of the provisions of MRTP Act pertaining to concentration of economic power are gone. ♦Growth of large firms ♦Better facilities for importing of modem technology.

2.UUNTKUJL OVER PRICE AND DISTRIBUTION

For securing equitable distribution and the availability of the article of the schedule industry at fair prices, the Central Government is empowered to issue an order providing for regulating the supply and distribution thereof.

m the original Act there was no Provision enabling the government to order for regulating distribution and price of the articles of the scheduled industry. This Section was inserted only in 1953. The government is empowered to pass an order providing for

(1) Controlling the prices at which any such article can be purchased or sold.
(2) Regulations by licenses, permits or otherwise the distribution, transport, disposal, acquisition, possession, use or consumption of any such article.
(3) Prohibiting or the withholding from sale of any articles ordinarily kept for sale.
(4) Requiring any person manufacturing, producing or holding in stock any such article to sell the whole or part of it as per the instructions of the government.
(5) Regulating or prohibiting any type of commercial or financial transactions which are likely to cause injury to the public interest.
(6) Requiring the distribution of such articles to mark them with the sale price or to exhibit it some easily accessible place on the premises the price-list of the articles held for sale.

(7) Collecting any information or statistics with a view to regulating or prohibiting any of the aforesaid matter and
(8) Any other incidental or supplementary matter such as granting of licenses or other documents and the changing fees therefore.

It is further provided that an order passed by the government in this regard cannot be challenged in a court of law. However, if the order exceeded the power conferred by the Act the order can not be challenged in a a court

RATIONALE FOR REGULATING DISTRIBUTION:

Prof J.N Bhagawathi says that the following factors might have motivated the government to introduce mis provisions in the IDR Act,since the original Act contains no provision in this respect-.

(1) **A desire to ensure** allocation of adequate amounts to priority sectors at reasonable prices.
(2) Equity considerations
(3) A strong desire to prevent inflationary tendencies.

CRITICISMS OF PRICE AND DISTRIBUTION CONTROLS:

(1) Estimation of average cost is really difficult in many cases. Hence a fair price cannot be fixed.
(2) Cost of capital goods change slowly over a time Hence no control is needed.
(3) Price control leaves a small margin to the entrepreneurs. Hence, they are not in a position to finance for replacement of capital goods and modernisation.
(4) The rate of return allowed in price fixation is very low. This factor discourages the investors and consequently these industries cannot attract enough investment for their growth.
(5) Prices of agriculture commodities violently fluctuate. Hence any price control over agro-based industries will harass the entrepreneurs.
(6) Price fixation itself is a complex problem. Very often the rate not fixed with a realistic approach.

(7) Price control, of course, may be effective over essential commodities wnicn are basic necessaries of life. But such a control is unnecessary in case of products of scheduled industries. Due to these adverse points against price control the Dagli committee also pointed out that price control over the articles of scheduled industries should be avoided as it as possible. It is also suggested that any price rise is witnessed, efforts should be taken to improve productively and thereoof the supply position. This will be the appropriate remedy. Moreover our experience with price controls is not impressive. Often it led to black market and the only long term remedy is to improve the productivity and create a competitive split among the industrialist. *

III. POSITIVE, CONSTRUCTIVE AND CREATIVE MEASURES Apart from the power to grant or refuse a license and also power to takeover the management and control price and distribution, the Act provides for close co-operation between government, industry, labour and other interests through the central Advisory council of Industries, Reviewing, Sub-committees, standing committees and also through Development Council and Industrial panels constituted for individual industries.

Of them, Central advisor council and development councils are worthmentioning. They also have the legal sanction. CENTRAL ADVISORY COUNCIL:

The Central Government has constituted the Central Advisory council in pursuance of the power conferred upon it under section S of the IDR Act. The council consists of a total exceeding thirty members. All of whom including the Chairman, are appointed by the Central Government. The principal function of the council is to advice the Government on matters concerning the development of licensing and regulation of schedule industries. The other functions of the council are (1) to aid the government in administering the act and also (2) in marketing the rules under the Act.

The industry Minister shall be the ex-officio chairman of the council. The members shall also be appointed by the Government giving representation to various interests groups such as.

(1) Owners of the industrial undertakings.
(2) Employee employed in the undertakings.
(3) Consumer of the goods manufactured by these undertakings.
(4) Such other class of persons whom the government considers necessary for inclusion. Their term of office shall also be fixed by the government. The members are also eligible

for re-appointment The council is a statutory authority. The council shall have power to constitute sub-committee as it thinks fit and may assign some powers to them as it may consider necessary.

DEVELOPMENT COUNCILS

In addition, the Central Government may establish for any scheduled industry or group of industries. A development Council consists of

(1) Representatives of the owners undertakings in the scheduled industries.
(2) Person having special knowledge in matters relating to technical and other aspects.
(3) Representatives of the employees of the undertakings.
(4) Representatives of the consumer.

FUNCTIONS OF THE DEVELOPMENT COUNCILS. The development councils perform certain important functions. Their role is particularly useful in the formulations of Five Year plans. Their functions are given in the second schedule of IDR Act 16 functions re assigned to the Development councils and they are briefly given below. (1) Recommending the target of production.

(2) Suggesting norms of efficiency to obtain maximum production and improve quality.
(3) Recommending measures to secure fuller utilisation of the installed capacity.
(4) Promoting better marketing facilities and helping in evolving a suitable distribution system.
(5) Promoting standardisation of products.
(6) Assisting in the distribution of scarce raw-materials.
(7) Undertaking investigations and research work.
(8) Promoting facilities for training personnel.
(9) Arranging for alternative employment for persons retrenched from the industry.
(10) Promotion of Scientific and industrial research.
(11) Promotion of improvements in accounting and costing methods.
(12) Undertaking collection of statistical data.
(13) Investigating into the possibilities of decentralising stages.
(14) Promotion of adoption of measures for increasing labour productivity.
(15) Advising on any matter relating to the industry.
(16) Making available the relevant information to the industry, collection and dissemination of statistical data

DIFFERNCE BETWEEN-ADVISORY COUNCIL AND DEVELOPMENT COUNCIL:

In many respects the Development councils are quite different from the Central Advisory Council. The points of distinctions are given below

1) Advisory councilis only a statutory committee constituted for a specified period. Development councils are also statutory bodies but they are pern..,.. :nt bodies. They are declared as bodies corporates.

(2) In case of both Advisory Council, the Council and its members cease to function after the period mentioned in the order. In ease of development Councils, the Councils will remain permanent but the members may change from time to time

(3) The role of the Advisory Council is to advice the government as regards to the basic objectives of the Act. But the role of the development councils are clearly specified in the second schedule. On the other hand the Advisory Council as the sp Vic function of advising the government on framing or Amendment of any rule.

(4) Since the Development Councils are body corporates, they are entitled to hold property and then* annual accounts are to be submitted to the government at the end of each year. Thus, the functions and scope of the Development council are more wider than Advisory Council.

LICENSING POLICY IN PRACTICE.

Under the provisions of the IDR Act, the government formulated the industrial licensing policy in 1951. The policy framed under the act was also frequently revised when even circumstance demanded it, A detailed study of the various provisions of the IDR Act has been made already. Now we shall discuss the industrial licensing policy followed by our government from time to time since Independence.

At this stage the student should remember that the licensing system came into effect only in 1951. When the First Five Year Plan began. Prior to the passing of the IDR Act no system existed in our country.

For the purpose of convenience, we have proposed to examine industrial licensing policy in our country in the five stages.

(1) Licensing Policy before 1960
(2) Licensing Policy from 1960 to 1967
(3) Licensing Policy from 1967 to 1977
(4) Licensing Policy from 1977 to 1980
(5) Licensing Policy after 1980

Besides we have also proposed to study the liberalisation movement started after Mr. Rajiv Gandhi became the Prime Minister through out the period under the discussion. The parliament adopted the Industrial Policy Resolution in 1956, revising the original policy of 1948. Moreover the First and Second Five Year Plans were also envisaged during the period.

The Government during the period followed a liberal licensing policy with well defined objectives. The objectives of the policy are

(1) Development of industries and encouraging industrial activity in accordance with the five year plans.
(2) Checking the concentration of Economic Power.
(3) Reduction of regional disparities
(4) Proper allocation of foreign exchange
(5) Development, protection and encouragement of small-scale industries
(6) Modernisation of technology and achievement of industrial growth.

DEFECTS IN THE LICENSING SYSTEM

In the initial days the system worked well. The licensing authorities were not misguided and considered the merits of each proposal without bias and political pressure. But the licensing authorities gave much importance to the competence of the entrepreneurs, their potentiality and technical background as well as their past records of implementing the other projects. In addition their ability to mobilise resources so as to achieve commercial production within the given time was given due prominence. This attitude on the part of the licensing authorities paved way for several ills which were noticed only later. If financial and technical ability are given due consideration, naturally the industrial giants like Tatas, Birlas, Modi shall get priority over others. Therefore, most of the licenses were issued to them and protection given to them under the banner of self reliance enable them to enjoy a monopoly power.

Besides there were also some deficiencies in the system followed them. Some of them are

(l)FORECLOSURE OF CAPACITY

The license were issued irrespective of the plan targets. This was evident in many industries. Powerful groups got license in excess of their actual capacity target fixed in the five year plans. But in actual practice, the industrial units were operating much below the capacity. At the same time the foreclosure of the capacity prevented new entrepreneurs entering into the field. (2) UNDUE DELAY IN GRANTING LICENSE:

There was also undue delay in issuing the license. The licensing authorities should consider a number of factors because licensing policy was overburdened with too many objectives. Some of them are in fact contrary to one another. The Government believed that all such objectives could be achieved through a single mechanism of industrial licensing. This inevitably resulted in undue delays in decision making and the consequent issuance of the licenses. (3)ELABORATE PROCEDURE:

The applicant should undergo elaborate formalities and procedure to obtain a license. Normally the new entrepreneurs are not supposed to have enough competence to adhere to the formalities strictly **and** correctly. Large business House, uieretore, on the other hand were to tollow the Licensing formalities diligently and go all licenses for mem. They also have enough resources to employ technically qualified people to aid them in complying with the formalities and the technicalities.

Besides several other deficiencies were also brought into light. However the licensing policy of 1960, laid a strong foundation for industrialisation. It paved way for a planned and systematic growth. Most businesses also welcomed the policy since it was considerably liberal. **Licensing policy Between 1960 to 1970**

The after 1960 deserves a considerable, examination of the licensing policy. Several important events occured in the political scene. Nehru died in 1964 and Lai Bahadur Sastri in 1966. Mrs Indira Gandhi become our prime minister. A vertical split occured in the ruling congress party. It is with this historical background we should review the situation. **MEASURES TAKEN TO AVOID DELAY:**

During the Second Five Year Plan particularly in late 1960 several complaints were made against the licensing Policy followed by us particularly the undue delay in issuing the licen?"- vas the target of criticisms. To avoid the delay the Ministry of Industry prepared three lists in lVo^. for licensing purposes. They are as follows: **(l)FREELIST:**

The free list contained industries which are given license without reference ?c . Lie?- - **Committee. (2)Merit List:**

Merits list contained industries to which **are to be** rejected on grounds of sufficient capacity without **reference to the Licensing committee Swaminathan Committee:**

Maintenance of the three list did not serve any useful purpose and hence the central government in **September 1963 set up a committee headed by Mr. T. Swaminathan to enquire into the matter and suggest suitable remedies. REMEDIAL MEASURES TAKEN UP**

On the basis of the recommendation on the Swaminathan **Committee three** revised **list of industries were prepared in 1964 they are 1)LIST OF KEY INDUSTRIES**

Industries which were essential for the promotion of self sustained growth or industries in which **there was a substantial** gap in the achievements of the plan targets were included in **the** list. The list **was also revised** from time **to** time **depending the** needs of time. They key industries specified **in the List receive preferential treatment** in **the matter** of release of foreign exchange **(2)Priority List**

Next to key industries, apriority list of industries was also drawn. The list contained industries next to **the** key industries importance in regard to allocation of foreign exchange, imported raw materials equipment etc. **LIST OF INDUSTRIES EXCLUSIVELY RESERVED FOR SMALL SCALE SECTOR:**

The list contained the name of industries in which no large scale industries unit is allowed to carry on **production LETTER OF INTENT:**

On **the** basis of the Report the government also began the system of issuing Letter of intent to the application within a month form the date of receipt of the application for reference. This **system** is **still in force.**

The letter of intent is a not license, it contains only an indication that the government is **prepared to consider his application** positively **for the grant** of license provided the applicant come **forward to comply with other formalities and to take other** promotional measures within the specified **period. According to the recent notification the letter** of intent will be valid for a period of three years. **DELICENSING OF CERTAIN INDUSTRIES**

For encouraging the speedy establishment of further capacities in the priority sector which **do not involve substantial import of components or raw-material,** certain industriespwere deiicensed **on 11th May 1966 and some more industries were further** deiicensed in 29th Novemberl966. This **can be considered as the first step in the era of delicensing.**

All these measures taken on the basis **of the** recommendation of Swaminathan Committee **aimed to avoid delays in the disposal of the applications** for licenses. But no attempts were taken to **remove the basic criticism of concentration of** Economic power. The speedy disposal enabled the **large business houses to obtain more and more** licenses quickly. This ultimately resulted in the **speedy foreclosure of capacity. As such the basic abuse** of **the** system remained unaffected or **uncured Hence there began a wide spread** criticism against the licensing policy. Politicians, **Journalist, economists began to stress for a through overhauling** of the licensing policy and the system **so as to make it meaningful. Besides, the government** was condemned for. **1. Its failure to check monopoly power.** Consequently in 1960 the government appointed a

committee headed by Prof R.C. **Mahalanobis** examined the extent of concentration and **found out that 20 large industrial houses were** controlling nearly SO of the national output.The **committee, however did not arrive at any define** conclusion.

HAZARI COMMITTEE AND ITS FINDINGS

In 1966, the government appointed Prof. Hazari, as a single man **committee to review** the **operation of the licensing system and to** suggest suitable modification Dr.RK. **Hazari listed a detailed review of the system and submitted his report.**

In the study Report he made many surprise findings and sensational disclosure as to how the Birla House tried to corner moves and foreclosure of industrial capacity.

Prof. Hazari pointed out the following defects in **the** licensing system.

(l)MUTIPLE LICENSES:

Multiple licenses were issued for the same product. Particularly Birlas were benefited by mis practice. Multiple licenses enables the monopoly houses to establish **their empire in the industry. They have created many new concerns. Licenses were** also issued **to these bogus concerns.**

(2)CHRONOLOGICAL SELECTION:

The licensing committee followed the practice of chronological selection i.e. first in first **served. Most big business houses are maintaining an** office **at** New Delhi and **have established close contact with the government officials in various** Ministries. The close contact **able mem to put multiple application at the earliest Since chronological order** was **followed by the licensing authorities all the licenses naturally went to the** these big business houses. **Therefore, the licensable capacity was foreclosed in many cases. (3)ABSENCE OF FOLLOW UP ACTION:**

The most disappoint feature of the licensing system was **the absence of follow up actions after the licenses were issued. As soon as the licence up to** the targeted capacity **were issued, the licensing authorities felt that their task over. They have not taken any follow up measures to see**

whether the licences issued to them. This created several problems.

(i) Plan targets remain unfilled.

(ii) Supply did not match to the demand. Hence short supply was noticed in many industries.

(iii) Short supply ultimately led to back-marketing and exploitation.

Thus Hazari declared that the licensing system followed was the root cause for the growth of monopoly and concentration of economic power. Recommendations of Prof .Hazari.

Prof. Hazari made several meaningful recommendations to remove the defects in the licensing system. Some of the recommendations are given below.

(1) The planning should not confine itself to the laying down of targets but should specifically say which targets are compulsory and which are more indicative. It should also specify the major priority areas and suggest from time to time broad policies on taxation, credit prices and allocation of foreign exchange required to fulfill the targets.

(2) Over-licensing of the capacity should be avoided. Licence were normally issued for capacity 10% to 25% above the targets for the plan year and that too mostly around the beginning of the plan period. This practice exerts excessive pressure in capital goods lower financial resources and foreign exchange.

(3) On the basis of priorities, the government should earmark foreign exchange and rupee resources and provide power, transport and land etc.

(4) Regional allocations, small industry reservations and policies regarding concentration of economic power should be built into the industrial plan programme.

(5) The licensing procedure should be further liberalised. The original unit for new undertakings was fixed at Rs 251akhs (it was previously Rs 10 lakhs) This should be further increased to Rs 1 Crore. Similar relaxations for substantial expansion and manufacturing of new articles are required

(6) The entrepreneur to whom a licence is given should commission the project with in a specified time. If he fails to do so the licenses issued to him should be transferred to somebody.

(7) 'Not more than one licence should be issued to a single firm or a business group. In particular no licence should be given for manufacturing capital goods to large industrial nouses.

(8) Tax concession and tax-holiday benefits and other incentives should be given on selective basis and not to all.

(9) Import policy should be liberalised in case of those products where the cost differential between domestic products and import is so adverse to make domestic production uneconomical.

Policy changes made on the basis of Hazart Reprot

(i) In case of substantial expansion of an existing undertaking.

(ii) When the increase in production did not exceed 25%of the licensed capacity.

(iii) When no additional expenditure of foreign exchange was involved and

(iv) "When no additional demand for scarce raw-material was involved.

Besides, it was also decided that license is needed for manufacturing a new article by an existing undertaking. If the proposed new article is not an item exclusively reserved for small scale sector. The other four conditions required for substantial expansion should also be satisfied in this case also.

Critical evaluation of the **changes:**

m spite of the liberalisation of the policy, the monopoly houses continued to grow to utilise the loopholes in the policy. The licensing authorities also tried to bring about a degree of entrepreneurial decentralisation was carried on some what awkwardly in two ways.

(1) Licenses were issued to businessmen who have no experience in the particular field. For instance a license in synthetic fibre was given to a family of jewellers.

(2) License were issued to one monopolist to break the monopoly of another industrial houses. For instance licences were issued Birla to break the monopoly enjoyed by Tata in the field of steel tube industry.

Thus new entrepreneurs were not encouraged. Only large business houses utilised this opportunity and tried their best to establish their dominance in the diverse fields. Moreover some of the basic defects specified by Prof Hazari remained uncured. Industrial Licensing policy enquiry committee.

The findings of the study along with the recommendations were placed before the parlia ment. A thorough discussion on the report of Pro. R.K Hazari in the Raja Sabha in May 1967, led the Finance Minister to appoint another committee under the chairmanship of M.S Thacker. Later Sri S. Dutt was appointed as the chairman of the committee or Dutt Committee. This commit tee is known as industries licensing Policy Enquiry Committee or Dutt Committee. The committee consisted of three members including the chairman. Dr.H.K Paranjape. the term of reference of the committee were very wide and included important instruments of licensing and financial assistance through which development of private sector industry could be regulated and assisted. **Findings of the Dutt Committee**

The Dutt Committee also disclosed some important sensational issues. Some of the findings given below.

(1) A number of licences were implemented after a long delay and some licences were not even implemented.

(2) Not only multiple licences were issued but the capacity allowed was also much higher than necessary. This resulted in concentration of the licensed capacity in the hands of a few monopoly houses.

(3) Even large houses and foreign companies to whom licenses were issued unjustificably delayed in implementing the licences, the co-operative sector was unreasonably ignored in the issue of licence.

(4) Licence were issued to the private sector even in case of industries which are exclusively reserved for public sector under the industrial policy of 1956. This is in fact an apparent contravention of the declared objectives of the state policy.

(5) No overall region wise plans for licensing of different industries were formulated. No full. scale guidelines were ever formulated so as to use licensing as an instrument or bringing about regional dispersal of industries

(6) Industrially advanced state like Maharashtra, West Bengal Tamil nadu and Gujarat continued to have a lion's share in the licences These state governments extorted pressure on the licensing authorities and go license for their state.

(7) The role of small and medium industries was not clearly defined in the plans. Hence the licensing system have failed to contribute to the growth of these two sector.

(8) The committee found that about 56% of the total assistance provided by the specialised public financial Institutions went to the large industries sector. Of this 20 large houses got 23% assistance. Birla alone obtained one fourth of the total assistance sanctioned to large industrial houses. The State Bank of India, the LIC were also very generous in providing long term loans and for subscribing to the short capital of the companies promoted by Birlas and Tatas.

Recommendations of the Dutt Committee:

The Dutt Committee was of the opinion that the Licensing system in its present stage, could not ensure a balanced industrial development according to the plan priorites The main recommendations of the Dutt committee can be divided into three broad groups the core sector, the middle sector, and the reserved sector.

(1) Core Sector:The first group i.e the core sector is defined as the basic, strategic and critical industries like basic materials heavy machinery and heavy chemicals. Here the licensing system is visualized to act as a positive instrument of industrial planning. Large industrial houses and foreign firms should be permitted freely into this sector leaving industries which are specified to be exclusive monopoly of the state.

(2) **Middle** Sector: The second group comprises of the middle sector where according to **Dutt** Committee licenses are to be granted except to 20 larger industrial houses(ln each case, the total assets exceeding Rs 35 crores) In case where the investment required is large or the technology is complex licenses may be issued to the larger houses provided they agree to implement the joint sector idea.

(3) **Reserved Sector:** The third group is called the reserved sector where particular products are reserved for small and medium industries. The committee also recommended that the production of certain non-essential goods are to be banned.

The government studied the recommendation of the Dutt Committee and accepted many of its recommendations. **New licensing Policy of 1970**

Having accepted many of the recommendations of the Dutt Committee the government announced its new licensing policy is February 1970. The new licensing policy had not only given effect to the main recommendations of the Dutt Committee but also placed a good deal of emphasis on Prof. Hazari's recommendations. Besides the recommendations of the Administrative Reforms Committee(ARC) and the planning commission were also considered and suitably incorporated in the new licensing policy. The main features of the policy were as follows.

(1) Classification of Industries: For purpose of issuing licences the new policy divided indus tries into four group viz (i)core sector (ii) Middle sector (iii)Heavy investment sector and (iv)Reserved sector

The core sector is exclusively reserved for the public sector. The reserved sector as decided earlier shall continue to be reserved for the small sector. For middle sector Hazari's main recommendations have been broadly emphasised. In case of heavy investment sector, except industries exclusively reserved for public sector large industrial houses **and** foreign firms **were allowed to take** part All investment propositions of over Rs 5 crores **were** deemed **to be** in heavy investment sector.

(2) Joint Sector Concept: The new policy brought into the picture a new sector called joint sector **We also know that** public institutions like I.F.C. LCI I.C.etc, were very generous in

advancing long term loans and other lands of financial assistance to various large industrial riouac* Und*r tVe new policy, inci.~ financial institution were allowed to convert their long term loans into equity capital. The idea or rational behind this concept is the joint participation by the private sec"'>r ar *A* the public sector in the management and policy making. (3) Further modification i.n the Same Year: Soon it was felt that the multiplicity of sectors overlapped each other in intricate ways and made the categorisation vague and difficult to apply in practice. This vagueness in concepts provided opportunities to take wrong decision. Therefore the government decided to modify the licensing policy and added more and more conditions and qualifications. Within five months of the announcement of the new policy. The main lines of version were as follows.

(1) 70 large industrial houses named in the Dutt Committee Report were prohibited to diversify or expand their capacity about 25% of their licensed capacity.

(2) Big business houses, however, were allowed to setup export unit in the middle sector provided they undertake to export 60% of their production. But the remaining 40% should not affect the small producers.

(3) These large undertakings can also take part in the small sector and set up export oriented units. 75% of their production should be exported and the balance should not adversely affect small producers.

Industrial Licensing Policy of 1975

In February 1973, the government once again modified the policy and procedures further. Sri. C. Subramanyam was then the Industrial development Minister. The new modification aimed at further clarification of the role of public sector in the industrialisation of the country. The main features of the new policy were as follows.

(1) The new policy accepted the dominant role of the public sector and it shall continue to enjoy the monopoly in areas specifically reserved for it.

(2) Co-operatives and small and medium entrepreneurs were to be encouraged to participate in the production of mass consumption of goods while the public sector also taking an increasing role.

(3) The government would encourage joint sector as a promotional instrument in the prioriy areas.

(4) In the core sector also 19 industries were selected and the large houses and foreign companies were allowed to operate.

The ultimate object of liberating the original policy was to create greater certainity in the industrial climate. The statement of 1975 however, laid down that licensing policy should be in conformity with the MRTP Act, Another major administrative innovation and simplification introduced in November 1973, was the setting up of the Secretariat for Industrial Approvals.(SIA)

Modified Industrial Policy of 1975:

Again in 1975, the Government of India, with view to encourage production and utilisation of the installed capacity, made certain notable changes in the previous licensing policy. These modifications liberalised the licensing system considerably. The main features of new policy were as under.

(1) Special attention shall be given to promote small and medium industries.

(2) Delays in issuing letters of intent and licenses will be substantially reduced. The genuine difficulties of the entrepreneurs should be viewed sympathetically

(3) The government has declared 21 industries and permitted their expansion without limit.

♦Liberalisation of foreign investment.

♦Presence of Multi national concern in Indian market resulting in high-voltage competition.

Some fear that all these may end in eradication of small scale concerns in India and the entire market will be dominated by multinational giants. But the growth of large firms has supported the development of a large number of small enterprises in many countries.

The liberalisation policy has not only brought multinationals but also their modem technologies. Given the proper encouragement, the Indian corporations can play a significant role not only in Indian but also in the global market. The new policy and resultant environment may offer some problems to business enterprises initially but will fetch definite advantages in the long run.

GATT **and** Dunkel **Draft**

With the signing of Dunkel Draft under GATT India is facing a new set of environments. Indian business firms will be exposed to global economic environments. More Multi National Corporations (MNC) are expected to enter into Indian market. Asians will be consumers of late 1990s. There will be a keen competition between powerful multi national giant corporations to capture the Asian market. **Demographic Factors**

Following are the demographic factors, having a strong influence on the directions of business.

1. Size of population. Larger population means larger demand. China and India invite the attentions of developed countries with their vast demand. The surplus production of developed western concerns could easily find a suitable market in these countries.

2. Composition of population. Sex ratio, age composition educational status, family size, occupational status etc. have a direct bearing upon the nature of demand for the products. A clever analysis of these factors would help in determining the range and list of products needed by the consumers. Larger income, higher literacy lesser growth rate etc generally lead to larger demand for luxurious and semi luxurious goods and vice versa.

If the population is heterogeneous in language, caste and religion, ethnicity etc, the consumers would have variety of tastes, preferences beliefs and temperaments. It leads to varied demand patterns, It is a complex task to formulate, suitable business and market policies. Mobility of Population

If the labour is easily mobile between different occupations and regions, supply of labour will be smooth and it will lead to higher wage rate. Improved technology has lead to vast expansion of transport facilities - air sea, and land transport. In addition to it the fast development of communication facilities (telephone, fax, telex, etc.) is contributing much for the mobilisation of factors of production. Education

, r proved educational facilities and efforts to eradicate illiteracy by Government and social service c *jr.:* isations in India have changed the environments to a greater extent. Especially aware-n.js oi cuucation among the women population has been changing the composition of marketing structure in India.

With the rise in the number of double and multiple income households, the demand for a host of products such as packaged foods, many consumer durables, prestige goods etc. shoots up. Income from employed wife leads to her active participation in purchase decision making.

(4) In case of 31 other industries the existing units including MRTP companies ana ioreign companies will be allowed to utilise their capacity without limit. But such increased production should be exported or sold as per the directions of the government. Industrial Licensing policy of 1976-1977

During the period 1976-1977 the government liberalised the licensing procedure further. Particularly medium enterprises were given a favourable treatment. Accordingly the government decided to exempt 24 medium industries from the normal licensing procedure for setting up new undertakings, substantial expansion of existing capacity and manufacture of new articles. Moreover another 29 medium sector industries were allowed fuller utilisation of these installed capacities. It should also be remembered that the liberalisation movement made its humble beginning when the internal emergency was in force. The important measures taken in this direction are summarised below.

(1) To liberalise investment procedure, power have been delegated to administrative ministries.

(2) Fifteen selected engineering industries, particularly export oriented ones have been allr - -ed to grow at the rate of 5% per annum or upto a ceiling of 25% in a plan period, over uieir licensed capacity. This measure was taken to give big boost to export of non traditional products.

(3) Undertakings excepts those covered by MRTP Act and FERA, were allowed to utilise their capacity over the licensing limit.

(4) With a view to utilise full installed capacity diversification was allowed in several industries like machine tools, electrical equipments etc.,

(5) A technical development cell was set up ij* the ministry of industry to promote fuller utilisation of capacities to enhance our export development efforts.

(6) Procedure for importing capital goods and drawing design was further liberalised. The technical Development Fund was created tp cover the foreign exchange needs of imported equipment.

Industrial Policy of 1977 **(Janatha** Rule)

The emergency regime of Mr.Gandhi came to an end in 1977 and the Janatha party came to power. The Janatha Government announced its own licensing policy with a tall claim that its policy directed towards removing the many distortions of the past and to meet the genuine aspirations of the people with time bound programmes. The salient features of the Industrial licensing policy announced by the Janatha Government are:

(1) The licensing policy aimed to support a consumption bound small -scale industry.

(2) The role of large scale-industry was considerably restricted.

(3) The policy makers wanted to check the disproportionate growth of large industrial houses. With this objective in view, they have decided to restrict the expansion of existing units and establishment of New undertakings covered by MRTP Act.

(4) No large undertaking was allowed to expand or diversify to new lines without the permission of the Government.

(5) In regard to foreign investment, the dilution principle of FERA was strictly enforced. Thus the licensing policy of 1977 was certained in favour of small sector and imposed severve restrictions on the large and monopoly houses.

Appointment of Study Group:

In October 1977, the Janatha Government appointed a study group under the chairmanship of G.Y. Ramkrishna. The study group submitted its recommendations in February 1978, On the basis of the recommendations of the study groups certain liberalisation measures were taken in 1978-79 The important measures taken were as follows.

(1) The exemption limit for purposes of licensing for the medium scale industries has been raised from Rs. 1 crore to Rs 23 crores.

(2) Within the above investment limit the requirements of foreign exchange for import of raw materials upto Rs 25 lakhs per year or 10% of ex-factory value of annual production whichever is less has been permitted.(The original limit was Rs 5 lakhs or 5% whichever is less)

Thus, over the period the licensing policy has been substantially liberalised mainly through reduction in procedures and raising of exemption limits. The Janatha Government so decided to set up state level approval authorities. A three tier system of import of capital goods was also announced. In short it was evident that the Janatha Government made a notable deviation from the policy persuaded by the Congress Government since Independence. In fact it can be regarded as the beginning of the liberalisation movement of today. Industrial policy of 1980-1985

The congress party again under the dynamic leadership of Mrs Indira Gandhi came to power at the centre. The congress government again reintroduced its established policies. The role assigned to large sector under the Industrial Policy based on the original policy of 1956 was announced in 1980.

A new licensing policy was also announced by the Congress Government with a view to revive the economic infrastructure and the new policy gave a further dose to the liberalisation movement **Establishing a New Undertaking:**

Under the policy of 1980, all new undertaking which propose to manufacture anything included in this First Schedule of the EDR Act should get a license as usual. However a license is compulsory only when the investment is above Rs 3 crores. **Expansion of Capacity:**

Under the DDR Act, we all know that a license is essential for expansion also. But the government decided that existing licensed undertaking need not get fresh license to expand its production capacity provided the total investment (Original investment plus additional investment) for the proposed expansion does not exceed Rs. 3 crore and does not require foreign exchange within certain specified limits Similarly any licensed unit may get liberal permission, to expand or to manufacture of a new product by making use of their own wastes or effluents. Small sector:

No industrial license is required for small scale units to produce any of the items reserved for small scale sector, however subject to certain liberal conditions. The MRTP companies, however cannot into small sector. Further liberalisation in 1982

In March 1982, the government declared a liberal licensing policy for industrial ventures to be started in 87 industrially backward districts in all 18 states. This measure was taken to correct the ?gional imbalances on the one hand and to ensure rapid industrialisation of the backward areas on t ne other. These districts were given preference over all other location on a priority basis. *I* ncentive to New Product Development:

To develop new product and technology development and to provide incentive for research i I our country, Industrial units proposed to manufacture of a product with the help of technology developed any of the laboratories established by the council of scientific and Industrial Research need to get any license at all. , Farther Developments:

Various other developments were also made during the period.

(1) The facility of excess capacity over licensed capacity was ?.ilowed on a selective basics.

(2) Clear cut policy guidelines were prepared for consolidation of the application. While issuing any license, the administrative secretariat should consider such facilities.

(3) Import restrictions were considerably relaxed particularly restrictions on a raw materials and sophisticated technology.

Review of the Industrial Licensing Policy of 1980

The licensing policy announced in 1980 is the outcome of the recommendations made by several committee especially the Dutt Committee. The working of the industrial licensing has been the subject of much debate discussions and criticism. Some of the important criticisms are given below. (l)Expansion of Larger Houses

The process of industrial licensing worked mainly in favour of larger houses and accelerated their growth. Dutt committee also pointed out this defect. The procedure *of "first come first served basis"* for issuing license was solely responsible for th 'efect. The net effect is that the entry of new manufacturer is made almost impossible. (2)In efficiency in Industrial Planning

The working of the licensing system has resulted in ar. cTicient industrial planning. The applications were judged on adhoc basis and not on the basis oi* any firm criteria. The criteria mostly considered were the availability of capital and forei v change or fulfillment of export obligations. These, in fact, are the basis for sound industrial *p\i* . ..g.

(3) Lack of Reliable Data:

Another notable defect of the system was the absence of *i* .liable statistical data. Even the data collected by specialists were inadequate and not helpful to the *a* timittee to form any rational judgement. Besides no study has been so far conducted by the DGTD about the optimal size, time phasing and location of industrial units, to guide the licensing committee in its deliberations.

(4) Time Consuming Procedure

The administrative procedures adopted in respect of grant n ncenses have been so inefficient and much of the valuable time is lost. Estimates Committee also pointed out this report. However, since 1976 the situation has considerably improved. At time limit is also prescribed for the disposal of the applications. (S)Irrational Exemptions Restrictions:

The exemptions and restrictions laid down by the licensing policy were also irrational. These expections are ofcourse justifiable on administrative grounds. But they have a very little economic rational. The concept of substantial expansion is also very vague and nothing definite was laid down. This vagueness provided opportunities to take wrong decisions. The clarifications issued by the government from time to time added more and more conditions and qualifications to the already complicated licensing policy. While considering an application for expansion, improvement in productive capacity was not given recognition. However, the situation began to improve since 1966 because the government allowed expansion upto 25% without any license. (6)Uneconomic Locations:

The working of the system in fact resulted in the establishment of plants of uneconomic scale. Indiscriminate issue of licenses has taken plans due to the pressure groups. Only a few states nad to a lion's share m the local capacity. Consequently regional imbalances were not reduced but increased substantially. Planning system is also partly responsible for this menace., Overall national plan targets are not broken up in terms of regional targets. Such being the case licensing committee has to apply its discretion over a wide field, (7)Un economic **Capacities** :

The licensing system is largely based on the capacity to be created for certain output. This practice has two serious consequences, one is that in case of certain field, standardizations of product is impossible and goods are to be produced as a per customer specifications. Capacity cannot be fixed in advance. A second consequence was creation of excess capacities in a number of fields. This resulted in over capitalisation or investment In fact, in many industries a higher percentage of unutilised capacity resulted due to shortage of power, raw materials etc., (8)Piece Meal Modification:

The measures of liberalisation, relaxation and procedural improvements for avoiding delays etc., have so far been done in a piece-meal fashion. Therefore, co-ordinated efforts should be taken to remove the inherent anomalies in the current system of licensing. **Committee of the Liberalisation** Drive:

After the cruel assassination of Mrs. Indira Gandhi Mr. Rajiv Gandhi became the Prime Minister and soon the general election were conduced. The congress party under the inspiring leadership of Mr. Rajiv Gandhi came to power. He realised that the past mistakes cannot be remedied by adhoc measures and thorough revamping of the existing systems and policies are imperative to get a big boost to industrialisation. Hence he opened many doors higher to closed for private entrepreneurs and the licensing system is completely modified.

During the Eighth Five Year Plan it is expected that we shall reach a growth rate of 8% the highest rate in our growth record. Since we have proposed to discuss about the recent liberalisation drive in the next chapter we confine our discussion upto this limit.

Lesson-6 ISSUE OF RESULT CAPITAL

-RIGHT -ISSUE-BONUS Introduction

In the previous lessons we had an elaborate discussion on the licensing policy and the licensing procedure followed in India. In this lesson we are discussing the procedure of issuing fresh capital and methods of raising fresh capital for business concerns. Raising capital is a very important function for the growth of industry and economy. Proper environment for the raising of capital leads to the development of sound capital market. As Solomon has observed "The total volume of finance will be influenced by the kings of the investment opportunities available as well as by conditions affecting the sources from which finance is derived. Similarly the cost and availability of funds depend in part on the quantity and quality of investment purposes for which they will be used". **Meaning of Money Market**

Money market is generally the market for short term loanable funds. But in a broader sense it includes both short-term and long term-funds. In order to draw a distinction between money market and capital market it may be said that money market refers only to short term funds and the capital market refers only to market for long term funds.

Constituents of Money Market

Central Bank is the 'presiding deity' of the money market and occupies a pivotal position. Other constituents of the money market are Commercial Banks, Cooperative Banks, Savings Banks, Discounts Houses, Acceptance houses etc.,

Developing countries like India possess both organised sector and unorganised sector. Unorganised market or sector or segment is by and large outside the control of the Central Bank. They are characterised by lack of uniformity and formality in business dealings. Functions of Money Market

l%e money market performs many functions. A few important functions are:

1. Provision of various lands of securities
2. Regulation of flow of and demand for funds
3. *egulalffig me interest rates.
4. -Avoiding regional disparity in the availability of funds
5. ^Enhancing liquidity of funds
6. Creation of profitable investment opportunities for short term surplus funds.

*&i short-a well organised money market is a must for successful Central Banking policies

The Indian Money Market

JThe constituents of Indian money market are the RBI, Public sector commercial banks, private sector commercial banks, Cooperative banks, foreign banks etc., in the organised sector. It has the indigenous banks, private money lendenvnidhi, chit funds etc. as the unorganised sector. Only the organised sector undertaking are subjected to a number of controls while the unorganised sector is by andiarge outside effective control. The money market structure is loosely knit in India is not well -co-ordinated. The sub makers of money market like the bill market etc. are not developed in'India. Capital Market

Generally 'Capital Market*-stands for market for long term funds. But when it is used in a broad sense it includes short term funds also. HT Parekh in his book 'Indian Capital Market" Past Present and Future" states "By capital market Lmean the market for all the financial instruments short term and long term as also Commercial industrial and government paper" However in most cases capital market is refered to the market for long term loanable funds. Constituent ofCapital market.

A number of individuals and institutions who deal with the supply of long term capital are constituencies of capital market. The stock exchanges, commercial banks, co-operative banks, savings banks development banks, insurance companies, investment trusts or companies etc. are the important constituencies of capital markets. Capital market in India

The capital market also has two sectors in India organised sector unorganised sector. The unorganised sector consists of mostly the indigenous bankers and money lenders. The organised sector consists of institutionalised funds house hold savings and government and international financing agencies. The Indian capital market is characterised by existence of multiplicity of interest rates, exorbitant rates of interest and lack of uniformity in business dealing.

After independence, the indigenous government took real interest in the development of Indian Capital market Some important steps taken for the development of Capital market in India are;

'. Passing legislative measures E.g Companies Act, Securities contract(Regulation Act, Capital Issues (control) Act etc.

2. Establishing Development banks and expansion of public sector.
   Eg. Establishment of IFCI and a number of development banks. Nationalisation of Commercial banks etc.

3. Development and regulation of stock exchanges. This has led to vast growth of underwrit ing business in India. This has led to growth of public confidence on investment opportuni ties.

Capital market in India has been subjected to a thorough change since the mid 1980s. A remarkable growth has been made in the mutual funds. Especially Unit Trust of India has made a spectacular progress with its variety of schemes. A liberal attitude of the government towards capital issues has led to considerable expansion in the number of share holders. **Some** highlights **in Capital Market** growth:

The Capital Issues (control) Act of 1947 was repealed in May 1992, The office of the controller of Capital Issues (CCI) was subsequently abolished.

The government established the Securities Exchange Board of India (SEBI). 1988 and it was given statutory powers by an ordinance promulgated on 30th January 1992. Hence the companies are having the freedom to approach the capital markets without prior government permission subject to getting offer documents cleared by SEBI. Issuing companies are free to fix the price of their securities for public as well as rights issues.

Indian Companies are too free to access international capital markets through Euro-equity issues aimed at mobilizing capital for modernisation and import requirements.

SEBI has been given wide powers to control and regulate the working of stock exchanges.

Reserve Bank of India has liberalized the investment norms of Non-Resident Indians (NRI). Also the government has given formal approval for the setting up of the national Stock Exchange of India by financial institutions and banks with IDB1 as the nodal agency.

The capital market has just started to show its presence in India and it has a long way to go before being compared with the capital market of developed countries. Capital Issues

The term "Issue of Capital" is defined as the process of sending out or passing into open market the instruments created whether for cash or otherwise including by capitalisation of profits and reserves. It stands for public offer rather than offers to specific body of persons. The issue may be through any of the instruments like equity shares, debentures etc.,

The Departments of Economic Affairs Ministry of Industry deals with the matters connected with the compliance of Company Law Board and Registrar of Companies. Stock Exchange division of the Mimstry of Finance deals with the matters connected with stock exchanges, listing and trading of securities etc. under the Securities contract (Regulation) Act 1956. The legislative framework for the primary market operations was provided by the (CCI) Capital issues Control Act 1947. This Act controlled the raising of capital through new issues also. This Act was repealed in May 1992 and the major functions of CCI were transferred to SEBI.

NEW ISSUES MARKET

Definition:

New Issues Market is the market for raising fresh capital either for cash or for consideration other than cash by companies. It covers all institutions dealing in the issue of fresh claims. These claims are in the form of equity shares, preference shares, debentures, rights, bonus, deposits, miscellaneous loans etc., The institutions which underwrite of directly contribute towards such claims are part of New Issue Market. These institutions include development corporations like EDBI, IFCI, ICICI and investment corporations like LIC, Gil, UTI and other financial institutions. Banks and brokers are also underwriting capital issues in larger measure. Some of the banks have started doing merchant banking activities. There are investment houses and consultancy firms. All these form part of New Issues Market Underwriting

Underwriting is the agreement between underwriters and the companies, floating securities in the market. The underwriter undertakes the responsibility of selling the securities. In case the issue is fully subscribed the underwriters will get their commission or brokerage. But in the event of under subscription they have to shoulder the responsibility of direct subscription pro-data on the basis of their commitment and to the extent of their underwriting responsibility.

The whole amount of public issue is underwritten by one institution or by a group of institutions jointly. Sub underwriting commission is about 2.5% for the issue of shares and debentures.

Objectives of New Issues:

Most of the new issues are made by the government and the corporate sector. The objectives for which funds are raised may be for setting up new projects, expansion, modernisation of existing project, mergers, takeovers etc. They may raise the funds as owned capital (equity) and debt capital (borrowing and debentures etc)This may be made in addition to the original issue of share capital in the form of equity and preference shares. How **to float new issues:**

New Companies are floating initial issue of securities for the first time. Subsequent issues are floated by existing companies. Issues can be made for cash, for exchange of technical know-how, exchange of shares of another company or exchanges for any other services rendered by the agencies or promoters.

The new issues may be made through 1 .Prospectus 2. Offer of sale 3. Private placement and 4.Rights issue. **1.Offer through Prospectus**

This is the most popular method of raising funds by the public limited companies. Prospectus is an open invitation to public for subscription towards share capital. It is insisted upon by the stock exchanges for listing of securities. It contains details with regard to the name of the company, address, activities, board of directors, location of industry, names of brokers and underwriters etc. The securities may be issued at the face value, at a premium or at a discount. The prospectus is a legal document with synthetic data and must be delivered to the Registrar of companies for Registration. The draft of the prospectus should be approved by the Board, solicitors lending financial institutions and the stock exchanges in which they are to be listed. Offer of sale

In this method the company sells shares 'enbloc' at an agreed price to brokers. The brokers resell the shares to the public. It is also possible that sometimes the company sells the additional securities to the existing shareholders 'enbloc'. The shareholders may sell the shares later. The Company gets the required capital very easily and the brokers may get their money only when they are able to see the securities. In many a times they are able to sell at a profitable prices as the company shows promise of profitability. 3.Private Placement:

In this method the private placing is done by sales of securities by the issuing house or broker to his own clients of securities. The issuing houses or financial intermediaries buy the securities outright with the intention of placing them with their clients afterwards. This method is not very popular in India but very popular abroad. 4.Rights issue:

This method is gaining popularity nowadays. In this method, the shareholders, of existing companies are given a preemptive right to contribute to the share capital or its debt capital in the form of debentures. An existing company can issue rights to expand its equity base. These rights are offered to the existing shareholders in a particular proportion to the existing share ownership. This proportion depends upon the requirements of capital. The rights themselves are transferable and saleable in the market.

Now companies are not empowered to issue rights shares. Under the companies Act, where a company increased its subscribed Capital by the issue of new shares either after two years of its formation or after one year of the first issue of shares whichever is earlier these have to be first offered to the existing shareholders with a high to reserve them in favour of a nominee.

A company issuing right is required to send a circular to all existing shareholders. This circular should inform the shareholder on how the additional funds would be used and their effect on earning capacity of the capital. Then the company must obtain permission from CC for mis rights issue. The shareholders must be given at least a month's time to exercise their right before it is offered to the public. Rights may also be offered through underwriter.

When the rights are issued shareholders must be given opportunity to apply for additional shares. When the rights are not fully taken up, the balance may be equitably distributed among applicants for additional shares. If there is balance, still left over, they may be disposed of by the company in the market at the ruling price or the issue price.

Rights issues should not be kept open for more than 60 days. The quantum of issue whether through a right or public issue, shall not exceed the amount specified in the prospectus \ letter of offer. No retention of over subscription is permissible under any circumstances. Within 45 days of the closures of an issue, a report in a prescribed form with a compliance certificate from the Char tered Accountants should be forwarded to SEBI by the lead managers. The gap between the closure dates of various issues E.G rights and Indian Public, should not exceed 30 days.

Benefits of Rights Issues

This method is popular and next in importance to the placing shares through prospectus. If the company is doing well, rights will be received well by the shareholders and there will be no need for underwriting of rights.

The shareholders feel happy when they are offered rights. In most cases the rights are offered at a concession to shareholders enabling them to sell the rights at a higher price to get profit.

When the additional capital requirements are raised through rights issue to the existing shareholders, it helps to prevent, dilution of control of the companies. The structure of shareholders and management control is not altered. This ensures the stability in management

The rights issue to existing shareholders help to build up a sense of belonging to share holders towards the company. Moreover it helps to boost up the image of the corporation in the public and it provides higher liquidity to its shares and debentures in the stock exchange.

Capital Structure

The capital structure of a company is maae upio us requiremems tor fixed capital and working capital. Equity shares and preference shares form the fed capital because they are permanently owned funds of the company. Also they form the basis on which long term debt capital can be raised.

Equity may not be sufficient in many cases and hence the company may resort to borrowing capital. Debt may be short-term or long term debt and it is made up of debentures loans and advances. It includes all fixed interest bearing securities, loans, deferred payments and preference shares with a redemption period of less than 12 years.

Debt may be cheaper man raising financed through equity. But the availability of debt depends on the equity base and the net earnings of the company through efficient use of capital.

The Indian companies Act and the Government guidelines fix some limits on borrowed funds. It does not normally allow debt more than twice the sum of paid up capital and free reserves, and that too only with the prior approval of shareholders in a general meeting. Advantages of equity

1. Debt is to be paid back but equity remains with the company.
2. Equity increases the interest of the promoters and their state in the company.
3. It increases the credit worthiness of the company, as the borrowing capacity of the company depend on the equity base.
4. It provides better adjustment to suit to the changing economic climate.

Share capital includes equity shares and preference shares with a period of redemption of 12 years or morer A share represents transferable ownership right in the company either equity or preferable share capital. Preference shares

Preference shares are having a preferential right. These shareholders get a preferential right in the payment of dividend and repayment of principal. These shares are of various categories, namely redeemable preference shares, cumulative and non-cumulative preference shares and participating preference shares.

Redeemable preference shares to be redeemed out of profits or capital, raised for this pur pose. According to Companies Act the redemption should be made compulsorily after 9-12years

In the case of cumulative preference shares, the dividends are to be paid even for those years when the dividends are not declared. Out of the profits of subsequent years, the dividends should be paid cumulatively.

In 1985 the government introduced a new instrument of cumulative convertible shares issued at 10% fixed dividend. These are convertible into equity alter 3 to 5 years.

Non-Cumulative preference shares have no right of accumulation of arrears in case of payment of dividend. Holders of participating preference shares possess a right to participate in the residual profit after all the claims of creditors and shareholders are met, along with equity holders.

Issue of preference shares are costlier than other forms of raising capital. But preference shares are in demand because of lesser risk, fixed income and special attractions like cumulative dividends and redeemability. Bonus Shares

Bonus shares are the shares, issued by the companies to bring the paid-up capital in line with the market value of the shares. The companies Act is silent about the bonus shares except a passing remark that share premium may be applied by a company for issuing fully-paid bonus shares tc the members. But there we certain regulations regarding the issue of bonus shares through SEB1. They are

1. The bonus issue is made out of free reserve i.e. with no commitment or charges.
2. They may be issued out of general reserves or capital profits or reserves not including reserves out of revaluation of assets and not based upon cash accruals or out of development rebate reserves or development allowance reserve capital redemption reserves and share premium received in cash.
3. Total value of bonus share shall not exceed the total paid up equity of the company (except in such cases as dilution of foreign companies.)
4. Residual reserve after issue of bonus shares should be atleast 40% of the increased paid up capital.
5. After the declaration of bonus shares, one-third on the pre-tax profits of the company should be able to meet the requirements of atleast 10% dividnend on the increased capital of the company.
6. Bonus shares are not to be issued in lieu of dividend.
7. Bonus shares are to be issued only if all the existing shares are fully paid up.
8. The time lag between two bonus issued should be atleast 12 months.
9. A resolution for the bonus issue should be approved by the general Body of share holders provided the Memorandum and articles of association permit such issue of bonus shares.
10. The total paid up capital including the bonus issue should not exceed the authorised capital of the company.

According to the latest guidelines of the government, the issue of bonus shares does not require any government clearance.

Bonus issue is allowed on the conversion of private Umited company not public limited company, provided the interest of the participating public is protected to the extent of the equity interest of the existing shareholders.

Preference shares are issued as bonus shares only when they are redeemable and ratio between the equity and preference capital does not exceed 3:1. Cost of flotation

The cost of floating new issues includes fixed costs like underwriting commission brokerage etc. and variable costs like administration, printing, advertising charges, legal charges, registration etc., The variable varies with the nature of the company, amount of issue structure of capital etc. The cost of flotation of new companies is generally higher than that of existing companies. On average the cost of floating new securities would be 10%-12%of the capital issued. SEBI and New issue Market:

New issues market was a much abused one. Many companies published projected figures of turnover, profit, dividend etc. Also they have been making exaggerated claims about prospects to die public press conferences and privately circulated broachers. Against government prohibition they make false advertisement on over-subscription. They start trading in the new issue prior to formal listing of such securities. There is a lot of delay in refunding the application money, issuing allotment letters, posting of shares certificate etc.

Such rampant malpractices noticed in the stock and capital market affected the confidence of investors and the growth of stock market. The government felt the need for setting right these irregularities. It has set up Securities and Exchange Board of the India (SEBI) in April 1988.

The SEBI has been entrusted with both the regulatory and development functions. The

Political and Legal factors

Political concepts are very strong factors to influence the business environments. In a dictatorship business climate is directly influenced by the fancy of the dictator. Whereas the ruling party in a democratic country determines the business policy. Speculation in anticipation of changes in the business policies especially on the eve of an election would affect the stability of business condition.

Political concepts like capitalism^ socialism etc. may lead has lead to ocean of changes in business environment of Russia and other former soviet nations. Shift in leadership to Mr. Nelson Mandela had created an entirely new set up in south Africa.

The outlook of governments is also changing vastly. The political parties realise their responsibilities towards people and pass legislation protecting the interest of the masses. Consumers are protected with the passing of legislation like MRTP Act, Drug Control order etc. Legislation preventing child labour, a use public property, adulteration of consumer goods and non-payment of bonus to worker have changed the business atmosphere to a great extent.

Changes in leadership of the government brings shift in the Industrial policy fiscal policy and tariff policy of government Liberalisation policy replaces protection policy in many countries especially after the GATT Agreement. Business conditions offer scope for expansion to meet multi national market requirements. **Public distribution** system

Many modern government undertake public distributions system effectively. They distribute necessary goods at moderate prices, (mostly using government subsidies) Producers of many necessary goods are compelled to sell a substantial portion of their production at controlled prices to this public distribution system. **Foreign Policy**

Foreign Policies of many nations are changing mostly with the changes in the rulers. Frequent changes affect the stability of business climate. **Ecological factors**

Ecological factors are assuming greater significance. Geographical and ecological factors such as weather and climatic conditions, locational aspects etc. influence directly the business environments. **i) Location of Industry**

Location of industry is determined mostly by the existing geographical conditions. Availability of materials, transport facilities cost of labour and availability of market facilities etc. lead to the concentration of industries in certain areas. Climatic conditions affect the location of certain industries like cotton textile industry or photo film industry. **ii) Rivers and other waterways**

Rivers with navigational facilities or coastal waterways facilities or canals provide a better business environment and natural harbour reduces the cost of export industries. **Environmental pollution**

In modern days environmental pollution has become a serious threat. Industrial wastes, like smoke chemical waste etc. are polluting rivers, air, soul and food materials. Consumer organisations are emphasising their right to have clear air water and good living conditions. Government are intervening with legal weapons to provide better living conditions to people. They are compelling the factors to take anti-pollution measures. In addition they also take anti-pollution measures to clean their natural resources. Eg. **Ganga purification project.**

objectives of SEBI are as follows:

1. Investor protection so that there is a steady flow of savings into the capital Markets
2. Ensuring the fair practices in the issues of securities, so that companies can raise resources at least cost.
3. Promotion of efficient services by brokers, merchants, bankers and other intermediaries so that they become competitive and professional.

Problems of New Issues Market

A well organised and healthy New issue Market provides a strong base for the growth of capital market. In India it faces many problems. They are

1. It could not mobilise adequate savings from the public. It depends mostly on privately arranged finance and financial institutions.
2. There is no sufficient growth of institutional and functional arrangements to ensure smooth flow of funds.
3. The household savings of rural and semi-urban areas could not be properly mobilised due to lack of information and too many formalities to be followed in acquiring the securities.
4. There is considerable gap between the time of application for shares and allotment'. the company. This affects the interest of investing on securities in rural and semi urban areas.

Despite these problems, there is a scope for considerable growth in the New Issues Marke. People arc taking more interest in security investment. They are more aware of sucVi venture* investments than ever before. SEBI with its latest guidelines and constant super visions regulates the security market dealings and hence has succeeded in winning the confidence of the prospective investor.

Government has contributed for the security market development with its legal weapons and liberalisation policy. This has led to the growth in the number of securities.

Due to development of sophisticated communication techniques and information facilities, knowledge of security market has spread even to village. In future, new issues may attract a large number of investors, who were hitherto investing in landed properties and spending the surplus an unproductive functions and festivals. This increased interest may lead to the creation of many new small and big institution in the market to regulate and maintain the flow of funds for investment.

Conclusion

A developed money market and capital may take the nation to new heights of prosperity. This development necessitates creation of new assets instruments. This in turn is caused by the developed organised New Issues Markets. A sound New Issues market will set the wheels of industry and commerce moving towards prosperity. Suggested Questions

1 .What do you understand by New Issues Market? Explain its role in developing economy.

2.Discuss the significance of rights issue? 3.Bring out a brief sketch of the role of government in security market regulations.

4.What is the role of bonus share in Capital mobilisation in India?

5.What are the problems of New Issue market in India?

6.Distinguish between equity and preference sharecapital. What is your choice for a new company? why?

7. Explain the different methods of flotation of securities

S.Crictically analyse the nature of capital market in India

9 Explain the importance of new issues market for the growth of organised capital market in India

Lesson 7 ISSUE OF DEBENTURES Introduction

The Capital Structure of Corporate enterprises are made up of owned fund and debts. Own funds including equity, preference shares etc. are not carrying much responsibilities But a company cannot depend on owned funds alone. Because it broadens the capital base too much and it will end in less return per share and slackening of control of company.

Borrowed funds of the Company includes debentures, deposit bonds etc. It brings a fixed commitment to the company as it has to pay a fixed rate of interest on debt. It does not lead to dilution of control, But larger proportion of debit in the capital structure means larger commitment of the payment of interest. So a good combination of own funds and debt will form an ideal capital plan. Once the company picks up the business, it would have larger surplus of profit after payment of fixed interest to debt capital. It would be easy to pay higher rate of dividend to equity share holders.

Debt-Equity Ratio

Optimum capitalisation of a company requires a perfect blend of equity and debt of the company. It is comparatively easier to raise capital in the form of debt. But it creates fixed commitment to company. Higher equity loosens control over company. But it does not generate any fixed commitment. Also it is difficult and costlier to raise capital through issue of equity. But this suits to long term fixed investment. A better ratio of debt equity is depending upon the native of the company. Normally better debt equity ratio is 2:1 and the better equity preference rStio is 3:1

This ratio is relaxable according to the company. Highly capital intens ive projects may require long gestation period and hence pay out for higher equity percentage. A ship building concern may prefer larger percentage of equity in its capital structure. But a bread manufacturing company may go for larger percentage of debt. Debt structure

Debt plays a significant role in capital structure. Availability of funds through equity may not be adequate or economical. Debt capital is cheaper than equity and provides a leverage for raising the level of profits to equity holders.

Debt may be short term or long term. Short term finance provides liquidity to the company, Long term finance proves to be better alternatives to equity.

Debt includes bonds, debentures, loans and advances. All those fixed interest bearing securities, loan deferred payments and preference shares with a redemption period of less than 12 years constitute corporate debts. Debts are provided by government, other companies and financial institution.

Government loans are provided mostly to public sector enterprise and private enterprises with public importance. Section 370 of Indian Companies Act deals with loans from other companies. It regulates the inter-corporate lending particularly those under the same management.

Companies require short term loans also. They mostly resort to trade credits and borrowing from banks. Too much depending on short term loans is taken for inadequate capital base. This leads to many problems in times of financial crisis.

The Indian companies Act and the Government place some limit on borrowed funds. The upper limit is an amount equal to the paid up capital and reserves without prior approvals of shareholders in a general meeting. Guidelines would not normally allow debt more than twice the paid up capital and free reserves. Of the different types of securities of debt, debentures occupy an important position.

Debentures

When the company plans to raise loan from the public, it assesses the total loan requirement. This total is divided into a larger number of uniform parts. Each part is known as a debenture. A debenture is an acknowledgment, under seal of debt or loan. It is a security of creditor nature and represent the loan taken by a company from the public.

When companies require large capital assistance they resort to borrowing. They can borrow either from government or from financial institution. Government loans are not easily available and also it requires to pass through several formalities. Financial institutions are requiring proper securities and it takes time to get loans from financial institutions. Also it bears higher rates of interest. Companys may also resort to public deposits. Like commercial banks the companies may invite public deposits. Public confidence on the company and promise of higher returns may help to collect public deposit. But public confidence is enjoyed by highly reputed companies only. Considering all these problems, debentures appear t® be a better form of debt. Procedures

The issue of debentures is governed almost by the same consideration as share*. The company must be authorised by its Memorandum of Association and Articles of Association to issue debentures. Once the company is ail set for issuing debenture it must determine the total amount to be raised with clear objectives and the individual debenture value.

A prospectus or a statement in lieu of prospectus is prepared and other legal formalities are fulfilled on the issue of debentures. Shares-Debentures

Through the method, issue and collection are more or less the 6ame for shares and debentures, there are some vital difference between the two. They are as follows a. Status

There are differences in the status of shareholders and debenture holders The shareholders is a part owner of the company while the debenture holder is only a creditor. The debenture is creditorship security whereas the share is a ownership security. Shareholder can participate as owners in the general meetings, contest for a place in the hoard of directors and contribute to the making of company policies. But debenture holders haveno such powers. **b.YIeld**

The debenture holder is having the right-to receive the interest at an agreed rate from the company. This right can be exercised -whether the company makes a profit or not But the shareholders gets dividend only when the company makes profit and declares dividend. Declaration of dividend is left to the discretion of directors. The directors however have no options as regard interest on debentures. It must be paid. cTerm of Repayment:

Debenture is only a loan. Hence it must be repaid. The tarns and conditions with regard to repayment of debenture amount is specifically mentioned in the issue. But share amounts are not to be repaid during the life time of the company. However in the case of redeemble preference shares, the share amounts are repaid according to redemption conditions agreed upon. d.Order of repayment

In the case of winding up of the company, the assets of the companies are realised to clear off **all** its commitments. In such a situation debenture holders are having a clear preference over preference or equity shareholders. Debenture holders in the capacity of creditors of the company have a priority in repayment Types of Debentures

Debentures are of different types depending upon the character they possess.

On the basis of redemption

On the basis of redemption they are divided into (a)Redeemable and (b) Irredeemable debentures, (a) Redeemable debentures:

They are those debentures which are repaid after a fixed period of time, normally 7 years, as per the terms of issue. The principal amount is repaid in one or more instalments as the case may be (b)Irredeemable debentures:

These debentures are not repayable at any fixed date, but can be redeemed at the will of the company. It may also be perpetual debentures to be repaid on liquidation of the company only. These debentures are becoming redeemable if the company fails to make payments of interest regularly. On the basis of records

The debentures can be classified on the basis of maintenance of records into (a)Register debenture and (2) Bearer debentures. (a)Registered debentures

Registered debentures are those in respect of which, the names, addresses and particulars of the holding of the debenture holders are entered into a register kept by the company. These debentures are transferable like equity shares by the execution of transfer deeds and registration of transfer in the books of the company. These transfer deeds may not be date stamped as in the case of equities. The rate of stamp duty payable on debentures very from the state to state and are different from those paid on equity shares. (b)Bearear debentures:

The unregistered debentures or bearer debentures can be freely transferred by endorsement and physical delivery, without registration with the company. The company keeps no record of the debentures holders in mis case. There is no need for execution of a transfer deed. These securities are like bearer bonds issued by the government or semi-government bodies and public sector undertakings. Payment of interest is made on the production of coupons attached to the debentures. The debentures are not popular now-a-days due to the difficulties in establishment of ownership at. the time ofr repayment of principal and the fear of loss of certificates etc. On the basis of Security

• On mis basis the debentures are classified into (a) Mortgage debentures and (b)simple or naked debentures \a)Mortgage debentures:

Mortgage or secured debentures are those debentures which are issued on the security of a particular asset of the Company or general assets of the company. A regular mortgage deeds in entered into between the company and debenture holders. b)Simple or naked debentures

These debentures are not secured by any charge on the assets of the company. On the basis of priority:

On this basis the debenture may be classified into (a)first debenture (b)second debentures (a)First debentures

These debentures are given priority in the case of repayment of debenture amount. (b)Second debentures:

These debentures are not having any such priority at the time of repayment of debentures amount

On the basis of convertibility

On the basis of convertibility, the debentures may be classified into (a) convertible b)non convertible and (c) partially convertible debentures. (.^Convertible debentures:

These debentures are convertible into equity. The debenture holder acquire ownership from the position of a debtor. The conversion may be optional or compulsory depending upon the term of issue. This type of debentures are becoming very attractive to the public nowadays.

(b)Non-Convertible debentures:

These debentures are like ordinary debentures with no conversion facility. These debenture holders remain creditors to the company till repayment is made. (c)Partially convertible debentures

These debentures have two components -ownership capital (convertible portion) and creditor capital (non-convertible portion) The nonconvertible portion enjoys fixed return in the form of interest and the convertible portion gets variable returns as equity. Thus it enjoys riskless recovery and variable risky return with future capital appreciation. The non-convertible portion also can be transferred and is redeemable at a specified date.

Generally the debentures are attractive to investors, because they give fixed return and the principal is repaid after a fixed period. The private sector is not permitted to issue non-redeemable debentures. Of all the different types debentures, convertible debentures are largely attractive to the investors. SEBI and the interest of Debenture holders

Debentures holders are only creditors of the company. Debentures are purchased only for getting fixed return from investment and guarantee of repayment after a fixed period of time. Any irregularity in the payment of interest on debenture or on the repayment of debenture amount at the fixed time may sake the confidence of the public on the investment on such securities. This will affect the development of capital market very much. Hence SEBI takes real interest in the protection of debenture holders investment. It provides the following guidelines to protect the debenture holders.

1. **Companies raising debentures shall create a Debenture Redemption Reserve.**
2. **A moratorium upto the date of commercial production, can be provided for creation of the debenture redemption reserve in respect of debentures raised for project finance.**
3. **The debenture redemption reserve may be created either in equal instalments for the remaining period or higher amount if profit permits.**
4. **In case of partially convertible debentures, the debenture redemption reserve (DRR) should be created for the non-convertible portion as above.**
5. **DRR will be created as a part of general Reserve for consideration of bonus issue proposals and for price fixation related to post tax return.**
6. **Companies should create DRR equivalent to 50% of the amount of debenture issue before debenture redemption commences. Drawal from DRR is permissible only after 10 % of the debenture liability has been actually redeemed by the company.**
7. **In case of new companies, distribution of dividend shall require the approval of the trustees to the debenture issue.**
8. **In case of existing companies, prior permission from the main institution of debenture issue is necessary for declaring dividend exceeding 20%.**
9. **Company may redeem debentures in greater number of instalments. In such case, the first instalment of redemption may start from 5* instead of 7* year.**

Protection of debenture holder's interest

Trustees to the debenture issue are vested with requisite powers to protect the interest of debenture holders including right to appoint a nominee, director on the Board of the company in consultation with institutional debenture holders.

The amount of debenture for raising working capital should not exceed 20% of the gross debentures. In case of much debentures, the institutional debentureholders and trustees should obtain a certificate from the company's auditors in respect of utilisation of funds.

Companies are not allowed to issue debentures for acquiring share in or providing loan to any company^belohging to the same group This restriction does not apply te^htrbstt^ef roliy convertible debentures providing conversion within a period of eighteen months.

The company may issue secured debentures. In any such case if company fails to provide security with 12 months from the date of issue of debentures, the company shall be liable to pay 2% penal rate to debenture holders. If such security is not created even after 18 months, ameeH*gthc debenture holders should be called with 21 days to explain the reasons thereof and inform the date by which the security would be created.

The trustees to the debenture holders will supervise ihe implementation of the conditions regarding creation of security for the debentures and regarding the debenture redemption reserve.

If the debentures are issued with a maturity period, not exceeding eighteen months, it is not necessary to appoint a trustee or create a debentures redemption reserve. SEBIS' guidelines for convertible debentures

1. Premium amount on conversion, time of conversion, its stages if any, shall be predetermined and stated in the prospectus. The interest rate for the debentures will be freely determinable by the issuer.
2. Issue of fully convertible debenture, having a conversion period more than 36 months will not be permitted unless, conversion is made optional with 'put and 'Cal..' option.
3. Any conversion inpart or whole of the debenture will be optional at the hands of the debentureholders, if the conversion takes place at or after 18 months from the date of allotment.
4. Compulsory credit rating will be required if the conversion is made for fully convertible debentures after 18 months.
5. Since the conversion is optional at the hands of debenture holders, the dissenting debenture holders shall have the rights to continue as debenture holders if the terms of conversion are not acceptable to them. The letter of option to debenture holders should be carefully studied bySEBI.
6. SEBI shall have right to issue necessary clarification to these guidelines to remove any difficulties in its implementation.
7. Any violation for guidelines by the issuers / intermediaries will be punishable by prosecution by SEBI under SEBI Act.

   This convertibility of debentures into equity has given a boost to the demand for debentures. The investors have a right to choose whether to remain a creditor to the company or to become a owner. After studying the progress of thexompany for a certain period they can use this option wisely. Government protection through the implementation of SEBI Act has given a moral strength to the prospective investors. This type of issue is particularly suitable for expanding and diversifying companies.

Benefits of Debenture issue

Fo investors

1. It provides less risky investment

2. It offers a fixed rate of return and hence the investors can plan their expenses.
3. It provides redemption facilities and hence the investors can get back their investment.
4. It is only a loan and hence repayment is assured even when the company meets loss.
5. Convertible debentures offer option either to remain as debenture holder or to become an equity shareholder.

To the Company

1. Because of the fixed nature of return on debenture, company can plan its expenses easily. Usually the rates would be lower than, rates of dividend paid on shares.
2. The company caa^pay a~beOer rate of dividend to equity holders.
3. It can raise required finance without surrendering control to debenture holders.

Limitations

1. Companies with fluctuating income find it difficult to cope up with payment of debenture interest and redemption of debentures.
2. Trading companies usually with less fixed assets may not be able to float debenture successfully.
3. Companies, producing goods with highly elastic demand do not prefer debenture capital.
4. A large share of profits is paid as interest on debentures leaving a very small portion to be distributed as dividend to equity shareholders. If dividend is not declared; shareholders will lose interest Moreover the small left over profit, even if it is ploughed back into business, will not make much change.

Conclusion

For a very long time debentures played a rather insignificant role in company finance. Banks and financial institutions were not encouraging the companies with issue of debentures. The market for debentures were not steady and regular and hence companies could not assure themselves of the timely raising of capital through debenture issue. Also public with a lesser knowledge of company organisation did not favour in making investments in debentures.

But recent trends are very favourable for debenture issue, ^vemments policy towards companies, enactment of SEBI Act, introduction of partially and ful'y convertible debentures, improvement of public knowledge of company activities, etc. have paved the way for popularity of debentures as a method of raising finance. After analysing the current trends in the money and capital market, one can say that debenture will pay a very significant role in future as a much favoured security in raising company finance. Suggested Questions

1. What is debenture ? What are the different types of debentures ?
2. Analyse the charaeter of debenture as a security to raise corporate finance ?
3. Examine the role of SEBI in regulating the issue of debentures.
4. What are the advantages and limitations of debenture issue ?
5. Compare and contrast the debenture capital with equity capital?
6. How do yon rate convertible debenture over non convertible debentures ?
7. Explain the significance of the debenture issue in capital market ?
8. Examine the suitability of debenture capital in case of long term requirement
9. How does redemption boost the image of debentures ?

Lesson-8 LENDING POLICIES -1

(Lending Policies of Financial Institutions in India UTI, ICIC1, IDBI, IFC, SFC AND IRBI)

Finance is an important pre-requisite for the faster economic development. The institutions that provide finance are known as fuuncial institutions. In the previous lesson we had a detailed analysis of a major financial Lsu^mait debenture. In this lesson we will concentrate on those institutions which provide finance to meet the fixed and working capital requirements of the industrial undertakings.

There are two types of financial institutions in Indian Capital market- developmental institutions and investment institutions.

Developmental institutions like IDBI, IFCI, ICICI and IRBI are providing many services like consultancy, provision of technical knowhow, leasing of capital equipments etc., in addition to financial help. Investment institutions like UTI, LIC and GIC are dealing mainly in capital market (subscription to debentures, shares underwriting capital instruments etc.) These institutions are functioning at state level and all India level.

After Independence, a number of development banks and institutions were organized. The institutions try to mobilize as much vind as possible from the public. They also mobilize government assistance and foreign currency funds for meeting the various needs of the growing industries in India,

All these institutions are functioning in the same line though they all are aiming at the growth of industry and economy. Functions and lending policies of these institutions vary from one another. It is very useful to know the differences from one another.

1. Unit Trust of **India** (UTI) The Unit Trust of India (UTI) was established in the year 1964 under the Unit Trust Act. It started the sale of its units from July 1,1964. It has been organized largely on the lines of unit trusts in the UK. **Capital Structure**

It had originally a paid up capital of Rs. 5 crores and this capital was subscribed by RBI (Rs. 2.5 crores), the L.I.C. (Rs. 75 lakhs), The State Bank of India (Rs. 75 lakhs) and scheduled banks and other financial institutions (Rs. I crore). It was the only unit or Mutual trust or Mutual fund in the public sector allowed to operate in India. **Objectives**

Its main objectives are to mobilize savings, particularly from the low and middle income group, to channelise these savings into productive investment and to provide an assured income to the savers,. It is also meant to strengthen the capital market both new issues market and the stock exchange. It offers expert investment service, port folio management and assured income to those who have surplus income and are willing to invest. In addition to expert management of funds, it aims to provide liquidity to investments. Also it tries to mobilize the savings of large number of prospective investors through the sale of units. Activities of **UTI**

1. It sells units with a small denominations to mobilize household savings and business surplus.
2. It can underwrite new issues and make direct subscription to public issues and private placements.

3. It can keep deposits with banks and companies aim operate in the money market by subscribing to treasury bills, commercial bills etc.
4. It acts as a short term lender or borrower, It can borrow from RBI or the Government in case of need.
5. It can raise funds by selling units under different schemes not only in India but also in foreign countries.

Investment pattern

The UTI is mobilising the savings of the people by selling units to them. Each unit is of a small value only. So that it is easy for the household and low and medium income group persons to buy units easily. Thus mobilized amount is utilized to buy new securities and other securities in the stock market. UTI spreads its investments in such a pattern that it gets steady returns from the investment and hence the unit holders are getting a fair return on their investment.

The pattern of UTI investment of its funds is broadly as follows.

	% of total investment
Equity	27.2
Debentures and Preference Shares	8.9
Advance Deposits for underwritten shares debentures	18.2
Termloans	8.2
Government securities	13.7
Deposits with companies	1.6
Deposits with banks	22.2
Total	100.0

The above position varies year to year but not very much. It can be seen from the above, that a major portion (about 65%) of funds are inversed in Corporate sector in the form of loans, deposits, debentures, equity etc. With the expert knowledge in the investment analysis, major portion is invested in high-yielding corporate instruments. Mobilisation of Funds

UTI has offered many schemes that mobilize funds from the public.

Unit Scheme 1964

It is a perpetual scheme, issuing units with a face value of Rs. 10 each, transferable and repurchased by the UTI. It provides income tax exemption under section 80(1) of the Income-tax Act. Wealth tax exemption upto Rs. 5,00,000 is offered. Reinvestment facility as an alternative to dividend distribution is available. There was no ceiling to investment in units. The units could be sold back to the trust at prices fixed by the Trust. This facility was extended from November 1, 1964. 2. Unit linked Insurance Plan (ULIP) 1971

According to the amendment made to the Unit Trust of India Act in 1966 the Trust was empowered to formulate more than one scheme as well as plans, including Savings - Cum -Insurance Plan in co-operating with the Life Insurance Corporation. Accordingly scheriies of 10 year and 15 year periods are available both with life insurance and accident insurance. The target amount is a maximum of Rs. 60,000 and the age limit is 55 years. Under this scheme the participant is required to make periodical contribution to the trust upto a targeted amount. A small portion ol this contributions is turned over to L1C to provide life insurance to the participant Dividend on the units is automatically reinvested in further units. At the end of the period, the saver will get unit certificates for the total value or he can get cash payment. 3. Capital Gains Unit Scheme (CGUS)

This investment is to be made within six months of the date of the sale of capital assets,. This would qualify for exemption from capital against tax under section 54A of the Income tax Act»Dividend income along with others, is exempted under section 80(1) of Income-Tax Act upto Rs. 10,000 and from the wealth tax upto Rs. 5 lakhs. 4. Master Shares floated for Indian investors, India Fund, India Growth fund etc

Two Unit schemes, India Fund and India Growth Fund were floated in foreign countries to mobilise foreign funds for investment in India. The India fund was floated in 1986 in association with the Merri Lynch and collected L 75 million. The India Growth Fund, launched in July 1988, mobilized $60 million, Master shares, Master plus and Master gain units are floated under the Mutual Fund Subsidiary Scheme.

A third offshore fund was initiated in 1989-90 with the help of Japanese securities firm and ADB. Besides,, the UTI has also launched two venture Capital Funds in 1989 and 1990 respectively for the promotion of green field companies and new ventures having a high-risk component. Investment Policy

The investment policy of UTI is governed by two important considerations (i) Security of capital or safety of investment. It has been specifically laid down in this regard that investment of the Trust in any one company should not exceed 5% of the value of the invested funds of the trust or 10% of the value of the securities issued by such company whichever is lower and (ii) the investment in initial issues of securities of new industrial undertakings should not exceed 5% of the investable funds. The trust will try to have a balanced portfolio of securities to have atleast on overall yield of 6%.

II. Industrial Development Bank of India. The Industrial Development Bank of India (IDBI) was established in July 1964 as a wholly-owned subsidiary of the Reserve Bank. It was later transferred to the ownership of Central Government under the Public Financial Institutions Laws (Amendment) Act, 1975. The Bank is intended to serve as a reservoir from which the existing financial institutions can draw. Capital structure

The paid up capital of IDBI was Rs. 50 crores which could be raised to Rs, 100 crores by RBI with the prior approval of the Central Government. It was Rs. 100 crores upto 1980 and stood at Rs. 637 crores in March 1990. The main sources of funds for the IDBI are borrowing from Government, RBI and from the market issue of bonds, both internal and external. Functions

The Bank is expected to combine Commercial, promotional and re-financing activities. To achieve these objectives the Bank perform the following functions,

1. Refinancing

The Bank re-finances loans between 3 and 25 years granted by the IFC and SFC or any other financial institution. It also refinances, the loans repayable between 3 and 10 years granted by any scheduled bank or State Co-operative Bank to an industrial concern and also export loans between 6 months and 10 years.

2. Short terms accommodation

The Bank is empowered to accept discount or rediscount commercial papers of industrial concerns.

Maintenance of ecological balance

Natural resources like forest and sea are national assets. Excessive tree cutting denudes the forest further. Also it leads to the extinction of many flora and fauna. Gradual reduction in the greener area of the globe may affect ozone cover to this planet and it may create ecological chaos Governments throughout the world are taking afforestation programmes and India is also seriously involved in afforestation and social forestry development project. Higher responsibility to concerns

Business concerns are facing additional responsibilities due to this anti pollution measures. They cannot just concentrate on production activities only. They have the additional responsibility of maintaining environmental purity. But this causes increase in the cost of production and marketing. Physical and Technological factors

Physical factors like geographical factors, topographical factors etc. necessitate some modification in the marketing of product. Cool weather and climatic conditions needs the manufacturing and marketing of woolen textiles. Cotton textiles are preferred at hot climatic areas. Food product requirement also change from place to place. Packed fast food products are required to suit certain living conditions.

Technological development brings major changes in the demand composition. A business firm has to cope up with the technological changes. Otherwise it can not survive. Colour T.V. Production affects the Black and White T.V. Fuel economy light two wheelers have replaced the sturdy motor cycles. Introduction of VCP/VCR has given a new dimension to the entertainment area.

But this fast changing technologies have shortened the life cycle of many new products. It necessitates thorough changes in the technique of product planning and promotion planning.

Social Mid Cultural Factors

Consumption behaviour of people is largely influenced by social and cultural factors. Generally consumers prefer goods which are acceptable to not only to them but also the society they belong to. E g, Most consumers buy cloths and dresses which are acceptable to their society. The sense of belongingness to a society restricts the range of consumption to many consumers.

Each society is having a set of rules of behaviour, mostly unwritten and it forms its culture. In many case this culture is influenced by religion and language. These influences are determining size, colour price and quantity of goods and services consumed by the society.

Values and beliefs very significantly from country to country Saffron colour's preferred by some Hindus. Green is a favorite colour in the Muslim world but it is associated with illness in Malaysia.

Religious beliefs affect the population control programmes in many countries.

Another factor is the social responsibilities expected from business concerns. In developed countries business concerns have more social responsibilities than their counterparts in undeveloped countries. They have to take into consideration not only its profitability, but also their impact on society on ecological cultural and economic basis.

Thus the business concerns are confronted with different factors of environment.

Dynamic Mature of business setting

Business is surrounded by many factors and these factors decide the nature of business and its growth. These factors are not static in nature. They change in time and nature. Even a small change in any one factor may bring a huge change in the nature and direction of business. Demand changed in consumption pattern, changes in fashion, availability of material resources technologi-

3. **Direct subscriptions**

The bank can subscribe to or buy stocks, shares, uonds or debentures of the I.F.C. S.F.C. or any other notified financial institution.

4. Lending to industrial concerns.
5. Underwriting of shares and debentures of industrial concerns.
6. Guaranteeing loans and deferred payments due from any industrial concern.
7. It will also plan, promote and develop industries to cover the gaps in the existing capital structure.

Schemes of IDBI Assistance

The major schemes, performance wise are as follows:

1. Textile Modernisation Fund schemeTor the purpose of promoting modernisation of Cotton textile industries.
2. Technology upgradation scheme for upgrading technology in selected capital goods industries.
3. Energy conservation scheme for financing energy-saving proposal of industries.
4. Seed capital scheme for the provision of initial seed capital in the form of promoter's contribution to new ventures, and
5. Venture Capital Fund Scheme for developing new ventures and promoting risky ventures by new technicians and new entrepreneurs.

The IDBI co-ordinates its activities with all-India institutions like 1FCI, ICICI etc. It is the leader of the Indian capital market. It has bom regulatory and developmental functions. Its total disbursements as at the end of March 1990 stood at Rs. 5085 crores.

The IDBI is empowered to borrow abroad and secure funds under arrangements with foreign financial institutions, foreign banks and foreign governments. These funds are used for financing of the foreign currency component of the project finance, for providing foreign currency loans for importing and making payment to foreign suppliers.

HI. The Industrial Credit and Investment Corporation of India (ICICI)

The Industrial Credit and Investment Corporation of India (ICICI) was get up in 1955. The main objectives of this corporation is to meet the private sector financial needs and to channelise the World Bank assistance to the private corporate units.

It began its operations as a wholly privately-owned institution. But with the nationalisation of life insurance business, LIC became relatively large shareholder in it. Its share capital is subscribed by both Indian and foreign investors from UK and USA. Its loan operation include a sizeable proportion of foreign currency assistance. Capital structure

ICICI has a authorised Capital of Rs. 25 crores. Its capital is subscribed by (a) Several Indian Bank LIC and insurance companies (b) General public of India (c) British insurance companies, Eastern Exchange Bank and industrial organisations through the common wealth Development Finance Company Ltd. and (d) American investor including Rochefeller Brothers.

The corporation could get loan from many sources the Government of India, the World Bank and the Agency for International Development of the U.S. Government. It has raised finance through issue of debentures also. Objects:

a) The objectives of the Corporation are (a) to encourage industrial development in the private sector

b) To encourage the inflow and participation of foreign capital in these unit; and
c) To wide the base of industrial development and of capital market in India.

Functions

The functions of this corporations are:

a) Granting loans over a period of years
b) Subscription to equity and preference share capital, normally in the form of under writing of public issue.
c) Advancing loans in foreign currency for importing capital equipments and
d) Furnishing technical and administrative assistance to Indian Industry.

Lending Policy

The Corporation is interested in providing assistance only to corporate undertakings. But from 1969 it has decided to provide foreign currency loan to partnership and proprietary firms so as to strengthen entrepreneurship in small concerns.

The corporate undertakings which require the ICICI assistance should prepare project and submit it to the Corporation. The following points are considered in appraising the proposals, by ICICI.

a) the back-ground of the company
b) the basic soundness of the project
c) cost of the project-to be incurred both in India and foreign countries.
d) capital structure of financing the project
e) market considerations
f) Profitability of the project
g) Managerial potentiality of the company to complete the project and h)

Government consent for the project

All data pertaining to the above considerations are to be presented in the project proposals. ICICI discusses the proposal in* detail with the applicant. It also discusses the broad details of the projects with other financial institutions where joint financing is envisaged. Satisfactory proposals are placed before the ICICI Board of Directors for taking decision. Working

Since its inception the corporation has been rendering valuable service to industrial units in private sector. Initially the corporation concentrated only on big units. Of late it is also assisting small and medium scale units especially in the are a of foreign currency assistance for importing of capital goods.

The ICICI has contributed to the development of backward areas through industrial growth. It has been giving a mild concession to projects in backward areas. - low rate of interest, lower margin required for security of such loan, longer credit and repayment periods for them etc. Industry-wise the largest share of assistance sanctioned by the corporation is claimed by the chemicals and petro-chemicals industry.

ICICI, in consortium with IDBI and IFCL operates the Soft Loan Scheme for modernisation of industrial concerns in Cement, Sugar, Cotton textiles, Jute and certain engineering industries.

. An important development initiative taken by ICICI resulted in the formation of Housing Development Finance Corporation Limited (HDFC) in 1977.

The Corporation commenced leasing operations in 1983 and has provided leasing assistance for computerisation, modernisation/replacement schemes, equipment for energy conservation, export orientation, pollution, control, balancing and expansion.

In 1987 ICICI launched it* Venture capital scheme under which long term financial assistance is extended to projects involving development and/or commercialisation of new technologies for which entrepreneurs due to inherent high risks, may not be able to raise funds through conventional lending mechanism.

A new company called Technology Development and Information Company of India Ltd. (TDICI) to concentrate on technology financing and technology information was promoted by ICICI.

IV. **Industrial** Finance **Corporation**

The Industrial Finance Corporation of India (IFCI) was established in 1948 under the IFCI Act. It aims at making medium and long-term credit to industrial concerns in India. In addition to direct financial assistance to eligible concerns, it plays a key role in promotional activities to develop small and medium-scale entrepreneurs. It provides much needed guidelines through its specialised agencies in project identification, formulation and implementation, development of ancillary and small-scale industry etc.

The amendments to the IFCI Act has broadened the scope of business of the Corporation and included many new function like informatics, health care etc. **Functions**

Its operations extend to both rupee loans and foreign currency loans. It provides guaranteeing facilities for deferred payments for machinery imported from abroad or purchased within the country. It guarantees foreign currency loans raised by industrial concerns from foreign institutions and rupee loans raised by industrial concerns from scheduled banks or State Co-operative Banks or the market. It can provide term loans or contribute to the debentures or equity.

It has outstanding loans and advance of Rs. 3906 crores in March 1990. Under the IFA Act, it can provide financial assistance to limited companies either in the private or joint sectors and co-operative societies engaged in the following activities. (1) Manufacturing, preservation and processing of goods (s) Shipping (3) Mining (4) Hotel Industry (5) Electricity generation and distribution etc.

Like the other all-India development Banks, IFCI also provides concessional finance to industrial units in notified backward areas. It has also been appointed as agent of the Government of India for making disbursement of loans from the Sugar Development fund for rehabilitation and modernisation of sugar units and monitoring the end use of loans and affecting recoveries.

The IFCI, as a development bank has undertaken a number of development activities. These include the following. Provision of guidelines to small and medium-scale entrepreneurs in project development.

a) Provision of subsidy to meet the cost of feasibility/project reports, market studies, diagnostics studies, revival of sick units, development of technology and in house R &D efforts.
b) The IFCI has sponsored the Risk Capital Foundation (RCF) in 1976 to provide risk capital assistance on soft terms to the first generation entrepreneurs.
c) IFCI has also set up a Merchant Banking Division with its head office at Delhi.

V. **State Financial Corporations**

State Financial Corporations Act was passed in 1951. It enabled the State Governments to set up state Financial Corporations (SFCS). They are development finance bodies designed to provide short and medium size enterprises with term finance and promote the growth of industrialisation in the states.

Many states including Tamil Nadu (Tamil Nadu Industrial Development Corporation) SFCS were started accordingly.

They raise necessary finance by way of issuing debentures and bonds in the market, fixed deposits frcrn ihe public borrowings from RBI, IDBI State Government etc. With these funds they concentrate on promotional activity, infrastructural development, financial, managerial and entrepreneurial guidance to the industrialists, provision of industrial sheds/plots for setting up small units etc. They help in developing backward areas and promotion of industrialisation in these areas. Types of Assistance SFCS provide the following types of financial assistance:

i. Granting of loans and advances and subscribing to the debentures of industrial concerns, repayable within a period of not exceeding twenty years, ii. Guaranteeing loans raised by industrial concerns in the capital market or from scheduled banks or state co-operative banks, iii. Guaranteeing deferred payments due from any industrial concern in connection with its purchase of capital goods within India, iv. Underwriting the issues of stocks, shares, bonds or debentures by industrial concerns, v. Subscribing to the stocks, bonds or debentures of any industrial concern in accordance with the provision of Section 4 A of the SFCS Act 1951. The SCFs grant loans mainly for the acquisitions of fixed assets like land buildings and plant and machinery.

SFCs provide foreign currency loans also to small and medium scale industrial units for import of plant and machinery and/or technical know-how under the IDA - World bank Credits to IDBI. VI. Industrial Reconstruction Bank Of India

Industrial Reconstruction Bank of India was established in 1971 by the Government of India. Its main object is reconstruction and rehabilisation of industrial units which were closed down and were facing the risk or closure but which could be made viable with suitable assistance. But Government felt that this corporation could not deal with the problem of industrial sickness effectively, it was felt to have more powerful institution to face this problem. As a result the Industrial Reconstruction Bank of India (IRBI) was established on March 20,1985, under the provisions of Industrial Reconstruction Bank of India Act, 1984. The Industrial Reconstruction Corporation was totally transferred to this Bank.

The IRBI concentrates on industrial revival and promotion. It gives loans for modernisation, diversification, expansion and renovation. It also assists the concerns of its working capital requirements. The Bank in addition to usual method of financing, extends assistance to sick-small units under its lines of credit scheme which is operated through various State level agencies.

Conclusion

Some of the important financial institutions which provide financial assistance have been discussed in this lesson. These institutions provide financial assistance and technological guidance to manufacturing and trading concerns in many ways. Lending policies of some more financial institutions are discussed in the next lesson. Suggested Questions

1. Explain the nature and role of Unit Trust of India in the field of industrial finance.
2. Discuss the part played by the Industrial Development Bank of india as the apex organisation in the industrial finance structure in India.

The following illustration can make the point more clear.

Cotton spinning upto the capacity of 50000 spindles and spinning of man-made fibres, also upto the capacity of 50000 spindles were de-licensed subject to certain conditions in November 1975, and delicensing facility on 31st August 1984, and called upon the existing industrial undertakings which are not licensed (by virtue of exemption) but which had gone into production or taken effective steps prior to 31 st August 1984, to obtain a COB License within 6 months from due date.

REVOCATION AND AMENDMENT OF LICENSES

It is already discussed that the government has the power to revoke the registration of an industrial undertaking. Similar power is also vested in case of licenses issued to produce a new article or to start a new Industrial undertaking. Under this section the Central Government may revoke any license granted for establishing a new undertaking or a license -°nted f^r produ<vion of a new article if the license failed to establish the undertaking or produce th. ..^w article or has failed to take effective steps to implement the license.

Here the students should note that only a discretionary power is given to the governr"' t in regard to revocation. The government's initiative to revoke the license may be based on the fact that the license is required to submit returns if form prescribed under the RILU Rules within one month of the expiry of every half year ended on 30th, June and 31st December from the d?f<* of issue license until such time as the industrial undertaking commence production. If during the review, it is found that the progress made in this regard i.e. to implement the license, was not satisfactory the government may revoke the license. The following points should be noted in this context.

1. The government need not revoke the license even if no steps taken to implement the license.
2. There is no provision in the Act permitting for automatic revocation after the expiry of the period within which the industry was to be established.
3. The government can invoke this power not only motto but also on a complaint made to it by anyone against the failure of the license to implement the project.
4. However before revocation the government should be given an opportunity to the licensee to state his case.
5. In the revocation order the wording must be clear and it should contain explicit reasons in support of the order.

Modification of Industrial License:

The-Act also empowers the government to modify the conditions of the licenses. The owner who seeks modifications of the conditions ,or a variation or an amendment of the conditions laid down in the licensing should apply to the Ministry of Industry.

Any condition imposed while issuing the licensing can be relaxed of waived only when the government is satisfied that

1) Such relaxation is essential for the speedy implementation of the license.
2) Similar conditions are not imposed in identical cases.
3) They need for imposition of the obligation itself has changed substantially with the passage of time and there is no rational for its continuance.

Illustrations:

1) At the time of issuing a license the entrepreneur might not have envisaged by need for import of any component or raw material and he had therefore made an industrial license

b) Provision ot Technical Assistance

The Bank provides advisory services from its head quarters. It can as well send its own experts or hired experts on short and long missions for project implementation or for setting up or reorganising some institutions. The Technical Assistance Special Fund was set up by the Bank with a new to providing technical assistance on a large scale. C) Other Functions

Other functions of ADB are connected with the conduct of surveys and research. The purpose of such surveying and research is to develop a course of action for future and promote regional economic integration.

The ADB undertake massive lending programmes in billions of dollars to the developing of member countries.

II. **State Bank of India (SBI)**

The Imperial Bank of India was converted into the State Bank of India, with all its assets and liabilities, on 1st July 1955, under the State Bank of India Act of 1955. It has become the biggest commercial bank in India. It was not merely a change in name. It was a change of attitude. It had two important responsibility to perform (1) to ensure smooth transition from a primarily profit-seeking commercial bank to a truly national institutions and (2) to undertake developmental activities not normally under the sphere of commercial banks. **Capital Structure**

SBI had been formed with an authorised capital of Rs. 20 crores. RBI holds more than 90% of the issued capital. The management of SBI is vested in the hands of a Central Board of Directors. The chairman of the Board is appointed by the Central Government in consultation with the RBL Functions

1. Receiving deposits and lending money. The bank can lend against agricultural bills. .-.
2. The bank can receive jewels, securities etc. for safe custody.
3. It can participate in financing foreign exchange business.
4. It can perform all other normal commercial banking activities.

SBI has the largest number of branches and is permitted to extend medium term credit to industries. It is also authorised to subscribe to the shares or debentures of any financial institution.

Lending Policy

SBI is lending the industrial sector and this constitutes the bulk of the Banks advances. It has been meeting the credit requirements of public sector institutions and statutory bodies. Many large industries in private sector also are depending on SBI for their credit requirements.

A pilot scheme was formed for provision of co-ordinated finance to small scale-industries. This scheme is followed by all branches to help small scale units by granting term loans for purchase of fixed assets by small-scale units. Section 33 of the SBI Act enables the SBI to extend term finance to industries both big and small. The Bank grants medium term loans upto 10 years for acquisition of plant and machinery for a new project or for modernisation of existing plant and machinery. In 1962 SBI introduced the installment credit scheme to approved industries.

The Bank introduced in 1977, the "Entrepreneur Scheme" to help manufacturing, repairing and servicing units. The scheme is an important supportive measure for accelerating industrial development in backward areas. In order to provide management consultancy cells were established at all the local head offices.

Another major area of coverage by SBI is the provision of integrated credit to the rural sector. There are three aspects relating to the Banks activities in the filed of rural credit They are.

1. General Assistance leading to the development of rural credit institutions.
2. Provision of finance to co-operative marketing and processing societies; and
3. Assistance to the scheme of warehousing in the country.

The following are the measures adopted by SBI for rural development.

a) Remittance facilities in rural areas
b) Loans to co-operative banks
c) Financial assistance to land development banks
d) Village adoption scheme
e) Opening Agricultural development branches
f) Lending against warehouse receipts and
g) Introduction of employment oriented special credit scheme.

The SBI set up a Merchant Banking division 1972. The SBI Capital Markets Limited, SBFs merchant banking and leasing arm, floated the SBI Mutual Fund, as manager and trustee in 1987. It has so far developed many schemes for the benefit of domestic investing public; Magnum Regular income scheme (1987), Magnum tax saving scheme (1988-89) Magnum Regular Income scheme (1989), Magnum Monthly Income scheme, (1989,1990 etc.)

SBI is playing an important role in financing foreign trade.

Ill Commercial Banks

Commercial banks play a very important role in providing financial assistance to manufacturing and trading concerns in India. They were following the orthodox British line of disfavouring term loans to industries. But after nationalisation there has been a change in their attitudes.

Indian Commercial banks were restricting themselves to pure commercial banking functions only-receiving deposits and providing short term accommodation only. But it was felt that these banks with so much coverage should play more active role for the country's economic development The major nationalisation of 14 commercial banks in 1969, has brought a major change in the activities of commercial banks.

In respect of term finance, the commercial bar[1] :s, in addition to provision of term credit and subscription to shares and debentures, indirectly participate in term finance by subscribing to the shares and debentures of financial institutions. They also do underwriting of shares and debentures. Schedule banks have been permitted to hold in their own investrrri* nortfolio-shares and debentures of the private corporate sector. RBI restricts such investments of commercial banks to the extent of 1.5 per cent of the incremental deposits of the previous financial year. Many banks have separate merchant banking divisions.

Small industry is a priority sector and there has been a very significant increase in the proportion of the credit flow to this sector. Commercial banks contribution to the business concerns to meet the working capital requirements and temporary short term assistance is very significant.

IV. Life Insurance Corporation

Life Insurance business was nationalised in India, and the Life Insurance Corporation was established in 1956, as a wholly owned corporation of government of India. The main purpose was to carry on the business of life insurance and deploy the savings to best advantage of the policy holders and the economy of the country as a whole.

Although it is not the normal part of the insurance business to provide finance to industry. LIC has been playing a key role in the capital market as buyers of industrial securities and as underwriters of new issues in the private sector. Leading Policy

Under the modified section 274 of the Insurance Act 1938 the investments of the L.I.C. are broadly decided into three categories.

1. Central and State Government securities accounting for 50 percent of the controlled funds.
2. Approved investments - 35 percent, and
3. The rest-15 percent.

The approved securities listed in section 27 A included shares and debentures of joint stock companies, immovable property, first mortgage on immovable property, loan on life insurance polices, fixed deposits with scheduled banks or co-operative societies and debentures or shares of co-operative societies. The corporation has permission to hold up to 30% of the equity of a company and this limit may be exceeded with the permission of the Central Government The proportion of funds to be deployed at the discretion of the corporation is below 25% only. But considering the vastness of the operation and mobilisation of savings of people, its contribution to the capital market has become significant. Being a monopoly in the life insurance business in India, it is able to mobilise a large fund at its disposal. **Source of funds**

The source of funds for LIC are the paid up capital (Rs. 5 crores). Premium collections, borrowing from Government and the RBI and presently, the mobilisation of saving by corporation that accounts for 9% of the financial savings of the household sector. **Functions**

The LIC invests in shares / debentures of companies, provide rupee loans to companies makes initial subscription for promoting companies and underwriting of new issues of shares and debentures etc. It plays a very important, role in the capital market as it has very huge volume of funds. Investments by the LIC are of gigantic proportion as in the case of UTI.

LIC provides substantial assistance to industrial sector. In addition to normal investment operations like sale and purchase of securities in stock markets and investment in Government securities, the corporation has been participating with other all-India institution in extending direct assistance to companies. It extends resource support to the term lending institutions by way of subscriptions to their bonds. The Corporation also helps small and medium industries by granting loan for setting up of industrial estates.

LIC has set up in 1989, a Mutual Fund for operating various schemes for mobilisation of savings from the public, particularly from the rural and urban areas and channelise these funds to the stock and capital market. In direct lending to industry, the corporation occupies an important position as it contributed 8% of the total disbursements of all financial institutions to the industry.

V. General Insurance Corporation (GIC)

The General Insurance Corporation (GIC) was set up by the Government in 1971 by taking over the existing GIC and all the then existing insurance companies. All these companies were merged into four subsidiaries to GIC; They are United India Assurance company Ltd, Oriental Fire and General Insurance Company Ltd., and New India Assurance Co.Ltd,

The source of funds for these companies are, the paid up capital reserves, profits and premium income.

The objectives of the GIC are to carry on the General insurance business other than life, such as accident, fire etc. to aid and advise the subsidiaries to conduct the insurance business and to help the conduct of investment strategy of the subsidiaries in an efficient and productive manner. **Functions**

Like LIC it also operates in the money market and capital market. It underwrites shares and debentures of companies. It makes long term loans and investments. Its investments policy is governed **by the Insurance** Act **like** LIC **and** its investments are accordingly spread.

*) **Clearing services**

SHICL is a member of the Clearing House of the major stock exchanges. It monitors the execution of the purchases/sale orders of institutions by the brokers.

b) Depository services

It provides a custodial services for securities and related service to the institutions while the securities are in its custody-like collection of dividend warrants, collection of bonus etc.

c) Support services

d) It monitors interest/dividend collection, deposit them into bank etc.

e) Provision of management information to the institutions,

Development services. It provides necessary service to upgrade technology, market improvement etc.

VI. Stock Holding Corporation of India Ltd. (SHCIL)

Stock Holding .Corporation was set up in October 1987 by seven all-India financial institutions, viz. DDBI, BFC, ICICI, LIC, GIC, UTI and IRBI. These financial institutions subscribed its paid up capital Rs. 7 crores. Objective

It was intended to a facilitate quicker share transfers among financial institutions and their transfers with other investors, members of stock exchanges etc. It aims to tone up stock market and capital market It provides infrastructural facilities for post-trading services, such as clearing depository and other support services. Its services are recently extended to banks, Mutual Funds etc. Structure

The SHCIL is managed by a Board of Management. It has a whole time President in charge of day-to-day management. It has the head office in Bombay and has branches at other important cities where stock exchanges are functioning, it is operating on coqimercial lines and would levy fees / charges for its various services. Functions

The SCHIL is eliminating paper works usually taken after the post trading activities. It replaces the physical transfer of shares and securities by passing entries for receipts and keeping securities as a depository. This book entry transfer system eliminates need less paper work and speed up the transfer of shares. It functions can be grouped as follows.

VII. National Industrial Development Corporation (NIDQ

This corporation was established in 1954 as a private limited company with an authorised capital of Rs. 1 crore. The capital is supplemented by annual grants or loans from the central government.

The Corporation is established for the purpose of securing a harmonies development of industries both in the private and public sector, particularly those industries which are to fill the gap in the industrial structure. It will start new industries and manage them through the initial process of development till they reach the stage of earning profits. At this stage they may be handed over to private enterprise. It undertakes financing of industries only in so far as it is incidental to such development. Working

The Corporation acts as an agency of the Government for the grant of loans to any industry. The loans are for a period below 15 years.

In addition to long term loans the corporation has also made available to cotton textile mills, indegenous machinery on hire-purchase basis under its short-term (Rental) Scheme. A major contribution of the Corporations' Activities has been the considerable expansion m tne activities ot tne Technological consultancy Bureau set up in 1960-61. Another important work of this Corporation is the setting up of the Parities and Chemicals Development Private Limited in 1960 as its subsidiary for raising, assembling and transporting parities and manufacture of sulphur, sulphuric acid and other products. VII. Nationals Small Industries Corporation (NSIC)

National Small Industries Corporation Ltd. was established in 1956. It is wholly owned by Government of India. It is meant exclusively for the development of small-scale industries. Its head office is at Delhi and it has regional offices at several places. The main functions of this corporation are the following.

1. Supply of machinery on hire purchase
2. Provision of training and improved technical know-how through Proto-type Development and training centre
3. Supply of raw materials, both imported and indigenous on a continuing basis to small scale units.
4. Help small scale units in marketing their goods under Government store-Purchase Programs and Internal Marketing programme. It also helps to popularise the prod ucts of small scale units by setting up show-room - cum - marketing development centres at important towns and cities.
5. It undertakes small industries projects on turn-keys basis with total services.

IX. Small Industries Development Bank of India (SIDBI) If was a long felt need to have a separate institution at the national level to exclusively lend to the requirements of the small scale sector in the country. This need was fulfilled by the establishment of Small Scale Industries Development Bank of India (SIDBI). SIDBI began to operate on April-2 1990 with a paid up capital of Rs. 250 crore. It took over the outstanding portfolio of IDBI relating to small scale sector held uhder the Small Industries Development Fund as of March 31,1490 amounting to Rs. 4200 crores. The authorised and paid up capital of SIDBI are at present Rs. 500 crores and Rs. 450 crores respectively. Lending Policy

It is organised to promote finance and develop the industry in the small scale sector. It is empowered to assist the entire spectrum of small, tiny, village and cottage industries in the decentralised sector. The assistance is made available through appropriate schemes to set up new projects and expansion. Diversification modernisation and rehabilitation of existing units.

SIDBI would cover the small scale units located in even the remotest parts of the country. Its activities, which are patterned to suit both modern and traditional small scale units, are as under.

1. refinancing of term loans by other institutions
2. Direct discounting and rediscounting of bills arising out of transactions of small scale units.
3. equity type of assistance under National Equity Fund and by way of seed capital to entrepreneurs, in specified proportions in Central and State Government securities, deposits with companies and other loans and advances.
4. Resource support to NSIC and other institutions to help small scale units.
5. Direct assistance for setting up and expansion of marketing outlet for small scale industry products.
6. Share capital and resource support to factoring organisation
7. Assistance of promotion of exports of products of small scale industry.