Venkatesh Ganapathy

Business & Industry

Emerging Perspectives

bookboon
The eBook company

VENKATESH GANAPATHY

BUSINESS & INDUSTRY – EMERGING PERSPECTIVES

Business & Industry – Emerging Perspectives
1st edition

ISBN 978-87-403-2193-7
Peer review by Mr C Vaidyanathan, Head of Logistics, Mahindra Logistics

CONTENTS

1 INTRODUCTION

This book is intended to give a brief glimpse into the business scenario in India. The topics have been chosen keeping in mind the needs of the readers. Some of the topics are contemporary and they will surely make for engaging reading. The basic objective of business is to make profits. Business success can be ephemeral. The external environment can be dynamic and pose new challenges. Therefore for a business, more than success what is more important is sustainability. How to continue to achieve success despite all the challenges is important for a business to understand.

The business landscape of India has changed by leaps and bounds. India has moved from being an agrarian economy to a services economy. The elections in Gujarat, one of the largest states in India, held in December 2017 presented an interesting insight about the mandate of voters. The present Prime Minister of India Mr. Narendra Modi was the Chief Minister of Gujarat before he relinquished the post to become the Prime Minister. The election results revealed that the ruling party – the Bharatiya Janata Party – had won a majority of the seats by a slender margin. The opposition party (Congress) had managed to win more seats than that they had won in 2012. The reason for this has been attributed to the urban-rural divide. The rural voters of Gujarat felt marginalized as the government's policies were found to be skewed towards improving the lot of the urban elite.

The agricultural sector has been at the receiving end once the Indian government threw open its doors to foreign participation in business. Services contribution to GDP has now reached 60% due to the liberalization policy of the Government with several multinational corporations firmly entrenching their business operations in India. Job opportunities in services sector has swelled and along with this, the "hire and fire" policy that was once called as the American way of treating human capital has influenced Indian businesses too.

The increase in contribution of services to GDP has been at the expense of both agriculture and manufacturing. Across the globe, manufacturing sector has reached a certain level of saturation. So, when the Indian Government launched a massive campaign to support "Make in India" apparently it did not go down well with the agricultural community.

Every political party seems to think that waiving off loans to farmers is a sure way to appease the farmers in India. The latter have been victims of the vagaries of weather. Unseasonal showers have destroyed crops. The middlemen have eaten into sizeable profits of farmers. Pesticide and fertilizer manufacturing organisations have brainwashed farmers that use of the same will improve agricultural productivity. The untrained farmers have been using such chemicals more than acceptable limits. This has led to erosion of soil and further decline in productivity. Crop insurance schemes have failed to take off in India. The subsidies have ended up going to the wrong segment of the population. Scientific farming methods are still a distant dream for Indian farmers. That none of the successive governments did anything substantial to improve the lot of farmers was clearly a dampener. So the ire of rural Gujarat against the present government is understandable. What is actually needed is a set of major reforms to improve the prospects of the beleaguered agricultural sector. One time loan waivers are only temporary measures. Unless the Indian government makes strategic moves to lift the agricultural sector from the morass that it has got into, chances of recovery of this sector appear remote.

China has given India a run for its money in terms of manufacturing competitiveness. China has made inroads in Indian market – be it plastic items, smart phones or children's toys. Despite deteriorating Indo-China relations across the border, the government's policy that encourages Chinese invasion in Indian market has not gone down well with the masses. The present government's "Make in India" campaign has actually failed to take off. It was more a case of rhetoric than meaningful action. Even the moves to encourage entrepreneurship in India have met with limited success.

The above instances show how closely business is linked to politics. The government policies have a major bearing on the success of Indian companies – be it local or multinational corporations. The government's Foreign Direct Investment policy has attracted a slew of multinationals. Some of them like Vodafone have had massive showdowns with the Indian tax authorities. The demonetization move by Government to curb the inflow of black money in the financial system has met with a mixed response. The much-touted GST (Goods and Services Tax) system was implemented with much fanfare but the implementation has been beset with many issues. The taxation rates have subsequently undergone review and revision putting many Indians to inconvenience. The government's efforts towards digitalization have also met with diverse reactions. While moving towards a cashless economy is not a bad idea per se, the Government seems to be blissfully unaware of the adverse repercussions that it can have in the absence of a matching infrastructure to support digitalization.

The working of the banking sector has come under sharp attack. Lack of customer service sense along with mounting nonperforming assets has led to an inefficient banking system in India. The banking system has been unable to support the digital drive and cases of cyber crimes in banking cannot be brushed off as a one-time affair. In addition, the Government's moves to link the social security scheme to all service accounts of customers have faced many challenges. Though the government claims that this is being done to keep a check on money laundering and other sources of undisclosed income, these efforts have inconvenienced Indian citizens who have nothing to do with illegal or illicit schemes. Senior citizens have been put to lots of hardship in the recent past.

Thus, the business climate in India has become more challenging than ever before. The ease of doing business in India has improved if we go by the accounts of multinational corporations. But employment prospects are nowhere close to what was expected. The economy has been in a downward spiral for quite some time now. There has been stagnation in growth. Crony capitalism has raised its ugly head time and again. Judicial activism is giving businesses sleepless nights.

It is true that there is a positive sentiment due to a stable government at the Centre. But the businesses are looking at actions by government than can help them deliver results. Mere words are not enough. Strong action is a must. For example – manufacturing in India has been subdued due to absence of labour reforms that have been pending for long. Land acquisition is another challenge. Transportation infrastructure has remained weak and companies still struggle with last mile delivery issues.

To sum up, the business climate in India is exciting no doubt. The opportunities are aplenty. But the Government policies need to be more accommodative for businesses. Agriculture and manufacturing are important pillars for Indian economy. The Government must take actions so that prospects of these sectors improve in the short run paving the path for improvements in the long run.

India is a land of unity in diversity. There are so many languages, religions, customs that are prevalent. Multinational corporations are right in eyeing the opportunities that a massive country like India offers. India has now become an important speck on the global map. The rural community and marginalized are as much a part of India as are the urban elite. In such a situation, the government has to weigh the options carefully to ensure a business-friendly climate without trampling on the prospects of other economic pillars.

2 PILLARS OF INDIAN ECONOMY

The Indian economy is going through periodic bouts of recession. This is due to the impact of globalization and integration of world markets into one. The prospects of the Indian economy are optimistic. In the recently concluded elections (December 2017), the Bhartaiya Janata Party (BJP) has managed to win elections in two states – Gujarat and Himachal Pradesh. The BJP government is now ruling 19 states in India. Interestingly, the main opposition party in India namely the Congress is also improving its profile. The opposition has managed to win more votes in Gujarat than it had won in 2012. For the Indian economy to realize its full potential, there are four different areas – infrastructure, human capital, business regulation and finance.

India's infrastructure has remained inadequate and substandard. Be it the lack of roads, highways, airports, seaports, power plants or the expansion of railways, India is facing a huge cash crunch. Besides infrastructure financing, regulatory approvals for infrastructure projects take an inordinately long duration to materialize. Almost 40% of rural areas in India do not have proper roads. The Government has been trying hard to build infrastructure through public-private participation but barring a few instances, many of the projects established under the PPP route have faced major bottlenecks.

Quality education in India has certainly improved. But this is a dream for many Indians – particularly the marginalized section. Despite the advantage of demographic dividend, brain drain from India is substantial. Many Indian students prefer to pursue higher education abroad rather than join Indian Universities. Providing basic education and skills has remained a challenged. The Government has launched the Skill India campaign but the results have been slow. 65% of India's population is below 35 years of age and so to leverage this demographic dividend, the Government has to provide avenues to improve the prospects for training and development. Government aid often goes to the wrong kind of institutions and developmental agenda has by far remained incomplete.

2.1 BUSINESS REGULATIONS

Establishing a business in India was difficult earlier. But ease to do business is improving. GE has been expressing its happiness about doing business in India. Earlier business regulations were archaic. But now the scenario is clearly changing for the better. The Indian government is taking drastic steps to encourage the growth of entrepreneurship in India. The "Make in India" campaign aims to build India as a hub for manufacturing excellence. The Companies Act has been revised in 2013. A section on corporate social responsibility has been added.

Political interventions in business are certainly a matter of consternation. Crony capitalism is on the rise. Graft in business is increasing that is amply reflected in the growing number of scandals in the country.

2.2 FINANCE

Rural population does not have bank accounts. To improve financial inclusion, the Government launched the "Jan Dhan Yojna" which aims to provide every Indian access to a no-frills bank account. The Government is using the social security system called Aadhaar to provide subsidies to Indians through their bank accounts. The demonetization drive has led to greater spotlight on digitalization in Indian economy with payment getaways like PayTM becoming popular among the urban elite. The Government introduced the Goods and Services Tax in 2017 but the implementation has been beset with challenges. The scheme was lying in the back burner for long. In its haste to implement it, the Government did not pay attention to the glaring loop holes in the new taxation system. The working of banks has become deplorable with inefficiency and non performing assets causing concern. The Reserve Bank of India has set up payment banks in rural areas but then these are just not enough to cater to the demands of a massive population.

On 30 September 2014, Prime Minister Narendra Modi asserted that agriculture, manufacturing and service were the three pillars of the economy that can help build a new India. The PM wanted to create a balance among all the three pillars.

3 THE SWADESHI MOVEMENT

The Swadeshi Movement had its genesis in the anti-partition movement which was stated to oppose the British decision to partition Bengal. The Government's decision to partition Bengal had been made public in December 1903.

The official reason given for the decision was that Bengal with a population of 78 million (about a quarter of the population of British India) had become too big to be administered. This was true to some extent, but the real motive behind the partition plan was the British desire to weaken Bengal, the nerve center of Indian nationalism.

This it sought to achieve by putting the Bengalis under two administrations by dividing them (i) on the basis of language (thus reducing the Bengalis to a minority in Bengal itself as in the new proposal. Bengal proper was to have 17 million Bengalis and 37 million Hindi and Oriya speakers), and (ii) on the basis of religion, as the western half was to be a Hindu majority area (42 million out of a total 54 million) and the eastern half was to be a Muslim majority area (18 million out of a total of 31 million).

Trying to woo the Muslims, Curzon, the viceroy at that time, argued that Dacca could become the capital of the New Muslim Viceroys and kings. Thus, it was clear that the Government was up to its old policy of propping up Muslim communalists to counter the Congress and the national movement.

Moderates Agitation (1903–05):

Leaders like Surendranath Bannerjee, KK Mitra and Prithwishchandra Ray led this agitation. They made petitions to the government, organized public meetings and made propagandas through pamphlets and local newspapers. They wanted to exert pressure on Government through an educated public opinion to prevent the partition of Bengal. But the Government chose to ignore their pleas and requests. The partition of Bengal was announced in July 1905. This sparked wide spread protests in the country. Citizens decided to boycott foreign goods. Formal proclamation of Swadeshi movement was made.

On October 16, 1905, the day of the partition was observed as a day of mourning throughout Bengal. People fasted, bathed in the Ganga and walked barefoot in processions singing Bande Mataram (which almost spontaneously became the theme song of the movement). The movement soon spread to other parts of the country.

The Indian National Congress, meeting in 1905 under the leadership of Gokhale resolved to:

i) Condemn the partition of Bengal and the reactionary policies of Curzon and
ii) Support the anti-partition and Swadeshi Movement of Bengal.

The militant nationalists led by Tilak, Lajput Rai, Bipin Chandra Pal and Aurobindo Ghosh wanted the movement to be taken outside Bengal to other parts of the country and go beyond a boycott of foreign goods to become a full-fledged political mass struggle with the goal of attaining swaraj. But the Moderates, dominating the Congress at that time, were not willing to go that far.

The Moderate-Extremist dispute over the pace of the movement and techniques of struggle reached a deadlock at the Surat session of the Indian National Congress (1907) where the party split with serious consequences for the Swadeshi Movement.

Militant Movement:

After 1905, the Extremists acquired a dominant influence over the Swadeshi Movement in Bengal. There were three reasons for this:

1. The Moderate-led movement had failed to yield results.
2. The divisive tactics of the Governments of both the Bengals had embittered the nationalists; and
3. The Government had resorted to suppressive measures, which included atrocities on students – many of whom were given corporal punishment; ban on public singing of Bande Mataram; restriction on public meetings; prosecution and long imprisonment of Swadeshi workers; clashes between the police and the people in many towns; arrests and deportation of leaders; and suppression of freedom of the press.

Students came out in large numbers to propagate and practice Swadeshi and to take a lead in organizing picketing of shops selling foreign goods. Police adopted a repressive attitude towards the students. Schools and colleges whose students participated in the agitation were to be penalized by disaffiliating them or stopping of grants and privileges to them.

Students who were found guilty of participation were to be disqualified for government jobs or for government scholarships, and disciplinary action – fine, expulsion, arrest, scholarships, etc. was to be taken against them. Women too took active part in processions and picketing. Thus Indian women began making a significant contribution to the national movement. Thus the seeds of woman empowerment were sown in India.

4 WHAT WAS WRONG WITH INDIA'S PLANNING?

Soviet Russia was the pioneer in planning and followed the totalitarian model as it was a communist nation. When India achieved independence in 1947, it was beseech with problems like poverty, economic backwardness and lack of capital accumulation, lack of industrial and agricultural development. Indian leaders like Jawaharlal Nehru believed in democratic planning. The Planning Commission was formed to lay the blueprint for a balanced economic development for the nation.

Nehru gave importance to human element in production. He wanted the individual to grow with society. This was the plan for integrated economic growth of the country.

The main objectives of India's planning were

- Economic growth
- Self-reliance
- Removal of unemployment

- Reduction in income inequalities
- Removal of poverty
- Modernization

The basic strategy of Indian planning is rapid industrialization with emphasis on development of basic and heavy industries. The entire planning technique in India was based on the model prepared by PC Mahalanobis. To increase investment, the plan envisaged the increase in domestic manufacture of capital goods. But Mahalanobis ignored the fact that the Government could not complete the private sector completely and that foreign trade had an important role to play. Steel production became the mainstay of private sector.

The problem with India's planning strategy was that it was unable to factor the problems posed by massive unemployment and shortage of consumer goods. The basic industries did not perform up to the mark. While the Government focused on production of capital goods, the production of consumer goods and agriculture was left to the private sector. This created a shortage of essential goods and led to inflation.

The third and fourth plans paid more attention to agriculture. The excess demand due to heavy capital investment in the public sector could not be met by shortage of food grains and essential goods. India's planning model led to concentration of economic power in a few hands and location of industries in congested towns. India's balance of payments situation worsened due to greater imports. The gap between the rich and the poor widened. When the 5th plan was tabled, a large portion of India's population was below poverty line. Most Indians could not afford nutritious food, clothing and shelter above their head.

Khwaja Ahmed Abbas' 1964 Bollywood movie portrayed the plight of a couple who had to live in an unused water pipeline in Mumbai. The husband is unable to find a decent accommodation in the city. The movie was titled – "Shehr aur Sapna" (city and dream). Despite increased focus on agriculture in the fourth plan, benefit of growth did not reach the poor. Green revolution benefited the rich landlords more than the poor.

The 5th five year plan was based on restructuring the pattern of production to produce goods of mass consumption. This was perceived to be something that could eradicate poverty. But the Congress party only paid lip service to what was mentioned in the planning manifesto. The income disparities remained.

The chief flaw in India's planning was trying to achieve economic growth at the cost of social justice to the poorest section of the population. In the 5th plan, top priority was given to address issues of unemployment and the thrust was on developing cottage and small industries that were labour intensive. The 6th plan focused on increasing exports and reducing the balance of payment deficits. Thus, by and large every 5 year plan in India focused on removal of poverty, reduction in unemployment, self-sustaining growth and also addressing the need to control the population explosion. The population explosion during that phase has now led to India's demographic dividend.

Indian agriculture was neglected in second and third 5 year plans and experts criticized saying that agriculture was sidelined in the interest of industrial growth.

Success of India's planning	Failure of India's planning
Industrial development	Slow industrial growth rate
Increase in industrial output	Poor performance of power sector
More PSUs	Slow growth in per capita income in agriculture
Reduced dependence on imports	Lower investment in power and railways
Growth of small scale sector	Domestic controls and trade policy measures
Development of Public sector catering to the needs of infrastructure development	Greater technological imports

The government should focus on closure of sick units or disinvesting them and inviting private sector to take over such units. Labour should be compensated well but also retrained for deployment elsewhere. Greater thrust on alleviation of poverty and unemployment is needed. Top posts in public sector units were filled on the basis of political interference and this proved to be the undoing of many public sector units.

Planning is needed for the poor, discharging government's responsibilities for protecting the environment while market mechanism is needed for growing the economy. Planning and market mechanism must complement each other. Greater coordination is needed between center and states in implementation of the national plans.

Reference:

Business Economics by Mankar VG, Mac Millan Publishing House, 1999.

5 TRENDS IN INDIAN AGRICULTURE

The history of agriculture in India dates back to Indus Valley Civilization Era and even before that in some parts of Southern India. Today, India ranks second worldwide in farm output. Agriculture and allied sectors like forestry and fisheries accounted for 13.7% of the GDP (gross domestic product) in 2013, about 50% of the workforce. The economic contribution of agriculture to India's GDP is steadily declining with the country's broad-based economic growth. Still, agriculture is demographically the broadest economic sector and plays a significant role in the overall socio-economic fabric of India.

Agriculture is the backbone of Indian economy that contributes to its growth and sustainability. Technology interventions in agriculture are leading to benefits – but whether these have reached every Indian farmer is a moot question. The irrigation infrastructure in India needs improvement. Crop insurance schemes have not yielded desired results. Credit for agriculture through priority sector lending has not taken off. For banks this has become a mere number. Setting up of NABARD – National Bank for Agricultural and Rural Development has not led to any improvement in the lot of farmers.

In India, agriculture employs 58.2% of total work force. It is an essential link in the supply chain of manufacturing sector. Agriculture has also opened avenues for sale and marketing of industrial products like tractors and farm equipments. The excessive use of fertilizers and pesticides has eroded quality of soil and this in turn has affected the quality of farm produce – be it fruits, vegetables, food grains or oil seeds.

Agricultural growth is pegged between 5.2 and 5.7%. The growing reliance of agriculture on rainfalls has only worsened matters. The share of agricultural exports has increased to 10%. Guar gum is India's largest item of agricultural export. Rajasthan, Haryana and Gujarat are leading producers of Guar Gum. This gum is used in fire retardant products, pharmaceutical drugs, textile, paper, explosives, cosmetics and mining. West Bengal and Assam have been producing more tea. Coffee consumption in India has increased. The foreign direct investment (FDI) inflows in agricultural services and machinery sector during April 2000–November 2013 stood at US $1,666.49 million and US $338.01 million respectively. NABARD offered loans for setting up warehouses in India. Tatas collaborated with Kirloskar for the largest circulating water pumping system at Mundra in Gujarat. Indian Council of Agricultural Research (ICAR) has sought Rs 5,700 crore (US $915.03 million) to strengthen Krishi Vigyan Kendras (KVK) in the 12th Five Year Plan.

India has shown a steady average nationwide annual increase in the kilograms produced per hectare for some agricultural items, over the last 60 years. These gains have come mainly from India's green revolution, improving road and power generation infrastructure, knowledge of gains and reforms. Despite these recent accomplishments, agriculture has the potential for major productivity and total output gains, because crop yields in India are still just 30% to 60% of the best sustainable crop yields achievable in the farms of developed and other developing countries.

Causes of Decline in Agricultural Productivity

- Conversion of agricultural land into residential and industrial areas.
- Increasing demand for food led to exploitation of resources which in turn depleted the nutrients causing loss in the agricultural productivity.
- Use of synthetic chemicals degraded agricultural lands.
- Destruction of productive land by heavy mining and quarrying.
- Erosion of soil due to frequent floods.
- Frequent droughts and erratic rainfall leading to crop failures.
- Plantation of commercial varieties of trees on agricultural land instead of growing food grains.

Effects of Decline in Agricultural Productivity

The decline in Agricultural Productivity is causing hunger in major parts of the world. The World Food Summit – 1998 set the goal of reducing the number of hungry people up to half. In spite of great improvements in the food production about half million people are still starving across the world.

The decline in the productivity of the land under poor farmers created regional disparities. The Green Revolution was launched to enhance food production but only the rich farmers could derive benefits from it. The poor could not afford heavy prices of synthetic fertilizers and pesticides. Thus they remained hungry and economically backward in comparison to the rich. On the other hand, application of synthetic fertilizers and poisonous pesticides degraded the productivity of soil seriously. Thus the land even under the rich farmers no longer remained productive. These conditions are causing seriously bad impacts on the agricultural production during current times leading to a setback to the national economy.

Poor maintenance of irrigation system causes loss of water through wastage and seepage. The scarcity of water affects crop production adversely. Uncontrolled exploitation of ground water has caused serious depletion of water table in many parts of the country. It is leading to a water crisis and the failure of crops. Even after the exploitation of all the irrigation potential, up to 60% of India's cultivable area is assessed to depend on dry land farming. The decline in agricultural productivity has no longer left the agriculture profitable activity far general farmers. Hence, large scale migration of people from rural areas towards cities is increasing day by day. It is further causing urban congestions, expansion of slums and encroachments on government lands

In 2012, the National Crime Records Bureau of India reported 13,754 farmer suicides. Farmer suicides account for 11.2% of all suicides in India. Activists and scholars have offered a number of conflicting reasons for farmer suicides, such as monsoon failure, high debt burdens, genetically modified crops, government policies, public mental health, personal issues and family problems.

5.1 PROBLEMS FACED BY INDIAN AGRICULTURE

The critical issues in Indian agriculture need some analysis. Knowledge deficit is the bane of Indian agriculture. Infrastructure deficit leads to problems of irrigation infrastructure, market infrastructure, transport infrastructure and lack of delivery mechanisms. In India, agriculture is dependent on the weather. What is needed is greater support from Government.

Inefficient management of water bodies – how much water stored, how much used for irrigation has led to poor efficiency of water usage in India.

Those who have better abilities to extract groundwater take away more than their share of groundwater. In coastal areas, groundwater can be mixed up with sea water. In some other areas, groundwater levels go down drastically and wells become dry. Even drinking water becomes difficult to have access to. In India, there is a greater tendency to focus more on wheat and rice instead of growing a variety of food grains. There is less focus on producing coarse cereals.

India, despite being an agrarian economy, has not been able to achieve self-sufficiency in food grains because we do not have adequate storage facilities and transportation facilities. So there have been situations when food grains rot mainly because of failure of delivery mechanism. Ensuring food security has become the biggest challenge for India.

Failure of institutional arrangements set up by Government to improve agriculture

Institutional arrangements to improve the state of agriculture in our economy have failed. Making them work is a big challenge. With support of NGOs, the Government's effort in running the Krishi Vignan Kendra has been successful. NGOs have better organization ability and scientists from Krishi Vignan Kendra have been able to collaborate well with NGOs.

The problem lies primarily in our culture. It is said that ten Indians are equal to one Japanese when it comes to executing plans. We have a democratic setup which allows a lot of bureaucracy creeping into the system. Moreover, it has been observed that we are inefficient especially when it comes to collective effort. It is a general perception that cooperatives do not work well in capitalist nations, but we have seen a number of cooperatives work efficiently in America. In contrast, Anand milk cooperative is the only successful cooperative in our country. The solution probably lies in education.

Government Initiatives

The Indian government has, over the years, made efforts to increase investment in agriculture and improve agricultural practices. But something urgently needs to be done to reduce pesticide usage by farmers. Multinational companies are keen on selling their output but farmers are not trained in proper usage of fertilizers and pesticides. In the name of organic farming, consumers are being looted. The government's efforts to set up rural infrastructure have come unstuck. The Government is trying its best to improve credit but invariably this ends up as a sop in the form of a loan waiver. This is done mainly with a keen eye on appealing to the voter base. The use of technology and scientific farming practices has not met the expectations.

The Government has introduced 100% FDI under automatic route in storage and warehousing of agricultural products with cold storage. 100% FDI for development of good quality, high yielding seeds has also been introduced. Chilly Park has been established at Haveri in Karnataka. Agricultural research is being actively promoted. The development of horticulture in Andhra, North East and Himalayan states is being explored. Automatic route approval – no approval of RBI needed.

The required level of investment for the development of marketing, storage and cold storage infrastructure is estimated to be huge. The government has not been able to implement schemes to raise investment in marketing infrastructure. Among these schemes are 'Construction of Rural Godowns', 'Market Research and Information Network', and 'Development/ Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization'.

The Indian Council of Agricultural Research (ICAR), established in 1905, was responsible for the search leading to the "Indian Green Revolution" of the 1970s. The ICAR is the apex body in agriculture and related allied fields, including research and education. The Union Minister of Agriculture is the president of the ICAR. The Indian Agricultural Statistics Research Institute develops new techniques for the design of agricultural experiments, analyses data in agriculture, and specializes in statistical techniques for animal and plant breeding.

Startups with niche technology and new business models are working to solve problems in Indian agriculture and its marketing. Kandawale is one of such e-commerce website which sells Indian Red Onions to bulk users direct from farmers, reducing unnecessary cost escalations. ITC e-choupal is another initiative that shows lots of promise but why this model cannot be scaled up is still a matter of consternation.

Future of Agriculture

Growth of QSRs – Quick Service Restaurants holds lot of promise for Indian agriculture. The cold chain has grown by 15–25%. The QSR market has grown to Rs 7000 crores. Wheat production is in surplus. Contract farming has led to increase in production of food grains, egg and production of milk.

The agriculture sector that did well in 2013–14, owing to a good monsoon, is expected to witness a sharp deceleration in growth to 1.8 per cent in 2014–15 from 3.8 per cent in 2013–14. The monsoon is expected to be weak in future. El Nino caused decline in rainfall in 2014. El Nino refers to changes in the direction of winds and the flow of warm water currents that raise the surface temperature of parts of the Pacific Ocean. It affects rainfall in different parts of the world. In India, in the last one decade, it coincided with droughts in 2002, 2004 and 2009. The deficient rainfall and high base of last year pulled down the growth of the agricultural sector in 2014–15.

Around 73% farmers still depend to a large extent on informal channels for credit. There is a need for long term policy with respect to credit that allows some flexibility. For example – Government can waive interest rate in a drought year. But as policy is uncertain, institutions shirk away from getting credit to agriculture. Instead they give to poultry sector as they can get returns quickly. Credit policy is vague and this creates a problem. Insurance is an issue for farmers when his reimbursement is delayed for a long period of time. People take time to understand new institutional mechanism.

The critical issues in Indian agriculture are related to knowledge and infrastructure. India has to become better at managing big systems. Need for private sector participation and harnessing indigenous knowledge to improve performance. Need for making credit and insurance more accessible to small farmers. What institutional reforms can be taken to increase the role of private sector entities in the agriculture sector? One aspect is the government rules and regulations. Either there is no legislation or there exists a multitude of legislations. Getting through these complicated set of rules is difficult and poses a big problem for private players. Even simple things like a warehouse receipt system are complicated in India. Ideally there should be a legislation which helps people to come forward and offer these services with ease. Private players want quick returns and this is not possible as returns in agriculture are slow to materialize. Legislation is one major area the government that can be looked at to improve public private partnership in the agriculture sector.

Reference:

Excerpts from Note released by IIM, Bangalore on Agriculture in India

6 CONTRACT FARMING IN INDIA

Contract farming arrangements of different types have existed in various parts of the country for centuries for both subsistence and commercial crops. The commercial crops like sugarcane, cotton, tea, coffee etc. have always involved some forms of contract farming. Even in the case of some fruit crops and fisheries, contract farming arrangements, involving mainly the forward trading of commodities have been observed. Contract farming has now gained more importance in the wake of economic liberalization. National/MNCs are now entering into contracts with the farmers for marketing of the horticultural/agricultural produce. These companies also provide technical guidance to the farmer. Under the contract farming scheme, selected crops are grown by farmers under a buy back agreement with a trading agency or a processing unit. Such agencies provide technical support, selection of good quality seeds and crop supervision arrangements. Production risk is absorbed by the farmer while the agencies absorb the price risk.

If the contract is made at flowering or fruiting stage, the company bears the production risks also. In any case, the company bears the entire costs of transaction and marketing. It is this variant of contract farming which is said to be one of the ways by which small farmers can participate in the production of high value crops like fruits, vegetables, flowers etc. and benefit from market led growth.

Small farmers in India are generally capital starved and cannot make major investment in land and modern inputs. Contract farming can fill up this gap by providing the farmers with quality inputs, technical guidance and management skills. This helps in the overall yield of the crops. The company and the farmers enter into contracts to supply or purchase a specified quantum of the commodity at agreed prices. The agreed contract may be either formal or informal and may cover supply of inputs and marketing of output. By entering into contract, the company reduces the risk of non-availability of raw material and the farmer reduces the risk of market demand and prices of his produce. The inputs and services supplied by firms may include seeds, fertilizers, pesticides, credit, farm machinery, technical advice, extension etc., or may involve only the supply of hybrid seeds and marketing of produce.

There are few success stories on contract farming such as PepsiCo India in respect of potato, tomato, groundnut and chili in Punjab, Safflower in Madhya Pradesh, oil palm in Andhra Pradesh, seed production contracts for hybrids seed companies etc. which helped the growers in realization of better returns for their produce. Other success stories of contract farming are Amul and NDDB for milk procurement, sugarcane cooperative in Maharashtra, and prawn-aqua culture in Andhra Pradesh.

In our country this approach has considerable potential where small and marginal farmers can no longer be competitive without access to modern technologies and support. The contractual agreement with the farmer provides access to production services and credit as well as knowledge of new technology. Pricing arrangements can significantly reduce the risk and uncertainty of market place.

6.1 ISSUES WITH CONTRACT FARMING IN INDIA

Studies have highlighted a significant problem in some cases wherein both firms and farmers breached contracts when market conditions provided arbitrage opportunities. Firms rejected more contracted produce on quality grounds when market prices dipped below contracted prices and farmers engaged in side-selling in open markets when market prices rose higher than contract prices.

In India, 85 per cent of the farmers are marginal or small, operating less than two acres. In fact, 66 per cent operate less than one acre each. How many will have such land to give for contract crops? Contract farming can work if there is a collectivization of small farmers. For instance, 10 to 15 farmers get together, form a group, and sign a group contract. It brings down the transaction costs, the farmers are better protected, and it is essentially a win-win situation for both the farmer and the corporate. It has been successful in Thailand. In fact, the Thai government planned it out and made it a part of the country's national development plans.

For contract farming to be successful, farmers need better bargaining power and legal protection. The terms and conditions of contract are crucial. Transparency in contracts is a must.

Developments in contract farming

Contract farming has been there since the 1960s in seed production, in both private and public sectors. Also, since the Land Ceiling Act does not permit non-farmers to own land, there is no other way to get specified produce than through contract farming. So as market demand changed in the 1980s and 1990s, contract farming became more common, starting with Pepsi in Punjab in tomatoes and potatoes in the mid-1990s as a first case of perishable-produce contract farming, other than a few other cases in some other crops elsewhere in India.

Further, the amendments to the APMC [Agricultural Produce Marketing Committee] Act at the State levels in the last decade, which made contract farming legal, led to its widespread adoption across crops and regions and companies.

Contract farming can help curb inflation: RBI

The Reserve Bank of India (RBI) wants the government to facilitate contract farming in India and to exempt fruits and vegetables from agro procurement laws to improve food productivity. The central bank has also called for better supply chain logistics by setting up cold chains and processing facilities to reduce wastage.

Highlighting data that show rising incomes affecting consumption patterns, Deepak Mohanty, executive director at RBI, said that increased consumption of proteins and vegetables was one of the factors driving up costs of these items. Mohanty was delivering the annual Lalit Doshi Memorial Lecture at St Xavier's College here on Monday.

"Another factor is the cost of cultivation. The dominant part of the cost of cultivation is labour. This is particularly so in our set-up with the preponderance of small holdings, which are less amenable to mechanization. There are several explanations why rural wages have increased. One explanation is that socially inclusive public policy such as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has set a floor to rural wages and increased the bargaining power of the work force," said Mohanty, adding that even after factoring inflation real wages have grown.

References

Agarwal, S. ISSUES IN CONTRACT FARMING IN AGRI-FOOD SUPPLY CHAIN IN INDIA: A LITERATURE REVIEW OF CERTAIN ASPECTS. *Journal of Management Value & Ethics*.

http://krishihelpline.com/topics/contract-farming/

7 INTER SECTORAL LINKAGES IN INDIA

Consequent to structural changes in India's economy services sector has become more prominent. Uneven pattern of sectoral growth has resulted in changes in production and demand linkages – this has had an impact on overall growth of economy. Changes in policy environment due to economic reforms, WTO agreement and growing integration with the world economy in the post 1991 phase affected the linkages between different sectors of the economy. Post reforms, there was a decline in capital formation in agriculture sector.

Trade liberalization led to shifts in cropping patterns towards cash crops like cotton, oil seeds, and sugarcane. This is reducing food availability and also making agricultural incomes more unpredictable. After the reforms, agro based industries experienced a slump. Though the manufacturing sector stabilized, there was not much contribution to employment generation. Though the service sector has grown by leaps and bounds, the employment generation has been much lower than that was expected. There has been intense pressure on farm sector. The farm workers have been forced to seek self-employment. Sectors with highest linkages stimulate rapid growth of production, income and employment. In developing countries, there is mutual interdependence between agriculture and industry.

Agriculture supplies food grains to industry, absorbs labor in industry and also supplies inputs like raw cotton, jute, tea, coffee needed by agro industries. Agriculture also provides industries an opportunity to manufacture fertilizer, pesticides and machinery. Agriculture also influences output of industrial consumer goods through demand. The surpluses generated by agriculture can be mobilized for investment in industry. Some of the channels emphasize on the supply side or production side, others stress the linkages through the demand side.

Production linkages arise from the interdependence of the sectors for meeting the needs of the productive inputs. Demand linkage arises from the interdependence of the sectors for meeting final consumption. Backward linkage identifies how a sector depends on others for input supplies. Forward linkage identifies how a sector distributes its outputs to the remaining economy. There is two-way interdependence between agriculture and industry.

The linkage between agriculture and service sectors is one-way and mainly backward linkage. Industry has two way linkages with services sector and level of linkage is much higher as compared to agriculture sector. Service sector has stronger backward linkages compared to forward linkages with both agriculture and industry. In India, there is more focus on linkages between industry and agriculture while less attention is given to services sector.

Over the last few years, deteriorating linkages between industry and agriculture due to decreased demand for agricultural products, decline in share of agro-based industries and slow employment growth. Agriculture's demand linkage to industry has declined while that of from industry to agriculture has increased. Agriculture continues to be an important sector in terms of positively influencing development of manufacturing and overall economy despite the deceleration in its share in total income. As agricultural incomes increase, increase in demand for industrial consumer goods and producer goods like pumps, tractors, fertilizers, pesticides and different services like trade, transport and communication, banking and insurance, hotel and restaurant

7.1 SUMMARY

1. Both production and demand linkages from agriculture to industry have increased during both pre and post reform periods.
2. Both production and demand linkages from industry to agriculture have declined for both the periods.
3. Industry dependence on agriculture for inputs has declined in India.

4. Agriculture's dependence on industry for modern inputs has increased.
5. Agriculture has weak linkage with service in both the production and demand sides.
6. Industry linkage with services is strong from both sides.
7. Post reforms, production linkage from industry to service has declined.
8. Demand linkage from industry to service has increased during both the periods
9. Both production and demand linkages from services to industry have increased during both periods.
10. With industrialization there is greater demand for services like trade, hotels and restaurants, banking, insurance, transportation and communication, education, hospitals and other infrastructure.
11. In India there has been considerable investment in building rural infrastructure and connecting rural areas with urban market centres. With such initiatives and increase in farm income due to higher productivity and good prices for agricultural products, there will be increased demand for post-harvest facilities such as processing, storage, transport, communication, banking, insurance. This will strengthen the interdependence between the two sectors.

7.2 THE FINAL WORD

In the pre-reform period both the production and demand linkages were from industry to agriculture. This changed from agriculture to industry in the post reform period. Agriculture's linkage with services is very weak from both production and demand sides and even it has declined in the post reform period.

Industry has very strong production and demand linkages with service and it has improved in the post reform period. India's agriculture has witnessed a shift from food grain production to commercial crops, fruits, vegetables and flowers. This structural shift along with increasing consumption preferences for processed and differentiated food products, development of contract farming and vertical linkages in agri-food supply chains have raised the possibility of enhancing agriculture-industry interdependence in the future.

How can agriculture sector's prospects be improved in India?

Some of the recent policy initiatives relating to the sector include agriculture trade liberalization (export import measures), reduction of agriculture subsidies, ensuring subsidies are targeted at the right persons in the agriculture sector and increase in procurement prices. ITC e-choupal is an example of how prospects of this sector can be made brighter. There has been decline in public investment in this sector. So there is need to reformulate public policies and trade related measures to leverage the export potential of agro products.

Bibliography

Saikia, D (2011). Analyzing inter-sectoral linkages in India. *African Journal of Agricultural Research,* 6(33), 6766–6775.

8 BUSINESS ENVIRONMENT

Business environment is the sum of all factors external to the business firms that greatly influence their functioning. The word Business in its economic sense means human activities like production, extraction or purchase or sales of goods that are performed for earning profits. Business Environment may be defined as a set of conditions – Legal, Economical, Political or Institutional that are uncontrollable in nature & affect the functioning of organization. It is the sum of all factors external to the business firms & that greatly influence their functioning. It covers factors & forces like customers, competitors, suppliers, government & the social, cultural, technological & legal conditions.

Business requires a continuous interaction & cannot work in isolation. It is required to recognize, respect, adapt, manage, monitor, influence & responds to the environment surroundings it.

Business Environment has two components:

1. **Internal Environment:** It includes 5Ms i.e., man, material, money, machinery & management, usually within the control of business. Business can make changes in these factors according to change in functioning of enterprise.
2. **External Environment:** These factors which are beyond the control of business enterprise are included in external environment. These factors are: Government & legal factors, geo-physical factors, political factors, socio-cultural factors, Demographics factors.

It is of two types:

1. **Micro/Operating Environment:** The environment which is close to business & affects its capacity to work is known as Micro or Operating Environment. It consists of suppliers, customers, market intermediaries, competitors & public.
   I. **Suppliers:** They are persons who supply raw material & required components to the company. They must be reliable & business must have multiple suppliers, i.e., they should not depend upon only one supplier. An organization should study the bargaining power of suppliers as it affects the cost structure of the firm. They should also keep in mind that whether to outsource or do in house production. They benefits & costs of both should be evaluated.
   II. **Customers:** Customers are regarded as the king of the market. Success of every business depends upon the level of their customers' satisfaction. An Organization

should monitor taste of customer & their change in taste. It should study them buying habits by way of market research & analyse prospective customers.

Types of Customers:

i. Wholesalers
ii. Retailers
iii. Industries
iv. Foreigners
v. Government & other institutions.

III. **Market Intermediaries:** They work as a link between business and final consumers. Types: a) Middleman b) Marketing agencies c) Financial Intermediaries d) Physical Intermediaries.

IV. **Competitors:** Competitors refer to the other business entities dealing in similar products & competing for resources (market). Business has to adjust itself according to the strategies of the competitors. An organisation is of two types – direct competition & indirect competition. An organisation should study prospective competitors, determine their objectives & subsequently develop its own strategy.

This competition it's of two types – competition and indirect competition. Direct competition is between organisations dealing in the same business activity. For E.g.: Coke and Pepsi (drinks), Apple & Samsung (mobile phones) etc.

V. **Public:** Any group who has actual interest in business enterprise is termed as public. E.g.: Media Organisations. A business enterprise should work closely with the public.

2. **Macro/General Environment:** It includes factors that create opportunities of threats to business units. Following are the elements of Macro Environment:

    1. **Economic Environment:** The economic conditions of a nation refer to the set of economic factors that have great influence on the business organisations and their operations. They include GDP, per capita income, market for goods and services, availability of capital, foreign exchange reserve, growth of foreign trade, strength of capital markets etc.
    2. **Economic policies:** All business activities & operations are directly influenced by economic policies framed by the Government from time to time. Some of the important economic policies are: Industrial policy, fiscal policy, monetary policy, foreign investment policy, Export-Import policy (EXIM).

    Every business firm has to function strictly within the policy of framework & respond the changes therein. Economic policies refer to the actions that governments take in economic field.

8.1 NON-ECONOMIC ENVIRONMENT:

The various elements of non-economic environment are as follows:

1. **Social Environment:** The social environment of business includes social factors like customs, traditions, values, beliefs, poverty, literacy, life expectancy rate etc. Due to increase in literacy rate the consumers are becoming more conscious of the quality of products. Due to change in family composition, more nuclear families with single child concepts have come up. This increased the demand for different types of household goods.
2. **Political Environment:** This includes the political system, the Government. All these aspects have a bearing on the strategies adopted by the business firms. The stability of the Government also influences business & related activities to a great extent.

You may be aware that coca cola a cold drink widely used even now had to wind up operations in India in late 1970s. Again the trade union activities also influence operation of business enterprises. Most of the labour union in India is affiliated to various political parties. Strikes, lockouts & labour disputes, etc. also adversely affected the business operations. However, with the competitive business environment, trade unions are now showing great maturity and started contributing positively to the success of the business organization and its operation through its workers participation in management.

3. **Legal environment**
   This refers to set of laws, regulations which influence the business organizations and their operations. Every business organization has to obey and work within the framework of law. The important legislations that concern the business enterprises include.

   Companies Act 2013,

   Foreign exchange management Act 1999,

   The factories Act 1948, industrial Disputes Act 1972,

   Prevention of food Adulteration Act 1954,

   Essential commodities Act 2002,

   The standards of rights & measures Act 1956,

   Competition Act 2002

   Besides the above legislation, the following also from a part of the legal environment business

   - Provision of the competition
     The provision of the articles of Indian competition particularly directive principles, rights & duties of citizens, legislative powers of the central & state government also influence the operation of business enterprises.

   - Judicial decisions
     The judiciary has to ensure that the legislative and the government function in the interest of the public and act within the boundaries of the constitution.

4. **Technological environment**

   Technological environment include the methods, techniques, and approaches adopted for the production of goods and services and its distribution.

   E.g. each mobile phone company is now heavily focusing on smart phones.

5. **Demographic environment.**

   This refers to the size, density, distribution and growth rate of population. All these factors have a direct bearing on the demand for various goods and services.

   E.g. A country where population rate is high and children contribute a large section of population, then there is more demand for baby products.

   Demographical is a statistical study of human population and sub population.

6. **Natural environment**

   Natural environment compares all living and nonliving things occurring naturally on Earth or some region thereof.

The natural environment includes geographical and ecological factors that influence the business operations. These factors include the availability of resources, weather and climatic conditions, location aspect to geographical factors.

E.g. sugar factories are set up only at those places where sugarcane can be grown.

7. **Cultural environment**
Culture comprises several things such as tools, language, education, religion etc. they all play an important role in determining crucial business decisions.

E.g. there would not be any demand for Bengali language newspapers in Punjab.

The business should assess the cultural environment within which it has to function.

8.2 IMPORTANCE OF BUSINESS ENVIRONMENT

Proper understanding of the social, political legal & economic environments helps the business in the following ways. It helps in determining opportunities & threats. The interaction between the business & its environment would identify opportunities for & threats to the business for meeting the challenges successfully. It also provides direction for growth. The interaction of business with the environment leads to opening up new factories of growth for the business firm. It enables the business to identify the areas for growth and expansion of their activities.

Understanding the business environment makes the task of managers are motivated to continuously update their knowledge, understanding & skills to meet the predicted changes in real of business. Environment understanding helps the business organizations improving their image by showing their sensitivity to the environment within which they are working. E.g. in view of shortage of power many companies have set up captive power plants (CCP) in their factories to meet their own requirements of power.

It helps the firm to analyze the competitors' strategies & formulate their own strategies accordingly. Business environment helps to identify the individual strengths & weaknesses in view of technological & global developments. A business does not operate in vacuum. It has to operate in an environment, where external & internal forces combine to affect the working of a business. Business environment is the sum of all factors external to the business firms & that greatly influence their functioning.

9 BUSINESS ETHICS & VALUES

Over the past 15 years, over ⅔rds of Fortune 500 companies involved in unethical behavior. The unethical practices were issuing of warrants to promoters, buying at inflated prices in foreign soil, under invoicing of sales – so you pay less tax, hiking equity, raising sentimental issues regarding takeover, switching of shares to relatives and friends and inflating profit figures with active support from auditors.

Business Ethics

It is the measurement of business behavior on standards of right and wrong, rather than relying on sound principles of accounting and management. Ethics is needed for building trust and for building customer relationships and supplier relationships. Ethics indicates norms of behavior. Business ethics is application of ethical principles to business.

Objectives of business ethics

- Study human behavior and assess them as moral or immoral.
- Establish moral standards and norms of behavior & judge human behavior.
- Set norms of how to behave properly.
- Express opinions or attitudes about human conduct in general.

To survive, develop and excel, business must earn social sanction of the society where it exists and functions. Without social sanctions, a business cannot earn loyal customers, cannot operate in the market place and will soon wither and die away. No business however great or strong or wealthy it may be, can exist on unethical means. Business Ethics leads to sustainability of business.

What are Values?

1. Values are global beliefs that guide actions and judgments across a variety of situations.
2. Values represent what is good and what is bad, what is desirable and what is undesirable in one's conduct.
3. Values are stable, enduring and highly influential. Values provide the context within which a society's norms are established and justified.

4. Value contains a judgmental element in that it carries an individual's ideas about what is right, good or desirable.
5. Values have content and intensity attributes.
6. Content – a specific way of behavior is important.
7. Intensity – how important the attribute is.
8. Value system is the ranking of individual values (obedience, freedom, pleasure, self-respect, equality) according to their importance.
9. Value system governs and influences the individual's reactions and responses to various situations.
10. Values are permanent and cannot be changed easily.
11. Values guide actions and judgments across specific objects or situations.

Attitudes

Attitudes are more specific than values. Values can explain attitudes and behaviors but we cannot say for sure which values shape which attitudes and behaviors. Both attitudes and values influence beshavior of people in a powerful way. Both are permanent.

Need for business ethics

Globalisation has brought in greater degree of co-ordination with different cultures and socio-economic systems. Many MNCs operating in India have a compliance and ethics policy. Technology has created a new level of transparency in business communication. Businesses are now exposed more globally. Bad news spreads fast, thanks to Internet and social networking websites. Ethics can act as a product/service differentiation element, enhance brand equity and give the organization an edge over competition. A good ethics policy can have a positive impact on the business bottom line. Perception has changed. There is a decline in social ethics that leads to risk and uncertainty. Public expectations have changed. What was once deemed acceptable is now more readily scrutinized.

9.1 SOURCES OF BUSINESS ETHICS

1. Religion – All religions agree that ethics are indispensable and will reveal what is right and wrong in all facets of life. All religions stress social responsibility.
2. Culture – refers to the mode of life of people – their pattern of life in society, dress, rituals, beliefs, rules, regulations, conduct, behavior, ethical practices.

Man is a social animal. His conduct has a direct or indirect reference to the culture. Family culture affects the individual's ethical value system. Principles of honesty, respect for life and freedom, fairness, loyalty, human dignity, integrity are immortal and remain valid for generations. Legal system provides the human society with minimum standards of behavior but laws cannot duplicate the value system of the society. Business has to abide by law and abiding by law is ethical behavior.

9.1.1 RELATION BETWEEN ETHICS AND BUSINESS

a. Ethics conflict with profits.
b. Choice of profits over ethics.

The ethical mandate of business is to increase shareholder's profit. Businesses are under pressure to increase profits. Organisation is structured, people are hired, jobs described, managers are held accountable, raw materials are purchased and technology engaged to increase the bottom line.

People in business should appreciate the need for ethics from within rather than wait for directions from government. Business ethics if linked to profit maximization can lead to greater strategic value for business. Businesses should follow ethical rules to make profits and discharge their commitments to shareholders, customers, suppliers, employees, creditors, banks and the society at large. Utilisation of scarce resources must be done prudently.

9.1.2 IMPORTANCE OF ETHICS IN BUSINESS

Business is a sub system of society; its functioning must contribute to the welfare of society. Ethics adds to the business image, supports the value system and adds to brand equity. Without social sanctions, a business cannot earn loyal customers. Ethics leads to sustainability of business. Ethics inspires confidence and trust of employees. Products/Services of companies that are ethically and socially responsible have a special 'halo' or 'charm' around them. An ethical organization finds it easy to make decisions. Ethics contributes to profitability in the long run. An ethical organization will take measures to prevent pollution and damage to environment.

Difference between attitudes and values

Attitudes	Values
Reflects how one feels about something.	Focus on judgement.
Represent beliefs and feelings focused on a specific object, idea, people or situations.	Represent a single belief that guides actions and judgement across objects and situations.
Attitudes and beliefs are personal experiences.	Values though learned from people & institutions contain a moral flavor. Values are yardsticks to guide actions, attitudes, evaluations and justifications of the self and others.

- People are not born with values. Values are acquired.
- Families, teachers influence an individual's values.
- Values are stable and enduring.
- People who share the same values as the organization are committed to the organization than those who do not.
- Whenever people make decisions, the appropriate behavior reflects the value system or conflicts between different values.
- E.g. Managers with dominant economic values would be less hesitant to lay them off quickly than would managers with high social values.

Once a particular value is internalized, it becomes a standard for guiding action; for justifying one's actions and for comparing self with others. Values overpower objectivity and rational thinking. When individuals enter an organization with certain preset values of what is right or wrong, they look at the world through colored glasses.

Individualism – Collectivism

Individualism pertains to societies where ties between individuals are loose and collectivism pertains to those societies in which people from birth are integrated into strong cohesive groups. Individualism places an emphasis on personal achievement, independence while collectivism lays focus on interdependence, collective interests and joint decision making or consensus.

So, group is more important in collectivism while self is more meaningful in individualism. Idiocentrism – individualists put an emphasis on self-interests and personal development. Allocentrism – Emphasis on collective interests and group based benefits.

Individualism – Collectivism can have a moderating effect on the relationship between HRM practices and individual performance because this construct explains different cultural orientations. Individualists are more likely to report a positive relationship between HRM practices and individual performance.

CSR – Corporate Social Responsibility

This is code of conduct in response to activism around sweatshop conditions in factories where consumer goods are manufactured. International brands in apparel, footwear and toy industries – have adopted these codes for the factories that are part of their global supply chain. But often regulatory compliances like labour laws must not be mixed with CSR because this dilutes CSR.

The ethical concern with respect to CSR is that it must not be mixed with legal and compliance issues. Social responsibility is an ethical theory in which individuals are accountable for fulfilling their civic duty. The actions of an individual must benefit the whole society. There must be balance between economic growth and welfare of society and environment. If this equilibrium is maintained, then social responsibility is accomplished.

Theory of CSR is built on a system of ethics in which decisions must be ethically validated. If action or decision causes harm to society, it is considered socially irresponsible. If social responsibility is maintained then the employees and the environment are held equal to the company's economics. Through CSR, integrity of society and environment is protected.

9.3 BUSINESS ETHICS: THE FOUR FACES OF CSR

Very often companies think that they have carefully and successfully implemented a risk management program before launching a new product in the market. But they may have miscalculated. Emblematic of this scenario is the example of Monsanto.

In the mid-70s, Monsanto developed Cycle Safe bottles and spent more than 47 million to make the product. But in 1977, FDA banned the bottle because when stored at 120 degrees for an extended period of time, molecules strayed from the plastic into the contents. Rats that were fed with doses of soft drinks developed near fatal signals.

Monsanto felt that they were doing something that was socially responsible – a plastic bottle that could be recycled. But CSR is a matter of degree and interpretation. Even when the company has undertaken an impact analysis, the external environment might feel that this is socially unacceptable. The line between legality and CSR is sometimes very thin. One has to maintain a delicate balance.

Peter Drucker asked two questions:

- What can an organisation do for society?
- What does an organization do for society?

Thus, organizations can be evaluated on at least two dimensions with respect to their performance as citizens – legality and responsibility.

	Illegal	Legal
Irresponsible	A	C
Responsible	B	D

Illegal and Irresponsible

This is highly risky. Organisations might refuse to employ people from reserved category. Or they may be selling toxic foodstuffs. But can this behavior sustain in the long run – especially in today's knowledge economy? Our value systems vary from individual to individual. But value systems are tempered by temptation, consequence and risk. If we are faced with high temptation, low consequence and low risk, then our value systems may get diluted.

Let us take an example. Suppose a large organization is faced with the decision to install pollution abatement equipment in one of its plants. Total cost of the installation is Rs.5 lacs. The maximum fine for non-compliance is Rs.10, 000; the chance of being caught for non-compliance is one in one hundred. Will the organisation comply? Often the government inspectors are few and number of organisations is huge. In this case, the temptation to ignore the law (Rs.5 lacs) is large, the fine (Rs.10, 000) is low and the risk of being caught for non-compliance once in seventy seven years is abysmally low. Will you be surprised if an organization does not comply? The chances are that you won't be.

The result of being caught is at best – bad publicity. However, the cost of litigation is small as compared to the cost of correcting the alleged deficiencies. This is one of the reasons organisations get away with being illegal and irresponsible. In India, there has been much furor over Coke and Pepsi selling soft drinks laced with pesticide residues. But public memory is short-lived. The glamour associated with the advertisements for soft drinks has an overbearing effect on health and hygiene aspects associated with the consumption of these drinks.

Illegal & Responsible

Monsanto found itself in this cell in the cycle-safe incident. The FDA ruled their product "illegal", even though Monsanto felt socially responsible. Let us take an example of a firm being an equal opportunity employer. While this is socially responsible, having equal number of men as women poses a legal problem. In some countries, there is protective legislation that restricts the number of hours a woman works and not assigning strenuous jobs to women. Thus, these conflicts can be extremely challenging to manage.

One safety inspector ordered a change in the process in a meat-processing plant. Another inspector from the legal department cited this as hazardous and asked that this change be annulled. Both inspectors threatened the firm that non-compliance would invite penal action. How to manage such a conflict? One way could to be challenge the law. This is why some organizations prevent to fight it out in court because courts can only take actions on real-life situations and not hypothetical situations.

I recall my experience as a project manager in Castrol India Limited Mumbai, way back in 2004. Our Global Regional Technology Head Dr. Angela Strank had visited our research center on a scheduled visit. She found the spittathoons in the R&D center repealing. She was from UK and so obviously this was not acceptable. But the R&D center was on a land that was covered under the Factories Act, 1948 and we had to comply with this statute. As per Factories Act, 1948, spittathoons had to be strategically placed in the factory. But Dr Strank would have none of it. Eventually, we had to break the spittathoons and install new wash basins in the men's changing room. Of course, everything was well-documented.

In my last years in Castrol, I did experience this seemingly conflicting situation. Castrol India Limited was part of the wider British Petroleum PLC and BP had a HSSE policy (Health, Safety, Security and Environment) – that proclaimed – No accidents, No harm to people, No damage to environment. There were murmurs that BP did all this to save insurance premiums. BP did not believe in insurance. It believed in maintaining reserves for self-insurance. In the later years, their safety policy attracted much flak after the infamous oil spill in an American coast and the Texas fire accident in an oil refining unit.

Coming back to the subject, an organisation can also go to the court to buy time. We know that in India fighting court cases can take years and years and so this appears to be an ideal delay mechanism.

Irresponsible & Legal

Take the case of a diet pill that promised that a person taking the pill could eat virtually anything at any time and still lose weight. The claim was true. The product lived up to its claim. The primary active ingredient in this diet supplement was tapeworm larvae. These larvae would develop in the intestinal tract and be well-fed; the pill taker would, over a period of time, starve himself to death.

In another case, a drink was marketed that promised that the person consuming the drink would stay away from alcohol. Legally, the claim was valid. However, those who took the drink were so much in deep sleep as though they had reached a comatose stage. At that time, the product was not considered illegal. Take the case of cigarette manufacturing. Is this legal? Yes. But is it responsible? It is not. The same rubric would apply to those selling gutkas, beedis and other potentially harmful substances for consumption.

Some asthma drugs contained cocaine. But nobody would oppose them because no one knew the ill-effects. But, by and large, people are aware of the ill-effects of smoking. The companies do have a statutory warning. In a likewise manner, gambling is officially legal but is this socially responsible? In states like Kerala, the law permits operating of country liquor bars but is this socially responsible?

Thus, being a law-abiding citizen is not enough. Organizations may not violate a single law, but they may not be socially responsible.

Take the hypothetical case of a firm that is unable to meet the market demand. It is hard to ignore the competition. The firm is a market leader. The existing capacity in its manufacturing limit has been stretched beyond limits. There are two options. One option is that the firm could build another manufacturing unit but this would take another four years. It is possible to acquire an abandoned plant [brown field strategy] and continue with the production. But this installation may not be able to deliver a product that is of the same quality that is demanded by the market. If the firm decides to make an investment to modernize the plant, it may be difficult to justify this to the shareholders as this is only an interim arrangement.

In such a case, the firm decides to jury-rig the plant but it has to be keeping the community informed that this plant would operate only for four years. The easiest thing to do would be obvious – don't tell. But is this socially responsible? The firm may be within its legal framework to shut down this temporary arrangement after four years. The question is – Can society hold organizations to a standard higher than that demanded by law?

Legal & Responsible

Organization is a law abiding corporate citizen and engages in behaviors which exceed those required by law – voluntary socially oriented action. Even this proactive strategy is subject to criticism:

a. Such behavior amounts to a unilateral, involuntary redistribution of assets.
b. These behaviors lead to inequitable, regressive redistribution of assets.
c. Social responsibility is expensive and rarely subjected to cost benefit analysis.

Any action by manager outside the bounds of law can prove to be costly to business. These actions can reduce margins and can raise prices and make consumers suffer. Many CSR programs rob the poor to serve the rich. For example – an organization advertises its efforts but to defray the advertising expenses, they may increase the price of the product.

Some critics argue that CSR is responsibility of the government and delegating this to the organization means that the government is abdicating its responsibility.

Organizational accountability

An organization should be responsible for its impacts, to or for society, whether they are intended or not. Production of electricity through sulphurous coal leads to higher levels of air pollution but the costs of producing electricity have been artificially low. That pollution is a cost. Sooner or later, someone has to pay for the clean-up. But who has to pay?

The Indian government has recently reduced prices of diesel and petrol. In Bangalore, this means that the IT geeks have one more opportunity to go on frequent vacations. Not that they care for the diesel price hike. But the propensity for using a four wheeler is greatly enhanced due to the price cuts. Unfortunately, this price cut has not affected the lives of ordinary middle class citizens. The ticket prices of the metropolitan transport corporation have remained the same. So, this is an example of a case where the Government has subsidized the rich and penalized the poor.

Peter Drucker says that the expectations of society from a business firm in terms of meeting its CSR obligations are reflective of the firm's success. The larger the firms, the larger are the expectations. Success and influence may lead to a greater responsibility to society.

It is perfect to expect that organizations must do something beyond the dictates of the law in their quest for meeting the CSR targets. Often public relation exercises are disguised as CSR efforts and that can be really a travesty of justice.

True philanthropic efforts occur without fanfare. But if you look at the big picture, even if a firm does something in its own interest, so long as it benefits the community it is considered fine. This is almost like the utilitarian view of ethics. So long as something is done for the common good, one should not be bothered about the source.

To conclude, the four faces of CSR present a very interesting perspective about the relation between business, ethical influences as well as corporate social responsibility.

Reference:

Dalton, R.D. & Cosier, R.A. (1982). The Four Faces of Social Responsibility. *Business Horizons – Introduction to Management*, pgs. 39–47.

10 SOCIAL RESPONSIBILITY OF BUSINESS

CSR or Corporate Social Responsibility is the responsibility of decision makers to take actions which help society and serve own interests. CSR is important because

1. Business depends on society for inputs like money, men and skills.
2. Business depends on society for buying and selling in markets.
3. Business is greatly dependent on society for sustenance.
4. Every decision the businessman takes and every action he takes has got social implications.

What is corporate accountability?

It refers to accountability of business to shareholders, owners, government, employees, community and consumers. Social responsibility actions are constrained by cost, efficiency, relevance and scope.

10.1 ACKERMAN'S MODEL

In phase 1, a corporation's top managers learn of an existing social problem. CEO makes a written or oral statement of the company's policy towards it. In phase 2, company hires specialists or engages external consultants to study the problem and suggest ways of dealing with it. In phase 3, the company integrates the policy into its ongoing operations. Sometimes the implementation is slow and the company doesn't do anything until it is forced to take action either by public or by government. Ackerman advises that managers should act early in the lifecycle of any social issue in order to enjoy the largest amount of managerial discretion over the outcome. A business firm has to be responsive towards its employees.

Socially responsive strategy varies from rejection of idea to take proactive steps towards social actions. In the policy stage, the firm becomes aware of those parts of the environment to which it needs to respond and act. In the learning stage, the firm must learn how to tackle the problem and make the policy work. The next stage is the organizational commitment which refers to the institutionalization of the new social policy by the firm. The policies become so well accepted throughout the firm that they become part of routine. Social responsiveness evolves over time. Some firms are more flexible than others in responding to the external environment – especially with reference to social responsiveness. The next stage is Social audit.

A social audit is a systematic study and evaluation of a firm's social performance. Social audit leads to a report on the social actions of a firm.

The different socially responsive strategies are:

1. Rejection
2. Adversary strategy
3. Resistance strategy
4. Compliance strategy
5. Accommodation strategy
6. Proactive strategy

Rejection strategy is reasonable when unreasonable demands are placed on the firm. The firm denies taking any responsibility for taking action on a social issue. In adversary strategy, firm fights to avoid taking action. The firm takes action only when it is pressurized. In resistance strategy, the firm is slow to take action as it believes that the fulfilment of demands is beyond its scope of social responsibility. If a firm wishes to adopt a conciliatory mode, it complies with the government order. In accommodation strategy, a firm takes actions to accommodate demands. HP accommodates requests for advanced computers for universities. Even Coca Cola is socially active in the West. In proactive mode, firm takes actions to address potential future stakeholder demands. Polaroid has developed a program that groups chemicals it uses in its toxicity categories and develops plans to reduce or eliminate them.

Arguments for CSR

a. Changed public expectations.
b. It creates a better environment for business.
c. It improves public image.
d. It helps business to take action before Government decides to use regulation to trigger action.
e. As business has resources, it is in a better position to work towards achieving CSR.
f. A proactive approach always helps.
g. Social responsibility is morally right. Large corporations have a moral responsibility to help in solving social problems. It is a way of giving back to society and the nation.
h. Business also has civic duties and responsibilities.
i. Globalisation of business has made CSR a compulsory value addition to brand equity. More and more use of technology, internet has ensured that bad news spreads fast. So, if a company is involved in an accident in another country, it gets media coverage instantaneously in another country.

BP – Texas Oil Refinery fire
Exxon Mobil – Oil Spill in Alaska that killed fish
Bhopal Gas Tragedy
Endosulfan tragedy in Kerala
Hindustan Lever – Mercury contamination in Kodaikanal
Coca Cola causing ground water depletion in Kerala

These are some of the examples where corporate groups have been involved in actions that were detrimental to society and communities.

Arguments against CSR

- Business is more concerned with making profits. Economic efficiency crucial.
- Society must bear additional cost burden.
- Business managers may lack social skills.
- Government responsibility to look after social needs, business is paying corporate taxes anyway. Businessmen have no direct accountability to people.
- Can business afford to bear social overhead costs?

Barriers to CSR

1) The individual manager is unable to go against the diktats of his peers to incur any costs in implementing CSR.
2) An organization may not want to spend heavily on CSR at the cost of reducing its profits. It is answerable to its investors, banks, shareholders.
3) Industry may adopt an indifferent approach. Competitors may not show interest in social action. We have still not reached a stage, both in India as well as the globe, where we can proudly say that CSR has added distinct product/service differentiation. The truth is that no one takes this seriously. People view it with skepticism, doubt.
4) Every division has to act like a profit center to survive in the organization, so they are not keen to develop goals to meet corporate social responsibility.

11 AN OVERVIEW OF CSR RULES UNDER COMPANIES ACT, 2013

The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014.

With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities. The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure.

The net worth, turnover and net profits are to be computed in terms of Section 198 of the 2013 Act as per the profit and loss statement prepared by the company in terms of

Section 381 (1) (a) and Section 198 of the 2013 Act. While these provisions have not yet been notified, is has been clarified that if net profits are computed under the Companies Act, 1956 they needn't be recomputed under the 2013 Act. Profits from any overseas branch of the company, including those branches that are operated as a separate company would not be included in the computation of net profits of a company. Besides, dividends received from other companies in India which need to comply with the CSR obligations would not be included in the computation of net profits of a company.

The activities that can be undertaken by a company to fulfil its CSR obligations include eradicating hunger, poverty and malnutrition, promoting preventive healthcare, promoting education and promoting gender equality, setting up homes for women, orphans and the senior citizens, measures for reducing inequalities faced by socially and economically backward groups, ensuring environmental sustainability and ecological balance, animal welfare, protection of national heritage and art and culture, measures for the benefit of armed forces veterans, war widows and their dependents, training to promote rural, nationally recognized, Paralympic or Olympic sports, contribution to the prime minister's national relief fund or any other fund set up by the Central Government for socio economic development and relief and welfare of SC, ST, OBCs, minorities and women, contributions or funds provided to technology incubators located within academic institutions approved by the Central Government and rural development projects.

However, in determining CSR activities to be undertaken, preference would need to be given to local areas and the areas around where the company operates.

To formulate and monitor the CSR policy of a company, a CSR Committee of the Board needs to be constituted. Section 135 of the 2013 Act requires the CSR Committee to consist of at least three directors, including an independent director. However, CSR Rules exempts unlisted public companies and private companies that are not required to appoint an independent director from having an independent director as a part of their CSR Committee and stipulates that the Committee for a private company and a foreign company need have a minimum of only 2 members.

A company can undertake its CSR activities through a registered trust or society, a company established by its holding, subsidiary or associate company or otherwise, provided that the company has specified the activities to be undertaken, the modalities for utilization of funds as well as the reporting and monitoring mechanism. If the entity through which the CSR activities are being undertaken is not established by the company or its holding, subsidiary or associate company, such entity would need to have an established track record of three years undertaking similar activities.

Companies can also collaborate with each other for jointly undertaking CSR activities provided that each of the companies are able individually report on such projects. A company can build CSR capabilities of its personnel or implementation agencies through institutions with established track records of at least three years, provided that the expenditure for such activities does not exceed 5% of the total CSR expenditure of the company in a single financial year.

The report of the Board of Directors attached to the financial statements of the Company would also need to include an annual report on the CSR activities of the company in the format prescribed in the CSR Rules setting out inter alia a brief outline of the CSR policy, the composition of the CSR Committee, the average net profit for the last three financial years and the prescribed CSR expenditure. If the company has been unable to spend the minimum required on its CSR initiatives, the reasons for not doing so are to be specified in the Board Report.

Where a company has a website, the CSR policy of the company would need to be disclosed on such website.

12 CORPORATE SOCIAL RESPONSIBILITY IN INDIA – THE EMERGING DISCOURSE & CONCERNS

An incisive analysis about the CSR efforts of corporates raises pertinent questions. Are CSR efforts really required? What are the challenges in the implementation of CSR? The paper has not set any objectives as regards solutions for these problems. But the paper makes the reader think about the real merits of CSR in the context of frequent economic recessionary cycles in the post globalization phase. Is CSR driven by social agenda of business or profit agenda of business? In India, the previous Congress government made valiant attempts to provide a sense of legitimacy to CSR in India. The government went to the extent of revising the Companies Bill, but how effective are these measures?

CSR is considered as the commitment of business to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are beneficial for both business and development. At the international level, CSR is aggressively projected as a model of development which provides an alternative to state intervention. CSR is expected, in addition, to address issues of governance.

There is a need to clarify the role of CSR in view of the development challenges in India. None can deny that India has a multitude of problems – caste; inter religious strife, mal-nutrition, illiteracy, poverty, unemployment, pollution, regional disparities (for instance the Cauvery water dispute between Tamil Nadu and Karnataka) and religious fanaticism. To expect the business to do what the Government could not do all these years since 1947 is a preposterous idea. India has suffered from unequal and imbalanced development and a corrupt bureaucracy. Globalisation has further added to the woes in terms of increasing the gap between developing countries and developed countries.

Skeptics view CSR efforts as an attempt by the Indian government to iron out the problems that have resulted post globalization. In the last few years, multi-national corporations have become dominant and there have been governance, ethical and tax issues involving them.

Coca Cola plant shutdown in Varanasi is a case in point. Apparently, Coca Cola did not take the required regulatory approvals – then how did they operate the plant for so long?

Your guess is as good as mine. If Coca Cola talks about CSR, then it will be ludicrous. If a MNC can't do business in an ethical fashion, there is no point in the MNC talking about CSR.

The more is the global footprint of a multinational corporation, greater are the conflicts and contestations with regard to social justice and human rights. The problem is that the state, corporate and civil society looks at CSR from their respective vantage points. Post globalization, business houses are being looked up to provide solutions for those areas of public good where the state has not been able to do anything or is unwilling to do anything. In the era of globalization, new forms of regulation have become necessary to instill greater accountability and regulatory discipline.

NGOs have lapped up the opportunity to work with MNCs to fulfil the latter's CSR goals. The research paper highlights, albeit in a lucid manner, how the erstwhile government went to extreme levels to propagate the need for CSR efforts by corporates. The government has projected CSR as a concept that has been a part of Indian culture or showcasing it as an instrument of wealth redistribution. Manmohan Singh went to the extent of comparing CSR efforts in India with the trusteeship concept of Mahatma Gandhi.

The paper has vividly delineated the risks of attempting to correlate the trusteeship concept with CSR. The former PM steadfastly refused that CSR was a Western management concept and called it (CSR) a part of India's cultural heritage. The paper points out the ideological differences between the two concepts. The paper also criticizes this effort saying references to Gandhian model have been made with the sole intention of gaining unquestionable legitimacy.

The paper also highlights the contradictory moves by the Government. On one hand, it wants to force corporates to contribute to social responsibility by amending Companies Act. The amendment to the proposed Companies Bill, 2011 is self-defeating.

CSR may be touted as a marriage of social and business goals. But in the era of consumerism, all the talk about sustainable development ends up being rhetoric with little concrete action. The problem is that the CSR guidelines are silent on the rights of communities. CSR activities are not directed towards where actions are needed to improve the social and economic fabric of India. Sports, cultural activities, energy conservation, pollution, infrastructure development, climate change are pressing issues. When we have MNCs contributing to infrastructure development as part of CSR, this can generate livelihoods and support cottage industries and empower the communities. The once flourishing toy business in Chennapatna did not have any takers when they had to fight the invasion of Chinese toys in the Indian market.

For example – automotive companies are responsible for adding to the environmental pollution, but how many of them are actually involved in a responsible CSR effort? The truth is that the brand CSR is profit driven. CSR activities can't be delegated. The Government cannot absolve itself of the responsibility.

The proposal by FICCI to demand tax breaks for CSR efforts defeats the purpose of CSR. We know the fragility of the tax system in India. The Vodafone-retrospective tax controversy in India is a case in point. There have been malpractices galore in transaction cost model adopted by MNCs in India. The scope for abuse/misuse of the CSR route to get tax breaks is immense. In India, the perception is that the government has failed in its social agenda and is trying to pass the buck to the corporate sector.

The paper is interesting to read and has analyzed a complex problem in an endearing fashion. The paper is also blunt in that it says that for both the government and the corporate world, CSR is a business strategy. But the development issues in India are too complex to be treated as business projects.

Though the laws in India are comprehensive, business community feels that CSR guidelines are above these laws. Yet, it is a fact that statutory violations abound in India. CSR is not a panacea for all developmental problems in India and neither can it be a one-stop solution for addressing all such problems. If CSR is used to counter the negative effects of globalization, then the communities become more dependent on such funding. How will this impact their lives when there is a downturn in the economy? Thus, when we talk about CSR in India, politics gains more supremacy over statesmanship.

Self-interest of each actor precedes the CSR agenda. CSR efforts have now become necessary diversionary tactics to appease certain sections of society by the government and thus abdicate their own responsibility. The interpretation of CSR in India depends on who is handling it. That is where the problem lies.

Reference:

Sharma, Seema (2013). CSR in India – The Emerging Discourse & Concerns, The Indian Journal of Industrial Relations, 48(4), 582–596.

13 INDIA'S DEMOGRAPHIC DIVIDEND

Demographic dividend refers to the growth in an economy that is the resultant effect of a change in the age structure of a country's population. The change in age structure is typically brought on by a decline in fertility and mortality rates.

In the Economic Survey for 2012–13, a chapter has been dedicated for jobs creation. The report predicts that nearly half the additions to Indian labour force over the period 2011–30 will be in the age group 30–49. India will be expanding its most productive cohorts even while developed countries find that the numbers of younger generation are getting contracted.

Demographic dividend has now started paying off for India. India's youth bulge is now sharpest in the age group of 15–24 years. The gap between the oldest and the youngest is slowly narrowing down. As compared to the ageing Western population, India's population is getting younger by the day. Census records show that India's working age population [15–64 years] is now 63.4% of total. It was 60% in 2001.

Fertility rates have fallen in urban areas. Rural India however is getting younger than urban India. Census numbers show that the proportion of children in the 0–4 and 5–9 age groups has fallen in comparison to that in 2001. The number of children in the age group of 10–14 years has fallen as many families are adopting the one-child way. Whether the growing youth bulge has the right skill sets required for a work force in the knowledge era is debatable.

Demographic dividend refers to the freeing up of resources for a country's economic development and the future prosperity of its populace as it switches from an agrarian to an industrial economy. In the initial stages of this transition, fertility rates fall, leading to a labor force that is temporarily growing faster than the population dependent on it. All else being equal, per capita income grows more rapidly during this time too.

While the world is aging, India is growing younger. An IMF report states that India's demographic transition is underway and the age structure of the population is likely to evolve favorably over the next two to three decades.

This means that India will be one of the few countries globally with a working age population that exceeds its number of retirees. More working age people will mean more workers, especially in the productive age groups, more incomes, more savings, more capital per worker and more growth. This demographic dividend could add 2% points to per capita GDP growth per annum.

But there is a twist to the tale. Fall in unemployment levels could mean that an increasing share of the younger population is pursuing higher education opportunities. More and more Indians are quitting the agricultural sector that has been plagued with challenges of low productivity. Thus those dependent on agriculture would move to higher productivity jobs in industry or services.

Even though there are more number of people who can join manufacturing, India's manufacturing sector has been stagnant in its growth. The tendency of industry to recruit short term, contract labour rather than recruit workers for long term employment is also a challenge.

The Government has to improve agricultural productivity and hasten the pace of productive jobs creation in organized manufacturing and services. Younger Indians have to develop the right skill sets to become employable.

The Government has to invest in quality infrastructure, expand access to finance and initiate efforts to bring in mechanization in agriculture. Industrial labour force has to be upgraded. Labour reforms are needed to support industry. Regulation should be tweaked without affecting the protection for workers and the minimum safety net required for them. Compliance must be made easy. There should be ease of exit and the Government has to give a thrust for expansion.

Up to 1980s India's huge population was a drawback. But now it has become a blessing as increase in manufacturing capacity since globalization has increased the demand for younger workers. The present Government has to work to achieve a growth of 8-9% per year else it will be a great opportunity missed.

Finance Minister Arun Jaitley while announcing a plan recently to launch the National Skills Mission through Skill Development and Entrepreneurship Ministry, referred to the demographic advantage the country is presently having over many others.

According to a Report of the Registrar-General issued in 2007, working age-group (15–59 years) will increase from 57.7% in 2001 to 64.3% by 2026. Child dependency is expected to lessen considerably from 35.3% in 2001 to 27.7% in 2016. Age structure of the population is such that the bulge seen in the working age-group stands in marked contrast to the ageing population of many western countries.

Jaitley issued a statement which betrays a mixture of positive and negative elements hidden in the age classification of India's population. He stated: "India is one of the youngest nations in the world with more than 54% of the total population below 25 years of age. Yet today, less than 5% of our potential workforce gets formal skill training to be employable and stay employable".

The Deen Dayal Upadhyaya Grameen Yojana was launched to enhance the employability of rural youth which is identified as the key to unlocking India's demographic dividend. In the current budget, a sum of Rs.1, 500 crore is allocated to this programme. Changes in the population structure are a continuing phenomenon. Population control initially increases the ratio of youth population.

With decline in mortality rate, it will in its course increase the proportion of the aged. Western countries reaped the demographic dividend early in the 20th century and are now undergoing the problem of dwindling youth population. Many East Asian countries – South Korea, Singapore, and Taiwan, in particular – began to experience it in the late 20th century.

It led to rapid economic growth as it was accompanied with necessary facilities for development. China joined this group by 1980. India is presently having this population advantage which is likely to last till 2045. Demographic dividend is not repeated in any country. India has to move fast before this window of opportunity closes. The International Monetary Fund noted that substantial portion of economic growth in India since 1980s is due to demographic changes in the country.

Demographic dividend, which comes with demographic transition causing change in the age-structure of the population, does not yield concrete dividend unless it has the potential to increase economic growth and productivity. The dividend does not accrue automatically as a matter of course, but has to be produced consciously by cultivating and utilizing the full potential of the entire working population.

As Jaitley has observed, the benefits of demographic dividend will flow only if our population is healthy, educated, and properly skilled. Demographic change is a principal cause behind urbanization, and internal and international migrations.

These have direct and significant impact on economic and social development of the nation. Availability of resources for development, choice of economic and employment patterns, and types of social sector activities depend on population structure. The demographic advantage, if utilized carefully with educational, vocational developments, and with necessary ethical values, will take the country forward.

References

http://www.thehindu.com/news/national/demographic-dividend-at-its-peak/article5102093.ece

http://www.thehansindia.com/posts/index/Hans/2015-03-11/Reaping-demographic-dividend/136661

14 DISINVESTMENT

Disinvestment is the action of an organization or government selling or liquidating an asset or subsidiary. It is also known as "divestiture". It is a reduction in capital expenditure, or the decision of a company not to replenish depleted capital goods. A company or government organization will divest an asset or subsidiary as a strategic move for the company, planning to put the proceeds from the divestiture to better use that garners a higher return on investment.

One of the major issues in development economics and policy is that of the role of the State vs. Market. India is a mixed economy where the public sector plays an important role. In 1991, the national economic policy underwent a radical transformation. The overhaul led to opening up the Indian economy for foreign participation. IIT-Bombay studied the various aspects of new economic policy like financial sector reforms, fiscal implications of reforms and of globalization.

Suggestions have been varied. One school of opinion says that the government must not enter those areas where private sector can perform better. Market driven economies are more efficient than state-planned economies. State should play the role of a regulator. Government resources must be deployed for social development and progress.

The functioning of PSUs has been marred by continuous dip in productivity, poor quality of goods, excessive manpower, inadequate human resource development and low rate of return on capital. Between 1980 and 2002, the average rate of return on capital employed by PSUs was about 3.4% as against the average cost of borrowing which was 8.66%. Disinvestment of PUSs has therefore been proposed.

Disinvestment involves the sale of equity and bond capital invested by the government in PSUs. It also implies the sale of government's loan capital in PSUs through securitization. However, it is the government and not the PSUs who receive money from disinvestment.

The fixation of share/bond price is an important aspect of disinvestment. Now, the Disinvestment Commission determines the share/bond price. Disinvested shares are listed, quoted and traded on the stock market. Indian and foreign financial institutions, banks, mutual funds, companies as well as individuals can buy disinvested shares/bonds.

Disinvestment is generally expected to achieve a greater inflow of private capital and the use of private management practices in PSUs, as well as enable more effective monitoring of management discipline by the private shareholders. Such changes would lead to an increase in the operational efficiency and the market value of the PSUs. This in turn would enable the much needed revenue generation by the government and help reduce deficit financing.

However, to date the market experience has been otherwise. The large national budgetary deficit on revenue account has been increasing. The government has not used the disinvestment proceeds to finance expenditure on capital account; i.e. the disinvestment policy has resulted in capital consumption rather than generation. Administrative costs of the disinvestment process have also been unduly high.

The main objectives of disinvestment

- Reduce financial burden on government
- Improve public finances, introduce competition
- Improve economic growth
- Modernize and upgrade public sector enterprises
- Create new assets
- Put national resources and assets to optimal use

Problems associated with Disinvestment

A number of problems and issues have affected the disinvestment process. The number of bidders for equity has been small not only in the case of financially weak PSUs, but also in that of better-performing PSUs. Besides, the government has often compelled financial institutions, UTI and other mutual funds to purchase the equity which was being unloaded through disinvestment. These organizations have not been very enthusiastic in listing and trading of shares purchased by them as it would reduce their control over PSUs. Instances of insider trading of shares by them have also come to light. All this has led to low valuation or under pricing of equity.

In many cases, disinvestment has not really changed the ownership of PSUs as government has continued to retain a majority stake in them. Equity in PSUs essentially belongs to people. Often politicians conveniently forget this. Inadequate information about PSUs has impeded free, competitive and efficient bidding of shares and a free trading of those shares. Also, since the PSUs do not benefit monetarily from disinvestment, they have been reluctant to prepare and distribute prospectuses. This has in turn prevented the disinvestment process from being completely open and transparent.

Total disinvestment of PSUs would naturally concentrate economic and political power in the hands of the private corporate sector. While the creation of PSUs originally had economic, social welfare and political objectives, their current restructuring through disinvestment is being undertaken primarily out of need of government finances and economic efficiency. Lastly, to the extent that the sale of government equity in PSUs is to the Indian private sector, there is no decline in national wealth. But the sale of such equity to foreign companies has far more serious implications relating to national wealth, control and power.

For a disinvestment effort to cater to wider public interests shares have to be correctly valued and the disinvestment proceeds must be appropriately deployed.

Main issues concerning public sector disinvestment in India

In a mixed economy such as India, the public sector had played a huge role. Disinvestment can achieve a greater inflow of private capital and the use of private management practices in PSUs. This also leads to more effective monitoring of management decisions in PSUs. This increases the PSU's operational efficiency and the market value. The government can generate revenue and indulge in deficit financing. But in India, the situation/market experience has been otherwise. The national budgetary deficit on revenue account has been increasing. The government has not used the disinvestment proceeds to finance expenditure on capital account; i.e. the disinvestment policy has resulted in capital consumption rather than generation. Administrative costs of the disinvestment process have also been unduly high.

Problems associated with Disinvestment

The number of bidders for equity has been small not only in the case of financially weak PSUs, but also in that of better-performing PSUs. The government has often compelled financial institutions, UTI and other mutual funds to purchase the equity which was being unloaded through disinvestment. Further, in many cases, disinvestment has not really changed the ownership of PSUs, as the government has retained a majority stake in them. An important fact that needs to be remembered in the context of divestment is that the equity in PSUs essentially belongs to the people. As PSUs do not monetarily benefit from divestment, they are reluctant to prepare documents like prospectuses, so transparency on the divestment process has been low.

The performance of public sector in India has not been satisfactory. The nine high performing public sector enterprises (navratnas) account for nearly 75% profits of all public sector enterprises. PSUS made low profits because of the price policy, lack of autonomy, underutilization of capacity, problems related to planning and construction of projects, problems of labour, personnel and management.

In case of Maruti Suzuki and Balco disinvestments led to the transfer of control in private hands, but in case of public sector banks and oil companies, disinvestments resulted in issue of shares through IPO route to general public and financial institutions and therefore majority stake and control remained with the government.

Standard methods of public sector disinvestment

Divestment is the action of an organization or government selling or liquidating an asset or a subsidiary. The methods of divestment in India are:

Net Asset Method – This indicates the net asset of the enterprise as shown in the books of accounts. It shows the historic value of assets. It does not reflect position of profitability.

Profit earning capacity value method – the profit earning capacity is based on the profits actually earned or anticipated.

Discounted cash flow method: The future incremental cash flows are forecast and discounted into present value by applying cost of capital rate. The method includes the intrinsic value of the firm.

14.1 POLICY FOR NAVRATNAS

IOC, ONGC, HPCL, BPCL, IPCL, VSNL, BHEL, SAIL, NTPC. LATER, GAIL & MTNL were added. The PSUs were given the freedom

- To incur all capital expenditure without any monetary ceiling.
- To raise debt from domestic or international markets.
- To enter into technology joint ventures and wholly owned subsidiaries with equity investment up to Rs.200 crores.
- To restructure the board by inducting part time directors.
- Establish profit centers, open offices in India and abroad.
- Structure and implement schemes relating to human resource management.

14.2 SUGGESTIONS

Government deserves to get good pricing. The only problem is government, unlike the private sector, is not able to project its PSUs in the right perspective in garnering funds through a disinvestment program. These PSUs are endowed with huge land bank, infrastructure network, people with skills – of course this can be further improved – good internal controls with documentation at every stage of their operations.

All the Navratna and mini-Navratna companies certainly come under good brand identity. These are not fancy companies, unlike some of the private sector companies who try to mobilize funds and suddenly disappear. Certainly, PSUs deserve more price than their counterparts in the private sector.

Government should make all-out efforts to make the disinvestment program a success. The market will embrace PSUs if the government puts in marketing efforts before planning for IPOs. The government has to explore opportunities in the market and grab a good price.

Disinvestment in a listed public sector company can either be done by follow on public offer (FPO) or the recently introduced offer for sale through stock exchange or auction method. FPO is a time-consuming and expensive method, while auction method is very economical and can be completed in a very short period. ONGC was the first company where auction method was used for disinvestment.

15 DEFLATION

The Glossary of Economics Terms defines deflation as occurring "when prices are declining over time. This is the opposite of inflation; when the inflation rate (by some measure) is negative, the economy is in a deflationary period."

Inflation occurs when money becomes relatively less valuable than goods. Deflation can occur because of a combination of four factors:

1. The supply of money goes down.
2. The supply of other goods goes up.
3. Demand for money goes up.
4. Demand for other goods goes down.

Deflation generally occurs when the supply of goods rises faster than the supply of money, which is consistent with these four factors. Technological improvements have allowed the supply of computers to increase at a much faster rate than demand or the supply of money.

Most economists agree that deflation is both a disease and a symptom of other problems in the economy. James Paulsen describes "good deflation" as occurring when businesses are "able to constantly produce goods at lower and lower prices due to cost-cutting initiatives and efficiency gains".

"Bad deflation" is a more difficult concept to define. Paulsen simply states that "bad deflation has emerged because even though selling price inflation is still trending lower, corporations can no longer keep up with cost reductions and/or efficiency gains." So "bad deflation" is caused by a relative decline in the money supply and "good deflation" is caused by a relative increase in the supply of goods.

Luskin says that the true problem with deflation is that it causes problems in business relationships: "If you are a borrower, you are contractually committed to making loan payments – while at the same time the asset you bought with the loan to begin with is declining in nominal price. If you are a lender, chances are that your borrower will default on your loan to him under such conditions."

During Deflation, consumers are discouraged from buying expensive items like automobiles or homes because they know those things will be cheaper in the future. When prices fall simply because people have no desire to buy – leading to a vicious cycle of consumers postponing spending because they believe prices will fall further – then businesses can't make a profit or pay off their debts, leading them to cut production and workers, leading to lower demand for goods, which leads to even lower prices."

16 CHANGES IN ECONOMIC CLIMATE IN INDIA

Indian economy underwent a major transformation after the policy change in 1991. This new model of economic reforms that swept the nation is called as LPG or Liberalization, Privatization and Globalization. The main goal of this policy change was to put India on the global radar. The chain of reforms that took place with regards to business, manufacturing and financial services industries targeted at lifting the economy of India.

Liberalization refers to the slackening of government regulations. The economic liberalization in India denotes the continuing financial reforms which began since July 24, 1991. Privatization refers to the participation of private entities in businesses and services and transfer of ownership from the public sector (or government) to the private sector as well. Globalization stands for the consolidation of the various economies of the world.

LPG and the Economic Reform Policy of India

Following its freedom on August 15, 1947, the Republic of India stuck to socialistic economic strategies. In the 1980s, Rajiv Gandhi, the then Prime Minister of India, started a number of economic restructuring measures. In 1991, the country experienced a balance of payments dilemma following the Gulf War and the downfall of the erstwhile Soviet Union. The country had to make a deposit of 47 tons of gold to the Bank of England and 20 tons to the Union Bank of Switzerland. This was necessary under a recovery pact with the IMF or International Monetary Fund.

Consequently, the then Prime Minister of the country, PV Narasimha Rao initiated groundbreaking economic reforms. However, the Committee formed by Narasimha Rao did not put into operation a number of reforms which the International Monetary Fund looked for.Dr Manmohan Singh, the present Prime Minister of India, was then the Finance Minister of the Government of India. He assisted. Narasimha Rao and played a key role in implementing these reform policies.

Bringing in the Security Regulations (Modified) and the SEBI Act of 1992 which rendered the legitimate power to the Securities Exchange Board of India to record and control all the mediators in the capital market. Doing away with the Controller of Capital matters in 1992 that determined the rates and number of stocks that companies were supposed to issue in the market.

Launching of the National Stock Exchange in 1994 in the form of a computerized share buying and selling system which acted as a tool to influence the restructuring of the other stock exchanges in the country. By the year 1996, the National Stock Exchange surfaced as the biggest stock exchange in India. In 1992, the equity markets of the country were made available for investment through overseas corporate investors. The companies were allowed to raise funds from overseas markets through issuance of GDRs or Global Depository Receipts.

Promoting FDI (Foreign Direct Investment) by means of raising the highest cap on the contribution of international capital in business ventures or partnerships to 51 per cent from 40 per cent was a major step. In high priority industries, 100 per cent international equity was allowed. Cutting down duties from a mean level of 85 per cent to 25 per cent, and withdrawing quantitative regulations were other significant measures. The rupee or the official Indian currency was turned into an exchangeable currency on trading account.

Changes in Economic Policy in India

CEOs are convinced that under PM Narendra Modi's leadership, an economic revival is around the corner. CEOs of large enterprises are planning to make fresh investments and also stepping up hiring. 6–8% GDP growth expected in the next three years. Game changers in terms of policy changes are

- Decision on FDI, insurance, defense.
- Prioritization of job creation and skill instead of dole economics.[1]
- Refocus on highways and rural roads.
- Infrastructure rollout through ports, railways and smart cities.
- Emphasis on manufacturing exports.

The PM has been making gradual, incremental changes instead of radical changes. No radical reform signals on land acquisition, labour laws, anti inflation strategy, fiscal strategy, subsidies or privatization. The present government has piggy backed on Congress regime's Aadhaar scheme, Financial inclusion, public sector bank dominance, public private participation in infrastructure, higher spending on health and sanitation and food security.

Food Security

The World Food Summit of 1996 defined food security as existing "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life". Food security is built on three pillars: Food availability: sufficient quantities of food available on a consistent basis. Food access: having sufficient resources to obtain appropriate foods for a nutritious diet. Food use: appropriate use based on knowledge of basic nutrition and care, as well as adequate water and sanitation.

Modi's biggest priority seems to be systemic change and structural reorientation of the government. Dismantling Planning commission, merging smaller ministries, pragmatic programs for poverty alleviation and effective governance are on Modi's growth agenda for Indian economy.

As regards foreign policy, the "neighborhood first" policy so that India becomes a leader in South Asia is a step in the right direction. Congress government had the "US first" policy but BJP has chosen to adopt a policy of "India first" policy and so they have attempted to build bonds with neighboring economies like Nepal & Bhutan. Attempt to revive SAARC efforts is a step in the right direction.

(SAARC stands for South Asian Association for Regional Co-operation). SAARC nations are Afghanistan, India, Bangladesh, Bhutan, Maldives, Nepal, Pakistan and Srilanka. Japanese and Koreans are more eager to do business with India than China. Even Chinese are interested in investing in India. Chinese mobile company wants to start a R&D centre in India at Bangalore where they want the local team to provide engineering solutions for the domestic market.

India has much to offer to the SAARC nations including management education, financial acumen, technology and a history of creating civil institutions, including a strong central bank. SAARC's intra-region trade could increase from its current $17 billion annually to $60 billion in a short period of time.

In the future, there is a possibility of MESA [Middle East South Asia] region. This region is the largest in the world in terms of population and natural resources. There are huge demands for infrastructure, manufacturing, consumer goods, health care and education. With political stability and regional economic co-operation, ME countries may be interested in investing in India. What is needed is trust among the nations, reduction of bureaucracy, transfer of technology and persuading foreign investors to think in regional terms to achieve scale. MNCs should think in advance about building relationships and people skills in this region. Trade and FDI build nations and regions.

The PM also attended the BRICS summit and saw the launch of the BRICS bank. The BRICS bank will be headquartered in Shanghai but India will head it first. He wants India to be a global manufacturing hub and a big exporter. Despite FDI being encouraged in defense (Greenfield projects), the Government does not want the domestic retail sector to suffer on account of competition from foreign retailers.

India's foreign policy

- Change in foreign policy [it won't be business as usual].
- India to engage with US and China on more equal terms.
- Improved ties with Russia, Japan.
- Better economic partnership in South Asia.
- Poverty alleviation main agenda.

Other efforts by the government under Prime Minister Narendra Modi

- FDI in defense, insurance, railways but a decision not yet taken on FDI in multi brand retail.
- Chase black money & tax evaders.
- Setting up a SIT – Special Investigation team.

- Relaunch of Kisan Vikas patra that can bring black money into the official financial channels.
- A single global standard for automatic exchange of financial account information by various countries including India and Switzerland could change the landscape completely for tax evaders.
- Government has decided to stay with the fiscal consolidation plan drawn up by the erstwhile Congress regime.
- High fiscal deficit [government is creating extra demand through borrowed funds] is one of the structural reasons for high inflation.
- Causes of inflation were
    - Stagnation in productivity
    - Rise in cost of cultivation
    - Changes in food consumption pattern
    - Inefficient distribution

India is poised for GDP growth acceleration based on anticipated policy changes, robust investor sentiment and favorable demographics. Inflation will curtail domestic investment and consumption and affect India's international competitiveness. In Nov 2013, CPI was

11.2% but in July 2014, it reduced to 8%. India's CPI inflation is still high because of food price inflation.

On the supply side, ability of Indian agriculture to meet the raising demand for food is hampered by poor irrigation, weak rural infrastructure, sub optimal fertilizer use, conversion of agricultural land for alternative use and rising rural wages. The public distribution system in India has also been inefficient defeating the very purpose for which it was created.

In order to sustain growth in the long term, the government has produce more food and distribute it more efficiently. The Government cannot do much about demand as it is bound to grow.

Actions by Government

1. Food monitoring by the state governments.
2. Price stabilization fund to lower market prices.
3. Harsher penal actions against hoarders.
4. Plan to increase spending on rural infrastructure.
5. Review fertilizer subsidies.
6. Restructure the Food Corporation of India.
7. Need more investment in cold storage facilities.

Thus increase in agricultural productivity and efficient public distribution will help reduce inflation due to overcoming of supply side issues.

Other plans by the Modi Government

1. Improve air connectivity.
2. Clearing proposals for launching new airlines.
3. Lack of funds and over regulation has marred the prospects of infrastructure growth in India; the Government has to look into this. Poor infrastructure reduces 2% points from India's GDP.
4. Plan to form a committee with roads, railways, aviation, environment ministries as members to reduce red tape. However the funding issue of road projects needs to be looked into immediately.
5. Government is working on a legal framework allowing failed start-ups to shut shop, besides other measures.

The Government's efforts to promote entrepreneurship in India

1. During the last budget, government has initiated a Rs.10000 crore fund for early stage ventures.
2. Rs. 200 crore fund for Dalit entrepreneurs to be managed by Industrial Finance Corporation of India.
3. Start ups can create national wealth and employment opportunities and the Indian Government is well aware about this.
4. Amazon has infused fresh capital into their India operations to expand their e-commerce business.
5. Success and growth of Flipkart has encouraged other entrepreneurs to try their luck buoyed by the stable government at the centre.
6. Lots of value creation in companies like Makemytrip.com.

Challenges for startups

India scores very low on ease of doing business. As Section 56 deters local investors many investors are registering their start ups abroad. Government levies a 20% capital gains tax on investments made in private ventures for investments up to 36 months. Under section 56 of IT act, angel investments are liable to be taxed as income in the hands of the startup receiving the capital.

Is doing business in India tough? CEOs of MNCs in India give their opinion

- The confidence of global investors in India's economy is still not high.
- Honda's global chairman F Ike said that doing business in India remains difficult and processes in the country are complicated and burdensome.
- Ike said that poor infrastructure and uncertain tax regime hurts the business climate in India.
- British telecom giant Vodafone and European oil major British Petroleum had similar views.
- BP expressed frustration over the delay in gas price hike which was holding up the proposed investment by the company.
- Vodafone has complained that slower government clearances complicate matters in India.
- Indian government has to take steps to make the country an attractive destination for foreign investors and improve the business environment for investments.

- Component suppliers to automakers encounter problems in getting business permits and having their paperwork done.
- Many of the processes related to the setting up of factories are complicated and require simplification.
- Tax regime in India is also cumbersome according to the CEOs of many MNCs.
- The Honda chief sought an early rollout of goods and service tax.
- However Narendra Modi's visit has enthused Japanese businessmen.
- BP Group's $7.2 billion investment in 2011 was the largest foreign investment in the energy sector in India. The delay in decision about gas price hike has affected their investment plans in India to the tune of $4 billion.

16.1 INDIA'S NEW INDUSTRIAL POLICY IN DETAIL

Japan led the way after World War II, till rising wage costs in the 1960s led to the shift of low-value manufacturing to other regional economies in decadal waves that pulled millions off the farm and into the factory. Most Asian countries used industrial policies to improve the prospects of manufacturing sector. These policies have now made a comeback due to Western financial crisis. World Bank chief economist Justin Lin says it is time to rethink development policy, with the state playing an important role even though “the market is the basic mechanism for effective resource allocation”.

There are clear signs that there has been a change in the attitude of the Indian government as well: Industrial policy is making a quiet comeback in India. The contours of the new industrial policy seem quite different from the sort of policies followed by Nehruvian India and other Asian countries in their early stages of development. The new industrial policy that is emerging will not have much of the old statist and protectionist policy mix: protection through high import tariffs, preferential access to bank funds, promotion of national champions and resource allocation by a government agency.

There is a clear belief that the country needs an explicit industrial strategy. The government will choose which industries need encouragement and design suitable policies. Physical and social infrastructure will also be developed, a process that should lower transaction costs and raise the rates of return on investment. Agenda: Growth in quality jobs, greater strategic depth in capital goods like power and telecom equipment, keeps in mind defense and security issues.

The policy has to be flexible. Otherwise economy will stagnate. Technical challenge: The Indian government agencies have to understand India’s factor endowments and comparative advantages. In an economy that is changing rapidly, comparative advantage also changes. Technology cycles are getting shorter and shorter.

16.2 CRONY CAPITALISM

Focus of industrial policy has to remain on sectors than companies. Close collaboration between productive sectors and policymakers. The core goal of the emerging industrial policy is interesting: job creation. The only path to truly inclusive growth is the creation of high-productivity jobs that will allow millions to escape poverty. The Asian experience tells us that no country can banish mass poverty unless it creates millions of new jobs a year in manufacturing and services. India needs around 10 million such new jobs every year. Our current pattern of development has not created enough quality jobs and that this should be “the highest national imperative”. Economic growth has already accelerated and public policy will have an important role to play in deciding down which path India goes in the future.

How is FDI important for developing countries?

Foreign investment is seen as filling the gap between the domestically available supplies of savings, foreign exchange, government revenue and human capital skills and the desired level of these resources necessary to achieve growth and development targets. Export earnings fall short of target. This is called as deficit or gap.

An industrial enterprise established by a foreign company gives birth to several other enterprises which supply inputs to parent company. Every dollar of FDI increases domestic investment by 80% of the amount of FDI. FDI can generate healthy competition in host countries. When FDI is in the form of setting up green field ventures, the result is creation of new enterprises, adding to the number of players in the market.

Location specific advantages attract FDI. Examples – availability of natural resources like oil, minerals, which are by nature specific to certain countries. So, many businesses are keen to invest in countries with rich natural resources via the FDI route. Example: Hyundai, the automobile giant from South Korea, chose Chennai for its car manufacturing plant. Skilled labour at low wages, location of auto part manufacturers like Wheels India, Brakes India, Sundaram Brakes, Bimetal Bearing and India Pistons in and around Chennai, guaranteed power supply, cheap land, proximity to sea port have attracted Hyundai to Chennai.

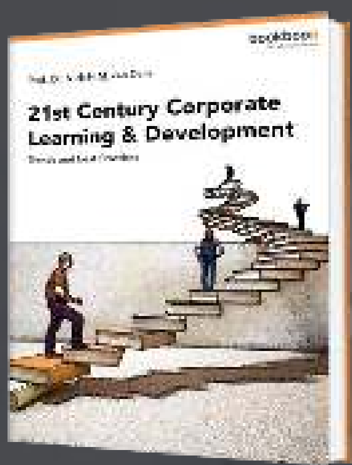
To sum up

FDI helps GDP growth in developing countries. FDI acts as a significant source of tax revenues for the host country. Consumers get a wide variety of choice of products. Domestic industries get benefit of advanced technology. FDI generates employment opportunities in developing countries, which increases disposable incomes of population and therefore spending power, which triggers growth in other sectors. Example – people may want to buy an asset, land, home, car, two wheeler, people can take bank loans as they have the repayment capability, so banking sector becomes vibrant. Services get a boost. Thus, FDI successfully triggers chain reaction in host countries and improves their economic prospects.

17 IMPACT OF LEGISLATURE, EXECUTIVE AND JUDICIARY ON BUSINESS

The influence of political environment on business is enormous. A stable, honest, efficient and dynamic political system is essential for economic growth. Democracy requires every citizen to take part in governance. In totalitarianism, individual freedom is completely subordinated to the power of authority of State. Between democracy and totalitarianism, democracy is preferable for economic growth. Democracy guarantees people's participation. The right leader being elected, democracy can ensure stability, security, dynamism and purposefulness.

Legislature is most powerful political institution vested with powers like policy making, law making, budget approvals. The influence of legislature on business is considerable. Legislature decides what type of business activities the country should have, who should own them, what should be the size of their operations, what should happen to the earnings.



Executive also called government or state – in India, we have a federal set up with powers being divided between national and state governments. A typical business person interacts more with the executive.

Business is responsible to Government. They must obey the laws of the land and at times go beyond obeying the laws and regulations. It should look to the government for support and guidance. Businesses should pay taxes on time so that government gets revenue, assisting government in social welfare schemes like drought relief, education, tree planting. If political leaders are making certain decisions that are not in the interest of business, the same must be highlighted by business leaders so that the government can take corrective action. Businesses should also take part in Government contracts like housing projects, oil pipelines, turnkey projects. Business leaders serve on advisory boards constituted by the government. Political participation is a subject matter of debate. But in India, several business leaders like Mukesh Ambani, Narayana murthy, Rahul Bajaj, Sunil Mittal, Deepak Parekh, KV Kamath, Chanda Kochar – all of them are well connected to politics. Disturbingly, some business leaders are exerting greater influence on political decisions that might impact business. It is also alleged that political leaders expect contribution to party funds from business leaders. Nandan Nilekani is one such leader who was picked up from Infosys to lead a congress backed project called "Aadhaar". This project aims to give a UID or Unique Identification Number to all Indian citizens so that subsidies can reach every nook and corner of our large country. JRD Tata always stayed out of politics. GD Birla was open to linkages with politics. To each his own. Despite this, the fact remains that today Tatas are also more politically connected. Nexus between business and politics is an established fact. Corporate contributions to political parties have now been legalized in our country.

No business can survive without the help of Government. Government is responsible for framing and enforcing laws. The Government has to provide a system of courts for adjudicating differences between business firms, individuals or government agencies. Government is responsible for maintaining order, protecting persons and property. Government has to regulate money and credit and it has to guard the rupee against foreign currencies. Government has to protect economy against booms and busts, but the irony is that increased globalization is leading to frequent recessionary cycles. In 2008, India was not affected by recession but in 2012, India is experiencing the tell tale effects of a recessionary economy. For almost half of 2012, Indian politics was dominated by policy paralysis with political rivalries and major scandals that were unearthed one after the other. Government has to provide infrastructure facilities, publish information that can be used by business firms to understand economic and business activity. E.g. Information about commerce and industry, agriculture, labour, health, education and banking must be made available. The Government has established SISI (small industries services institute) to support small scale sector. Small and Medium enterprises (SMEs) are firmly getting entrenched in the Indian business landscape. The Khadi

Gram Udyog was established to support cottage industries. Loans to small scale industry at concessional rates are given by Government.

In India, there was a quota system earlier which has now changed thanks to liberalization of our economy post 1991. Some government companies compete with private players – example – telecom. Government has also established research establishments. Granting licenses, conducting inspections to protect the interests of the common man – these are the other duties of Government. Tariffs and quotas are used by Government to protect the domestic industry from foreign competition. Government has introduced lots of reforms in the recent past – opening up insurance sector, greater FDI in insurance, FDI in pension, FDI in retail. Though it appears that reforms have reduced importance and role of Government, in reality, it is not so. Industrial licensing continues though the list of industries subject to licensing has been pruned.

Developed countries are showing interest in doing business in India because of the immense scope and the largely unpenetrated market.

17.1 JUDICIARY

The role of judiciary is to ensure that the executive authority conforms to the general rules laid down by legislature. Judiciary determines the manner in which work of the executive has been fulfilled.

The power of the judiciary to settle legal disputes affects business considerably. The government of a country defines the legal framework within which firms do businesses. Laws change over a period of time. The courts of justice protect the citizens from unlawful acts passed by legislature and arbitrary acts done by the executive. The role of judiciary in industrial relations has been regressive. Judiciary has gone to the extent of declaring an illegal strike as valid. India has been plagued by lot of confusion in labour laws. Due to such wrong judgments, indiscipline in industry has spread like wildfire and sapped the national production and productivity. The entire textile industry in Mumbai was decimated thanks to the efforts of trade union leaders like Datta Samant who succeeded in not only killing business in the central business district of Mumbai but also rendered many workers jobless resulting in these hapless souls living a life of penury. Even the recent instances of labour unrest in Hyundai plant in Chennai and Maruti plant in Manesar, Haryana are pointers to a disturbing trend. Such instances defy the basic tenet of business and lead to losses. It was politics that prevented Tatas from setting up the factory in West Bengal to manufacture Tata Nano. Sometimes, the courts take too long to deliver judgment that leads to business losses. Judges are known to have produced conflicting verdicts of similar disputes.

Four systems law govern business everywhere. They are i. Islamic law ii/common law iii. Civil law iv. Marxist law.

Islamic law – derived from the interpretation of the Quran. Receiving and paying interest is taboo in Islamic law. Investments in alcohol, gambling, casinos are prohibited. Islamic legal system places emphasis on ethical, moral, social, religious values to improve fairness.

Extensive codes are main feature of socialist law. Russia and China are two countries in which socialist law was prevalent. Russia is now moving towards a democratic system. China is attempting to activate private sector within a mixed economy.

Common law – derived from English law and found in countries which were under British influence. India follows common law which is based on the cumulative wisdom of judge's decisions on individual cases. Tradition plays a major role in common law countries. Laws affecting business practices vary in countries which follow common law. For example – manufacturers of defective products are more vulnerable to law suits in the US than in New Zealand as the differences in the laws in the two countries.

Civil law – derived from Roman law found in Germany, Japan and France. Civil law system is based on a detailed set of laws that make up a code. Civil law is also called codified legal system. Under common law, ownership is established by use; under code-law, ownership is determined by registration. In some countries where civil law prevails, certain agreements may not be enforceable unless properly notarized or registered; in a common law country, the same agreement may be binding so long as the proof of agreement can be established.

Marxist legal system has takers in communist countries.

What is judicial activism?

Judiciary is no more passive. Court is not waiting for someone to petition. Judiciary punishes officials and demoralizes bureaucracy, pulls up the election commission, monitors the quantum of rainfall and irrigation waters, orders the closure of fume-emitting factories. This activist role of judiciary is called as judicial activism.

Judicial activism is necessary to ensure justice, to restore faith in the people towards social and political institutions and to check declining values in our society. On the flip side, judicial activism gives rise to anxiety in the executive & legislature. Judicial review causes enormous financial strain on the exchequer. It needs to be remembered that Court cannot run the Government. Be that as it may, some of the steps of the apex court have enhanced its status.

How does the judiciary influence the way a firm conducts its business?

1. Intellectual Property Rights – designs, novels, patents, trademarks, copyrights. A patent grants the inventor of a new product or process exclusive rights of manufacture, use or sale of that invention. Copyrights are exclusive legal rights of authors/writers. Trademarks are designs and names, registered, by which business people designate and differentiate their products.
2. Product Liability and Safety – this holds manufacturers and sellers responsible for damage, injury or death caused by defective products.
3. Competition among businesses – Competition laws are enforced to break monopolies and protect consumer interests. India has competition law, US has antitrust legislation. Japan too has antitrust laws. Competition laws tend to prohibit agreements between competitors that restrict competition. Such laws prohibit the abuse of a dominant market position.

4. Bribes and corrupt practices – Bharti-Walmart was in the news in Nov 2012 on allegations that they had flouted US anti bribery law. The CFO of Bharti Walmart and the entire legal team were suspended. Multinational companies are particular about following code of conduct. In 2002, Modi Xerox had made payments to Government officials to secure orders.

   In India, the following legislations seek to enforce ethical conduct on the part of business.

   a. Foreign Exchange Management Act
   b. Companies Act
   c. Competition Act
   d. Consumer Protection Act
   e. Environment Protection Act
   f. Essential Commodities Act

5. Advertising and Sales Promotions – businesses may be making exaggerated claims while advertising. Countries limit the advertising of tobacco and alcohol. Sales promotions are marketing activities that stimulate consumer purchases. Some countries prohibit premiums or free gifts.
6. Contracts – agreements between two parties to govern a business transaction.
7. Carriage of goods – liability of international carriers, ocean carriers and issues in marine law. Insuring cargo is an essential element of business. Carriage of goods across countries is a source of concern. India has been a victim of dumping of E-waste and ship loaded with toxic materials. More recently, within our own country, Karnataka and Tamil Nadu fought for Cauvery water and then now there is a controversy regarding dumping of nuclear waste in Kolar district from the Koodankulam nuclear power plant in Tamil Nadu (24th Nov 2012).
8. Labour laws – employee dismissals, working conditions, discrimination. In India, the policy of dismissing an employee has been fraught with mal practices. Dismissing an employee due to non productivity was difficult earlier, but now companies are having a field day using the VRS scheme as a CRS scheme (Compulsory Retirement Scheme). Sad but true – India has started following the US hire and fire policy. Jobs for life – this has become an obsolete concept today. Labour unions have become redundant. Supreme Court declared in 2003 that government employees cannot strike work. Child labour is a problem in India. Unsafe practices of businesses led to injuries and fatalities to employees and community living in the vicinity of the establishment. Gender discrimination is another issue though many MNCs are trying to incorporate the D&I policy – Diversity and Inclusion. Payment of Minimum Wages is also not prevalent. Laws are easily flouted and as such it takes time for courts to deliver justice, many businesses take advantage.

9. Environmental laws – Large scale international disasters like Bhopal Gas Tragedy, Chernobyl nuclear plant disaster, Exxon Mobil Oil spill, BP's Texas Fire Accident in its Refinery are grim examples of the loopholes in the environmental management system of businesses. Germany, for instance, has tough environmental laws. The Environment Protection Act, The Water Act and the Air Act are the main legislations which seek to prevent environmental degradation.

18 BUILDING AN ECOSYSTEM FOR MANUFACTURING IN INDIA

Manufacturing is one of the pillars of India's economy yet in the last few years services sector has overtaken manufacturing in terms of contribution to GDP. Share of manufacturing in India's GDP has stagnated at 16%. In China, Malaysia and Thailand, the share of manufacturing in GDP is in the range of 25–35%. In countries like Singapore, Switzerland and in developed economies like Japan and Germany, the contribution of manufacturing still accounts for 20% share in GDP.

A decade ago CII and McKinsey & Co published a report titled – Made in India: The next big manufacturing export story. The report highlighted the Indian advantages in manufacturing in terms of growing domestic market, engineering competence, an established raw material base and a large pool of skilled labour. Despite these advantages, manufacturing in India has fallen into a pit called 'stagnation'.

One of the reasons for stagnation in the manufacturing sector is the adverse reaction to manufacturing as a smoke stack sector. Industries such as automobiles, chemicals, metal, mining that are fundamental to a nation's economic growth but which cause environmental damage are called as smoke stack industries as they pollute the air and water.

A dynamic manufacturing sector is needed to sustain growth, create jobs, leverage the use of technology and ensure national security. Let us not forget that each manufacturing job creates four to five additional jobs in the service sector.

Today only 9% of India's work force is engaged in manufacturing. Dwindling prospects of agriculture in India (thanks to globalization) and bottoming up of services means that manufacturing and industry have to take a lead in creating jobs.

The Government has a target of increasing the share of manufacturing to 25% of India's GDP by 2022. The sector has therefore to grow at a rate of 12–14% every year. Off shoring of manufacturing to LCC (Low cost countries) is expected to gain momentum in the next five years. India as a global base is the perfect foil for meeting this need as we have what it takes in terms of skills and competence. If India grabs this opportunity, then manufacturing exports are expected to hit $300 billion by 2015. This will increase share of India's contribution in world manufacturing trade. This is expected to create 25–30 million new jobs in manufacturing.

A coherent policy that charts out the road map for developing the country's infrastructure is needed. Approvals have to be expedited. Tax structures need rationalization. Problems in land acquisition need solution. For any major Indian project entrepreneurs are faced with the burden of setting up captive power plants, railway sidings and access roads.

If India has become an IT hub then it can as well become a global manufacturing hub. We have the potential. We have talent, entrepreneurship abilities, raw material, a large domestic market – all these facilitate economies of scale. India's manufacturing capabilities can be bench marked against global capabilities. However, we need to look at labour productivity issues too which will need a complete overhaul of labour laws. Until this happens, there is no point in harping on a "Made in India" strategy.

Besides the oft-repeated infrastructural issues, there have been issues related to environmental clearances of projects. Malaysia and Thailand have made their labour laws flexible and the result is that they have a labour intensive manufacturing sector.

Under Section 5B of the Industrial Disputes Act, state government permission is needed before rationalizing (read: firing) the workforce in any unit that employs more than 100 workers. But no progress has been made to tweak this act to make it more employer friendly, feel many experts.

Rigidity in labour laws only helps a small fraction of the labour force and as such there is no protection for unorganized labour in India.

Take the case of construction industry – how many workers are actually insured or covered for PF/ESIC? The unionized employees are more interested in their well-being and the law is lax when it comes to the unorganized sector. Governments have been wary of unions. Business and industry need the flexibility to close down units when external environment is sticky. But the subject is a tad controversial. But inaction results in investors abstaining from making investments in manufacturing and thus jobs are not created. It is a conundrum that is so difficult to resolve. Despite these challenges, states like Gujarat have made it easy for industry which is why Tatas had a quick getaway to produce Nanos in Sanand when there were issues in West Bengal.

We still have a long way to go when it comes to catching up with the rest of the world in terms of upping our manufacturing excellence. India may have been lured by the service sector which is fickle and doesn't need large investments. Services, at best, can complement manufacturing and can't create so many jobs as the manufacturing sector.

The time is ripe for building an eco system for manufacturing.

Only then Made in India will become a reality.
Source: Business India, September 16, 2012

19 PROBLEMS OF SMALL SCALE SECTOR IN INDIA (SSI)

An industry with investment in fixed assets in plant and machinery worth Rs 1 crore is called small scale industry. Investment up to Rs.10 lakhs is classified as tiny sector. Small scale industries provide employment to lot of people and as there is more value addition, there is an increase in efficiency. As they require limited capital, the mobilization of capital is easier. There is better utilization of capital, increased productivity. Small scale industries can be better distributed in the different regions leading to a balanced regional development. However, there are internal and external problems

Internal problems are characterized by lack of clear ideas, faulty planning, over ambition, poor implementation of business strategies, lack of professionalism in the management, inability to make accurate predictions about future, inability to spot opportunities and market threats. Further, there are initial teething problems like selecting the right idea, preparation of business project report, market studies, choice of location, competitive pricing.

External problems are characterized by the choice of a suitable location, availability of raw materials on a continuous basis, inability to have a proper inventory control system, difficulties in getting financial assistance from institutions. Many SSIs also suffer from inadequate technical know-how. The major problem that they face is in marketing and advertising their products. They can't spend on advertising like the MNC FMCG companies like HUL, P&G, Sony, Samsung etc. Distribution of their goods is another area of concern.

Sometimes, the industrial buyers do not pay the dues to SSIs. The SSIs may also face labour problems sporadically. Last but not the least, there is a tendency to view the products/goods from SSIs in a condescending manner – typical Indian mentality where there is a craze to acquire everything that is "foreign".

While the Government has set up a number of institutions to support SSI, these are just like white elephants draining the public exchequer. This is mainly because there is little governance in these institutions which with their 'Government' tag can rarely rise above their bureaucratic image.

The Industrial Reconstruction Bank of India has been established to diversify, modernize and rationalize the weak units but one hears little about any concrete actions. Even the KVIC (Khadi and Village Industries Commission) lacks from public visibility and poor marketing efforts. There is a need for a complete overhaul of these institutions and a greater need to consolidate them to synergize the efforts towards the development of small scale sector in India.

How can the small scale sector respond to the challenges of competition from the large scale industry?

- Small industry could be a prime mode of economic growth if it overcomes some structural problems.
- The World Bank, UNIDO [United Nations Industrial Development Organization], ILO and a multiple of research forums have concluded that the sector suffers from a shortage of managerial skill and a scarcity of technological input.
- Small industrial units are – limited scale manufacturing operations, absence of economies of scale.
- Breaking the size barrier is, in fact, a measure of success of the small industry entrepreneur.
- Small industries – dependent on entrepreneur's own technical expertise for equipment and process technology. They are also dependent on large firms for technology and also on Government policy that supports indigenous technology.

- Small industry needs a strong infrastructural base, although this need may vary according to the size and nature of industry.
- SSI depends on facilities within an industrial estate but these facilities may be sub-optimal.
- Small operations – lesser learning experience.
- Operations are labour intensive and labour productivity in the SSI is low.
- SSI suffers from sub-optimal managerial performance.
- SSI faces source related barriers – large industry reluctant to provide essential production technologies to small scale sector either because of restrictive policy of technology dissemination or fear of outright competition.
- Sometimes the cost of technology may be too high for the SSI. The sector has little access to sophisticated technology.
- Small rural industries depend, sometimes to an excessive extent, on infrastructural support and their productivity and opportunities for survival do, as a result, display a dependence on the accessibility and validity of that support.
- The SSI has deficiencies in production and operations management and also poor working conditions.
- Information on safety and the working environment rarely reaches the small enterprise.
- Little knowledge about proper working conditions.
- Reluctance to seek professional advice resulting in high accident rate, poor work attitudes and lower productivity.
- Government support in form of institutional lending inadequate considering market demand.
- Small management teams, domination by leader and informal control.
- Absence of robust processes.
- Limited control on the environment and limited resources available to scan it.
- Lack of agility and swift response to changes in market dynamics.
- Informal pattern of operation, with conflicts resolved more easily and loyalties assuming a high magnitude.
- Lack of structured approach to management.
- Absence of long term vision.
- Owners focusing on tasks that they value instead of a rational approach.
- Planning is more reactive.
- Manpower practices are benevolent but intrusive. More of micro management.
- Ad hoc control.
- Limited insight about real market potential of their products or proper channels to pursue.
- Marketing focus and understanding of market opportunity weak. SSI does not know how to choose channels of distribution or how to segment the market.

- Soft component of technology – human capabilities linked to absorption and management of technology.
- Hard component of technology – essential technological processes and equipment utilized in the manufacturing process.
- Both components are equally important.

What are the problems faced by Small Scale Industries in India?

1. **Non-availability of skilled manpower:**
2. **Inadequate credit assistance:** This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.
3. **Irregular supply of raw material:** Faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis.
4. **Absence of organised marketing:** SSI – their products compare unfavourably with the quality of the product of large-scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product.

5. **Lack of machinery and equipment:**
   Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated technology and equipment.
6. **Absence of adequate infrastructure:**
   Indian economy is characterized by inadequate infrastructure like lack of power supply, water and drainage problem, poor roads, transportation bottlenecks. This results in under-utilization of capacity.
7. **Competition from large-scale units and imported articles:**
   Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than products of SSI sector.
8. **Other problems:** poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence and huge number of bogus concerns.

19.1 SOLUTIONS

- Development and diffusion of improved technologies within the SSI offers a lot in terms of enterprise productivity, employment generation and import substitution.
- Governments are looking at adapting these technologies in rural areas.
- Identify the need for specific technology type within a country or region.
- Identify alternative suppliers or supply sources within the country or region.
- Preliminary evaluation and selection of most appropriate technology.
- Enable successful technology transfer.
- Better integration of technological skill generation in the transfer process.

Micro centers are a network of small industries operating within a specific industrial sector in a developed country. The purpose of the networking is essentially solving technical and managerial problems that do hamper the development of the units and providing an expanded opportunity for each member. There are micro centres that are successfully operating in Indonesia and Netherlands. India must learn from the German model and reconsider vocational training.

Encouraging the commercialization of indigenous technology is essential. Development banks have an active role to play in fund allocation to projects that look at novel solutions for technological problems. Either preferential interest rates may be charged or grace periods could be given or there could be longer repayment schedules.

- Venture capital to SSI to address issues of product and process development.
- Governments should also encourage the flow of technology-related information.

(i) Introducing a village level industrial estate programmes

Mini industrial estates containing basic common facilities and a skeleton of extension services and located at convenient locations within the rural areas would go a long way towards covering the immediate technological needs of forest-based village industries.

These estates should contain very basic tools and equipment, charge little or nothing for their services, provide relevant advice on low cost automation, support the limited scale manufacturing of production tools and supply relevant managerial and technological advice.

Other Solutions

The SSI sector provides greatest employment opportunities and this should be harnessed in the right direction. The Industrial policy of 1980 aimed to harmonize growth in the small-scale sector with that in the large and medium sectors and to remove the dichotomies between the two sectors.

Interdependence of SSI with medium and large sectors should be fully realized. SSIs have outdated technology and they are also under capitalized. Productivity is low but production costs are high. The SSI sector should look at process re-engineering, improve production management, control costs and other inefficiencies and train workers so that productivity can be improved.

The example of units going sick should be reminder to other SSI units that before venturing into something they should do a thorough market study. For instance, if a SSI unit wants to manufacture detergents, then it may understand the needs of the market and then position the product accordingly. In urban areas it may be impossible to penetrate the market due to dominance of large MNCs.

One can take the example of Nirma washing powder which posed a challenge for MNC giants like Levers and P&G. Selection of location is also a problem. If the SSI unit is in a backward area, availability of raw materials and skilled labour and transportation may be a challenge. This will actually escalate the production costs. The Government regulations should act as a facilitator and not as an impediment.

Each district centre can have functional managers for Economic Investigation, Credit, Village Industries, Raw Materials, Marketing, Training Information, Infrastructure etc. depending on the local need. Technical assistance in each field is obtained from the nearest Small Industries Service Institute. The vital aspect of this programme is the "single window concept" and delegation of powers to the local level in respect of administrative, financial, and external trade matters.

It is now reported that the District Industries Centers (which are spread over the entire country), have not fulfilled all their tasks. It appears that they need to be strengthened and given adequate inputs for establishing small units in rural areas.

A second thrust of assistance is **entrepreneurial development**.

Industrial estates are a third line of assistance. By grouping SSI units, the programme enables development authorities to establish common service centers and facilitates the dissemination of modern production techniques. In several industrial estates, economies have been achieved through collective purchase of raw materials and other collaboration. Within the industrial estates occupants of factory sheds are helped to own them through easy hire-purchase terms. There are also concessional charges for transport, water and power; temporary exemption is authorized from sales-tax and duties on specified goods and services for certain categories of industries.

The SSI sector can meet the challenges of competition from the large scale enterprise by

1. Studying the market and identifying potential areas of opportunity.
2. Doing a SWOT analysis.
3. Train manpower and ensure that their skill levels match with the needs of the job.
4. Reduce production costs by applying quality management techniques and improving productivity.
5. Increase the level of managerial competence by hiring talented manpower at market price.
6. Institutionalize a process culture in the organization.
7. Focus on customer.
8. Appropriate positioning, market segmentation.
9. Learn from large enterprises – the critical success factors.
10. Empower employees, motivate them.
11. SSI sector should not depend only on Government support; they should look for other sources of funding [venture capital, angel investors] for which they need to have a clear vision and long term strategy.
12. The SSI units should be hungry to learn more; they should look at new technology available in the market and look at how best this can be adapted to suit their needs.
13. The levels of customer service should be improved.
14. Management control must be systematic and professional.
15. Business Decisions must be based on a sound rationale.
16. Greater collaboration with academic institutions is a must.
17. The industry should organize themselves together to make a better representation to the government about their problems.
18. Besides the domestic market, the SSI units should also look at export markets.
19. The SSI units should attempt to understand their linkages with medium scale sector and large scale sector.
20. Creating greater awareness about their brand equity is vital.
21. Before making major capital investments, the SSI units should do proper due diligence.
22. The SSI units should create a competency cell to learn from global best practices. They should no longer depend on protectionist measures of Government.
23. The SSI units should look at achieving quality certification standards
24. The SSI units should look at sustainability as a key business driver and should plan for it.
25. The SSI units should implement lean philosophy to cut out wasteful activities and unproductive expenditure.

20 MSMES

Micro, Small and Medium Enterprises contribute nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are the nurseries for entrepreneurship and innovation. They are widely dispersed across the country and produce a diverse range of products to meet the needs of the local markets, the global market and the national and international value chains.

Statistical data of the past few years, however, indicates that the share of MSMEs in GDP, manufacturing output and exports has been slowly declining. With manufacturing sector as a whole having been less than robust, and the employment in the manufacturing segment having actually declined, the government came out with a Manufacturing Policy in 2011. During deliberations with a diverse set of MSME stakeholders, it was repeatedly flagged that the MSMEs, as individual and collective entities, lack the abilities of the larger enterprises to advocate on economic and functional issues, and therefore come adversely on the receiving end of the unexpected actions of other stakeholders, including the state machinery.

While the primary concern of the entrepreneur should be to run the enterprise, the prevalent ecosystem places huge demands on the time and resources of the entrepreneur engaged in manufacturing. Moreover, the issues and challenges at the different stages of the lifecycle of a manufacturing enterprise are quite diverse.

A complex and unfriendly business ecosystem pushes small entrepreneurs towards the informal and unregistered segment, which is growing faster than the organized segment by more than five times, and already accounts for over 95 percent of all MSMEs. This trend must be reversed as it is not sustainable. Hence, there is a need for a common understanding amongst the policy makers and administrators in multiple departments of the local, state and central governments to help create an ecosystem that enables and assists entrepreneurs through the life cycle of creation, growth and closure of enterprises and encourages them to operate in the organized economy.

State governments may urgently streamline and simplify internal processes and allot over 30,000 vacant plots lying vacant in established industrial estates across the country, to start-ups which come up with good business plans State governments should urgently identify mid-sized land parcels close to urban areas, which may be developed with public funding, for allotment to MSMEs.

State governments may undertake programmes for the construction of premises that can be given on rent to manufacturing start-up enterprises. Ministries of Urban Development, Urban Poverty Alleviation and MSME, backed by sufficient resources may incentivize state governments and local bodies to designate adequate areas for manufacturing and industrial activity in the urban centres or emerging urban areas. State governments, through use of IT, may simplify and make transparent the services associated registration for VAT and other local taxes, land/property and provision of utilities, and also bring such services under the ambit of the Public Services Delivery Act.

Government programmes for funding start-ups in manufacturing, which have potential for growth, may be provided with higher levels of funding and subsidy. SIDBI should adopt a more proactive position to lead initiatives for attracting institutional and private funds for the new enterprises. In the very short run, it should increase the coverage of MSME beneficiaries under the India Opportunity Venture Fund (IOVF) as its tenure is of just 3 years ending in 2014–15.

Returns of investment in unlisted enterprises registered under the Companies Act may be made tax free after one year of investment, as is permitted for listed companies. This would encourage both individual and institutional investors to provide equity contribution to MSME-start-up companies and meet their non-debt capital requirements

Other efforts by Government that are recommended

- Lower taxes.
- Exemptions and concessions in Direct Tax in the first three years of operations.
- SIDBI Small Industries Development Bank of India should help in enhancing credit access.
- SIDBI should assess credit gap in the MSME sector.
- Scheduled commercial banks should collaborate with SIDBI to reach out to needy MSMEs.
- For loans up to Rs 10 lakhs, no collateral needed. RBI has to instruct Scheduled commercial banks accordingly.
- There are credit guarantee facilities for loans given to MSME sector up to Rs 1 crore, so no collateral may be needed for loans up to Rs 1 crore.
- Between Rs 1 crore and Rs 5 crore loan, RBI may instruct that collateral may be required only for machinery and equipment.
- RBI to direct banking associations to have a uniform credit rating policy and format for MSMEs.
- Reduced lending rates to MSME Borrowers.

Provide access to MSMEs for accessing cheap loans from abroad.

Banks can fix additional work capital limit – 10–20% – exclusively for discounting of bills/ vendor payments to MSMEs. This portion of working capital limit has to be treated as priority sector lending. Government should set up innovation hubs – R&D – manufacturing of high tech products. Support MSMEs in best manufacturing practices and quality efforts e.g. having a national manufacturing competitiveness program is a good idea. Focus on low end technology products for import substitution. Government should also support marketing – both domestic activities as well as international marketing activities. Government has to simplify procedures for exit – especially legal compliances with respect to Companies Act, labour laws, taxes etc.

MSMEs also have to be provided aid in case of financial crisis.

21 ENTREPRENEURSHIP IN INDIA

An entrepreneur refers to a person who undertakes and operates a new venture. There has been a tremendous growth of entrepreneurship in India. In modern times, new entrepreneurs are emerging from new areas like IT and IT enabled services, biotechnology and service sector. India needs an entrepreneur-friendly bureaucracy and a creative educational system that encourages taking up calculated risks. Today, the business climate in India is conducive to encourage women entrepreneurs too. Bangalore-based Kiran Mazumdar Shaw, promoter of Biocon, is one such example. The truth is that most entrepreneurs are willing to deal only with traditional forms of business. However, not all is lost. From 2010–2012, India is witnessing a surge in the number of entrepreneurs who are willing to take risks and bold decisions and who are using Technology to create a successful interface with business. The Government needs to promote entrepreneurs who can support agriculture and cottage industries. The government agencies should support the entrepreneurs and the government should allow credit to these risk takers to avail loan at concessional rates.

Startups in India: Do they have a future?

While there is abundant media coverage about start-ups in India, most often the real picture never emerges from the shadows. The pressures of hiring and firing clients and capital have led much startup firms to shut shop. Across India, startups are shutting down within a year. On paper, the business proposition and scalability all look great, but once these proposals reach the execution stage, there are lots of difficulties. Some startup ventures have realized that the actual margins were lower and that the sales were stagnant. Accessing capital from the market is also becoming difficult.

Some startup firms realized that they were competing with larger firms, so they quit before things became worse. This was the intelligent decision that they took.

Nearly 50% of the startups in India fail within the first year of launch. The first year of a startup can be compared to an infant learning to walk for the first time. They are bound to flounder, fall and learn along the way. It is at this stage that entrepreneurs require the support of the incubator. Once they grow and are establishing themselves, entrepreneurs will need support of the accelerator. Incubators provide support to entrepreneurs in the initial stages while accelerators provide support at a later stage. However, it is important that incubators and accelerators shun from establishing an emotional attachment with the firms that they support as then they will be handicapping them.

In India an estimated 600 new ventures are set up every year. Entrepreneurs are coming to terms trying to learn lessons from earlier failures. Startups have realized that they need to be more frugal with cash and manage cash better. Companies are keen to get customer feedback and they are using the feedback to improve their products. Even good startup ideas can fail due to poor execution or lack of sufficient capital in the first year. Getting the first customer is the biggest challenge an entrepreneur faces. When this does not happen, the business suffers. Many entrepreneurs fail to see the need to stay away from over ambitious business strategies and unrealistic targets.

There are mentoring companies that mentor early stage ideas. It is very important to study the external market very closely. In project Management parlance, this is called 'Front End Loading'. Adequate risk assessment is a must.

Every business needs to have:

1. Business Continuity Plan
2. Risk Mitigation Plan
3. Succession Plan

The planning is essential for building a roadmap for the future. The other issue is that, in India, corporates are wary about working with startup companies. One reason for this is that most start ups are somewhat chaotic in their operations repudiating the benefits of following a process driven approach.

For the financial system, this presents a huge challenge as credit given to start ups who cannot even break even end up as non-performing assets. So, banks have become wary of giving credit to start-ups.

Going forward, start-ups should work on their fundamentals and do proper due diligence so that the business feasibility proposal is sound. Rather than rushing to do things, they should focus on systematic planning. They should also resist the temptation to rush to the media without achieving much on the business front.

What is business continuity planning?

Planning that is carried out to ensure continuity of business during an exigency whereby the business continues to operate at reduced capacity during an event that has potential to disrupt business activities. Example: a possible fire in a factory will necessitate a business to have a BCP as part of their risk management framework. IT companies call this as DRP – Disaster Response Planning – this involves planning in advance for eventualities like server cras hing or hacking so that risks are mitigated due to advance planning.

Succession Planning

Many business firms have a clear cut plan for successors of key positions in the top management so that in case of an emergency situation or even in a normal situation, it is clear that business will not suffer due to exit of a top management due to natural causes (retirement/resignation) or unnatural causes (accused of bribe or mis conduct). For instance – when Nandan Nilekani moved onto take up the role as Project Director for Adhar, Infosys had a successor in place ready that was approved by board. Ratan Tata has handed over the baton to Cyrus Mistry of SHAPOORJI & PALLONJI group. Similarly, Chanda Kochchar was penciled in as ICICI bank's CMD when it was time for KV Kamath to move on.

22 STRATEGIES TO MANAGE POLITICAL ENVIRONMENT

The different economic variables are – Industrial output, Agriculture, GDP, GNP, Per capita income, money supply, infrastructure, labour, knowledge base.

Per capita income is the income earned per individual. It is calculated by taking total income of a group and dividing it by number of individuals in the group. Legislature decides on a particular course of action, executive implements what was decided by the Parliament & judiciary functions like a watchdog to ensure that both the legislature and the executive function in public interest and within boundaries of the constitution.

1. **Lobbying**
2. **Alliances**
3. **Representation**
4. **Socialization**

Lobbying is an attempt by business to influence government decisions by providing officials and decision makers with information on anticipated effects of legislation or regulation. SEBI, Drugs Controller, Competition Commission, Foreign Investment Promotion Board – these are some of the agencies with which massive lobbying is done.

Government of India has announced a judicial probe into reports of lobbying (13.12.12) by supermarket chain Walmart. Walmart incurred an expense of Rs.136 crores in lobbying with American and Indian officials. Opposition parties have alleged that Walmart has bribed its way into India.

Alliances involve 2 or more organizations or groups to achieve common goals for a particular issue. Alliances are formed around issues like reducing R&D costs in telecom and pharmaceutical industries. ICICI and HUL launched a partnership project for contract farming in wheat and basmati price in Haryana and Madhya Pradesh.

Representation: From trade and industry associations like CII, ASSOCHAM, FICCI and NASSCOM to lobby for business friendly decisions. Policy makers and officials discuss with representatives of trade and industry bodies before major policy decisions are made (like budget).

Socialization: people learn the values held by an organization & the broader society. Firms try to mould new employees to accept certain desired attitudes and ways of dealing with others and their jobs.

Scanning	Surveillance of all environmental forces
Monitoring	Tracking of environmental trends, events or streams or activities
Forecasting	Develop possible projections of environment change Helps in strategic decision making How long will it take the new technology to reach the market place? Will consumer tastes and preferences change? Focused activity More specific
Assessment	Identify and evaluate how projected environmental changes affect strategic management, what does understanding the environment mean for the business?

Government's responsibility to business

- Establish & enforce laws
- Maintenance of law and order
- Infrastructure
- Transfer of Technology

Government owned research establishments transfer their discoveries to the private industry to put them for commercial production. ISRO has created 130 products/processes from its labs to the Indian industry. Example of technology transfer is in the area of instruments for processing remote sensing data.

23 LABOUR REFORMS IN INDIA – THE START OF A NEW BEGINNING

As per a report in the TOI, India ranks in the bottom third of the World Bank's ranking of nations in terms of ease of doing business. This has to change if the PM's vision of "Make in India" has to succeed. It is commendable that our PM has kick started these efforts towards labour reforms. The PM has said that India should become a nation with the image that it is easy to do business here.

The PM has now unveiled a new set of labour reforms that is intended to put an end to Inspector Raj in India. These reforms are expected to sharply curb the element of discretion with labour inspectors and lead to a single window compliance process for companies on labour-related issues.

As a step in this direction, all 1,800 labour inspectors will be disallowed from swooping down on companies and instead, a computerized system will randomly send them on inspections, based on data trends and objective criteria. Following inspections, they will have to upload their reports within 72 hours and cannot modify them thereafter. The ministry is hopeful that the annual inspections – currently about 3 lakhs – will come down sharply.

Other initiatives have been launched including a Shram Suvidha Portal where employers can submit a single compliance report for 16 labour laws, a new web-based labour inspection system, unique account numbers for members of the EPFO, a revamped Rashtriya Swasthya Bima Yojana as well as a new skill development and apprenticeship scheme.

Manufacturers can now register online at the Shram Suvidha portal and file a self-certified single compliance report for 16 Central labour laws. In return, labour inspections by four central agencies – EPFO, Employees' State Insurance Corporation, Central Labour Commissioner and Director General of Mines' Safety – will be based on a computerized list of units that are picked up from this database.

It is a good sign that compliance has now become more self-directed. Earlier, employers were circumventing rules to escape harassment from LABOUR inspectors. But now the onus is on the EMPLOYERS. If employers start self-certification in an ethically responsible manner, then half the battle is won. PM Modi's assertion of "minimum government, maximum governance" resonates with what was promised in the election manifesto.

What is encouraging is the PM's statement that it is important to bring back dignity of labour and respect individuals who are imparted vocational training. India already has the wherewithal in the form of Industrial training institutes to develop the skill base. This is the best method to reap rich rewards from India's demographic dividend.

The PM has also said that labour issues must be looked at from the perspective of the labour, not industrialists. Never mind what the skeptics feel about it, these are definitely steps in the right direction.

While protecting the interests of labour is paramount, this cannot be at the cost of productivity. India's labour productivity is a sixth of that in China and if we want to make India a global manufacturing hub, this information is hardly encouraging.

Through executive action the potential for harassment by factory inspectors has been minimized. The process changes are underway to make operation of provident funds by employees as simple as a bank account. But there is also a need to make legislative changes which rationalize and simplify labour laws, introduce flexibility in the labour market and encourage formal sector employment in large-scale manufacturing units. Highly restrictive laws have had an adverse impact on hiring in labour intensive manufacturing such as textiles, which need to cope with seasonal volatility in demand. Specific provisions in labour laws may be needed in the future for some industries. We also need labour laws enforcement in the real estate sector.

The Constitution splits responsibility for labour between Centre and states. Of the two, states play the dominant role in enforcement. Of India's 44 central labour laws, states play a key role in enforcement of most of them, particularly ones dealing with industrial disputes, contract labour and factories. The states have to be nudged in the right direction.

Counterproductive labour laws introduced in the 1970s and 1980s undermined job creation in Indian manufacturing even as China overtook India as the world's factory. It's time to repeal many of those legislations, which hurt unskilled job seekers the most.

The Government has to ensure that minimum wages are paid to all the blue collared employees. The labour force needs to understand that they can prosper only when the business prospers. The regulatory authorities should stop policing and act more as facilitators. Labour law reforms cannot mean only "hire and fire". This has to be the last option.

What is disturbing is the news that crores of rupees are lying unclaimed in the provident fund account. It is worthwhile to look at this carefully. Don't we need some flexibility in this respect? What is the reason for the unclaimed PF amounts? It is only because the process is far too cumbersome and mired in bureaucratic procedures. Is it not possible to look at a better solution for resolving this problem?

What is wrong with India's Labour reforms agenda?

1. Reforms over the past two decades have focused entirely on fixing product and capital markets.
2. Unshackling the labour market from 60 different federal laws is pressing.
3. China joined WTO in 2001 and since then its productivity has greatly increased.
4. India can garner large economic benefits from allowing its blue collar workers to participate in the global supply chain freely.
5. Labour in the formal economy has a small share in the total work force. Only one in five Indian workers is a regular wage earner. All laws are aimed at safeguarding the rights of this person. This inhibits investment in labour intensive industries and keeps other workers stranded on farms or doing odd jobs.
6. Trade unions oppose labour reforms because they have more to gain by siding with a minority that has something to lose.
7. Labour inspectors in India have discretionary powers to visit any factory owner or shopkeeper and harass them.
8. Oct 2014 – Companies can file bulk of their labour related returns online.
9. The Government has to do away with silly regulations like requiring companies to maintain a 'register of lime washing' under the 66 year old Factories Act. This can save business time and money.

Compliance costs in India are high for small scale firms, who try to operate in a legal grey area put workers at risk and defeat the whole point of regulation. A textile businessman recently tweeted that if small and mid-sized companies in India followed all existing rules 'Your underwear will cost what your jeans cost today'.

Indian laws started becoming draconian in the 1970s when PM Indira Gandhi adopted a populist anti business stand. During that time Margaret Thatcher came to power in Britain and began deregulating. This never happened in India. Indian labour laws today are among the most restrictive globally. The Modi government is acting on the advice of Columbia University – economist Arvind Panagriya to let State governments have a major say in regulating labour and update archaic laws and make labour laws more investor friendly.

Rajasthan recently increased the maximum number of employees that can be fired without government permission to 300 from 100. A business owner can now hire up to 50 contract workers without requiring prior approval of labour department – the present limit is 20. Really tiny businesses will be exempted from laws that have high compliance costs. Allowing companies to sack 1000 workers without permission has been pending for 13 years because of pressure from trade unions.

Research has shown that Indian states like Rajasthan and Tamil Nadu, which have employer friendly rules as compared to others have 11% higher productivity in industries that face volatile demand and hence they need the flexibility to adjust the size of their workforce. If this happens

- Productivity will increase.
- Higher wages.
- Increased demand – more job creation and production.
- As production increases, inflation will come under control.

Of late Chinese wages are increasing and so this presents India with another chance. For labour intensive manufacturing to regain lost ground India's physical infrastructure has to improve and the government will need to boost investment in education and health. The lengthy and cumbersome process of land acquisition prevents industrialization. This is a vicious cycle. If rules are relaxed then workers will be hired and fired. If rules are tightened then companies will not be interested in investing in manufacturing and thus lesser jobs will be created in the economy.

In India, employment is not growing as fast as working age population nor are wages rising as rapidly as per capita – income. In India, there are 45 laws at the national level and close to four times that at the level of state governments that monitor the functioning of labour markets. Experts say that India's labour laws were created by British to control conflict and keep the labour market efficient. But Indian workers have struck work and placed unreasonable demands on the businesses.

In a poor country no one with any sensitivity wants workers to lose their jobs, so the next best thing is to make it difficult for firms to lay off workers. This is what India's industrial disputes act 1947, did. Today's world is globalised. Demand has been volatile and so firms have chosen to keep labour forces as small as possible. In India less than 10 million workers are employed in the formal private sector.

What is needed is not a law that allows employers to fire workers but one that allows for different kinds of contracts. e.g. some workers may work to contract at high wages but this contract may need them to quit at short notice. Flexibility in hiring and firing is not the only problem. India's complex web of legislation leads to a system of dispute resolution that is very slow. Many cases are pending in labour courts for 10 years or more. The changes in labour reforms are required to create greater private sector demand for labour which will boost wages and employment.

What we need is:

1. Flexible contracts in the labour market.
2. Minimal welfare net for workers who are out of work.
3. Resolution of labour disputes more quickly.

India's public sector has performed poorly because of the protection that the Indian workers got from the labour laws.

Streamlining labour laws and introducing flexibility in order to compete globally is viewed as one of the ills of globalization. The overall efficiency in the long run will boost productivity and free up more capital for investment which will create more jobs.

The rigidities of the current labour regulatory regime are major hurdles to attracting private investment to manufacturing. Greater freedom to hire and fire workers, a less intrusive labour welfare supervisory regime and reduced power of unions will benefit workers as greater private investment will result in higher economic growth and therefore more jobs.

But then what is wrong with these arguments? During the period 2004–05 to 2009–10, when growth averaged 8.43% only 2 million new jobs were added for 55 million people who joined the workforce. Although labour law prohibits appointment of contract workers for perennial tasks there was a sharp growth in contract and casual work at the expense of regular employment.

Share of contract workers rose from 10.5% in 1995–96 to 25.6% by 2009–10, the share of directly employed workers fell from 68.3% to 52.4% in the same period. Even regular workers are being hired as contract labour and this is the tragedy. Due to existing laws, fewer workers enjoy protection of secure employment and social security benefits. Labour department is poorly staffed, badly trained and loosely supervised. Child labour has increased. Unprotected workforce is construction industry is rampant in India.

Labour law amendments by Vasundhara Raje government in Rajasthan

1. Contract Labour Act is valid for companies with more than 50 workers, against current 20.
2. Contract Act prohibits engagement of contract labour in tasks requiring perennial work in the production process and prescribes a mechanism for registration of contractors.
3. Factories Act was presently applicable to 10 workers with power supply and 20 workers without power supply. Now it has been changed to 20 workers with power supply and 40 workers without power supply.

This reduces protection of workers with health, safety and welfare standards.

Factories employing 300 workers (up from the current 100) are exempted from the Industrial Disputes Act which provides for collective bargaining. Earlier the minimum number of workers required to register a trade union was 15%, it has now been increased to 30%. After this amendment, 57–60% workers in the formal sector can be fired or subject to suppressed wages and degraded work conditions.

So what will be the cumulative impact of these amendments?

Employers will be freed of the poorly enforced and modest obligations they currently hold for ensuring job security, health and social protection of workers. It is hard to believe that this – dilution of labour protections will spur economic growth or this is ethically sound from a social perspective.

Will this create millions of jobs in India? Looks doubtful because what is needed is rationalization and codification of all labour protection into a single law and commitment of business and Government.

References

1. Atul Sood, Paritosh Nath, Sangeeta Ghosh, Economic & Political Weekly , Deregulating capital, Regulating Labour 28 June.
2. Mander, Harsh. Labour Reforms of the Wrong Kind. Hive Mint Wed July 30, 2014.
3. Basu Kaushik, Why India's Labour laws are a problem. BBC News, 10/8/14
4. India in depth: Modi's payoff from labour reform http://in.reuters.com Thursday, 14 Aug 2014. by Andy Mukherjee.

24 BHAGIDARI SECTOR IN THE INDIAN ECONOMY

The activities where the Bhagidari enterprises are dominant are the fastest growing sectors in the Indian economy. Their share in savings is more than 40%. They also pay their taxes. They contribute 35% to the national income and enjoy more than 75% share in the service sectors like trade, transport, construction, hotels, restaurants and other services like doctors, lawyers, architects, accountants. However, compared to the corporate and government sector, adequate focus has not been given to these segments.

The Bhagidari sector experiences fluctuations in the flow of income due to competition from organized sector, bureaucratic hurdles and government rules/regulations. Experts have pointed out the need for pension and other social security schemes for the bagedari sector. The sad part is that the Indian government has never focused on what the Bhagidari (or bagedari) sector wants. However they have been subject to regulation like other corporate enterprises.

The Bhagidari sector consists of Partnership/Proprietorship firms and individuals who are self-employed. This sector constitutes the largest segment in terms of national income, savings and employment. Your neighborhood kirana store is an example of a business in the Bhagidari sector.

The term 'Bhagidari Sector' is used to indicate unincorporated enterprises consisting of partnership, proprietorship firms as well as professional (self-employed) categories.

Role of Bhagidari sector in the Indian economy is large, having more than one third of national income and more than three fourth in the service sectors. Nearly 40% of savings in the economy is due to Bhagidari sector.

25 INDIA – A GLOBAL MANUFACTURING HUB

Manufacturing is one of the pillars of India's economy yet in the last few years services sector has overtaken manufacturing in terms of contribution to GDP. Share of manufacturing in India's GDP has stagnated at 16%. In China, Malaysia and Thailand, the share of manufacturing in GDP is in the range of 25–35%. In countries like Singapore, Switzerland and in developed economies like Japan and Germany, the contribution of manufacturing still accounts for 20% share in GDP.

A decade ago CII and McKinsey & Co published a report titled – Made in India: The next big manufacturing export story. The report highlighted the Indian advantages in manufacturing in terms of growing domestic market, engineering competence, an established raw material base and a large pool of skilled labour. Despite these advantages, manufacturing in India has fallen into a pit called 'stagnation'.

One of the reasons for stagnation in the manufacturing sector is the adverse reaction to manufacturing as a smoke stack sector. Industries such as automobiles, chemicals, metal, mining that are fundamental to a nation's economic growth but which cause environmental damage are called as smoke stack industries as they pollute the air and water.

A dynamic manufacturing sector is needed to sustain growth, create jobs, leverage the use of technology and ensure national security. Let us not forget that each manufacturing job creates four to five additional jobs in the service sector.

Today only 9% of India's work force is engaged in manufacturing. Dwindling prospects of agriculture in India (thanks to globalization) and bottoming up of services means that manufacturing and industry have to take a lead in creating jobs.

The Government has a target of increasing the share of manufacturing to 25% of India's GDP by 2022. The sector has therefore to grow at a rate of 12–14% every year. Off shoring of manufacturing to LCC (Low cost countries) is expected to gain momentum in the next five years. India as a global base is the perfect foil for meeting this need as we have what it takes in terms of skills and competence. If India grabs this opportunity, then manufacturing exports are expected to grow further. This will increase share of India's contribution in world manufacturing trade. This is expected to create 25–30 million new jobs in manufacturing, A coherent policy that charts out the road map for developing the country's infrastructure is needed. Approvals have to be expedited. Tax structures need rationalization. Problems in land acquisition need solution. For any major Indian project entrepreneurs are faced with the burden of setting up captive power plants, railway sidings and access roads.

If India has become an IT hub then it can as well become a global manufacturing hub. We have the potential. We have talent, entrepreneurship abilities, raw material, a large domestic market – all these facilitate economies of scale. India's manufacturing capabilities can be bench marked against global capabilities. However, we need to look at labour productivity issues too which will need a complete overhaul of labour laws. Until this happens, there is no point in harping on a "Made in India" strategy.

Besides the oft-repeated infrastructural issues, there have been issues related to environmental clearances of projects. Malaysia and Thailand have made their labour laws flexible and the result is that they have a labour intensive manufacturing sector. Under Section 5B of the Industrial Disputes Act, state government permission is needed before rationalizing (read: firing) the workforce in any unit that employs more than 100 workers. But no progress has been made to tweak this act to make it more employer-friendly, feel many experts.

Rigidity in labour laws only helps a small fraction of the labour force and as such there is no protection for unorganized labour in India. Take the case of construction industry – how many workers are actually insured or covered for PF/ESIC? The unionized employees are more interested in their well-being and the law is lax when it comes to the unorganized sector.

Governments have been wary of unions. Business and industry need the flexibility to close down units when external environment is sticky. But the subject is a tad controversial. But inaction results in investors abstaining from making investments in manufacturing and thus jobs are not created. It is a conundrum that is so difficult to resolve. Despite these challenges, states like Gujarat have made it easy for industry which is why Tatas had a quick getaway to produce Nanos in Sanand when there were issues in West Bengal.

We still have a long way to go when it comes to catching up with the rest of the world in terms of upping our manufacturing excellence. India may have been lured by the service sector which is fickle and doesn't need large investments. Services, at best, can complement manufacturing and can't create so many jobs as the manufacturing sector. The time is ripe for building an eco system for manufacturing. Only this can make Made in India a reality.

26 INDIA AS A CENTRAL HUB FOR RESEARCH EXCELLENCE

Germany has always been known as land of superior engineering talent. Markus Braunsperger is leaving BMW, the $80 billion German car maker. Guess where he is moving? Markus, Chief Technology Officer, BMW is moving to India to join an Indian company Hero Moto Corp.

Until 3 years back, Hero had no real R&D prowess because it was dependent on Honda. Hero has appointed Markus as Head of Hero's R&D. Hero has appointed Markus Feichtner (AVL, Austria) as head of engine design and development. Tata Motors & M&M are other companies where expats are shaping the R&D.

Kevin Wheldon has moved to Mumbai's downtown Kandivali to join M&M's unit. Kevin had put in 34 years at Volvo, British Leyland and Chrysler. Indian automobile companies – think global, changing approach to R&D. Hero is building a Rs.500 crore centre near Jaipur. The company wants this to be the best technology centre in the world, not just India. R&D spend in Indian auto companies growing at a CAGR of 19%. BMW, Foton, GM, Honda, Maruti, Mercedes, Renault-Nissan, Volvo– all have set up R&D centres in India. These companies have adopted a polycentric approach while hiring talent.

Why India?

- India – Engineering base, cost advantage.
- Scale up in India – achieve greater degree of localization later on.
- Maruti New Alto 800 was completely designed in India.
- 2013, Mercedes Benz India opened R&D center in Bangalore – plans to increase the head count to 2000 by 2015.
- Robert Bosch Engineering makes electronic hardware and software for cars – the company has doubled the head count.
- Newer technology vehicles implementing more electronics are getting designed in India.
- Robert Bosch has 10000 engineers in its Bangalore and Coimbatore units who do product development work.

Technological changes sweep auto industry

- Electronics
- Telematics
- Embedded systems
- Human-machine interface
- Safety systems
- Recyclable materials

Customers in India are demanding products of global standards at local prices. This explains the need for expats. Fundamental research in auto industry has always been the domain of foreign car makers. Indian car makers are moving from the development mode into engineering and design. Suzuki Swift was designed in Japan, Dzire in India.

R&D spends are on the high in India due to lesser co-involvement with vendors in research efforts. But this is expected to happen in the near future. The automotive components vendors are pretty much clued in to what is happening at their customer's end and these firms are pretty much research intensive.

India has never had the R&D culture that believes in hiring the right talent for research. R&D was always considered as the cost center ignoring its strategic value. But global platforms, better salaries and cost advantages are making people look at R&D with new glasses.

In 1990s, the focus of auto companies was more on local talent and on product adaptation. M&M had 90 R&D engineers in 1993. Today it has 2500 engineers. Besides organic expansion, Indian companies are looking at overseas acquisitions.

Challenges

- Product development has moved closer to international standards.
- Indian ecosystem has to mature – Indian regulations on safety and emissions are not comparable to mature markets.
- Severe shortage of high end R&D talent.
- It takes 12 years for an engineer to move up the knowledge ladder to do independent research.
- Global benchmarking of Indian auto sector still portrays a picture that is far from satisfactory.
- Engineering students in India – lured more by software than hard core R&D.
- Indian attitude of "sab chalta hai", "ho jaygea" and casual approach to processes – an anathema for the auto sector in meeting targets.
- Indian factories are in places that are remote. Expats do not find it attractive.

Road ahead

Despite the challenges, expats are showing interest in India because of the opportunity to learn and adapt to a new culture never mind if there are culture shocks in the initial stages. Korean expats find that their children can be educated in good English schools in India – this is more of a collateral advantage. Expats also get the opportunity to play on a larger canvas in India. Bringing domain experts greatly enhances competency development of the vast pool of engineering talent in Indian auto industry.

Reference:

Why are global carmakers shifting R&D work to India – story published in ET, 11 Sept 2014)

27 THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES ACT, 1969

The Act came into effect from June 1, 1970. The Act has been amended many times. Act has a preamble and 10 chapters.

Objectives

- To ensure that the operation of the economic system does not result in the concentration of economic power to the common detriment and to prohibit monopolistic and restrictive trade practices as prejudicial to public interest.

Definitions

Dominant undertaking – a firm that produces/distributes/controls not less than a third of total goods in India (includes services as well). Monopolistic trade practice has the effect of maintaining prices at an unreasonable level through control of production or supply of certain goods or services.

Any act that reduces competition or charges unfair prices or indulges in unfair practices is classified as a monopoly. Quality that is not worth the price charged. Restrictive trade practice is a practice that has the effect of preventing, distorting or restricting competition in any manner. Obstruct the flow of capital or resources into the stream of production. This leads to manipulation of prices. Costs are unjustified. Unfair/unnecessary restrictions.

This Act does not apply to

i. The Government companies
ii. Any public corporation
iii. Trade union
iv. Co-operative societies

MRTP Commission

- Appointed by Central Government.
- Minimum 2 members.
- Maximum 8 members.
- Chairman – a person who is qualified to be a judge of the Supreme Court or High Court.
- This act prevents the concentration of economic power. Applicable to undertakings with a combined asset base of more than Rs 20 crores. Act also applicable to a dominant undertaking, the assets of which amount to not less than Rs 10 crores. If such undertakings expand their activities, through additional investment of 29% or more of the value of assets, it will be required under the Act, to give notice to the Central Government. Approval of central government will be required for mergers, amalgamations and takeovers. The Central Government can conduct an inquiry if it feels that operation of an undertaking is prejudicial to public interest.

Criticism of MRTP Act, 1969

1. The Act is based on the assumption that the Indian economy is being victimized by big corporations. In a country where our giants like TISCO are small compared to companies like Royal Dutch/Shell, this assumption will keep industrial operations at an uneconomic level.
2. The Act will dampen enterprise and establishment of new enterprises.

3. The Act is against amalgamations even as the government is trying to encourage amalgamations as part of fiscal measures.
4. Act works as an impediment to industrial growth.
5. Why are public sector and co-operative units excluded from the Act? This amounts to discrimination against public sector.

27.1 TARIFF COMMISSION

- On 21st January 1992 Government appointed tariff commission.
- 3 members of which 1 is a chairman.
- Objective – to grant protection to certain home industries against competition from foreign manufacturers.
- Act as an advisory body to Government.
- Conduct inquiries into claims to protection not only from established industries but also from those industries which are likely to get established if suitable protection is granted to them.
- Enquiries for initial grant of protection and price fixation in protected and non protected industries, under advice from government.
- Investigate at prescribed intervals into the workings of a protected industry with reference to the cost of production, scale of output, quality of product and prospects of future expansion and then submit report to the Government.
- Within 3 months after the submission of a report by the commission, the Government has to report this to the Parliament and also explain the action taken on it.

27.2 THE GOVERNMENT CONTROL AND REGULATION OF THE MONOPOLIES AND RESTRICTIVE TRADE PRACTICES

1. Monopolies lead to the problem of concentration of economic power in a few hands
2. Exploiting consumers, overcharging them.
3. Dilution in quality standards.
4. From an economic perspective, existence of monopoly makes it difficult for the smaller firms to survive.
5. Inequalities of income, wealth and opportunity.
6. Restrictive trade practices are practices that tend to restrict competitive freedom of the firms or consumers.
7. Government intervention is crucial to save the economy from being victimized by private business.

8. Increasingly legislation being used to curb restrictive trade practices.
9. In Western economies like US & UK, some amount of monopoly is considered beneficial.
10. In UK, the commission on Monopolies has been concerned with restrictive practices in particular trades.
11. US imposes penalties on such practices.
12. Similar thinking prevails in under developed countries too.

Monopolies Inquiry Commission

- Commission appointed on 16 April, 1964.
- Look into effect of concentration of economic power in private hands and prevalence of monopolistic, restrictive practices.
- Suggest legislative measures to regulate such concentration.

Restrictive practices

- Jay Engineering Company trying to abort the attempt of TVS company in producing sewing machines by pleading for cancellation of TVS's manufacturing license.
- Glaxo people threatened that they would buy up all the goods made by Kaira Co-operative [Amul brand] and that they would buy up all goods and dump them into sea.
- Management of Dunlop Company trying to eliminate the Chennai Rubber factory from the market by waging a price war.

Other restrictive practices

A) Hoarding of goods
B) Creating artificial scarcity
C) Producer or Supplier fixing the final price
D) Exclusive dealerships
E) Cartel
F) Fixation of prices by agreement between competitors
G) Practice of Tien

What is TIEN?

Under TIEN, supplier of a commodity can insist that the dealer should take certain other commodity stocked by manufacturer. The most important recommendation made by the Commission: A permanent body should be set up with the duty and responsibility for exercising vigilance and protecting the country against dangers of restrictive practices. This body may be known as 'Monopoly Commission'.

The commission may take action against any enterprise which refuses to sell its wares at the usual price and thus benefits from the hoarding of goods. The commission can also decide on mergers and amalgamations. The committee also recommended liberalizing the licensing policy; starting industries in the public sector in fields where the necessity of making a very huge investment helps big business to establish a monopoly. The Commission also recommended establishing of the consumer co-operatives. Consumer co-operatives is a business owned by customers for their mutual gain. Businesses belong to the people who use them.

Competition Act, 2002

The present phase of economic reforms is based on three pillars of LPG – Liberalization, Privatization and Globalization. A number of provisions in the Mrtp Act had to be tweaked to be in tune with the contemporary trends in business environment. The Act did not address a number of present-day issues like the abuse of intellectual property rights. In many respects the provisions were draconian. The implementation and control structure was heavily bureaucratic in nature. The Act was one of the reasons for entry of foreign direct investment in India. Therefore, the MRTP Act was replaced by the Competition Act, 2002 on the recommendations of the SVS Raghavan Committee.

The Competition Act applies to whole of India, except the state of Jammu and Kashmir. The Act is empowered to exempt any class of enterprises from the Act in the interest of public or national security. Any other practice or agreement that is a result of an obligation of India under a treaty with other countries is also exempt from the competition act. Under the Act, no civil court has jurisdiction to entertain any suit or proceedings which the competition commission established under the Act is empowered by the Act to determine.

28 COMPANIES ACT 2013

Provisions of Companies Act 2013 for setting up a company

1. One Person Company – only one person as member.
2. Only a natural person (Indian citizen) and resident in India can incorporate OPC.
3. The 2013 Act does not require the objects clause in the memorandum unlike Companies Act 1956.
4. All provisions of Companies Act 1956 have to be complied with.
5. Directors have to file affidavit with Registrar of Companies that they have not been convicted of any offence or have been involved in any fraud during the last 5 years.
6. Furnishing of false information will penalize a person under the 2013 Act.
7. A OPC with charitable objects may be incorporated with new objects like environment protection, education, research, social welfare.
8. Company's licence can be revoked in case of fraud or where the objects of the company are against public interest.
9. If the company's directors have not filed declaration related to payment of value of shares agreed to be taken by subscribers and if paid up share capital is not less than the prescribed limits, within 180 days of its incorporation, ROC can initiate action to remove the name of the company.
10. If company has changed its names in last two years, new name along with the former name has to be printed on business letters.
11. If company wants to alter the objects clause, notice can be published in two newspapers and exit option can be given to dissenting shareholders as per SEBI regulations.
12. Subsidiary company should not hold shares in the holding company.
13. company may issue securities to public through prospectus or private placement or rights issue or a bonus issue.
14. company can issue securities through private placement or rights issue or bonus issue.
15. While issuing prospectus, the company has to disclose information if any legal action has been taken by any government or statutory body against it during the last 5 years.
16. Particulars regarding export obligations, details of any collaboration and details of other listed companies under the same management need not be shared.
17. Provisions of act for share capital and debentures are applicable to both private and public companies.
18. Companies cannot issue shares at a discount.
19. The only shares that can be issued at a discount are sweat equity wherein shares are issued to employees in lieu of their services.
20. Company cannot issue preference shares with a redemption date beyond 20 years.

21. Restrictions on further issue of share capital apply to both public and private companies.
22. Reduction of share capital will be allowed subject to the company conforming to the accounting standards.
23. The option available to company for a buy-back from odd lots is no longer available.
24. The Act allows use of electronic mode for notices and voting.

Private placement of shares

The sale of securities to a relatively small number of select investors as a way of raising capital is called as private placement of shares. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds.

Issue of shares through prospectus

A formal legal document, which is required by and filed with the Securities and Exchange Commission that provides details about an investment offering for sale to the public. A prospectus should contain the facts that an investor needs to make an informed investment decision. It is also known as an "offer document."

Provisions of companies act 2013 with respect to management and administration

1. Annual returns have to be filed by companies having paid up capital of Rs. 5 crore or more and turnover of Rs 25 crore or more.
2. Additional information like particulars of subsidiary companies, holding companies, remuneration of directors has to be included in the annual return.
3. Registers and returns can be kept at any place in India in which more than $1/10^{th}$ of members reside.
4. First AGM within 9 months from the date of closing of the first financial year of the company.
5. 2013 act defines business hours as between 9 am and 6 pm.
6. 95% members should agree if the AGM has to be called at a short notice.

Holding Company vs Subsidiary Company

Holding company is an organization that has the power to control the affairs of another company by virtue of holding more than 50% of its equity. There are companies that owned a small proportion of stock of another company but gradually acquired more shares of that company and finally became a holding company while the company that they hold in this manner is referred to as subsidiary company. When a company acquires more than 50% of the capital of another company, it becomes its holding company and has the power to manage its operations or to form an altogether new company out of the subsidiary company if it so desires.

When a company acquires majority shares in another company, it becomes a holding company and the company whose share it acquires becomes a subsidiary company. The relationship between the holding and subsidiary company is that of a parent and child. Listed companies have to file a return with the ROC with respect to change in the number of shares held by promoters and top 10 shareholders within 15 days of such a change. Efforts to synchronize requirements under 2013 act and SEBI act.

Bonus shares are new shares given free of cost to all existing shareholders of company in proportion to their holdings. Bonus issue 1:5 means one new bonus share for every 5 shares held by shareholders of the company.

Rights issue are a proportionate number of shares available to all existing shareholders of company which can be usually bought at a discount to the market price for a fixed period of time. Example: A company announcing rights issue of 2:3 at Rs.100 per share (current share price Rs 130 per share) is issuing 2 new right shares for every 3 shares held by shareholders of the company at Rs.100 per share. The rights shares can be sold in the open market. If not subscribed to, the rights shares lapse on closure of the offer.

Provisions of Companies Act with respect to appointment of Directors

1. Every listed company must have a woman director.
2. Every public company that has a paid-up share capital of Rs.100 crores or more or a turnover of Rs 300 crores or more has to have one woman director.
3. The aim of this provision is to encourage gender diversity in the board room.
4. The number of directorships that can be held by an individual has increased from 12 to 15.
5. At least one director has to be resident Indian. He should have stayed in India for at least 182 days.
6. Every listed public company should have at least one-third of the total number of directors as independent directors.

   But some of the provisions of Companies Act 2013 are different from that in Clause 49 of the listing agreement of SEBI. As per SEBI regulations, if chairman of board is a non executive director, a third board should be independent directors and if chairman is non executive director and promoter, then at least 50% of the board members shall be independent directors.

Executive Director	Non-executive Director
An executive director is a member of the board of directors and an employee of the company. He/she will have a specific role such as finance director and as such be responsible for the day to day running of the company within his sphere.	A non executive director is a member of the board who is not an employee but appointed for his/her expertise and takes a part in decision making at board meetings. Sometimes non executive directors may get involved in such things as disciplinary hearings, especially for high ranking employees.

7. Tenure of independent directors – maximum of 2 tenures upto 5 consecutive years with a cooling off period of 3 years between the two tenures.
8. Companies have to choose independent directors from a data bank maintained by Ministry of Corporate affairs.
9. Independent directors have immunity from civil or criminal action against them subject to certain clauses.
10. Anyone who does not get elected as a director in the general meeting cannot be appointed as additional director.
11. Companies need to have audit committees, nomination and remuneration committee and stakeholder relationship committee.
12. Contribution to political parties increased to 7.5% of average net profits during the three preceding financial years.
13. Other provisions relating to appointment and remuneration of managerial personnel.

Provisions of companies act 2013 with respect to payment of dividend

- Companies are free to transfer any or no amount of profits to reserves.
- No dividend shall be declared or paid in case of inadequate profits by a company.
- Dividend can be declared only from free reserves.
- If company has faced loss during the year, the interim dividend can't be at a rate higher than what was the average dividend in the last 3 years.
- Unpaid and unclaimed dividend to be transferred to the investor education and protection fund.

Provisions of companies act 2013 with respect to cross border mergers

The 1956 act allows the merger of a foreign company with an Indian company but does not allow reverse situation of merger of an Indian company with a foreign company.

The 2013 act allows reverse mergers but these mergers can be effected only with respect to companies incorporated within specific countries, the names of which shall be notified by central government.

Provisions of companies act 2013 with respect to CSR

Section 135 of the 2013 Act seeks to provide that every company having a net worth of Rs 500 crore or more or a turnover of Rs.1000 crore or more or a net profit of Rs 5 crore or more, during any financial year shall undertake CSR efforts. CSR committee shall have three or more directors out of which one director should be an independent director. An **Independent director** (also sometimes known as a outside **director**) is a **director** (member) of a board of **directors** who does not have a material or pecuniary relationship with company or related persons, except sitting fees.

CSR activities – examples are eradication of hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, combating viruses, environmental sustainability, social business projects, promotion of welfare of scheduled castes and tribes, backward classes.

The 2013 act mandates that companies would be required to spend at least 2% of the average net-profits of the immediately preceding 3 years on CSR activities and if not, explanation for the same has to be given in the director's report.

How has companies act 2013 impacted private companies?

1. Private company – increase in the limit of number of members from 50 to 200.
2. Managerial person can be appointed for 5 years but reappointment cannot be made earlier than one year before expiry of the term.
3. Age limit of managerial person 21 to 70 years. An individual above 70 years can be appointed as a key managerial personnel by passing a special resolution.
4. Special resolution needed if company has to borrow money in excess of paid up share capital and free reserves.
5. Special resolution needed if company wants to sell or lease or dispose off company's undertaking.
6. CSR rules applicable to private companies.
7. Private companies are not required to appoint independent directors as per Section 149 of the 2013 act.
8. Private companies have to comply with rules for inter corporate loans and investments

Thus the Companies act 2013 has increased the compliance requirements of private companies.

Circumstances in which company may be wound up voluntarily (Section 304):

A company may be wound up voluntarily –

1. If the company in general meeting passes a resolution requiring the company to be wound up voluntarily:
   A. as a result of the expiry of the period for its duration fixed by its articles, or
   B. on the occurrence of any event in respect of which the articles provide that the company should be dissolved; or
   C. the company passes a special resolution that the company be wound up voluntarily.

A company may be wound up by the Tribunal on a petition filed under Section 272 of the Act.

The company may be wound up by Tribunal –

1. If the company is unable to pay its debts;
2. If the company has resolved by special resolution that the company be wound up by the Tribunal;

3. If the company has acted against the interests of the sovereignty and integrity of India, its security of the State, friendly relations with foreign States, public order, decency or morality;
4. If the Tribunal has ordered the winding up of the company under Chapter XIX i.e. in case of a sick company;
5. If, on application by the Registrar or the Government, the Tribunal is of the opinion that the affairs of the company has been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up;
6. If the company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding five consecutive financial years; or
7. If the Tribunal is of the opinion that it is just and equitable to wind up the company.

How is Companies Act 2013 protecting the rights of shareholders?

The 2013 Act has empowered shareholders associations or group of shareholders to take legal action in case of any fraudulent action on the part of company and to take part in investor protection activities and class action suits. A **class action**, **class suit**, or **representative action** is a lawsuit where a group of people in similar circumstances (a class) sues another party, usually consumers suing a large business.

Auditors and audit firms have to compensate the victims of orders by tribunal. Tribunal is a court of justice.

Small shareholder means a shareholder holding shares of nominal value of not more than Rs.20000. Board of directors of a company with more than 1000 shareholders/debenture holders shall form a stakeholder relationship committee. This committee shall look into the grievances of the small shareholders. If the company's objects have changed or if contract terms have changed, then shareholders have been provided, under the act, an option to exit the company.

29 NURTURING INNOVATION EXCELLENCE

Ability to convert ideas to things is the secret of success

– Henry Ward Beecher

Prof. Pradip Khandwala has written books on creativity and innovation. The former IIM-Ahmedabad director's contribution to the subject is legendary. There is an endearing quality about his books that connects with you emotionally. Discovering something new, something that radically changes the status quo is definitely noteworthy but managing such innovations is important. Every business enterprise looks forward to bottom line growth. Only managerial capabilities for successful emergence of innovations can increase the hit rate of innovations. In an intensely competitive market, it is only organizational excellence that can sustain a business.

What is innovation?

Simply put, innovation is developing a creative idea so that it can be put to practical use. It need not be about creating a new product. It can also be about creating a new process.

Innovation & uncertainty

Innovations require coping with uncertainty. One is vague about the approach to be used. What technology is the best? What are the customer needs? What are the costs? What are the benefits? What are the skill sets and competencies required to institutionalize the innovation process within the organization? The reality is that there is no one way to manage innovations due to their diversity. One can have a broad process framework but within that framework a modicum of customization may be needed.

Skunkworks

These are low cost facilities for a dedicated team to work on an innovative technological approach. These efforts help in achieving technological breakthroughs. Often companies encourage employees within the organisation to become Intrapreneurs wherein they manage a complete project all by themselves as though they are the promoters. Such employees are given the latitude to take decisions independently and once the project is successful, the organisation is ready for a scale-up.

External support for innovation

Organisations should network with high caliber academic institutions. The academic community has been at the forefront of many industrial innovations. Prof CK Prahlad is credited with the legendary “bottom of pyramid” marketing concept which revolutionized the way rural marketing was carried out in India. Companies have to manage uncertainty by effective network and also global scanning for innovative approaches.

Tips to nurture innovation excellence

1. Too tight a control will destroy creativity.
2. Too lax a control will lead to complacency.
3. Assessing cost benefit analysis is vital.

4. Employee engagement in an ongoing manner is important not only for focusing on organizational goals but also understanding the constraints.
5. Influencing others who were not part of a project is a humongous challenge.
6. Managing change during the implementation of innovation is important. People value the support that they receive during this stage.
7. Crises are good times for introducing innovation. Jugaad innovation with its roots in India is a much-debated topic in the West. During a crisis, there is a greater willingness on the part of management/staff to accept radical innovations.
8. During better times, a business can execute brand building innovations.
9. While managing innovations, always look at the big picture.
10. As innovation is an interactive phenomenon, managing human relationships is important.
11. Mindset differences within the organisation can hobble innovations. Elevator-pitch ideas can be translated to successful innovations provided they have the buy-in of top management and the innovations are commercially viable. There is always a danger of an idea suggested by the top management becoming a sacred cow.
12. Innovation excellence and implementation depends, to a great deal, on how interdepartmental conflict and intradepartmental conflicts are managed.
13. Collective and creative problem solving can be vital tools for adding value to the innovation funnel.
14. Better internal communications and collaborative relations can increase the flow of innovations.

ENDNOTES

1. Dole economics is in contrast to development economics. Dole is offering things free to citizens to gain political mileage.