

INDUSTRIAL ECONOMICS – BEC54

UNIT-I

Private – Public – Joint sectors – Large – Medium – Small industries – Multi National Corporations: Meaning and extend of operation – Merits and Demerits of MNCs and Transnational Corporations.

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Unit I

Introduction

Differentiate between public, private and joint sector industries

Public Sector Industries	Private Sector Industries	Joint Sector Industries
An industry for which the state or its agency undertakes economic activities and controls the means of production and distribution are classified as public sector industries.	An industry for which an individual partnership firm or a private company undertakes economic activities and controls the means of production and distribution is known as private sector industries.	An industry for which both states as well as industrial firm jointly undertake economic activities and control the means of production and distribution is placed in the category of joint sector industries.
The examples of public sector industries are iron and steel industries located at Bhilai, Rourkela, Durgapur and Indian Railways, H.M.T etc.	The examples of private sector industries are TISCO, cotton textile industries at Mumbai and Ahmedabad etc.	The example is Maruti Udyog Ltd.

A manufacturing business has always been an interesting field around the world. It demands reasonable investment for once. But once it is established, it starts fetching you consistent profits. There are several manufacturing business ideas that one can bet upon. However, if you are looking for some of the best profitable medium scale manufacturing business ideas this post is for you. Which are the Top and Best Manufacturing Business Ideas in India that require moderate investment, but gives you good profits? In this article we would provide medium scale manufacturing business ideas list.

What are small, medium and large scale industries?

Small scale industry employs a less number of people and capital. Most of the work is done by manpower, small machines, and tools. The raw material used is less and subsequently,

the production is also less. They are scattered over rural and urban areas and are in the private sector like cycle production, garment manufacturing, dhal mill, etc.

Medium scale industry neither runs its operations at such tiny levels as a small scale industry nor at such a huge level as a large scale industry. In fact, most of the medium-scale manufacturing businesses were basically small scale businesses that have flourished with time and turned into medium scale businesses.

A large scale industry requires a huge amount of capital to be invested and it provides employment to a large number of people in order to offer a high output. The work is done mostly by large machines and laborers. They are located in urban centers and fall in the public sector or run by big industrialists. The examples of such industries are cotton textiles, jute textiles, iron and steel industry.

Large Scale Industries

A business can range from a single proprietor enterprise to a large corporation which employs thousands of workers across multiple countries. Based on the scale of business, organizations are classified as micro-enterprises, small-scale enterprises, large scale industries, public enterprises, and multinational corporations. In this article, we will take a quick peek at large scale industries.

What are Large Scale Industries?

An industry which requires huge infrastructure and manpower with an influx of capital assets are Large Scale Industries. In India, large-scale industries are the ones with a fixed asset of more than one hundred million rupees or Rs. 10 crores.

The Indian economy relies heavily on such industries for economic growth, generation of foreign currency, and the creation of job opportunities for millions of Indians.

Advantages of large scale industries

1. They provide an impetus to the industrialization of the country.

2. Large scale industries, usually, produce capital and basic goods (instruments, machines, and chemicals, etc.)

3. They are capable of generating funds for the research and development of new technologies.

4. Due to the large scale of operations, they have the potential to lower the cost of goods.

5. Further, they create opportunities for small-scale and cottage industries to evolve and flourish.

6. Also, the employment opportunities created by large scale industries are huge.

Large Scale Industries in India

The term 'large-scale' is generic in nature and includes different types of industries. In India, the following heavy industries fall under the purview of large scale industries:

1. Iron and Steel Industry

2. Textile Industry

3. Automobile Manufacturing Industry

4. Over the last two decades, Information and Technology. (IT industry has evolved and has contributed huge revenues while creating thousands of jobs for Indians. Hence, many economists include it in the large scale industry sector.)

5. Telecom Industry

6. It is important to note that these industries are either manufacturing units or those which use both indigenous and imported technologies. (Here are some more examples: Fertilizer , Cement , Natural gas , Coal , Metal extraction , Metal processing , Petroleum , Mining , Electrical , Petrochemical , Food processing units , Tourism , Banking , Sugar , Construction , Automobile , Communication equipment , Cement , Chemicals , Earth movers , Consumer durables (like television, refrigerators, etc.) , Engineering products , Vehicle assembly , Beverages , Agricultural processing , Insurance and Finance.)

In recent years, as the markets opened up due to globalization, there has been a mixed effect on large-scale industries. There are some who have managed to attract international customers, foreign trade and technology, tie-ups. However, there are also others who were unable to cope with the competitiveness ushered in by the open market.

Small Scale Industries in India (SSI) - Types, Registration, Advantages, Fees

Small scale industries are labour intensive yet require little capital. Small scale industries can be either manufacturing industries or service providers. Small scale industries comprise of small enterprises that manufacture goods or provide services with the help of smaller machines and a few workers and employees.

The enterprise must fall under the guidelines set by the Government of India. Small scale industries in India are the lifeline of the Indian economy, and they offer several job opportunities for skilled labours. After all, small scale industries are essential for the economy from a financial and social point of view.

For a developing country like India, these industries bloom because of huge demand and opportunity. Some small scale industries are also exporting goods, thereby bringing foreign currencies in India. In India, nearly half of the products (45-55 per cent) shipped are from Small scale and mid-scale industries. Some small scale industries are created because of the demand of vendors for multinational companies.

The Government of India has some guidelines for small scale industries in terms of investment the company is making and the revenue it has generated. Small scale industries are categorized into three parts: manufacturing/production, ancillary, and service industries.

Manufacturing Industries: Units that produce finished goods for consumption or used in processing industry. These types of small scale industries are generally individually owned. Manufacturing small scale industries examples are power looms, engineering industries, food processing, etc.

Ancillary Industries: Big companies or MNC manufactures finished goods, but they don't generally make all the parts themselves. Vendors of these companies are ancillary

industries. Ancillary industries can also be identified as these companies which makes machines for multinational companies or medium scale industries

Service Industries: Repair shops and maintenance industries comes under the category of service industries

Other than these types of industries, there are feeder industries and mining or quarries.

Benefits of SSI registration

The banks and financial institution provides loan for the business after SSI registration, and it becomes hassle free. Once the booking is made, taxes rebate and can be availed. To participate in the government tenders, it becomes mandatory to have the registration done beforehand. As a lot of concessions and discounts are available, it becomes smooth, and the cost of setting up the industry reduces.

Classification of Small scale industries

As per the MSMED Act 2006: Classification of the Manufacturing process

An industry is a small enterprise if investment in plant and machinery is more than 25 lakhs but does not exceed five crores.

As per the MSMED Act 2006: Classification of service enterprises

An industry is a small enterprise if investment in equipment is more than ten lakhs but does not exceed two crores

Ancillary small industrial unit: Minimum 50 per cent of the production to be supplied to the parent unit and investment in plant and machinery should not exceed one crore.

Small scale industries owned and managed by women entrepreneurs: Women entrepreneurs have share capital not less than 51 per cent (individual or jointly).

List of small scale industries

In small scale industries, manufacturing industries grow very fast due to the natural supply of raw materials and huge demand in public. In south India, the summit held where KSSIA (Karnataka Small Scale Industries Association) was also present in January 2019, had a motive to discuss the key issues and find a solution to them at the same time provide the right environment for the growth and development. The major Small scale industries in Tamilnadu and small scale industries in Kerala are spinning and weaving, coconut oil making, cashew nut processing, clay products etc. Small scale ancillary industries in Hyderabad have a vast number of employments due to various multinational companies. Foreign investment is as essential as it creates a huge no. of ancillary small scale industries and thereby creating work.

Some examples of small scale industries are: Agarbatti making, Chalk making, Biodiesel production, Sugar candy manufacturing, Wood making, Rice mill, Potato chips making, Toys making, Microbrewery, Liquid soap making, Honey processing, Slippers making, Detergent powder making, Fruit juice production plant, Spices making, and Chocolate making.

Administrative bodies for Small scale enterprises

There are government bodies set up for the welfare of the member of small scale industries. Ministry of small scale industries designs policies, schemes and program to promote the small scale industries. Ministry of Agro and rural industries coordinate and help in the development of villages and khadi industries, micro and tiny industries in rural and urban areas.

Small and Medium Enterprise (SME) - Definition, Characteristics, & Examples

Every business has a journey. Their endings might be different but starting is always the same i.e. from a small-scale business to a large-scale business. But in many cases, the business might remain small/medium-sized throughout its life-cycle. These types of businesses come under small and medium enterprises (SMEs).

The number of SMEs in the world is way more than large companies and employs many more employees collectively. Each country has its own standards to identify SMEs.

What is SME?

Small and medium enterprises are privately owned businesses whose capital, workforce, and assets fall below a certain level according to the national guidelines.

Local restaurants, grocery stores, garages, etc. that serve a hyper local target audience usually fall under the blanket of a small to medium size enterprise as they generate less revenue and operate with less than a certain level of workforce and assets.

India

In India, SMEs are identified on the basis of the investment.

In the case of small enterprises

1. The manufacturing sector's investment in plant & machinery should be more than 25 lakh rupees and less than 5 crore rupees.

2. The service sector's investment in the equipment should be more than 10 lakh rupees and less than 2 crore rupees.

In the case of medium enterprises

1. The manufacturing sector's investment in plant & machinery should be more than 5 crore rupees and less than 10 crore rupees.

2. The service sector's investment in the equipment should be more than 2 crore rupees and less than 5 crore rupees.

Characteristics of SMEs

Irrespective of different definitions of SMEs in different countries, the characteristics of such businesses remain the same.

1. Limited Investment: The capital requirement of an SME is less as it operates on a small scale.

2. Labour-Intensive: SMEs usually don't require heavy or sophisticated machinery. Hence, it uses more labor-intensive techniques.

3. Less Number of Employees: SMEs requires a smaller number of people as compared to large corporations, due to their small scale of operations.

4. Local Area of Operations: SMEs operate locally and remain there for longer periods of time (years or maybe decades) which helps it to build a strong relationship with local customers.

5. Management: In most cases, a single owner or a small group of individuals handles the management of the business.

Importance of SME

Nowadays, SMEs have become the supporting pillar of any economy in the world in many ways. Without them, the economy cannot survive. The importance of SMEs can be highlighted by the following points:

1. Utilization of Local Resources: Opening up of small and medium-sized businesses in rural areas or small towns helps in better utilization of resources in that particular area. If a town is rich in iron ore mines, then factories will open up for the effective utilization of that resource.

2. Employment Generation: SMEs are the best solution to unemployment in any country. It provides job opportunities for local people. Especially, in developing countries like India, where unemployment has been a major problem, these businesses provide relief.

3. Opportunities to New Entrepreneurs: The major role of SMEs in any country is to cultivate new entrepreneurs. Since small businesses are easier to set up and require less capital, it creates a perfect option for young entrepreneurs to test their skills and grow.

4. Development of Local Areas: The development of an area largely depends upon the number of businesses it has. Setting up small businesses helps in providing employment to the local population and removing regional imbalances.

5. Improvement of the Quality of Life: SMEs help the locals by providing them jobs. This increases the per capita income of the household which improves their quality of life.

Advantages of SME

1. More Flexible: SMEs are more flexible when it comes to adapting to change. This is because they are small in size, runs on a simple business model, and are closer to their customers. This helps SMEs to identify any kind of opportunity that arises in the market before any competitors.

2. Close Relationship with Customers: This is one of the greatest perks of SMEs. While large corporations pour a lot of money to connect with their customers, SMEs do it easily. SMEs operate locally and have a smaller customer base, which makes it possible to maintain close relationships with its customers.

3. Fast Decision Making: In most cases, small and medium-sized businesses are run by an individual or a small group of people. So, decisions are taken fast as compared to large corporations where it takes time to debate and arrive at a decision.

4. Better Communication: SMEs usually employs a small group of people. There is no need for a separate department for hiring employees, all the activities are managed by the owner. He/she keeps track of all the employees and communicates with them effectively.

5. Better Control over Business: The owner manages all the operations of the business effectively as it is small in size. This leads to better control over the business.

Disadvantages of SME

1. Less Use of Technologies: Due to less capital, SMEs rely heavily upon labor-intensive techniques instead of capital-intensive techniques. Another reason is that small businesses run on a traditional business model that requires less use of modern technologies.

2. Difficulty in Funding: Acquiring funds for an SME is not easy as banks hesitate to hand out loans. This is because a lot of businesses don't last long. The owners of SMEs mostly get their funding from family & friends or use their own savings.

3. Less Skilled Employees: Highly skilled employees demand higher pay. So, due to less capital, SMEs settle for less-skilled employees.

4. Risk: Risk is always there in running a business, even if the business model is structured to be risk-free, it cannot be eliminated completely.

5. Stress: It is not easy to manage all the departments of the business alone. This is why, many times, managing becomes a burden and takes a toll on the mental health of an entrepreneur.

In the initial stages of setting up a business, entrepreneurs do extra hours of work ignoring their health which leads to many mental health problems like anxiety and stress.

6. Startups Vs SMEs: Small and medium-sized businesses are often confused with startups. Many young entrepreneurs call their small business a startup. In businesses, the use of proper terminologies is important to avoid any problems that might arise out of it in the future.

Multinational Companies (MNC India)

Meaning: The term ‘Multinational’ is widely used all over the world to denote large companies having vast financial, managerial and marketing resources. MNCs are like holding companies having its head office in one country and business activities spread within the country of origin and other countries.

Definition: According to **ILO** report (i.e. **International Labour Organisation**) “The essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country, while the enterprise carries out operations in number of other countries’.

Due to India’s growing economy, globalization, and its potential in the market, many multinational companies are coming to India to extend their business. Below is the list of the top 10 MNCs in India. **(1. Microsoft, 2. IBM, 3. Nestle, 4. Proctor & Gamble, 5. Coca-Cola, 6. Pepsico, 7. CITI Group, 8. SONY Corporation, 9. Hewlett Packard, 10. Apple Inc)**

Merits and Demerits of MNCs

1. **Economic Development:** The Developing countries need both foreign capital and technology to make use of available resources for economic and industrial growth. **MNCs** can provide the required financial, technical and other resources to needy countries in exchange for economic gains.

2. **Technology Gap:** **MNCs** are the instruments of transfer of technology to the host country. Technology is necessary to bring down cost of production and produce quality goods on a large scale. The services of **MNCs** can be of great help to bridge the technological gap between developed and developing countries.

3. **Industrial Growth:** **MNCs** are dynamic and offer growth opportunities for domestic industries. **MNCs** assist local producers to enter the global markets through their well established international network of production and marketing. And there by ensure industrial growth.

4. **Marketing Opportunities:** **MNCs** have access to many markets in different countries. They have the necessary skills and expertise to market products at international level.

For example, an Indian Company can enter into Joint Venture with a foreign company to sell its product in the international market.

5. Work Culture: MNCs introduce a work culture of excellence, professionalism and fairness in deals. The sole objective of Multinational is profit Maximization. To achieve this, the Multinationals use various strategies like product innovation, technology up gradation and professional management etc.

6. Export Promotion: MNCs assist developing countries in earning foreign exchange. This can be done by promoting and developing export oriented and import substitute industries.

7. Research and Development: The resource and experience of MNCs in the field of research enables the host country to establish efficient research and development system. It is a fact that many MNCs are now shifting their research units to countries like India to avail of monetary incentives and cheap labour.

Demerits MNCs:

1. Problem of Technology: Technology developed by MNCs from developed countries does not fully fit in the needs of developing countries. This is because, such technology is mostly capital intensive.

2. Political Interference: The MNCs from developed countries are criticised for their interference in the political affairs of developing nations. Through their financial and other resources, they influence the decision-making process of the governments of developing nations.

3. Self-Interest: MNCs work towards their own self-interest rather than working for the development of host country. They are more interested in making profits at any cost.

4. Outflow of foreign Exchange: The working of MNC is a burden on the limited resources of developing countries. They charge high price in the form of commission and royalty paid by local subsidiary to its parent company. This leads to outflow of foreign exchange.

5. Exploitation: MNCs are criticised for exploiting the consumers and companies in the host country. MNCs are financially very strong and adopt aggressive marketing strategies

to sell their products, adopt all means to eliminate competition and create monopoly in the market.

6. Investment: MNCs prefer to invest in areas of low risk and high profitability. Issues like social welfare, national priority do not find any place on the agenda of MNCs.

7. Artificial Demand: MNCs are criticised on the ground that they create artificial and unwarranted demand by making extensive use of the advertising and sales promotion techniques.

Transnational corporations

Globalization impacts on trade, with many companies operating across borders.

Transnational corporations (TNCs) or multinational corporations (MNCs) are companies that operate in more than one country. Unilever, McDonalds and Apple are all examples of TNCs.

TNCs tend to have offices and headquarters located in the developed world. They often have factories in countries that are not as economically developed to take advantage of cheaper labour.

When a TNC locates within a country, there are advantages and disadvantages.

Advantages of TNCs locating in a country include

1. Creation of jobs.
2. Stable income and more reliable than farming.
3. Improved education and skills.
4. Investment in infrastructure, e.g. new roads - helps locals as well as the TNC.
5. Help to exploit natural resources.
6. A better developed economic base for the country.

Disadvantages of TNCs locating in a country include

1. Fewer workers employed, considering the scale of investment.
2. Poorer working conditions in some cases.
3. Damage to the environment by ignoring local laws.
4. Profits going to companies overseas rather than locals.
5. Little reinvestment in the local area.
6. Factories are often footloose and jobs insecure. If labour costs increase, the company may move elsewhere.
7. Natural resources being over exploited.

Impact and influence of TNCs

Transnational corporations are among the world's biggest economic institutions. Some experts suggest that the 300 largest TNCs own or control at least one-quarter of the entire world's productive assets. This is worth about US \$5 trillion.

This demonstrates the sheer scale and influence of TNCs in world trade.

Some TNCs are able to exert influence over developing countries directly:

1. Employing government officials involved in economic policy making
2. Making financial contributions to political parties
3. Bribery

Some TNCs enlist the help of developed governments to further or protect their interests in developing countries. Sometimes this has involved military force.

In 1954, the USA launched an invasion of Guatemala to prevent the Guatemalan government from taking unused land from the United Fruit Company for redistribution to peasants.

TNCs are collectively the world's most powerful economic force, but no intergovernmental organization is charged with regulating their behaviour. This naturally favours the developed world and inhibits developing countries' development.

International trade could be a powerful tool to end poverty. However, in reality, inequalities still exist in the international trading system.

Unit – II

Industrial Location

Factors Influencing the Location of Industries: Geographical and Non-Geographical Factors

Many important geographical factors involved in the location of individual industries are of relative significance, e.g., availability of raw materials, power resources, water, labour, markets and the transport facilities.

But besides such purely geographical factors influencing industrial location, there are factors of historical, human, political and economic nature which are now tending to surpass the force of geographical advantages. Consequently, the factors influencing the location of industry can be divided into two broad categories i.e.

I. Geographical factors, and

II. Non-geographical factors

I. Geographical Factors

1. Raw Materials: The significance of raw materials in manufacturing industry is so fundamental that it needs no emphasizing. Indeed, the location of industrial enterprises is sometimes determined simply by location of the raw materials. Modern industry is so complex that a wide range of raw materials is necessary for its growth.

Further we should bear in mind that finished product of one industry may well be the raw material of another. For example, pig iron, produced by smelting industry, serves as the raw material for steel making industry. Industries which use heavy and bulky raw materials in their primary stage in large quantities are usually located near the supply of the raw materials.

It is true in the case of raw materials which lose weight in the process of manufacture or which cannot bear high transport cost or cannot be transported over long distances because of

their perishable nature. This has been recognized since 1909 when Alfred Weber published his theory of location of industry.

The jute mills in West Bengal, sugar mills in Uttar Pradesh, cotton textile mills in Maharashtra and Gujarat are concentrated close to the sources of raw materials for this very reason. Industries like iron and steel, which use very large quantities of coal and iron ore, losing lot of weight in the process of manufacture, are generally located near the sources of coal and iron ore.

Some of the industries, like watch and electronics industries use very wide range of light raw materials and the attractive influence of each separate material diminishes. The result is that such industries are often located with no reference to raw materials and are sometimes referred to as 'footloose industries' because a wide range of locations is possible within an area of sufficient population density.

2. Power: Regular supply of power is a pre-requisite for the localization of industries. Coal, mineral oil and hydro-electricity are the three important conventional sources of power. Most of the industries tend to concentrate at the source of power.

The iron and steel industry which mainly depends on large quantities of coking coal as source of power are frequently tied to coal fields. Others like the electro-metallurgical and electro-chemical industries, which are great users of cheap hydro-electric power, are generally found in the areas of hydro-power production, for instance, aluminium industry.

As petroleum can be easily piped and electricity can be transmitted over long distances by wires, it is possible to disperse the industry over a larger area. Industries moved to southern states only when hydro-power could be developed in these coal-deficient areas.

Thus, more than all other factors affecting the location of large and heavy industries, quite often they are established at a point which has the best economic advantage in obtaining power and raw materials.

Tata Iron and Steel Plant at Jamshedpur, the new aluminium producing units at Korba (Chhattisgarh) and Renukoot (Uttar Pradesh), the copper smelting plant at Khetri (Rajasthan) and the fertilizer factory at Nangal (Punjab) are near the sources of power and raw material deposits, although other factors have also played their role.

3. Labour: No one can deny that the prior existence of a labour force is attractive to industry unless there are strong reasons to the contrary. Labour supply is important in two respects (a) workers in large numbers are often required; (b) people with skill or technical expertise are needed. Estall and Buchanan showed in 1961 that labour costs can vary between 62 per cent in clothing and related industries to 29 per cent in the chemical industry; in the fabricated metal products industries they work out at 43 per cent.

In our country, modern industry still requires a large number of workers in spite of increasing mechanization. There is no problem in securing unskilled labour by locating such industries in large urban centers. Although, the location of any industrial unit is determined after a careful balancing of all relevant factors, yet the light consumer goods and agro-based industries generally require a plentiful of labour supply.

4. Transport: Transport by land or water is necessary for the assembly of raw materials and for the marketing of the finished products. The development of railways in India, connecting the port towns with hinterland determined the location of many industries around Kolkata, Mumbai and Chennai. As industrial development also furthers the improvement of transport facilities, it is difficult to estimate how much a particular industry owes to original transport facilities available in a particular area.

5. Market: The entire process of manufacturing is useless until the finished goods reach the market. Nearness to market is essential for quick disposal of manufactured goods. It helps in reducing the transport cost and enables the consumer to get things at cheaper rates.

It is becoming more and more true that industries are seeking locations as near as possible to their markets; it has been remarked that market attractions are now so great that a market location is being increasingly regarded as the normal one, and that a location elsewhere needs very strong justification.

Ready market is most essential for perishable and heavy commodities. Sometimes, there is a considerable material increase in weight, bulk or fragility during the process of manufacture and in such cases industry tends to be market oriented.

6. Water: Water is another important requirement for industries. Many industries are established near rivers, canals and lakes, because of this reason. Iron and steel industry, textile industries and chemical industries require large quantities of water, for their proper functioning.

Significance of water in industry is evident from Table 27.3. Also it requires 36,400 litres of water to produce one kwh of thermal electricity. Further, it is worth noting that water used in industries gets polluted and is therefore not available for any other purpose.

7. Site: Site requirements for industrial development are of considerable significance. Sites, generally, should be flat and well served by adequate transport facilities. Large areas are required to build factories. Now, there is a tendency to set up industries in rural areas because the cost of land has shot up in urban centers.

8. Climate: Climate plays an important role in the establishment of industries at a place. Harsh climate is not much suitable for the establishment of industries. There can be no industrial development in extremely hot, humid, dry or cold climate.

The extreme type of climate of north west India hinders the development of industries. In contrast to this, the moderate climate of west coastal area is quite congenial to the development of industries. Because of this reason, about 24 per cent of India's modern industries and 30 per cent of India's industrial labour is concentrated in Maharashtra-Gujarat region alone.

Cotton textile industry requires humid climate because thread breaks in dry climate. Consequently, majority of cotton textile mills are concentrated in Maharashtra and Gujarat. Artificial humidifiers are used in dry areas these days, but it increases the cost of production.

II. Non-Geographical Factors

Now-a-days alternative raw materials are also being used because of modern scientific and technological developments. Availability of electric power supply over wider areas and the

increasing mobility of labour have reduced the influence of geographical factors on the location of industries.

The non geographical factors are those including economic, political, historical and social factors. These factors influence our modern industries to a great extent. Following are some of the important non- geographical factors influencing the location of industries.

1. Capital: Modern industries are capital-intensive and require huge investments. Capitalists are available in urban centers. Big cities like Mumbai, Kolkata, Delhi, and Chennai are big industrial centers, because the big capitalists live in these cities.

2. Government Policies: Government activity in planning the future distribution of industries, for reducing regional disparities, elimination of pollution of air and water and for avoiding their heavy clustering in big cities, has become no less an important location factor.

There is an increasing trend to set up all types of industries in an area, where they derive common advantage of water and power and supply to each other the products they turn out. The latest example in our country is the establishment of a large number of industrial estates all over India even in the small scale industrial sector.

It is of relevance to examine the influence of India's Five Year plans on industrial location in the country. The emergence of suitable industries in south India around new nuclei of public sector plants and their dispersal to backward potential areas has taken place due to Government policies.

The state policy of industrial location has a greater hand in the establishment of a number of fertilizer factories, iron and steel plants, engineering works and machine tool factories including railway, shipping, aircraft and defense installations and oil refineries in various parts in the new planning era in free India.

3. Industrial Inertia: Industries tend to develop at the place of their original establishment, though the original cause may have disappeared. This phenomenon is referred to

as inertia, sometimes as geographical inertia and sometimes industrial inertia. The lock industry at Aligarh is such an example.

4. Efficient Organization: Efficient and enterprising organization and management is essential for running modern industry successfully. Bad management sometimes squanders away the capital and puts the industry in financial trouble leading to industrial ruin.

Bad management does not handle the labour force efficiently and tactfully, resulting in labour unrest. It is detrimental to the interest of the industry. Strikes and lock-outs lead to the closure of industries. Hence, there is an imperative need of effective management and organization to run the industries.

5. Banking Facilities: Establishment of industries involves daily exchange of crores of rupees which is possible through banking facilities only. So the areas with better banking facilities are better suited to the establishment of industries.

6. Insurance: There is a constant fear of damage to machine and man in industries for which insurance facilities are badly needed.

Profit Theories

1. Weber's Theory of Industrial Location

Alfred Weber a German economist was the first economist who gave scientific exposition to the theory of location and thus filled a theoretical gap created by classical economists. He gave his ideas in his 'Theory of Location of Industries' which was first published in German language in 1909 and translated into English in 1929. His theory, which is also known as 'Pure Theory' has analytical approach to the problem.

The basis of his theory is the study of general factors which pull an industry towards different geographical regions. It is thus deductive in approach. In his theory he has taken into consideration factors that decide the actual setting up of an industry in a particular area.

Weber's Problems

Weber was faced with many serious problems. He wanted to find out why did industry moved from one place to another and what factors determined the movement. After considerable thinking he came to the conclusion that causes be responsible for this migration could be Regional Factors Primary Causes and Agglomerative and deglomerative factors (Secondary Factors).

In so far as regional factors were concerned these, among other things, included cost of the ground, buildings, machines, material, power, fuel, labour, transportation charges and amount of interest that the capital would have earned.

i. Regional Factors (Primary Causes)

According to Weber transportation costs play a vital role in the location of an industry. Each industry will try to find location at a place where transportation charges are the barest minimum, both in terms of availability of resources and place of consumption. According to him transportation costs are determined by the weight to be transported on the one hand and distance to be covered on the other.

Then the cost will also depend on the type of transportation system available and the extent to which it is in use. the nature of the region i.e. whether rocky, plain, connected or unconnected with roads etc. the kinds of the roads in the area where the goods are to be transposed; nature of facilities required i.e. whether the goods are to be taken with great care, less care or even without any special care.

Locational Figure

While discussing regional factors, Weber has discussed the idea of locational figure. According to him every industry will try to see that it is located at a place where raw material is available nearest to the place of consumption on the one hand and most advantageously located material deposits on the other. According to Weber, “Thus locational figures are created. These locational figures, therefore, represent the first and most important basis for formulating the theory.”

Classification of Material

Weber, before proceeding further, has classified raw material into different categories e.g:

(a) Ubiquities material; which is suitable everywhere e.g. bricks, clay etc., and

(b) Localized material e.g., iron ore, mineral etc. which is available in certain regions and not everywhere. Obviously the later play a bigger and important role than the former. He has also categorized raw material as 'Pure' and 'Weight Losing' raw material is one which impart its whole weight to the products e.g. cotton, wool etc. and weight losing materials are those in which only a part of the material enters into the weight.

Laws of Transportation

Weber, while discussing the theory of location, has also discussed laws of transportation. According to him material index measures the total weight to be moved. From material index he understood the portion of the weight of localized material to the weight of the product. According to him, "All industries whose material index is not greater than one and whose locational weight therefore, are not greater than two lie at the place of consumption."

Causes of Deviation of Location

Weber was faced with a serious problem namely why the industries deviate from the centre of least transport costs. One such reason could be differences in the labour costs. This labour cost can be cheap either because of differing levels of efficiency and of wages of labour or because of differing levels of efficiency in the organization and the technical equipment which the labour is required to use. Labour cost can go up and come down due to distribution of population as well.

But whatsoever might be the reason for the low labour cost, According to Prof. Kuchhal, deviation "will be possible only when the additional cost of transportation at the new centre is more than compensated by a saving in labour cost. When the labour costs are varied, an industry deviates from its transport locations in proportion to the size of its labour co-efficient".

Weber himself has said that, with a high index of labour costs, a large quantity of labour costs will be available for comparison with correspondingly high critical isodapanes, and therefore we shall find a high potential attracting powers of the labour locations and vice versa.

According to Weber's theory if the behaviour of each industry in respect of labour cost is to be measured than it is necessary to calculate the proportion of labour costs per ton of weight to be moved.

ii. Agglomerative and Deglomerative Factory (Secondary Causes)

Weber has also discussed secondary causes responsible for industrial location. He has taken into account agglomerative and deglomerative factors. An agglomerative factor, according to him is a factor which provides an advantage in production or marketing a commodity simply because industry is located at one place. On the other hand deglomerative factor is one which gives such advantage because of decentralization of production.

Agglomerative factors include gas, water etc. and are conducive for concentration of industry and deglomerative factors include land values and taxes and lead to decentralization. Pulls of agglomerative factors are index of manufacture and locational weight. According to Weber ratio of manufacturing cost of locational weight is co-efficient of manufacture.

According to Weber Agglomeration is encouraged with high co-efficient and deglomeration with low. According to him, we shall do well to bear in mind that labour orientation is one form of deviation from the minimum point; agglomeration to another.

When agglomerative forces appear in an industry oriented towards labour, there takes place a competition between the agglomerative deviation and the labour deviation, a struggle to create, locations for agglomeration, as compared with labour locations, both bearing upon the foundations of the transportational ground work.

Split in Location

Weber has considered the possibility of location of an industry at more than open one, particularly when production in an industry can be carried independently at more than one place. According to him in fact single location is an exception and split a rule. It is essential, according to him that all productive processes must go on at one and the same place and it is better that these be carried out at different stages and at number of places. Split is to occur in two stages. In the first stage it is elimination of waste and in the second working up of pure material.

Locational Coupling

Weber along with split in location has also given the idea of locational coupling, meaning thereby that different types of industries can be coupled in one and the same locality. According to him it is just possible to combine production of different articles in one plant because of the availability of several raw materials from the same source.

This coupling can be possible either due to economic or technical reasons. It is also possible due to connection through material e.g., if the byproduct of one industry happens to be raw material for another then the two industries may select a single place of location. Locational coupling can also be due to market connection between two industries. In such a case product of one industry may enter into another industry without being used as material or half finished product.

Criticism of Weber's Theory

1. Unrealistic Assumptions: According to critics of this theory, Weber has unrealistically over-simplified the theory of industrial location. Many assumptions in the theory are unrealistic. According to them Weber has taken only two elements for determining the cost of transportation namely weight and distance. He has not given due place to the type of transport, quality of goods to be transported, topography, character of region etc.

2. Labour Centers Notion Defective: Weber's ideas about labour centers have also not been accepted. He has started with the presumption that there are fixed labour centers with unlimited supplies of labour in each of them. Obviously both these assumptions are not correct. There cannot be fixed labour centers, because each industry creates new labour centers. Similarly there can never be unlimited supplies of labour in any centre.

3. Ideas about Fixed Points of Consumption: It is argued that Weber's this idea does not work well with the market conditions in a competitive structure. Consumers are always scattered all over the country and thus consumer centers always shift with a shift in industrial population. There can therefore be no fixed point of consumption.

4. Vague Generalizations: Weber, while expounding his theory of industrial location, has introduced, it is believed, certain vague generalizations. He has given no due place to non-economic factors of industrial location, which play a big role in this regard. Who can deny that

there are certain historical and social forces which go a long way while deciding industrial location of an industry, but he has completely ignored them, which has made his theory very unrealistic.

5. Not a Deductive Theory: Andreas Predohl is of the view that Weber's Theory is only selective and not deductive. According to him he has made an artificial distinction between general and special factors which influence location of an industry. Such a distinction, in fact, has no logical significance. According to Weber transport costs and labour costs are only general costs. He has failed to explain why capital costs and management costs cannot be included or covered under it.

6. Defective Method of Analysis: Weber has tried to classify material into ubiquities and fixed material. Again the division is arbitrary. According to Robinson who does not know that in actual practice materials are drawn from a large number of alternative fixed points.

7. Overburdened with Technical Considerations: Dennison is of the view that Weber's theory is heavily over burdened with technical considerations. It has not laid due stress on costs and prices and has over stressed technical coefficients. According to him, "The most important criticism about Weber's analysis is that it is lamentably removed from all considerations of costs and prices and it is formulated mainly in terms of technical coefficients."

Utility of the Theory

No doubt theory suffers from some serious defects, yet it cannot be denied that it has its own value, importance and significance. It is primarily because the alternatives given are neither comprehensive nor complete. So far it is the only theory which is capable of universal application.

Andreas Predohl has also given his ideas about industrial location and has come to the conclusion that every change of industrial location involves a change in the combination of means of production. But this theory obviously does not provide any guidelines for locating new industries.

2. Sargant's Theory of Industrial Location

Sargant Florence has given his theory about industrial location, which has become popular. He started with the idea that some of Weber's assumptions are not realistic. According to him geographical location of an industry is not as important, as the distribution of occupied population. His main consideration is that occupational distribution of population should be the main and primary factor for taking into consideration the location of an industry.

His theory is mainly based on inductive analysis and while explaining location factor of an industry he has taken into consideration location factor and co-efficient of localization. Now a question arises as to what is location factor. According to him, it is an index of the degree of concentration of an industry in a particular region. Now this raises another problem namely how to arrive at the index, to which Sargant has made a reference.

According to Saviyya and Dass, This index is calculated by taking into consideration two ratios, namely, the percentage of workers of the industry in question found in the region under consideration and the percentage of all industrial workers in the country.

In calculating index to find out the location factor the first one is divided by the second and if the quotient is one, the location factor is said to unity and it can be said that the industry is evenly tribute over the whole country. If quotient is above unity, then the conclusion can be that the region under reference has higher share of industry.

Co-Efficient of Localization

By this he meant prosperity of an industry for concentration. It indicates an industry's tendency for localization anywhere in the country. It is primarily concerned with a particular industry and not a particular region. It will thus be a single figure for the industry and also for the country as a whole.

On the basis of coefficients it becomes possible to divide the industries into three categories namely high, medium and low. Thus coefficient helps in classifying industries according to their dispersion or concentration.

While discussing the advantages of method Prof. Kuchhal says, **“Thus the location significance of industries is shown and the problem of investigation becomes easier.**

Industries with low- coefficient of localization can thrive in different regions and are thus dispersed. Industries which show a high coefficient of localization.... are centralized in particular regions.”

Critical Assessment of the Theory

1. The theory is not in a position to explain the causes responsible for the choice of location of an industry. It can only help in finding out the existing state of industrial distribution in a country. It is said that the theory is only the investigation of status quo and nothing beyond that.

2. While finding out coefficient of localization, the unit is political region, which it is said cannot be much justified in discussing an economic theory. Therefore, the unit should be economic region.

3. According to this theory number of workers is the only one factor as the indicator of concentration of an industry, but there is no logic in choosing this one factor alone for finding out concentration of an industry.

4. According to Florescence co-efficient of location for all the countries is the same. But it cannot be the same because distribution of workers in each country varies according to local conditions.

5. While formulating his theory, he has not given due place and consideration to various forces of concentration which have direct bearing on the location of industrial units namely the role of external economies or tax incentives etc.

Value of the Theory

Like Weber's theory, this theory also suffers from some defects, about which a mention has already been made. But the theory has its advantages too. The theory is of considerable use for studying location dynamics in any country. These indices help in guiding the trends of industrial development in a country.

Then another advantage is that coefficient of localization helps in deciding the types of industries that may be dispersed under a scheme of regionalism. It then becomes possible to diversify industries with a medium coefficient of localization over a wide area, according to factor equipment in each area.

3. Essay on the Profit Maximization Theory of August Losch

August Losch, a German economist, published his theory of 'Profit Maximization' in the year 1954. The least cost location theory of Weber was wholly discarded by Losch. In fact, he suggested that, 'profit maximization' is the only objective of the entrepreneur, whether it is state or an individual. The major objective of the industry is, therefore, to find out the place where maximum profits occur.

Unlike Weber, who postulated his entire theory in an economic state of perfect competition, Losch, on the other hand, explained his theory within the environment of monopolistic competition. According to Losch, industry will not necessarily be located within the least cost (transport cost and labour cost) location; rather it would locate in areas where maximum profit will occur. So, ignoring transport cost, labour cost and agglomeration cost, he emphasized more on the total production cost.

To get the maximum profit, as stated by Losch, total consumption is important. Higher the consumption rate, greater will be the profit. In this case, he emphasized most on the price reduction of the commodity. Any decrease of price would automatically stimulate the volume of consumption. This can be illustrated by the following diagram.

In this simple model, it is evident that when price of the commodity drops from R to P, the consumption increases from M to N. The theory of August Losch considered demand as a most important variable. The fundamental objective behind the theory was to find out the most profitable location for industrial establishment.

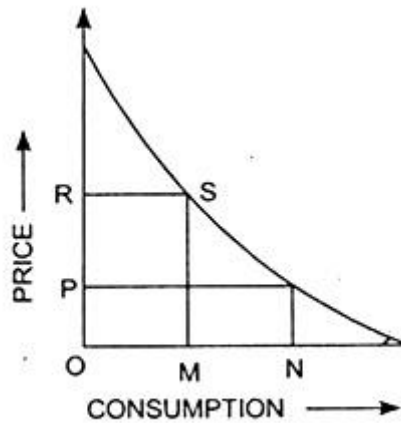


Fig. 4

To determine the location of maximum profit, Losch said, “The complexity stems from the fact that, there is more than one geographical point where the total demand of a surrounding district is at a maximum,...We are thus reduced to determine separately for every one of a number of virtual factory location the total attainable demand, and for similar reasons the best volume of production as a function of factory price (Market and Cost analysis). The greatest profit attainable at each of these points can be determined from the cost and demand curves, and from this place of greatest money profits, the optimum location can be found”.

Losch argued that most of the existing theories are all simplified and generalizations of the complex problem of industrial location. Like Weber, he also considered certain assumptions for the success of his theory.

Assumptions of the Profit Maximization Theory - In the presence of certain optimum conditions the maximum profit location may occur.

1. The area under consideration should be an extensive homogenous plane where raw materials are distributed evenly.
2. The ‘transport cost’ is uniform and directly proportional in all the directions.
3. The people inhabiting the region have a general homogeneity either in taste, knowledge and technical skill.

4. There is no economic discriminations among the people. The economic and career building opportunities are open and uniform to all individuals.

5. The population distribution is very even and the area is self sufficient in agricultural production.

In the case of excess production of agriculture, the status quo of economy will be distorted. To achieve homogeneity of economy within the region, the theory required some more conditions.

These are as follows

1. The entire area should be equally served by the factories. No area should be exempted from the supply; therefore, no new firm would dare to venture in the area.

2. There must be conformity in the range and quantum of profit. In case of abnormal profit, new firms may try to establish their own plant.

3. The location must satisfy both producer and consumer. The profit of the firm and satisfaction of the consumer must be optimum through the location.

4. There must be provisions for consumers to get the products from other adjacent areas.

5. The number of consumers, producers and areas should be well defined and not very extensive. Only a limited number of producers within a small area will be able to overcome the complexities and satisfy completely the handful of consumers.

According to Losch, to get the desired result from the location and sustained growth of the industry, these conditions are pre-requisites.

Explanation to the Profit Maximization Theory

The major objective of the location theory is to attain equilibrium in the producing area and the product and the ability of the producer. If a single entrepreneur enters in the production process, within a vast area, the distribution cost will be very high.

But when several small producers are engaged in the production process in separate regions, the distribution cost will come down and due to increasing competition, efficiency of the product and cost of production will be lower.

The profit will increase substantially. Due to increasing competition, the area served by individual manufacturing units will be reduced. In the reduced area, several producing units will remain adjacent with each other, without leaving any area un-served. So, in this particular situation, a hexagonal area would serve the purpose. To establish his theoretical model of the theory, August Losch proposed three distinct phase of development.

The phases are as follows

I. In this first phase Losch observed that if sufficient and symmetrical demand of a product prevails in the market, the market conditions may be explained by a demand cone. The following diagram illustrates that the effective demand of the particular product will be exactly same to the volume of the cone.

II. In the second phase, within the vast rounded area, several factories will concentrate. The virgin, extensive market area will automatically give a lucrative operational area.. But despite the growing competition among the firms to capture larger share of consumer and larger market areas, there should be some void in the boundary zones.

III. In the third phase of industrial location witness the narrowing of the intermediate space between two market areas. The areas fall vacant between the different market areas become the target of new enterprises.

Losch, however, he hinted about the deviation of his theory in some special conditions. According to his conception, when price of the commodity of a particular firm increases, demand of the product decreases considerably.

Naturally, due to higher price, the company loses some of its market area. Automatically, that area is encroached by the adjacent firm. In this fashion, market area of a unit changes continuously.

Merits of the Profit Maximization Theory

1. August Losch tried to restore a order in the former chaotic classifications of industrial location.
2. He was the first person to consider the influence of the magnitude of demand on industrial location.
3. August Losch rightly emphasizes upon the role of competition as an important determinant of location analysis.
4. The calculations adopted by Losch were simple and easily applicable to any place.
5. The theory has also a philosophical contribution on the motive of entrepreneurs' role.
6. His equilibrium concept is perhaps the greatest contribution among the location theories developed later on.
7. The least cost concept of Weber was nullified by Losch and instead more precise 'profit maximization' concept was adopted.

Demerits of the Profit Maximization Theory

1. This theory is essentially a simplified model or theorizing of an ideal condition. In reality, only in a rare occasion, these events may occur.
2. The assumed conditions of homogeneous plain region, equal distribution of raw materials and uniform transport rates never occur in the real world. Therefore, Losch's theory, as said by some critics, is nothing but only intellectual exercise.
3. Losch even assumed the cultural homogeneity and uniform taste of the people within the region. This is nothing but absurdity.
4. He ignored the variation of technological development of different regions. The difference of technical know-how may offset the theoretical model.

5. Political decisions play an important role in the industrial location. Losch ignored it.

6. The variation of the cost of raw materials and labour wage rates were not given proper weightage in the theory.

7. Losch categorically separated the role and effect of agriculture and industry. But this difference is somehow arbitrary in nature.

8. The abstract and optimum situation demanded by the theory may be available in agriculture but not in the complex production process of modern manufacturing industries. Thus, Losch theory is more practical in agriculture, rather than in industry.

Unit III

Industrial Relations

Industrial relations may be defined as the relations and interactions in the industry particularly between the labour and management as a result of their composite attitudes and approaches in regard to the management of the affairs of the industry, for the betterment of not only the management and the workers but also of the industry and the economy as a whole.

The term industrial relations explain the relationship between employees and management which stem directly or indirectly from union-employer relationship.

Industrial relation is the relation in the industry created by the diverse and complex attitudes and approaches of both management and workers in connection with the management of the industry.

Industrial Relation: Definitions, Scope, Objectives, Types, Characteristics, Importance

The term ‘Industrial Relations’ comprises ‘Industry’ and ‘relations’. Industry means any productive activity in which an individual is engaged. It includes - (a) primary activities like agriculture, fisheries, plantation, forestry, horticulture, mining etc. etc. and (b) Secondary activities like manufacturing, construction, trade, transport, commerce, banking, communication etc.

Economically speaking, industry means the secondary sector where factors of production (land, labour, capital and enterprise or four M’s – men, materials, money and machines) are gainfully employed for the purpose of production, and where a business organization exists. ‘Relations’ means ‘the relations that exist in the industry between the employer and his work-force. Different authors have defined the term industrial relations in somewhat different way.

Definition

According to Bethel and Others, “Industrial relation is that part of management which is concerned with the manpower of the enterprise whether machine operator, skilled worker or manager.”

According to V. Agnihotri, “The term industrial relations explain the relationship between employees and management which stem directly or indirectly from union employer relationship.”

According to V.B. Singh, “Industrial relations are an integral aspect of social relations arising out of employer- employee interaction in modern industries, which are regulated by the State in varying degrees, in conjunction with organized social forces and influenced by prevailing, institutions. This involves a study of the State, the legal system, workers’ and employers’ organizations on the institutional level; and that of patterns of industrial organization (including management), capital structure (including technology), and compensation of labour force and the forces of market on the economic level.”

According to Ordway, Tead and Metcalf, “Industrial relation is the composite result of the attitudes and approaches of employers and employees towards each other with regard to planning, supervision, direction and coordination of the activities of an organization with a minimum of human efforts and frictions with an animating spirit of cooperation and with proper regard for the genuine well-being of all members of that organization.”

According to T.N. Kapoor, “The term ‘Industrial Relations’ should be understood in the sense of labour management relations as it percolates into a wider set of relationship touching extensively all aspects of labour such as union-policies, personnel policies and practices including wages, welfare and social security, service conditions, supervision and communication, collective bargaining etc., attitudes of parties and governmental action on labour matter.”

Scope

Industrial relations are relation between employee and employer in their day-to-day work. Hence, it is continuous relationship.

(a) Relationship among employees, between employees and their superiors or managers.

(b) Collective relations between trade unions and management. It is called union-management relations.

(c) Collective relations among trade unions, employers’ associations and government.

Scott, Clothier and Spiegel remarked that industrial relations has to attain the maximum individual development, desirable working relationships between management and employees and effective moulding of human resources. They have also asserted that either industrial relations or personnel administration is primarily concerned with all functions relating man effectively to his environment.

Thus, the scope of industrial relations seems to be very wide. It includes the establishment and maintenance of good personnel relations in the industry, ensuring manpower

development, establishing a closer contact between persons connected with the industry and that between the management and the workers, creating a sense of belonging in the minds of management, creating a mutual affection, responsibility and regard for each other, stimulating production as well as industrial and economic development, establishing a good industrial climate and peace and ultimately maximizing social welfare.

Main Objectives

Two fold objectives of good industrial relations are to preserve industrial peace and to secure industrial co-operation.

If we have to establish industrial peace, the workers must be assured of fair wages, good conditions of work, reasonable working hours, holidays and minimum amenities of life.

Industry can be defined as a venture of co-operation under the direction of the management to secure the effective co-ordination of men, materials, and machinery and money.

The objectives of good industrial relations should be development and progress of industry; through democratic methods, stability, total wellbeing and happiness of the workers; and industrial peace.

Industrial peace is the fruit of good industrial relations. It is the harmonious atmosphere where there is no “inquilabs”, no strikes and no industrial disputes.

Regional prejudices, provincialism and clannishness have no place where good industrial relations prevail.

The primary objective of industrial relations is to bring about good and healthy relations between the two partners in the industry i.e., the management and the labour.

Types

The industrial relation is chiefly concerned with the management and the workers relations or employer-employees relations. But its scope is not limited only to this aspect. It also includes labour relations i.e., relations between workers themselves or between various groups of workers and public or community relations i.e., relations between the community or society and the industry.

There are so many groups of workers in an industry like workmen, supervisory staff, management and employer and harmonious relationship between various groups that affects the social, economic and political life of the whole community. Thus, industrial life creates a series

of social relationships which regulate the relations and working together of not only workmen and management but also of community and industry.

Good industrial relations not only indicate the cordial atmosphere in the industry but also facilitate higher and quality production and industrial growth.

Thus, industrial relations include four types of relations

(i) Labour relations i.e., relations between union- management (also known as labour management relations);

(ii) Group relations i.e., relations between various groups of workmen i.e., workmen, supervisors, technical persons, etc.

(iii) Employer-employee relations i.e., relations between the management and employees. It denotes all management employer relations except the union- management relations;

(iv) Community or Public relations i.e., relations between the industry and the society.

The last two are generally, not regarded the subject matter of study under industrial relations. They form part of the larger discipline sociology. The first two are studied under industrial relations but these two i.e., labour management relations and employer-employee relations are synonymously used.

Salient Characteristics

1. Parties in the Industrial Relations Activities: Basically, two parties-workers and management are involved in the process of establishing relations. However, the government agencies regulate /maintain industrial relations.

2. Interactive Process: Industrial relations arise out interactions between different persons/parties. They are supervisors, workers trade unions, employers' associations.

So, interactive process takes place between –

- i. Supervisors and industrial workers
- ii. Supervisors and group/team members
- iii. Management and trade union leaders
- iv. Employers' federations and workers' unions.

3. Two-Way Communication: IRs is a two-way communication process. One party gives stimuli, other party responds to the stimuli. So, the transaction occurring through such mechanism is either complementary or cross. More the complementary transactions, better will be the industrial relations situations.

4. HRM Practices: Effective human resource planning system, identification and stimulating prospective employees, designing the most suitable selection technique to choose the right kind of people help to organization to get a committed and willing workforce that want to grow, develop and achieve. Such employees in the process like to develop better relations with their bosses. So, HRM practices influence IRs pattern in the industry.

5. Approaches to IRs: Various approaches contribute to shape IRs pattern in industrial organizations. These approaches include sociological, psychological, socio-ethical, human relations, Gandhian, system approaches etc.

6. State Intervention: State plays a vital role to influence industrial relations situations through its activities as facilitator, guide, counsellor for both the parties in the industry.

7. Role of Trade Union: Behavioural manifestations of workers are mostly governed by the trade unions to which they belong. Hence, trade union's perception, attitudes towards management influence workers to form their mind set that regulates/promotes interaction with the management.

8. Organizational Climate: If, congenial and conducive organizational climate prevails, workers feel homely, interact spontaneously, communicate boss about their problems, difficulties directly and come close to him to exchange/share the views each other in respect of work, change of job design, introduction of any operative system, process etc. Under such situation, possibility of establishing healthy human relations develops and these relations influence industrial relations pattern of organization.

9. Dispute Settlement Process: If, the management personnel believe on the philosophy of settling workers' grievances/ disputes through bi-lateral negotiation process, they give much more emphasis on mutual talk, sharing responsibility, collaboration, partnership dealing and mutual trust. In the process changes in workers' attitudes, behaviour and thought pattern are likely to occur which effect industrial relations.

10. Outcomes of IRs: Outcomes of IRs are reflected in production both in quantity and quality, services, man days lost, wastes, accident rate, productivity, labour turnover rate, absenteeism rate, number of bipartite negotiations, company's image, growth, development etc.

11. Competency Development: Healthy industrial relations help to develop workers' skill, knowledge, ability, aptitude and change their attitudes, perception to enable them to participate in collaborative activities / collective bargaining process effectively.

12. Issues in IRs: Industrial relations climate / situation is greatly influenced by the issues-economic, non economic governed by service contract / terms and conditions of employment. Besides, the issues not covered under service rules viz., behavioural, and attitudinal issues influence IRs pattern.

Importance

1. The labours today are more educated and they are aware of their responsibilities and rights. Management has to deal with them not merely as factors of production, but as individuals having human dignity and self-respect. The objective is to change the traditional views of management and labour towards each other and develop mutual understanding and co-operation and work towards achievement of common goal. Good industrial relations lead to industrial peace and increase in production.

2. Joint consultation between employees and management paves the way for industrial democracy and they contribute to the growth of the organization.

3. Conducive industrial relations motivate the workers to give increased output. Problems are solved through mutual discussions, workers' participation, suggestion schemes, joint meeting, etc. Good industrial relation, increase labour efficiency and productivity.

4. With increased productivity the management is in a position to offer financial and non-financial incentives to workers.

Conditions for Healthy

Every organization strives to induce good industrial relations. To ensure industrial peace and avoid labour unrest like strikes, gheraos, demonstrations, slogan shouting, work stoppages

etc.; healthy work relationships must exist for the development and promotion of harmonious labour-management relations which has become very important in the modern industrial society.

Importance of good industrial relations and concern for the welfare of the labour is best expressed in the words of Dorabji Tata as follows –

“The welfare of the labouring classes must be one of the first cares of every employer. Any betterment of their conditions must proceed more from the employers downward rather than be forced up by demands from below, since labour, contented, well-housed, well-fed and generally well-looked after, is not only an asset and advantageous to the employer but serves to raise the standard of industry and labour in the country.”

Good industrial relations depend upon a large number of factors/conditions.

1. History of Industrial Relations in an Enterprise: Every industry moves ahead with its good or bad history of industrial relations. Harmonious relationship between the workers and management marks the good history of the enterprise. While strikes and lockout characterise the bad history of the business. History, good or bad, established once will take time to change.

Once militancy (strikes, lockouts etc.,) is established as a conduct of operations, there is a tendency to continue. If harmonious relationships are established, it will perpetuate. This, however, does not mean that militancy situation cannot be converted into a harmonious relationships or vice-versa. Rather what it means is that probability of peaceful relations is greater where mutual understanding exists – and the probability of conflict is greater when industrial conflict has been accepted as a normal conduct of business.

2. Strong Trade Unions: Strong and enlightened trade unions help to promote the status of labour without jeopardising the interest of management. Trade unions maintain good relations with management and avoid militancy and strikes situation. Enlightened trade unions induce the workers to produce more and persuade the management to pay more.

They mobilize public opinion on vital labour issues and help the government in enacting progressive labour laws. They develop right kind of leadership, avoid multiplicity of unionism and union rivalry. Hence, a strong, responsible and enlightened trade union promote healthy industrial relations.

3. Negotiating Skills of Management and Workers: Well experienced and skillful negotiations create a bargaining environment conducive to the equitable collective agreements. The representatives of management and workers must recognize the human element involved in collective bargaining process.

Both parties must have trust and confidence in each other. They should be able to perceive a problem from the opposite angle with an open mind. A constructive and positive approach from both the parties must be present to honour the agreements in the right spirit.

4. Economic Factors: Economic satisfaction of workers is one of the important condition for good industrial relations. Reasonable wages and benefits in commensurate with other industries must be paid by the employer. Economic need is the basic survival need of the workers.

5. Social Factors: Social factors such as – social values, social groups and social status also influence the industrial relations. The employment relationship is not just an economic contract. It is a joint venture involving a climate of human and social relationships wherein each party (workers and management) fulfills his needs and contributes to the needs of others. The supportive climate is essentially built around social factors. The influence of social factors gets changed with the progress of industrialization.

6. Psychological Factors: The psychological factors such as motivation, alienation and morale are significant determinants of industrial relations. The relationship between workers and management would be more stable and sure if the needs and expectations of the workers are integrated with the goals of the enterprise.

Workers should understand that their interests get furthered when organizational goals are achieved. Cordial and collective relations create an environment of power relationships, where everyone will be motivated to offer their best towards the attainment of goals.

7. Public Policy and Legislation: The regulation of employer- employee relationship by the government is another important factor for the smooth industrial relations. Government intervenes the relationships by enacting and enforcing labour laws. Government intervention checks and balances upon the arbitrary management action.

It also provides a formal measure to the workers and employers to give emotional release to their dissatisfaction. Timely intervention by the government can catch and solve problems before they become amounting serious.

8. Off the Job Conditions: Living conditions of workers are also important. The industry appoints the 'whole person'. His personal and home life is inseparable from his work life. His personal optional conditions do affect on his efficiency and productivity. So off-the-job conditions of workers must be taken care of and improved to develop good industrial relations at the work place.

9. Better Education: Industrial workers in Indian are generally illiterate. They can be easily misled by the trade union leaders who have their self-interest. Workers must be properly educated to understand the prevailing industrial environment. They must have a problem solving approach and a capability to analyze the things in the right perspective. They must be aware of their responsibility towards the organization and the community at large.

10. Business Cycles: Industrial relations are good when there is boom and prosperity all round. Levels of employment go up, wages rise and workers are happier in prosperity period. But during recession, there is decline in wages and fall in employment level. Such recessionary conditions mar the good industrial relations. Thus business cycles also influence the existence of healthy industrial relations.

To sum up, the establishment of good industrial relations depends upon the constructive approach of both the management and the trade union. Mutual respect, understanding, goodwill and recognition of dignity are the essential conditions for healthy industrial relations. Promotion of collective bargaining and establishment of fair and independent machinery for the peaceful settlement of industrial disputes are the pre-requisites for good industrial relations in the modern industrialized world.

Main Aspects

(1) Promotion and Development or Healthy Labour-Management Relations:

One of the aspects of industrial relations is to promote and develop healthy relations between the employer and employees and pre-supposes.

(a) Spirit or collective bargaining and willingness to take recourse to voluntary arbitration. The very feeling of collective bargaining makes them assume equal status in the industry. This feeling may further industrial peace.

(b) The existence or strong, well organized, democratic and responsible trade unions and also associations or the employers in the industry which may ensure job security to workers and their participation in the decision-making and give labour a dignified role in the society. These associations, tend to create grounds for negotiations, consultations and discussions on mutual basis leading to good labour- management relations.

(c) Welfare Work. Whether voluntary or statutory provided by the state, trade unions and the employers do create, maintain and improve good and healthy labour management relations.

(2) Maintenance of Industrial Peace:

Industrial peace presupposes the absence of industrial strife. Such peace can be established only when the following rights and privileges are enjoyed by the State and facilities for bipartite or tripartite consultation machinery for resolving disputes if any, are provided –

(a) Machinery for the prevention and settlement of industrial disputes should be established through legislative and administrative enactment.

(b) The provision of the bipartite and tripartite forums for the settlement of disputes must be made. Various codes, model standing orders and procedures to resolve disputes are necessary.

(c) Appropriate Government must have sufficient power to refer the disputes to adjudication or arbitration when it feels it necessary in the interest of the industry, or of the country. The Government must not allow any group in the industry to stop production due to strikes or lock-outs.

(d) Implementation Cells and Evaluation committees must be established, having power to look into the implementation of various agreements, settlements and awards and also to violation of statutory provisions under various labour laws.

(3) Development of Industrial Democracy

The idea of ‘industrial democracy’ is that the labour must have the right to associate with the management in running the industry.

In this connection, following techniques are usually adopted:

(a) Establishment of the Shop Councils and Joint Management Councils at the floor and plant level to improve the working and living conditions through mutual consultation and understanding. It will create necessary climate for the development of industrial democracy;

(b) Increase in labour productivity through various means;

(c) Recognizing the labour not as a commodity but as a human being in the industry, allowing them a feeling of self-respect and better understanding of their role in the organization;

(d) The material and social environment to which the worker adjusts and adapts him while at work must be available.

According to Lester, “Industrial relations involve attempts to arrive at solutions between the conflicting objectives and values; between profit motive and social gain; between discipline and freedom; between authority and industrial democracy; between bargaining and cooperation; and conflicting interests of the individual, the group and the community.”

Main Participants in Industrial Unit

Basically there are two parties in the employment relationship, i.e., the labour and the management. Over the years, the Government has come to play a major role in industrial relations and they have established legal and non legal measures for cordial industrial relations in the country.

These three parties of industrial relations interact with the environment that prevails in the industry at any time. Good industrial relations are the outcome of- (a) Healthy labour management relations, (b) Existence of industrial peace and settlement of all disputes in such a manner that there are no strikes or lockouts and (c) Labour participation in industry which is referred as Industrial democracy.

Three parties or participants or actors in an industrial unit

1. Workers and their Unions: The total work plays an important role in industrial relations. The total work includes working age, educational background, family background, Psychological factors, social background, culture, skills, attitude towards other work, etc. Worker organization prominently in trade union activities.

The main purpose of trade unions is to protect the workers economic interest through collective bargaining and by bringing pressure on management through economic and political practices. Trade union factors include leadership, financial, activities, etc.

2. Managers and their Associations: The prominent role is of work group, the differences in their sizes, constitutions and the degree of specialization they press upon. Of course, there is the necessary provision for mutual communications for the structure of status and authority and for such other organization as trade unions and employer's associations.

3. Government: Government plays a balancing role as a custodian of the nation; government exerts its influence on industrial relations through its labour policy, industrial relations policy, implementing labour laws, the process of conciliation and adjudication by playing the role of a mediator, etc. It tries to regulate the activities and behaviour of both employee's organizations and employer organizations.

Thus the three groups of employees, employers and the government work within the social and economic environment that prevails at a particular time. Whatever industrial relations system may be in vogue, it has in its framework the intricate rules and regulations which enforce the workplace and the working community.

The various systems might comprise of different forms of such rules and regulations. There might be laws and awards of different courts, committees or tribunals. There might be agreements written or sanctioned by custom, usage, practice or tradition or there might be the outcome of government policies or intervention.

Industrial Relations – Policies

i. Monitoring of industrial relations (Man-days lost in strikes and lockouts/ workers affected by closure/retrenchment, reasons for labour unrest and industrial sickness etc.)

ii. Convening of meetings of Industrial Tripartite Committees and Special Tripartite Committee.

iii. Decisions on closure, retrenchment and lay-off applications submitted by Central Public Sector Undertakings (CPSUs).

iv. Policy matters relating to employees in Central Public Sector Undertakings on payment of statutory dues of workers, impact of disinvestments and restructuring of PSUs on employees, improvements in Voluntary Retirement Scheme / Separation Scheme, etc.)

Special Tripartite Committee / Industrial Tripartite Committees:

Seven industrial tripartite committees have been constituted with the view to promote the spirit of tripartism. These tripartite bodies aim at solving the industry specific problems related to workers in the Sugar industry, Cotton, Textile industry, Electricity Generation and Distribution,

Jute industry, Road transport, engineering industry and Chemical industry. In addition a Special Tripartite Committee has been constituted to discuss general matters pertaining to Government reforms policies and their impact on workers.

Implementation

- i. Recognition of unions under the Code of Discipline in respect of industries / undertakings in the Central Sphere.
- ii. Rendering assistance in securing recognition to unions in multi-state establishments which are in the State sphere, as and when such requests are received.
- iii. Verification of membership of unions in Major Ports and Docks for the purpose of allocation of seats in the Port Trusts and Dock Labour Boards.
- iv. Verification of membership of unions operating in nationalized Banks and SBI for the purpose of identifying the representative union for appointment of workmen, Directors on the Boards of Nationalized Banks.
- v. Rendering advice/clarification in matters of withdrawal/derecognition of unions, criteria for recognition of unions, verification procedure rights and privileges of recognized and unrecognized unions etc.
- vi. General verification of membership of trade unions.
- vii. Implementation of the Code of Discipline.
- viii. Implementation of awards under the Industrial Disputes Act.
- ix. Screening of proposals for appeal against industrial awards under the Industrial Dispute Act by Public Sector Undertakings.

Strategic Issues in Labour Management Relation

With the changing business environment, industrial relations have undergone a sea change. Developing and maintaining good labour relations has become a part of organisational strategy.

In this section, we shall discuss some of the strategic issues involved in labour-management relations which are:

1. Developing Healthy Labour-Management Relations:
2. Maintaining Industrial Peace:
3. Developing Industrial Democracy:

Changing Trends in Labour Management Relations

Before industrialization, one couldn't even dream of cordial labour-management relations. However, organizations realized that employee participation was needed for their survival. From exploiting workers, organizations sought the participation of workers in every activity.

1. From Exploitation to Participation.
2. Changes in the Economic Environment.
3. Building Consensus.
4. Conflict Management.
5. Effective Negotiations.
6. Interpersonal Communications.
7. Trust and Co-Operation.

Industrial Relations– Impact of Good Industrial Relations on Production

An economy organized for planned production and distribution, aiming at the realization of social justice and welfare of the masses can function effectively only in an atmosphere of industrial peace. If the twin objectives of rapid national development and increased social justice are to be achieved, there must be harmonious relationship between management and labour.

The impact of good industrial relations on production may be seen from the following facts:

- (1) Reduces Industrial Disputes
- (2) High Morale
- (3) New Programme
- (4) Mental Revolution
- (5) Reduced Wastage

Essential Conditions for Sound Industrial Relations

The establishment of good industrial relations depends on the constructive attitude on the part of both management and union. The constructive attitude in its turn depends, on all the basic policies and procedures laid down in any organization for the promotion of healthy industrial relations. It depends on the ability of the employers and trade unions, to deal with their mutual problems freely and independently with responsibility.

They should put their faith in collective bargaining rather than in collective action. The existence of strong / independent / responsible / democratic trade unions, the promotion of

collective bargaining- a fair and independent machinery, for the peaceful settlement of industrial disputes, the existence of good human relations, and lack of any kind of discrimination, are certainly the essentials for healthy industrial relations situation

For maintaining sound industrial relations, certain conditions should exist for the maintenance of harmonious industrial relations.

They are:

- (a) Existence of Democratic Employee is Unions
- (b) Existence of Organized Employers Unions
- (c) Mutual and Voluntary Negotiations
- (d) Maintenance of Industrial Peace

Industrial Relations – Major Causes industrial disputes are:

In an organization there is always the possibilities of conflicts between management and workers on various matters which destroy industrial relation. If industrial relation is not maintained perfectly, it may lead to low production and productivity, creation of tense situation, lower industrial development, loss of industrial peace and harmony etc.

Major causes of industrial disputes are

- (a) Economic causes- Related to more wages, D.A. bonus, better service conditions etc.
- (b) Non-economic causes

These are further classified as-

- (i) Physical causes- Like better working conditions, supply of essential materials.
- (ii) Psychological causes- Like unlawful lay-off and retrenchment, misbehaviour of managers to workers, defective transfer and promotions.
- (iii) Organizational causes- Like non-recognition of unions.

Industrial Relations– Future

Good industrial relations increase the morale of the workers and motivate the workers to work more. When both parties think of mutual interests, it gives more chances of development. Any problem is solved by mutual consent which develops many incentive schemes, such as – worker participation in management, profit sharing, suggestion schemes and so on.

These all bring job satisfaction to the workers and they all put positive effects on the production. From all this we can conclude that good industrial relation, certainly boost up the

production and improves the quality and quantity both. They increase labour efficiency also. An increase in the morale of workers reduces per unit cost of production too. Thus we can say that industrial relations have a far-reaching impact on production.

The future of industrial relation in can be reviewed from reports of the commissions constituted by the government for this purpose. From these certain issues are emerging which are posing challenges to the three actors in the system.

The first is the issue of strengthening collective bargaining by trying to determine a sole bargaining agent for negotiations. The state of Maharashtra has already passed a law for the creation of a sole bargaining agency in every unit and industry. Collective bargaining is advocated where the parties involved have a fuller understanding. This will help to arrive at a speedier settlement of dispute, between them.

The second issue relates to the gaps that are occurring as a result of the various that occur in central and state legislations as far as labour matters are concerned. In India, labour fall under the concerned. In India, labour fall under the concurrent list though NCL has made a recommendation for forming a common labour code which is yet to be adopted. Adoption of this recommendation will go a long way in solving some of the problems that Indians legislation process is facing.

Another issue is that of workers participation in management. India has already experienced the working of many forms of workers-participation schemes but none of them seems to have made any headway. The reasons for the failure of these schemes need to be probed into.

The three actors in the system need to take into account the effect of their actions on the consumer s and society in general, owing to the growing inter-linkages between industry and its environment. They have to evaluate and decide on the appropriate alternatives in terms of the strategy they are going to adopt in managing the personnel and industrial relations functions.

The environment is fast changing and the pressure from various groups involves are starting to get more vocal and intense. The strategy chosen for the attainment of the goals will have to depend on the objectives, values structures available and the environment in which they have to operate.

Recent Trends in Industrial Relations System

The demands of the employers have necessitated a grand shift from the 'State Intervention' to 'Liberalization' in the IRS. There have been many emerging trends in industrial relations ranging from labour reform to judicial trends and managerial strategies. Let us have a look on all these varying trends in today's industrial relations system.

1. Labour Reforms

The State Intervention policy of the government has mostly worked in favour of the labour to give them protection and collective bargaining. The industrial policies were designed to regulate the actions of the labour and capital and providing judicial solutions to industrial disputes. Now with the product market and capital market reforms, which have increased the beginning power of the capital vis-a-vis labour, capital has become more mobile and less regulated.

While the product market and capital market reforms may go unnoticed by majority of the people, the labour reforms come under the political and economic consideration of the nation. Labour reforms exert more political pressures as the government has to ensure the welfare of the millions of workers employed in the organized sector. The economic pressures do restrain certain welfare schemes of the industrial enterprises.

The government of India has resorted to 'soft' labour reforms in the form of

- i. Disinvesting instead of privatization.
- ii. Liberalizing labour inspection systems.
- iii. Amending trade union laws.
- iv. Reducing interest rates on provident fund.
- v. Special concessions to units in Special Economic Zones (SEZs).
- vi. Different inspection authorities for units in SEZs.
- vii. Simplify procedures with respect to annual returns, maintenance of registers and so on.
- viii. Declaring units in SEZs as 'public utility services' to make strikes more difficult.

2. Judicial Trends

From the era of 'social justice', 'distributive justice' and 'discriminative justice', where the judiciary was busy in giving many landmark, judgments for protecting the interest of workers. The trend has been reversed with the advent of liberalization and globalization, where our industries have to compete with the multinationals.

Judiciary has realized that our labour and trade unions have been over protected. They have started taking more realistic stand on the issues relating to industries, keeping in view the existing social norms and international practices. For example- closure and shifting of factories in Agra to prevent pollution to Taj and closure of polluting industries and prohibition of moving activities in forest areas have been strongly opposed by the workers and trade unions. The courts have upheld the privatization of public sectors (BALCO case), despite the protests by public sector workers. There are number of examples of judicial judgments in which employers and workers have been happy or unhappy.

3. Trade Unions Nexus

The bargaining power of trade unions has been weakened earlier. IRS was mainly concerned with trade unions, management and the government. But now the consumers and community are also a part of dynamic Industrial Relations System (IRS). When the rights of consumers and community are affected, the rights of workers and trade unions and even managers/employers get a back seat. This is evidenced by ban on bandh and restriction on protests and dharnas. Now-a-days, trade unions can see their future by aligning themselves with the interests of the wider society. Unions have to make alliances with the society, consumers and community otherwise they will find themselves dwindling.

In government and public sectors, workforce is shrinking due to non-filling of regular posts and introduction of Voluntary Retirement Scheme (VRS). New employment opportunities are declining in organized public sector industries. In the private sector, particularly in service and software sector, the new, young and female workers do not generally align to any trade unions.

Further, trade unions have become quite defensive also. This is evident from the fact that there is radical shift from strikes to law suits. Instead of demanding higher wages and improved working conditions, trade unions are now-a-days pressing for maintenance of existing benefits and claims for non-payment of agreed wages and amenities.

4. Collective Bargaining

In IRS, collective bargaining constitutes one of the most important mechanisms of rule-making acceptable to both the employers as well as the workers.

Few emerging trends in the collective bargaining process are

- i. Level of collective bargaining is shrinking day by day.

ii. In public enterprises, the government has withdrawn the budgetary support for expenditure arising out of collective bargaining. Further, the government prefers long-term settlement and brings to link pay with performance of both the workers as well as the public enterprises.

iii. In private enterprises, there has been decentralizing tendencies. The enterprise-level bargaining has become the dominant even in industries like cotton, silk, plantations in the regions of Mumbai, Coimbatore etc.

iv. The managerial objectives expected to be achieved through collective bargaining have also shown dominance in terms of reduction in labour costs, increased productivity, increase in work time, reduction of regular staff strength through VRS, stress on high quality and so on.

v. Trade unions have also shown cooperation especially in crisis situations caused by external environment. They do agree on introduction of new work measurement systems, flexi working, changes in work practices, introduction of technological changes etc. Trade unions have cooperated in finding solutions to even financial problems of the industries in various ways.

5. Labour Management Conflicts

The globalization has brought significant changes in the labour market and the industrial relations system. Both the actors (management and workers) have exerted respective pressures on the government to introduce concrete actions favouring their interests. The government has responded to protect the dominant political interests while announcing labour reforms.

The government adopted the strategies that sought to placate capital without hurting the fundamental interests of the labour like employment security etc. Thus the role of the government has been complex while solving labour management conflicts, and cannot be fitted clearly as favouring either the capital or labour.

However, the conducive and peaceful industrial environment supported the employers to introduce both 'hard' (like lockouts, closure, antiunion measures) and 'soft' (like idleness pay, VRS) measures to achieve dynamism and weaken union power. The trade unions have also re-directed their attention to the hitherto neglected workers in the unorganized sector to create a 'more inclusive' union movement.

6. Managerial Strategies

The economic reforms have toned down industrial conflicts, due to shift in the relative bargaining power in favour of capital. The employers devised various managerial strategies to

achieve labour flexibility, weaken labour power, more control over production process, reduction in regular workers via VRS, transfers, multi-tasking, freeze in employment, increased use of contract labour, subcontracting etc., on both public as well as private enterprises.

As a result of such deliberate strategies, the employment of contract workers has shown manifold increase in the organized manufacturing sector of Indian industry. The management look upon such strategies as a weapon to gain control over production process and weaken their collective bargaining.

7. Government Strategies

In the positive direction, to boost the industrial harmony and economic activity, the government has adopted two strategies namely disinvestment and deregulation, which are expected to be mutually beneficial for the workers as well as the management.

Disinvestments

It refers to the action of an organization (or the government) selling or liquidating an asset or subsidy.

It affects IRS in the following ways

- i. It changes ownership, which bring changes in the work organization and employment and also in the trade union dynamics.
- ii. It changes the work organization by necessitating retaining and redeployment.
- iii. It affects the rights of workers and trade unions by providing job security, income security and social security.
- iv. Disinvestment makes workers the owners by issue of shares.
- v. It safeguards existing benefits and negotiate higher compensation for voluntary separations.
- vi. It also set up further employment generation programmers.

Deregulation

It is the process of removing or reducing state regulations. The reduction or elimination of state regulation in a particular industry is usually enacted to create more competition in the industry. Deregulation is resorted to ensure similar protection to public/government employees. Here the worst affected are the pension provisions, which imply usually reduction in pension benefits, absence of government guarantees, falling interest rates and investment of pension funds in stock markets etc.

Trade Union

A trade union is a group of employees who join together to maintain and improve their conditions of employment.

The typical activities of trade unions include providing assistance and services to their members, collectively bargaining for better pay and conditions for all workers, working to improve the quality of public services, political campaigning and industrial action.

Nearly seven million people in the UK belong to a trade union. Union members include nurses, school meals staff, hospital cleaners, professional footballers, shop assistants, teaching assistants, bus drivers, engineers and apprentices.

Most trade unions are independent of employers but have close working relationships with them.

What trade unions do?

Unions train and organise workplace representatives who help union members with the problems they face at work.

Reps provide support and advice and campaign for better conditions and pay.

Unions have brought significant changes to society, including:

1. A national minimum wage;
2. The abolition of child labour;
3. improved worker safety;
4. Improving living standards by reducing the number of hours in the working week and encouraging a healthy work/life balance;
5. improved parental leave;

6. Equality legislation;
7. Better protection of migrant workers and a reduction in exploitation;
8. Minimum holiday and sickness entitlements.

Unions have also made thousands of local agreements on issues affecting individual workplaces following consultation, negotiation and bargaining.

How trade unions work?

Most unions are structured as a network of local branches with reps in every workplace.

Union reps:

1. Negotiate agreements with employers on pay and conditions;
2. Discuss major changes such as redundancy;
3. Discuss members' concerns with employers;
4. Accompany members to disciplinary and grievance meetings;
5. Help members with legal and financial problems.

Are trade unions legal

In the UK trade unions have a special status in law which gives them special rights that professional associations don't have.

Employers have to work with recognised unions to:

1. Negotiate pay and working conditions;
2. Inform and consult over changes at work such as redundancies;
3. Make sure that the health and safety of workers is protected.

Union reps have the right to consult their members and employers. This means that, as a worker, you can have your say about workplace issues.

You cannot be punished by your employer if you join – or don't join – a trade union.

In some countries around the world, trade unions are illegal. In some places, trade union activists are intimidated, threatened and sometimes killed just for trying to get fairer conditions for workers.

Why join a trade union?

In workplaces where there are unions, members benefit from the strength and security that comes from working together to tackle problems.

Employees at unionized workplaces earn around 12.5 per cent more than non-unionised workplaces.

The major benefits are:

1. Better working conditions such as improved health and safety or pay; training for new skills to help you develop your career;
2. Advice on your legal employment rights;
3. Advice on finance and problems at work.

Trade unions may also represent their members' interests outside the workplace. For example, trade unions may lobby the government or the European Union on policies which promote their objectives.

Recognised trade unions

Workplaces in different sectors have recognised trade unions they choose to work with. You should ask your employer which trade union they recognise.

If you belong to a trade union other than the one your employer recognises, your union may have less say in issues that affect you in the workplace.

Industrial Dispute Settlement Machineries for Settling Industrial Disputes in India

This machinery has been provided under the Industrial Disputes Act, 1947. It, in fact, provides a legalistic way of settling the disputes. As said above, the goal of preventive machinery is to create an environment where the disputes do not arise at all.

Even then if any differences arise, the judicial machinery has been provided to settle them lest they should result into work stoppages. In this sense, the nature of this machinery is curative for it aims at curing the ailments.

This machinery comprises following organs:

1. Conciliation
2. Court of enquiry
3. Voluntary arbitration
4. Adjudication (Compulsory arbitration).

1. Conciliation:

Conciliation, is a form of mediation. Mediation is the act of making active effort to bring two conflicting parties to compromise. Mediation, however, differs from conciliation in that whereas conciliator plays only a passive and indirect role, and the scope of his functions is provided under the law, the mediator takes active part and the scope of his activities are not subject to any statutory provisions.

Conciliation is the “practice by which the services of a neutral party are used in a dispute as a means of helping the disputing parties to reduce the extent of their differences and to arrive at an amicable settlement of agreed solution.”

The Industrial Disputes Act, 1947 provides for conciliation, and can be utilised either by appointing conciliation officers (permanently or for a limited period) or by constituting a board of conciliation. This conciliation machinery can take a note of a dispute or apprehend dispute either on its own or when approached by either party.

With a view to expediting conciliation proceeding, time-limits have been prescribed—14 days in the case of conciliation officers and two months in the case of a board of conciliation,

settlement arrived at in the course of conciliation is binding for such period as may be agreed upon between the parties or for a period of 6 months and with continue to be binding until revoked by either party. The Act prohibits strike and lock-out during the pendency of conciliation proceedings before a Board and for seven days after the conclusion of such proceedings.

Conciliation Officer

The law provides for the appointment of Conciliation Officer by the Government to conciliate between the parties to the industrial dispute. The Conciliation Officer is given the powers of a civil court, whereby he is authorised to call the witness the parties on oath. It should be remembered, however, whereas civil court cannot go beyond interpreting the laws, the conciliation officer can go behind the facts and make judgment which will be binding upon the parties.

On receiving information about a dispute, the conciliation officer should give formal intimation in writing to the parties concerned of his intention to commence conciliation proceedings from a specified date. He should then start doing all such things as he thinks fit for the purpose of persuading the parties to come to fair and amicable settlement of the dispute.

Conciliation is an art where the skill, tact, imagination and even personal influence of the conciliation officer affect his success. The Industrial Disputes Act, therefore, does not prescribe any procedure to be followed by him.

The conciliation officer is required to submit his report to the appropriate government along with the copy of the settlement arrived at in relation to the dispute or in case conciliation has failed, he has to send a detailed report giving out the reasons for failure of conciliation.

The report in either case must be submitted within 14 days of the commencement of conciliation proceedings or earlier. But the time for submission of the report may be extended by an agreement in writing of all the parties to the dispute subject to the approval of the conciliation officer.

If an agreement is reached (called the memorandum of settlement), it remains binding for such period as is agreed upon by the parties, and if no such period is agreed upon, for a period of six months from the date on which the memorandum of settlement is signed by the parties to the dispute, and continues to be binding on the parties after the expiry of the period aforesaid, until the expiry of two months from the date on which a notice in writing of an intention to terminate the settlement is given by one of the party or parties to the settlement.

Board of Conciliation

In case Conciliation Officer fails to resolve the differences between the parties, the government has the discretion to appoint a Board of Conciliation. The Board is tripartite and ad hoc body. It consists of a chairman and two or four other members.

The chairman is to be an independent person and other members are nominated in equal number by the parties to the dispute. Conciliation proceedings before a Board are similar to those that take place before the Conciliation Officer. The Government has yet another option of referring the dispute to the Court of Inquiry instead of the Board of Conciliation.

The machinery of the Board is set in motion when a dispute is referred to it. In other words, the Board does not hold the conciliation proceedings of its own accord. On the dispute being referred to the Board, it is the duty of the Board to do all things as it thinks fit for the purpose of inducing the parties to come to a fair and amicable settlement. The Board must submit its report to the government within two months of the date on which the dispute was referred to it. This period can be further extended by the government by two months.

2. Court of Inquiry

In case of the failure of the conciliation proceedings to settle a dispute, the government can appoint a Court of Inquiry to enquire into any matter connected with or relevant to industrial dispute. The court is expected to submit its report within six months. The court of enquiry may consist of one or more persons to be decided by the appropriate government.

The court of enquiry is required to submit its report within a period of six months from the commencement of enquiry. This report is subsequently published by the government within 30 days of its receipt. Unlike during the period of conciliation, workers' right to strike,

employers' right to lockout, and employers' right to dismiss workmen, etc. remain unaffected during the proceedings in a court to enquiry.

A court of enquiry is different from a Board of Conciliation. The former aims at inquiring into and revealing the causes of an industrial dispute. On the other hand, the latter's basic objective is to promote the settlement of an industrial dispute. Thus, a court of enquiry is primarily fact-finding machinery.

3. Voluntary Arbitration

On failure of conciliation proceedings, the conciliation officer may persuade the parties to refer the dispute to a voluntary arbitrator. Voluntary arbitration refers to getting the disputes settled through an independent person chosen by the parties involved mutually and voluntarily.

In other words, arbitration offers an opportunity for a solution of the dispute through an arbitrator jointly appointed by the parties to the dispute. The process of arbitration saves time and money of both the parties which is usually wasted in case of adjudication.

Voluntary arbitration became popular as a method of settling differences between workers and management with the advocacy of Mahatma Gandhi, who had applied it very successfully in the Textile industry of Ahmedabad. However, voluntary arbitration was lent legal identity only in 1956 when Industrial Disputes Act, 1947 was amended to include a provision relating to it.

The provision for voluntary arbitration was made because of the lengthy legal proceedings and formalities and resulting delays involved in adjudication. It may, however, be noted that arbitrator is not vested with any judicial powers.

He derives his powers to settle the dispute from the agreement that parties have made between themselves regarding the reference of dispute to the arbitrator. The arbitrator should submit his award to the government. The government will then publish it within 30 days of such submission. The award would become enforceable on the expiry of 30 days of its publication.

Voluntary arbitration is one of the democratic ways for settling industrial disputes. It is the best method for resolving industrial conflicts and a close supplement to collective bargaining.

It not only provides a voluntary method of settling industrial disputes, but is also a quicker way of settling them.

It is based on the notion of self-government in industrial relations. Furthermore, it helps to curtail the protracted proceedings attendant on adjudication, connotes a healthy attitude and a developed outlook; assists in strengthening the trade union movement and contributes for building up sound and cordial industrial relations.

4. Adjudication

The ultimate remedy for the settlement of an industrial dispute is its reference to adjudication by labour court or tribunals when conciliation machinery fails to bring about a settlement. Adjudication consists of settling disputes through intervention by the third party appointed by the government. The law provides the adjudication to be conducted by the Labour Court, Industrial Tribunal or National Tribunal.

A dispute can be referred to adjudication if not the employer and the recognised union agree to do so. A dispute can also be referred to adjudication by the Government even if there is no consent of the parties in which case it is called 'compulsory adjudication'. As mentioned above, the dispute can be referred to three types of tribunals depending on the nature and facts of dispute in questions.

These include

- (a) Labour courts,
- (b) Industrial tribunals, and
- (c) National tribunals.

The procedure, powers, and provisions regarding commencement of award and period of operation of award of these three bodies are similar. The first two bodies can be set up either by State or Central Government but the national tribunal can be constituted by the Central Government only, when it thinks that the adjudication of a dispute is of national importance. These three bodies are into hierarchical in nature. It is the Government's prerogative to refer a dispute to any of these bodies depending on the nature of dispute.

(a) Labour Court

A labour court consists of one person only, who is normally a sitting or an ex-judge of a High Court. It may be constituted by the appropriate Government for adjudication of disputes which are mentioned in the second schedule of the Act.

The issues referred to a labour court may include

- (i) The propriety or legality of an order passed by an employer under the Standing Orders.
- (ii) The application and interpretation of Standing Orders.
- (iii) Discharge and dismissal of workmen and grant of relief to them.
- (iv) Withdrawal of any statutory concession or privilege.
- (v) Illegality or otherwise of any strike or lockout.
- (vi) All matters not specified in the third schedule of Industrial Disputes Act, 1947. (It deals with the jurisdiction of Industrial Tribunals).

(b) Industrial Tribunal

Like a labour court, an industrial tribunal is also a one-man body. The matters which fall within the jurisdiction of industrial tribunals are as mentioned in the second schedule or the third schedule of the Act. Obviously, industrial tribunals have wider jurisdiction than the labour courts.

Moreover an industrial tribunal, in addition to the presiding officer, can have two assessors to advise him in the proceedings; the appropriate Government is empowered to appoint the assessors.

The Industrial Tribunal may be referred the following issues

1. Wages including the period and mode of payment.
2. Compensatory and other allowances.
3. Hours of work and rest intervals.
4. Leave with wages and holidays.
5. Bonus, profit sharing, provident fund and gratuity.
6. Shift working otherwise than in accordance with the standing orders.
7. Rule of discipline.

8. Rationalisation.
9. Retrenchment.
10. Any other matter that may be prescribed.

(c) National Tribunal

The Central Government may constitute a national tribunal for adjudication of disputes as mentioned in the second and third schedules of the Act or any other matter not mentioned therein provided in its opinion the industrial dispute involves “questions of national importance” or “the industrial dispute is of such a nature that undertakings established in more than one state are likely to be affected by such a dispute”.

The Central Government may appoint two assessors to assist the national tribunal. The award of the tribunal is to be submitted to the Central Government which has the power to modify or reject it if it considers it necessary in public interest.

It should be noted that every award of a Labour Court, Industrial Tribunal or National Tribunal must be published by the appropriate Government within 30 days from the date of its receipt. Unless declared otherwise by the appropriate government, every award shall come into force on the expiry of 30 days from the date of its publication and shall remain in operation for a period of one year thereafter.

Unit IV

Break-Even Analysis

Breakeven Point (BEP)

In accounting, the breakeven point formula is determined by dividing the total fixed costs associated with production by the revenue per individual unit minus the variable costs per unit. In this case, fixed costs refer to those which do not change depending upon the number of units sold. Put differently, the breakeven point is the production level at which total revenues for a product equal total expenses.

The term is also used in investing. The breakeven point formula for a stock or futures trade is determined by comparing the market price of an asset to the original cost; the breakeven point is reached when the two prices are equal.

For options trading, the breakeven point is the market price that an underlying asset must reach for an option buyer to avoid a loss if they exercise the option. For a call buyer, the breakeven point is reached when the underlying is equal to the strike price plus the premium paid, while the BEP for a put position is reached when the underlying is equal to the strike price minus the premium paid. The breakeven point doesn't typically factor in commission costs, although these fees could be included if desired.

What Is the Breakeven Point (BEP)?

In accounting, the breakeven point formula is determined by dividing the total fixed costs associated with production by the revenue per individual unit minus the variable costs per unit. In this case, fixed costs refer to those which do not change depending upon the number of units sold. Put differently, the breakeven point is the production level at which total revenues for a product equal total expenses.

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In accounting, the breakeven point is calculated by dividing the fixed costs of production by the price per unit minus the variable costs of production.

1. The breakeven point is the level of production at which the costs of production equal the revenues for a product.
2. In investing, the breakeven point is said to be achieved when the market price of an asset is the same as its original cost.

Breakeven Point (BEP)

Traders have a BEP on trades, and businesses also have breakeven points. A company's breakeven is calculated by taking fixed costs and dividing that figure by the gross profit margin percentage.

The breakeven formula provides a dollar figure they need to breakeven. This can be converted into units by calculating the contribution margin (unit sale price less variable costs). Dividing the fixed costs by the contribution margin will provide how many units are needed to breakeven.

A break-even analysis is a financial tool which helps a company to determine the stage at which the company, or a new service or a product, will be profitable. In other words, it is a

financial calculation for determining the number of products or services a company should sell or provide to cover its costs (particularly fixed costs).

Break-Even Analysis

Break-even is a situation where an organisation is neither making money nor losing money, but all the costs have been covered.

Break-even analysis is useful in studying the relation between the variable cost, fixed cost and revenue. Generally, a company with low fixed costs will have a low break-even point of sale. For example, say Happy Ltd has fixed costs of Rs. 10,000 vs Sad Ltd has fixed costs of Rs. 1,00,000 selling similar products, Happy Ltd will be able to break-even with the sale of lesser products as compared to Sad Ltd.

Components of Break-Even Analysis

1. Fixed costs

Fixed costs are also called overhead costs. These overhead costs occur after the decision to start an economic activity is taken and these costs are directly related to the level of production, but not the quantity of production. Fixed costs include (but are not limited to) interest, taxes, salaries, rent, depreciation costs, labour costs, energy costs etc. These costs are fixed irrespective of the production. In case of no production also the costs must be incurred.

2. Variable costs

Variable costs are costs that will increase or decrease in direct relation to the production volume. These costs include cost of raw material, packaging cost, fuel and other costs that are directly related to the production.

Calculation of Break-Even Analysis

The basic formula for break-even analysis is derived by dividing the total fixed costs of production by the contribution per unit (price per unit less the variable costs).

For an example:

Variable costs per unit: Rs. 400 Sale price per unit: Rs. 600 Desired profits: Rs. 4,00,000
Total fixed costs: Rs. 10,00,000 First we need to calculate the break-even point per unit, so we will divide the Rs.10,00,000 of fixed costs by the Rs. 200 which is the contribution per unit (Rs. 600 – Rs. 400). Break-Even Point = Rs. 10,00,000/ Rs. 200 = 5000 units Next, this number of units can be shown in rupees by multiplying the 5,000 units with the selling price of Rs. 600 per unit. We get Break-Even Sales at 5000 units x Rs. 600 = Rs. 30,00,000. (Break-even point in rupees)

Contribution Margin

Break-even analysis also deals with the contribution margin of a product. The excess between the selling price and total variable costs is known as contribution margin. For an example, if the price of a product is Rs.100, total variable costs are Rs. 60 per product and fixed cost is Rs. 25 per product, the contribution margin of the product is Rs. 40 (Rs. 100 – Rs. 60). This Rs. 40 represents the revenue collected to cover the fixed costs. In the calculation of the contribution margin, fixed costs are not considered.

When is Break-even analysis used?

Starting a new business: To start a new business, a break-even analysis is must. Not only it helps in deciding whether the idea of starting a new business is viable, but it will force the startup to be realistic about the costs, as well as provide a basis for the pricing strategy.

Creating a new product: In case of an existing business, the company should perform a break-even analysis before launching a new product (especially if such a product is going to add a significant expenditure).

Changing the business model: If the company is about to change the business model, like switching from wholesale business to retail business, then, a break-even analysis must be performed. The costs could change considerably and breakeven analysis will help in setting the selling price.

Breakeven analysis is useful for the following reasons:

It helps to determine remaining/unused capacity of the company once the breakeven is reached. This will help to show the maximum profit on a particular product/service that can be generated.

It helps to determine the impact on profit on changing to automation from manual (a fixed cost replaces a variable cost).

It helps to determine the change in profits if the price of a product is altered.

It helps to determine the amount of losses that could be sustained if there is a sales downturn.

Additionally, break-even analysis is very useful for knowing the overall ability of a business to generate a profit. In the case of a company whose breakeven point is near to the maximum sales level, this signifies that it is nearly impractical for the business to earn a profit even under the best of circumstances.

Therefore, it's the management responsibility to monitor the breakeven point constantly. This monitoring certainly reduces the breakeven point whenever possible.

Ways to monitor Break-even point

Pricing analysis: Minimize or eliminate the use of coupons or other price reductions offers, since such promotional strategies increase the breakeven point.

Technology analysis: Implementing any technology that can enhance the business efficiency, thus increasing capacity with no extra cost.

Cost analysis: Reviewing all fixed costs constantly to verify if any can be eliminated can surely help. Also, review the total variable costs to see if they can be eliminated. This analysis will increase the margin and reduce the breakeven point.

Margin analysis: Push sales of the highest-margin (high contribution earning) items and pay close attention to product margins, thus reducing the breakeven point.

Outsourcing: If an activity consists of a fixed cost, try to outsource such activity (whenever possible), which reduces the breakeven point.

Benefits of Break-even analysis

1. Catch missing expenses: When you're thinking about a new business, it's very much possible that you may forget about a few expenses. Therefore, a break-even analysis can help you to review all financial commitments to figure out your break-even point. This analysis certainly restricts the number of surprises down the road or at least prepares a company for them.

2. Set revenue targets: Once the break-even analysis is complete, you will get to know how much you need to sell to be profitable. This will help you and your sales team to set more concrete sales goals.

3. Make smarter decisions: Entrepreneurs often take decisions in relation to their business based on emotion. Emotion is important i.e. how you feel, though it's not enough. In order to be a successful entrepreneur, decisions should be based on facts.

4. Fund your business: This analysis is a key component in any business plan. It's generally a requirement if you want outsiders to fund your business. In order to fund your business, you have to prove that your plan is viable. Furthermore, if the analysis looks good, you will be comfortable enough to take the burden of various ways of financing.

5. Better pricing: Finding the break-even point will help in pricing the products better. This tool is highly used for providing the best price of a product that can fetch maximum profit without increasing the existing price.

6. Cover fixed costs: Doing a break-even analysis helps in covering all fixed cost.

Cost Benefit Analysis

A cost-benefit analysis is a systematic process that businesses use to analyze which decisions to make and which to forgo. The cost benefit analyst sums the potential rewards expected from a situation or action and then subtracts the total costs associated with taking that action. Some consultants or analysts also build models to assign a dollar value on intangible items, such as the benefits and costs associated with living in a certain town.

Understanding Cost-Benefit Analysis

Before building a new plant or taking on a new project, prudent managers conduct a cost-benefit analysis to evaluate all the potential costs and revenues that a company might generate from the project. The outcome of the analysis will determine whether the project is financially feasible or if the company should pursue another project.

In many models, a cost-benefit analysis will also factor the opportunity cost into the decision-making process. Opportunity costs are alternative benefits that could have been realized when choosing one alternative over another. In other words, the opportunity cost is the forgone or missed opportunity as a result of a choice or decision. Factoring in opportunity costs allows project managers to weigh the benefits from alternative courses of action and not merely the current path or choice being considered in the cost-benefit analysis.

By considering all options and the potential missed opportunities, the cost-benefit analysis is more thorough and allows for better decision-making.

The Cost-Benefit Analysis Process

A cost-benefit analysis (CBA) should begin with compiling a comprehensive list of all the costs and benefits associated with the project or decision.

The costs involved in a CBA might include the following:

1. Direct costs would be direct labor involved in manufacturing, inventory, raw materials, manufacturing expenses.
2. Indirect costs might include electricity, overhead costs from management, rent, utilities.
3. Intangible costs of a decision, such as the impact on customers, employees, or delivery times.
4. Opportunity costs such as alternative investments, or buying a plant versus building one.

5. Cost of potential risks such as regulatory risks, competition, and environmental impacts.

Benefits might include the following:

1. Revenue and sales increases from increased production or new product.
2. Intangible benefits, such as improved employee safety and morale, as well as customer satisfaction due to enhanced product offerings or faster delivery.
3. Competitive advantage or market share gained as a result of the decision.

An analyst or project manager should apply a monetary measurement to all of the items on the cost-benefit list, taking special care not to underestimate costs or overestimate benefits. A conservative approach with a conscious effort to avoid any subjective tendencies when calculating estimates is best suited when assigning a value to both costs and benefits for a cost-benefit analysis.

Finally, the results of the aggregate costs and benefits should be compared quantitatively to determine if the benefits outweigh the costs. If so, then the rational decision is to go forward with the project. If not, the business should review the project to see if it can make adjustments to either increase benefits or decrease costs to make the project viable. Otherwise, the company should likely avoid the project.

With cost-benefit analysis, there are a number of forecasts built into the process, and if any of the forecasts are inaccurate, the results may be called into question.

Limitations of Cost-Benefit Analysis

For projects that involve small- to mid-level capital expenditures and are short to intermediate in terms of time to completion, an in-depth cost-benefit analysis may be sufficient enough to make a well-informed, rational decision. For very large projects with a long-term time horizon, a cost-benefit analysis might fail to account for important financial concerns such as inflation, interest rates, varying cash flows, and the present value of money.

Alternative capital budgeting analysis methods, including net present value (NPV), could be more appropriate for these situations. The concept of present value states that an amount of money or cash in the present day is worth more than receiving the amount in the future since today's money could be invested and earn income.

One of the benefits of using net present value for deciding on a project is that it uses an alternative rate of return that could be earned if the project had never been done. That return is discounted from the results. In other words, the project needs to earn at least more than the rate of return that could be earned elsewhere or the discount rate.

However, with any type of model used in performing a cost-benefit analysis, there are a significant amount of forecasts built into the models. The forecasts used in any CBA might include future revenue or sales, alternative rates of return, expected costs, and expected future cash flows. If one or two of the forecasts are off, the CBA results would likely be thrown into question, thus highlighting the limitations in performing a cost-benefit analysis.

Some tools or methods used in CBA

Depending on the specific investment or project being evaluated, one may need to discount the time value of cash flows using net present value calculations. A benefit-cost ratio (BCR) may also be computed to summarize the overall relationship between the relative costs and benefits of a proposed project. Other tools may include regression modeling, valuation, and forecasting techniques.

The benefits of a CBA, if done correctly and with accurate assumptions, are to provide a good guide for decision-making that can be standardized and quantified. If the CBA of doing a CBA is positive, you should do it!

Importance

Companies often need to weigh one project against another with the help of cost benefit analysis to make better business decisions. They must evaluate all potential costs and revenues that can be generated from a project. The outcome of the analysis determines whether the revenue generated is sufficient to cover costs or the company should go for another financially

feasible project. A cost benefit analysis is a methodology used by companies to estimate the likely costs and benefits of potential projects. Many companies also consider the opportunity cost into the decision making process. It helps companies to analyze alternative benefits that could have been realized when choosing one alternative over another.

Unit V

Industrial Finance

Finance is considered as the life-force of industry. Without getting adequate finance industrial development is not at all possible. Due to the lack of adequate finance, industrial development in India could not achieve a significant position and shape. Industries require short term, medium term and long term finance for meeting their requirements of fixed capital expenditure and also to meet their working capital needs.

Long-Term, Medium-Term and Short-Term Finance

Long term finance for industries includes those financial resources which are advanced to the industries by the banks for a period of 3 years and above. Long term finance is quite important for the expansion and modernisation of industrial projects and also to meet its fixed capital expenditure requirement.

Long term finance is mostly available from the sale of shares and debentures, and loan from term lending financial institutions like IDBI, IFCI, ICICI etc. Medium term loan is also available from banks and other financial institutions for a period above 1 year and up to 3 years.

Short-term finance for industries includes those financial resources which are advanced by banks to the industries for a period varying between 1 month and 12 months. Short-term finance is required to meet working capital needs and other sundry expenses of the industrial projects. Commercial banks offer short term loans on cash-credit basis on the security of stocks and overdraft facilities to the industries. Industries can also raise short term finance by raising public deposits for one to three years.

The Need for Industrial Finance

A business firm, whether it is owned by an individual proprietor or partners or shareholders, undertakes business in anticipation of future gain or return from it. For setting up in business the firm has to make advance expenditure before it receives any return.

The machines are to be purchased, the factory space is to be purchased or leased, raw materials are to be bought and wages and salaries are to be paid to the employees for their services. Finance is needed to undertake all such activities in business.

The money which the firm commits on its business is expected to come back to the firm in the form of return in due course of time. The firm has to wait for this. A farmer ploughs and sows his fields months before he reaps the harvest. A transport company has to buy trucks and motors and pay for petrol labour, etc. before it gets paid for its haulage services.

Similarly, a manufacturer has to produce goods before he can sell them. He can do only when he has adequate finances for production of his goods. It is true that some industries' goods are sold before they are made but even in such industries the entrepreneurs need finance to equip themselves for necessary facilities of production of the goods and services. Finance is thus a necessary precondition for business both for its initiation and smooth running.

The requirement for finance depends on the type of business or production and the kind of payment for which it is to be used. Large scale production with capital-intensive technology would require huge amount of money for initial investment and for operating expenses.

Small scale products with relatively labour-intensive technology on the other hand may need less money to start the businesses and to operate it. The nature of technology and the level of output to be produced are natural determinants of the requirements of finance.

In some business, it takes considerably long time to set the plant and to make it operative. In business terminology such length of time is called 'gestation period'. Longer the gestation period more will be the requirement of finance. Steel mills, refineries, ship building, power plants, etc. are a few examples of such business.

Apart from the gestation period, the length of operating cycle will have considerable implications on requirement of finance. Operating cycle is the speed with which the working capital completes its round, i.e., conversion of cash into inventory of raw materials and stores inventory of raw materials into inventory of finished goods, inventory of finished goods into book debts or accounts receivable from the customers and finally realization of cash from the customer.

Longer the period for such cycle, more will be the requirement of finance for business operations. The other factors that influence the requirement of business finance can be cited as terms of purchases and sales, growth and expansion policies of the firm, dividend policy, production policies, business cycle fluctuations and managerial efficiency of the firm.

In short, initially finance is needed to established the business, i.e. installation of plant and other facilities which we call 'Fixed Capital Formation'. Once such facilities are developed then money will be needed/or meeting the requirements of Working Capital.

The configuration of technical factors, market and marketing forces and internal managerial decisions and efficiency of the firm will determine the need for finance. The relative importance of individual factors in such configuration is likely to vary across the industries.

Major Sources of Industrial Finance Available in India

(A) Internal Self-Finance

One source, quantitatively of big importance, is the saving of the unit itself. It may be the household, the business or the government.

Normally, the household not only invests out of its own saving but it also has surplus which it lends to other units via, financial institutions. Like banks, capital market etc.

The savings of the business, comprised of depreciation and the retained earnings, are normally short of its investment. Hence it also borrows from financial institutions. Government too finances a part of their investment from internally generated funds.

These arise from the excess of tax and other income over consumption spending plus transfers. For the shortfall, if and when it occurs, it also borrows from the financial system. Altogether, roughly half of all the investment is self financed.

An advantage of investment through internally generated funds is that it combines the acts of saving and investment. As such certain costs are internalized and reduced. These costs pertain to collection of information in respect of borrowers, transactions with them, monitoring the use of funds, and enforcement of the conditions of borrowing.

These costs would have to be met if these funds were to be lent to someone else. Self-financing also reduces the risks of lending's as it does not involve preparation of documents in respect of contract, collateral or security etc.

The shortcoming of this source is that it may fall short of investment opportunities or its use may be inefficient. That is funds may not be wholly or partly invested in the most productive lines.

(B) Equity, Debentures and Bonds

A large part of finance for fixed investments [building, machines, etc.] comes from different types of equity or shares such as ordinary, cumulative and non-cumulative preference shares. These shares bear risks of different degrees and are tailored to suit the temperament of different investors.

The latest trend is to issue shares in small denominations of ten rupees so as to enable the largest number of people to participate in providing long-term finance. The credit worthiness of industrial promoters and profitability of industries determine the extent to which savers invest their money in shares. In this way, industries are not burdened with interest, and therefore do not get involved in complications on this account during recession or depression.

Often industrial companies also get long-term finance through the issues of debentures and bonds. These are debt (loans), instruments. The buyers of those debentures and bonds are the creditors of companies. They get a fixed rate of interest on the money invested in these securities.

For this reason debentures are safer investments. Till recently, these debt-instruments were not very popular. At present many industries are tapping this source. Public sector undertakings too have started depending upon them. Since recently they have raised funds through the sale of bonds bearing fixed interest.

(C) Public Deposits

Another source is public deposits. It is also a debt-instrument, mostly for short-term finance. Under this system, people keep their money as deposit with these companies or

managing authorities for a period of six months, a year, two years, three years or so. Depositors receive a fixed interest.

They can ask for the refund of money at any time. This money is used by companies to meet their needs of working capital. However, this source of finance is unreliable because depositors can seek refund at any time.

And if the refund happens to coincide with the time when a company needs funds most, then it complicates matters. With the growth of banking habits and increase in dealings with other financial institutions, the importance of public deposits, as a source of finance, will decline.

(D) Loans from Banks

Commercial banks can also provide funds for meeting short-term needs or for working capital. Loans are given against the guarantee of government securities and stocks with companies. Loans are advanced in the form of overdraft and credit limit. Commercial banks are generally reluctant to put their money in the purchase of shares.

The reason is that the deposits that they receive from the public are generally for a short-term and therefore, banks can ill-afford to take any risk in investing public money in shares. They can, however, do something by way of buying debentures of companies.

They can earn fixed interest on such investment and at the time of need they can sell these debentures in the market and recover their money. Still, little has been achieved in this field because of the fear that banks may find it difficult to cash debenture precisely at a time when they need.

(E) The Managing Agency System

The system of industrial finance, peculiar to India, and which prevailed till the recent times, is of little importance now days. Under this system an individual or a group of individuals finance the initial stage of the establishment of industries, and manage many activities of the company thus established very often, one managing agent controls more than one concern and uses fund of one concern to meet the needs of others under him.

In the past when there was a great shortage of industrial finance and almost complete lack of financial institutions, and capital market in the real sense had not even come into existence, managing agents did render a valuable service in the promotion of industries within the country. Of course, it is true that their funds were mostly used for the establishment of consumer goods industries.

In due course, however, the system developed certain drawbacks and came to be plagued by serious shortcomings. The management of so many units, good and bad, and producing a variety of products led to certain evils.

The payments which managing agents extracted for themselves, interest on their money, commission for their services etc., were too much and were out of proportion with the paying capacity of the companies and/or the work performed by those agents. It is for these reasons that the government put a ban on this system in 1970.

(F) Indigenous Bankers

In spite of the establishment of new financial institutions, indigenous bankers also advance financial help to a few large-scale industries, particularly during the time of stress, both for fixed capital and working capital. But mainly they have provided finance to small scale industries.

In the absence of adequate institutional finance, these industries have been forced to depend upon indigenous bankers. These banks charge a very heavy rate of interest, thus making finance a costly affair. However, the importance of these banks, even as a source of finance for small industries, is on the decline.

(G) Development Finance Institutions

Established with the help of the Government to fill-in the gap in industrial finance and to promote the objective of planning, these institutions cater to the needs of large and small industries.

The new institutions supplying industrial finance are Industrial Development Bank of India, Industrial Finance Corporation of India, Unit Trust of India, and General Insurance

Corporation of India, Industrial Reconstruction Bank of India, State Financial Corporations, and State Industrial Development Corporations.

These institutions provide huge quantity of finances for setting up of new industries, for meeting their several needs and in several forms. These also ensure and monitor the use of finance in pre-planned directions. As such these fit well with the modern scenario of industrial development.

(H) Foreign Capital

As a supplement to domestic finance, external capital too has been made use of in meeting the needs of industrial finance, mostly for long-term needs. This has taken several forms. There is the foreign aid (i.e., loans on concessional term) from foreign governments and foreign institutions (like the World Bank) extended to the Government.

A part of this assistance has also gone to the private sector. A part of foreign funds has come through foreign companies which have Indian subsidiaries in our country or through Multinational Corporations which have branches in India.

Some foreign companies have given funds as part of direct investment or as part of collaborations with Indian companies. There are also non-resident Indians who have invested in collaboration with Indians. Indian companies have also raised loans from foreign markets.

The sources of industrial finance are thus of various types. And so are the instruments of finance. A number of them are modern Such as shares, debentures, and loans from the financial institutions. The old ones like, deposits from public, the finances of managing agents as also of indigenous bankers are on the decline. This is as it should be for these are neither enough, nor suitable for meeting the needs of the modern industrial growth.

Financial Institutions of India

1. Industrial Finance Corporation of India (IFCI)

The Industrial Finance Corporation of India was established in 1948 under the IFC Act, 1948. The main objective of the corporation has been to provide medium and long-term credit to industrial concerns in India.

The objective of the corporation as laid down in the preamble of the IFC Act, 1948, are”making medium and long-term credits more readily available to industrial concerns in India, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue methods is impracticable.”

The financial assistance of the corporation is available to limited companies or co-operative societies registered in India and engaged or proposing to engage in

1. Manufacture, preservation or processing of goods
2. The mining industry
3. The shipping business;
4. The hotel industry; and
5. The generation or distribution of electricity or any other form of power.

Initially the authorised capital of the corporation was Rs. 10 crore which was divided in equities of Rs. 5,000 each. Later on the authorised capital was increased to Rs. 20 crore. Since July 1, 1993 this corporation has been converted into a company and it has been given the status of a limited company with the name Industrial Finance Corporation of India Ltd. IFCI has got its registration under Companies Act, 1956.

Before July 1, 1993, general public was not permitted to hold shares of IFCI. Only Government of India, RBI, Scheduled Banks, Insurance Companies and Co-operative Societies were holding the shares of IFCI.

The financial resources of IFCI consist of paid-up capital, reserves, repayment of loans, market borrowings in the form of bonds/debentures, loans from Government of India, advances from the Industrial Development Bank of India and foreign currency loans.

Functions of IFCI

a. Financial Assistance

The IFCI is authorised to render financial assistance in one or more of the following forms

(i) Granting loans or advances to or subscribing to debentures of industrial concerns repayable within 25 years. Also it can convert part of such loans or debentures into equity share capital at its option.

(ii) Underwriting the issue of industrial securities i.e., shares, bonds, or debentures to be disposed off within 7 years.

(iii) Subscribing directly to the shares and debentures of public limited companies.

(iv) Guaranteeing of loans raised by industrial concerns from scheduled banks or state co-operative banks.

(v) Guaranteeing of deferred payments for the purchase of capital goods from abroad or within India.

(vi) Acting as an agent of the Central Government or the World Bank in respect of loans sanctioned to the industrial concerns.

Financial assistance is available from IFCI for the following purposes

(i) For the setting up of new industrial undertakings.

(ii) For expansion or diversification of the existing concerns.

(iii) For the modernisation and renovation of the existing concerns.

(iv) For meeting existing liabilities or working capital requirement of industrial concerns in exceptional cases.

IFCI provides financial assistance to eligible industrial concerns regardless of their size. However, now-a-days, it entertains applications from those industrial concerns whose project cost is above Rs. 2 crores because up to project cost of Rs. 2 crores various state level institutions (such as Financial Corporations, SIDCs and banks) are expected to meet the financial requirements of viable concerns.

While approving a loan application, IFCI gives due consideration to the feasibility of the project, its importance to the nation, development of the backward areas, social and economic viability, etc.

b. Promotional Activities

The IFCI has been playing very important role as a financial institution in providing financial assistance to eligible industrial concerns. However, no less important is its promotional role whereby it has been creating industrial opportunities also. The corporation discovers the opportunities for promoting new enterprises.

It helps in developing small and medium scale entrepreneurs by providing them guidance through its specialised agencies in identification of projects, preparing project profiles, implementation of the projects, etc. It acts an instrument of accelerating the industrial growth and reducing regional industrial and income disparities.

Working of IFCI

The cumulative financial assistance sanctioned by IFCI up to March, 2003 aggregated Rs. 45,426.7 crores against which disbursements amounted to Rs. 44,169.2 crores. During 2003-04, IFCI sanctioned and disbursed Rs. 1394.6 crore and Rs. 281.2 crore respectively.

However, no amount was sanctioned by IFCI during 2004-05 and disbursements also amounted to Rs. 91 crore only. The provisional disbursement for the year 2005-06 amounted to Rs. 187 crore only.

However, no amount was sanctioned by IFCI during 2004-05 and disbursements also amounted to Rs. 91 crores only. The disbursements for the year 2005-06 amounted to Rs. 187 crores only. The provisional figures of sanctions and disbursements for the year 2006-07 amounted to Rs. 1050 crores and Rs. 550 crores respectively.

The most of the assistance sanctioned by IFCI has gone to industries of national priority such as fertilizers, cement, power generation, paper, industrial machinery etc.

The corporation is giving a special consideration to the less developed areas and assistance to them has been stepped up. It has sanctioned nearly 49 per cent of its assistance for projects in backward districts.

The corporation has recently been participating in soft loan schemes under which loans on concessional rates are given to units in selected industries. Such assistance is given for modernisation, replacement and renovation of plant and equipment.

IFCI introduced a scheme for sick units also. The scheme was for the revival of sick units in the tiny and small scale sectors. Another scheme was framed for the self-employment of unemployed young persons. The corporation has diversified into merchant banking also. Financing of leasing and hire purchase companies, hospitals, equipment leasing etc. were the other new activities of the corporation in the last few years.

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

The Industrial Credit and Investment Corporation of India (ICICI) were established in 1955 as a public limited company under the Indian Companies Act for developing medium and small industries of private sector.

Initially its equity capital was owned by companies, institutions and individuals but at present its equity capital is owned by public sector institutions like banks, LIC and GIC etc. It provides term loans in Indian and foreign currencies, underwrites issues of shares and debentures, makes direct subscription to these issues and guarantees payment of credit made by others.

Functions of ICICI

The corporation has been established for the purpose of assisting industries in the private sector by undertaking the following functions:

- (i) Assisting in the creation, expansion and modernisation of such enterprises.
- (ii) Encouraging and promoting the participation of private capital, both internal and external.

- (iii) Encouraging and promoting private ownership.
- (iv) Expansion of investment market.
- (v) Providing finance in the form of long or medium-term loans.
- (vi) Underwriting issue of shares and debentures.
- (vii) Making funds available for re-investment.
- (viii) Furnishing managerial, technical and administrative services to Indian Industry.
- (ix) To extend guarantee for deferred payments.
- (x) To advance loans in foreign currency towards the cost of imported capital equipment.

The financial assistance sanctioned and disbursed by ICICI up to March 2002 amounted to Rs. 2,83,511 crore and Rs. 1,71,698 crore respectively. During 1998-99 alone it sanctioned Rs. 34,220 crore and disbursed Rs. 19,225 crore.

Loans sanctioned in foreign currency constitute important place in total sanctioned loans of the corporation. The assistance sanctioned and disbursed by ICICI during 2001-02 aggregated Rs. 35,589 crores and Rs. 25,050 crores respectively registering a growth of 36.2 per cent and 20.9 per cent respectively over the previous year.

Recently ICICI Ltd. (along with two its subsidiaries, ICICI Personal Finance Services Ltd., and ICICI Capital Services Ltd.,) has been merged with ICICI Bank Ltd., effective from May 3, 2002. The erstwhile DFI has thus ceased to exist.

3. State Financial Corporation (SFCs)

The State Financial Corporation Act was passed by the Government of India in 1951 with a view to provide financial assistance to small and medium scale industries which were beyond the scope of IFCI. According to this Act, a State Government is empowered to establish a

financial corporation to operate within the State. At present, there are 18 such corporations functioning in the country.

These corporations are expected to be complementary to the Industrial Finance Corporation of India. While IFCI provides assistance only to large industrial concerns owned by public limited companies or co-operatives, the SFCs. render assistance to all kinds of industries, may be in the form of private limited companies, partnership firms or sole- trading concerns.

The capital structure of the State Financial Corporations has been left to be determined by State Government within the limits of Rs. 50 lakhs to Rs. 5 crores, 25 per cent of the capital can be subscribed by the public and the rest by the State Government, the Reserve Bank of India, insurance companies and other institutional investors in proportion to be determined by the State Government in consultation with the Reserve Bank of India.

Apart from share capital, the SFCs depend for financial resources on issue of bonds, borrowings from RBI, loans from State Government, refinancing of loans by IDBI, deposits from the public, repayment of loans and income from investments.

Functions

The main function of the SFCs is to provide loans to small and medium scale industries engaged in the manufacture, preservation or processing of goods, mining, hotel industry, generation or distribution of power, transportation, fishing, assembling, repairing or packaging articles with the aid of power, etc.

State Financial Corporations are authorised to grant financial assistance in the following forms:

(i) Granting of loans or advances to industrial concerns repayable within a period not exceeding twenty years.

(ii) Subscribing to the debentures of industrial concerns repayable within a period not exceeding twenty years.

(iii) Guaranteeing loans raised by industrial concerns repayable within twenty years.

(iv) Underwriting the issue of stocks, shares, bonds or debentures by the industrial concerns subject to their being disposed off within seven years.

(v) Guaranteeing deferred payments due from any industrial concern in connection with purchase of capital goods in India.

(vi) Acting as an agent of the Central Government or State Government or the Industrial Finance Corporation of India in respect of any business with an industrial concern in respect of loans sanctioned to them.

4. State Industrial Development Corporations (SIDC'S)

In order to accelerate industrial development various states have set up Industrial Development Corporations. Andhra Pradesh and Bihar were the first states to set up such corporations in 1960. Most of the states have set up such institutions at present. At present there are 28 such SIDCs working in the country.

Many of these corporations are registered under Companies Act and two have been set up under the statutes of legislative bodies. These corporations are wholly owned by state governments.

SIDCs perform the following functions

(i) Grant of financial assistance.

(ii) Provision of industrial sheds or plots.

(iii) Promotion and management of industrial concerns.

(iv) Promotional activities such as identification of project idea, selection and training of entrepreneur, provision of technical assistance during project implementation.

(v) Providing risk capital to entrepreneur by way of equity participation and seed capital assistance.

5. Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India was established under the Industrial Development Bank of India Act, 1964 as a wholly owned subsidiary of the Reserve Bank of India. The ownership of IDBI has since been transferred to Central Government from February 16, 1976.

The main object of establishing IDBI was to set up an apex institution to co-ordinate the activities of other financial institutions and to act as a reservoir on which the other financial institutions can draw. IDBI provides direct financial assistance to industrial units also to bridge the gap between supply and demand of medium and long term finance.

As on March 31, 1997, the paid up capital of IDBI stood at Rs. 659.4 crore and reserve fund at Rs. 6554 crore. The bank is also authorized to raise its resources through borrowings from Government of India, Reserve Bank of India and other financial institutions.

On 31st March, 1997, the bank had borrowings of Rs. 23,802 crore by way of bonds and debentures, deposits of Rs. 3694 crore and borrowings of Rs. 10,364 crore from RBI, Government of India and other sources.

The main functions of IDBI are as follows

- i. To co-ordinate the activities of other institutions providing term finance to industry and to act as an apex institution.
- ii. To provide refinance to financial institutions granting medium and long-term loans to industry.
- iii. To provide refinance to scheduled banks or co-operative banks.
- iv. To provide refinance for export credits granted by banks and financial institutions.
- v. To provide technical and administrative assistance for promotion, management or growth of industry.
- vi. To undertake market surveys and techno-economic studies for the development of Industry.

vii. To grant direct loans and advances to industrial concerns, IDBI is empowered to finance all types of industrial concerns engaged or proposed to be engaged in the manufacture, preservation or processing of goods, mining, hotel industry, fishing, shipping, transport, generation or distribution of power, etc.

The bank can also assist concerns engaged in the setting up of industrial estates or research and development of any process or product or in providing technical knowledge for the promotion of industries. Until recently IDBI also functioned as Export-Import Bank of the country.

viii. To render financial assistance to industrial concerns, IDBI operates various schemes of assistance, e.g., Direct Assistance Scheme, Soft Loans Scheme, Technical Development Fund Scheme, Refinance Industrial Loans Scheme, Bill Re-discounting Scheme, Seed Capital Assistance Scheme, Overseas Investment Finance Scheme, Development Assistance Fund, etc.

Since its inception in 1964, IDBI has extended its operations to various areas of industrial sector. It provides direct loans, refinances industrial loans, rediscounts bills, underwrites shares and debentures, directly subscribes to shares and debentures of companies of industrial units etc.

Aggregate assistance sanctioned by March 2003 amounted to Rs. 2,23,932 crore and disbursements amounted to Rs. 1,68,167 crore. Assistance sanctioned during 2004-05 amounted to Rs. 10,799 crore and disbursements amounted to Rs. 6,183 crore in 2004-05. The provisional figures for the year 2005-06 amounted to Rs. 27,442 crore and Rs. 12,984 crore respectively.

6. Industrial Investment Bank of India (IIBIL)

IRBI was established on March 20, 1985 under Indian Industrial Reconstruction Bank Act, 1984 as a result of reconstituting Indian Industrial Reconstruction Corporation. The basic aim of establishing IRBI was to revive sick and closed industrial units and to act as prime loan and reconstruction agency.

IRBI has been rechristened as Industrial Investment Bank of India Ltd. (IIBIL) with effect from March 27, 1997. The authorized capital of IIBIL is Rs. 1,000 crore and its head office is situated at Calcutta. Now it acts as an autonomous development finance institution like

IFCI, ICICI and IDBI. During 1999-2000, IIBIL sanctioned and disbursed Rs. 2338.08 crore and Rs. 1439.58 crore respectively.

The figures for the year 2000-01 amounted to Rs. 2102.3 crore and Rs. 1709.8 crore respectively; and for the year 2001-02, sanctions amounted to Rs. 1320.7 crore against disbursements of Rs. 1070 crore. The provisional figures for the year 2002-03 amounted to Rs. 12,06.4 crore and Rs. 1091.9 crore and for the year 2003-04 sanctions amounted to Rs. 2,412 crore against disbursements of Rs. 2,252 crore.

7. Unit Trust of India (UTI)

The Unit Trust of India was established on February 1, 1964 under the Unit Trust of India Act, 1963 with the following objectives

- (i) To stimulate and pool the savings of the middle and low income groups.
- (ii) To enable unit holders to share the benefits and prosperity of the rapidly growing industrialization in the country.
- (iii) To sell units among as many investors as possible.
- (iv) To invest the money raised from the sale of units and its own capital in corporate and industrial securities.
- (v) To pay dividend to the unit holders.

With the amendment of UTI Act in April, 1986, UTI is now allowed to grant term loans, rediscount bills, undertake equipment leasing and bill purchase financing, provide housing and construction finance, provide merchant banking and portfolio management services and set up overseas funds. UTI mobilizes saving funds from public by selling its units in various schemes.

The mobilized sources are invested by the Trust in shares and debentures of various well established companies.

UTI distributes its net profit amongst its unit holders as dividend. Presently UTI is the largest investor in Indian share market. As on July 31, 2002 UTI's assets under management

were valued at Rs. 47,787 crore. Financial assistance sanctioned and disbursed by UTI during 2000-01 stood at Rs. 6770 crore and Rs. 4600 crore respectively.

The head office of the UTI is situated at Mumbai and its regional offices are working at Mumbai, Calcutta, Chennai and New Delhi. 41 branches of UTI are working in various parts of the country. UTI has also established a private sector bank named UTI Bank Ltd.

8. Small Industries Development Bank of India (SIDBI)

The Small Industries Development Bank of India (SIDBI) was set up in 1990 under the SIDBI Act, 1990. The main objective of SIDBI has been to work as a principal financial institution for the promotion, financing and development of industries in the small-scale sector.

It is also expected to co-ordinate the functions of various financial institutions, such as, State Financial Corporations, State Small Industries Development Corporations, Scheduled Banks and State Co-operative Banks, etc. engaged in the financing, promotion and development of small scale industries.

Resources

The financial resources of SIDBI mainly comprise contribution from the Industrial Development Bank of India (IDBI) in the form of share capital and loans, funds from the Reserve Bank of India, loans from the Government of India and the market borrowings. The authorized capital of SIDBI is Rs. 250 crores which may be increased to Rs. 1000 crores. It is also free to obtain loans in foreign currency from foreign institutions.

Working

The Small Industries Development Bank of India began its operations in April 1990 by taking over the activities of the IDBI relating to the small-scale industrial sector. Since, then it has been providing very useful service to the small-scale industries. The other specialised financial institutions were generally providing assistance only to the big industrial units and hence SIDBI has filled this gap very well.

Total financial assistance sanctioned and disbursed by SIDBI till the end of March, 1999 stood at Rs. 45,137 crore and Rs. 32,985 crore respectively. During 2001-02 sanctions and disbursements made by SIDBI were Rs. 9,014 crore and Rs. 5,197 crore respectively.

In pursuance of SIDBI (Amendment) Act, 2000, 51 per cent of shareholding in SIDBI hitherto subscribed and held by IDBI, have been transferred to select public sector banks, LIC, GIC and other institutions owned or controlled by the Central Government.

Industrial Finance in India: Drawbacks and Its Remedies

Drawbacks

1. Backward Financial System: One of the important drawback of industrial finance in India is that it is not yet developed fully, the extent of capital market which is a source of long term finance including equity and debt is quite small. It also fails to provide risk capital in adequate quantity. The development of non-bank financial intermediaries is also very poor. Very little arrangement is made about venture capital which usually makes risky investment for high returns. The system is very much inadequate in respect of financial deepening which can be measured as a ratio of liquid liabilities to GNP. All these indicators reflect about the undeveloped financial system prevailing in our country.

2. Paucity of Funds: Another shortcoming of industrial finance is that it is grossly inadequate for the continuously growing and large requirements, especially to meet the needs of large industries. Moreover, the small industries are also facing shortage of finance in an acute manner. Besides, the securing and servicing of foreign funds are becoming difficult and expensive. Thus as a result of paucity of fund the expansion of industries is becoming very difficult.

3. Unsatisfactory Interest Structure: The interest rate structure for different types of loans like short term, medium term and long term are more or less unsatisfactory. These rates are not appropriate and are not properly aligned with one another and these rates are largely distorted and do not attain demand – supply equality for capital. Indigenous money lenders also charge a high rate of interest from small and village industries distorting the market interest rate structure.

4. Lack of Adequate Capital Formation: Industrial finance usually suffers from lack of adequate capital formation. There are inherent difficulties of mobilizing the quantum of incremental rural incomes which could have been utilized for financing rural industries.

5. Difficulties of Small Industries: Small industries located both in urban and rural areas are facing serious problem in realizing adequate finance. The problems faced by SSIs are varied. Firstly, they are lack of institutional finance available to SSI units. Even till to day financial corporation's exclusively meant for SSI units have not yet been set up in all the states of the country.

Secondly, in meeting the short term needs of SSI Units, banks and other financial institution demand adequate security acceptable to them showing least, regard to potentials and other qualities of SSI units reducing the credit worthiness of these units.

Thirdly, in respect long term capital also, i.e., in raising share capital, SSI units are getting less favour as compared to that of large industries. Finally, whatever financial support are available informal and indigenous sources of industrial finance to SSI units are considered to be small and costly considering the high rate of interest charged by these lenders.

Thus the industrial finance as a system in India has been suffering from several drawbacks. Accordingly, it is found to be inadequate, undeveloped following unsatisfactory interest structure and less friendly to small reach and tiny industrial units.

Remedial Measures

As the industrial finance set up in India suffers from serious shortcomings thus serious attempts should be made to improve the set up and to remove its shortcomings.

1. Strengthening the Domestic Source of Finance: In order to improve the system of industrial finance, the domestic sources of finance need to be strengthened and expended. Therefore, reliance on foreign aid needs to be reduced gradually because of its unreliable character.

2. Diversity Sources: In order to tone up industrial finance, sources of this finance should be diversified by setting up new institutions and expanding the existing ones. Thus the banking institution including regional rural banks, cooperative banks, and non-banking

financial institutions need to be expanded for the purpose. Moreover, to expand the scope of long term finance, securities market needs to be developed and strengthened.

3. Expanding Market finance: Strengthening of industrial finance in India requires expansion of market finance which includes setting up of market related institutions, and extension of market- based institutions. These requires development of capital market, development of financial instrument, to promote financial deepening of the system, promoting market finance as a good signaling device and finally to attract household savings, especially from the rural untapped areas.

4. Improvement of Banking Institutions: In order to improve the quantity and quality of industrial finance, banking institutions need to be improved and strengthened. This requires reforming the banking structure and its activities, improving the management of banks and upgrade the quality of banking personnel and the internal system followed by banks also needs to be improved.

5. Strengthening NBFIs: In order to tone up industrial finance, the non-banking financial institutions needs to be strengthened by setting up new units NBFIs, and also toning up the existing ones by developing appropriate legal framework. Development of long term finance institutions. Mutual fund industry etc. and establishing proper monitoring framework can strengthen this sector of industrial finance.

6. Encouraging Foreign Capital: Considering the paucity of domestic finance, arrangement be made for smooth flow of foreign capital. In this respect inflow of foreign direct investment is more important than the entry of portfolio of investment. Foreign capital should also facilitate entry of advanced technology and improved business practices.

7. Benefitting Small Industries: Industrial finance set up should benefit the small scale industrial units adequately, without discriminating their stature.

Foreign Capital in India: Need and Forms of Foreign Capital

Everywhere in the world, including the developed countries, governments are vying with each other to attract foreign capital. The belief that foreign capital plays a constructive role in a country's economic development, it has become even stronger since mid-1980.

The experience of South East Asian Countries (1986-1995) has especially confirmed this belief and has led to a progressive reduction in regulations and restraints that could have inhibited the inflow of foreign capital.

1. Need for Foreign Capital

The need for foreign capital arises because of the following reasons. In most developing countries like India, domestic capital is inadequate for the purpose of economic growth. Foreign capital is typically seen as a way of filling in gaps between the domestically available supplies of savings, foreign exchange, government revenue and the planned investment necessary to achieve developmental targets. To give an example of this 'savings-investment' gap, let us suppose that planned rate of growth output per annum is 7 percent and the capital-output ratio is 3 percent, then the rate of saving required is 21 percent.

If the saving that can be domestically mobilized is 16 percent, there is a shortfall or a savings gap of 5 percent. Thus the foremost contribution of foreign capital to national development is its role in filling the resource gap between targeted investment and locally mobilized savings. Foreign capital is needed to fill the gap between the targeted foreign exchange requirements and those derived from net export earnings plus net public foreign aid. This is generally called the foreign exchange or trade gap.

An inflow of private foreign capital helps in removing deficit in the balance of payments over time if the foreign-owned enterprise can generate a net positive flow of export earnings.

The third gap that the foreign capital and specifically, foreign investment helps to fill is that between governmental tax revenue and the locally raised taxes. By taxing the profits of the foreign enterprises the governments of developing countries are able to mobilize funds for projects (like energy, infrastructure) that are badly needed for economic development.

Foreign investment meets the gap in management, entrepreneurship, technology and skill. The package of these much-needed resources is transferred to the local country through training programmes and the process of learning by doing'. Further foreign companies bring with them sophisticated technological knowledge about production processes while transferring modern machinery equipment to the capital-poor developing countries.

In fact, in this era of globalization, there is a great belief that foreign capital transforms the productive structures of the developing economics leading to high rates of growth. Besides the above, foreign capital, by creating new productive assets, contributes to the generation of employment a prime need of a country like India.

2. Forms of Foreign Capital

Foreign Capital can be obtained in the form of foreign investment or non-concessional assistance or concessional assistance.

1. Foreign Investment includes Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). FPI includes the amounts raised by Indian corporate through Euro Equities, Global Depository Receipts (GDR's), and American Depository Receipts (ADR's).

2. Non-Concessional Assistance mainly includes External Commercial Borrowings (ECB's), loans from governments of other countries/multilateral agencies on market terms and deposits obtained from Non-Resident Indians (NRIs).

3. Concessional Assistance includes grants and loans obtained at low rates of interest with long maturity periods. Such assistance is generally provided on a bilateral basis or through multilateral agencies like the World Bank, International Monetary Fund (IMF), and International Development Association (IDA) etc. Loans have to be repaid generally in terms of foreign currency but in certain cases the donor may allow the recipient country to repay in terms of its own currency.

Grants do not carry any obligation of repayment and are mostly made available to meet some temporary crisis. Foreign Aid can also be received in terms of direct supplies of agricultural commodities or industrial raw materials to overcome temporary shortages in the economy. Foreign Aid may also be given in the form of technical assistance.

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