CHAPTER I
INTRODUCTION

1.1 INTRODUCTION

The industrial sector plays a dominant role in the economic growth of India. Its contribution to GDP is 16 per cent and there is still very good potential available for further growth. Knowing its vital importance the government of India has taken several initiatives to boost up this sector. These steps are showing good results.

India adopted the policy of globalization, liberation and privatization since 1991. After globalization, India opened up its economy gradually and has welcomed the foreign direct investment in several sectors in a phased manner. As a result number of multinational manufacturing companies of good repute has realized the potential available in India. They came to India and established their manufacturing units. E.g. Pune has become an automobile hub wherein number of world giants in automobile sector has come up in the vicinity of Pune metropolitan centre. Number of multinational companies engaged in manufacture of consumer durable goods has also opened their manufacturing units in and around Pune.

Definitions

Technically a unit engaged in the manufacture, processing or preservation activity is called an industry. Manufacturing industry is one which converts the raw material into finished product to meet the consumer’s requirements. E.g. Production of two wheelers, consumer durable goods etc. Processing activity means where the unit processes the material for consumers consumption. E.g. industry engaged in dyeing, bleaching of cloth, flourmills which convert wheat in aata, rava etc. and Preservation activity means by using some agents and observing some process the goods are preserved for a longer period. E.g. mango pickles, various masale etc.

The word Industry has been defined differently using various aspects such as investment in plant and machinery, number of workers, activity criteria etc. In general the economists have defined the word industry as a unit engaged in the manufacturing
activity or productive enterprise in a particular field. Usually industries are known by their product. E.g. industries engaged in automobile sector are known as Automobile Industries, industries manufacturing textile goods are known as textile industries etc. Similarly there are Pharmaceutical industry, leather goods mfg. industry so on and so forth.

In order to have uniformity for statistical purposes the industries are classified and codified under uniform classification code. E.g. Standard Industrial Classification (SLC).

Similarly other general business activities or commercial activities providing various services are also called industry. E.g. Tourism industry, Entertainment industry, etc.

Because of the industrial development, growth and expansion of the trade and commerce is possible. The industries are on the supply side of the market.

The term management is essentially a decision making unit. The management functions encompasses various aspects such as planning, budgeting, organizing, recruitment, selection, training, control, communication, review etc.

Among these various aspects, certain aspects which deal with the selection, recruitment, deciding compensation, training, administering the workforce, and in broader terms ensuring uninterrupted supply of motivated workforce to the organization are the functions which are usually clubbed under Human Resources Development department. In good old days there used to be Administrative or Personnel dept. which used to deal with the recruitment, and maintenance of administrative records relating to the employees. However, after the adoption of globalization and entry of multinational organizations in India this department is being known as Human Resources Development Department and its role has been widened. Apart from enlargement of role its importance in the entire organization has also grown tremendously. It has become a key department in the organization. In the foregoing paragraphs the various activities that are undertaken by the Human Resources Development Department have been discussed in greater detail.
1.2 CLASSIFICATION / TYPES OF INDUSTRIES

The industries are classified using various yardsticks. Following are the major classifications that are being followed.

1. Primary Industry
   In this category the production of goods is taken up with the help of nature. Very little human effort is required. E.g. Agriculture, forestry, fishing, horticulture etc.

2. Genetic Industry
   In this category the industrial activity carried out is re-production and multiplication of certain species of plants and animals for ultimate sale. The sole aim is to earn profit by effecting sale of the re-produced or multiplicated products. E.g. plant nurseries, Poultry, cattle breeding etc.

3. Extractive Industry
   In this type of industry the activity is extraction or drawing out goods from the soil, air or water. The product comes in the raw form and is used in manufacturing process. E.g. brick manufacturing, Oil from oil seeds, mining industry, coal minerals, extraction of iron ore, and extraction of rubber and timber from the forests etc.

4. Manufacturing Industry
   This type of industry is engaged in converting the raw materials into finished product with the use of machinery and also using electrical power (with some exceptions e.g. manufacturing the quick lime used in sugar industry. For manufacturing quick lime firebrick kiln is required where no electricity or machinery is required.) In this category some industries are very large and that they use finished product of some of the small scale industrial units as their raw material and their final product is out. For example in respect of unit engaged in manufacturing of two wheelers under their own brand, they get the supplies of major parts such as handles, crank shafts, etc. from various vendors developed by them and lift their product to use it in their product. These small or medium industries which supply bulk of their finished products to the large manufacturer are called ancillary unit of that major company.
5.  **Construction Industry**

This is yet another type of industry which also uses the raw material in their finished output. This is mainly engaged in the construction of buildings, bridges, dams, canals, roads etc. This industry is distinct from the other industry as its location is at the spot where the sale takes place. E.g. construction of bungalow – this is being done at the site of the bungalow, similarly construction of dam / bridge etc. Usually goods are prepared at the work site only.

6.  **Service Industry**

In this type of industry the product sold is ‘service’. Because of this peculiarity this type of industry is known as service industry. The services sold by the industry have now became so important that in a very short span of time this service industry has became a prominent industry all over the world. E.g. hotel industry which provides hospitality services, entertainment industry which provides entertainment, tourism industry etc. In case of these service industries the specialized product i.e. service which is usually a tailor made, is sold to the ultimate consumer.

1.3 **ROLE AND IMPORTANCE OF INDUSTRIES IN INDIAN ECONOMY**

Development of industries is the key/ crucial factor on which the economic development of any nation is dependent. Naturally this is also equally applicable to Indian economy. The contribution of the industrial sector to India’s economy is certainly sizable. Of late because of the developments in Information Technology sector, the Indian economy has got a booster dose. There is a need to have a balanced industrial growth as it increases the pace of economic growth. In order to have a sustainable growth of economy there is dire need for continued industrial growth. The healthy growth of the industrial sector minimizes the risk element in the economic development. The flourishing industries plough back certain portion of their profit in the business and expand their activities and in turn it helps the industry’s growth. India is a vast country which has rich store of natural resources as well as youth manpower unparalleled in the world at the current phase. Therefore, India has a very wide scope to achieve higher development on the industrial front.
1.4 HISTORICAL PERSPECTIVE OF INDIAN INDUSTRIES

India got independence in 1947. Due to industrial revolution the pace of economic development was geared up. This industrial development also led to the multi dimensional growth in agriculture. The nation witnessed a good beginning of the economy.

Due to use of the then prevailing technologies and simplified living standard there was emergence of a wave of entrepreneurs and their presence of conspicuous. E.g. Jamshetji Tata, K. M. D. Thakersey, Birla, Goenkas, etc. The names are illustrative. These entrepreneurs also received very good respect at the government quarters. It was a welcome development that the next generation of these entrepreneurs was also taking active part in the management of these industrial units and was getting groomed. The government gave all out support to them.

The government put in special initiative and ensured congenial environment for the process of industrialization. The government came forward and started setting up the godowns for stocking raw materials which were then in short supply. The government also came forward and whenever needed it also imported raw material for these industrial units. Thus the government came forward and provided all round support for the development of these industries.

In the post independence period the Govt. of India, with a view to encouraging the entrepreneurs to start Small Scale Industrial units, offered various incentives. In order to assist these SSI units the government also adopted an import policy which was favourable to these units.

Obviously the government of India was initially scared to invite foreign direct investment in these Indian industries. It was restricted to 40% of the total outlay. The government of India provided encouragement to the domestic researchers in the field of technologies not only in the industrial sector but also in the agricultural sector.

India embarked upon the planning exercise for planned development in the year 1951 when the Govt. of India established a Planning Commission. It started
planning for the five years period. The second five year plan witnessed that the government gave thrust on the development of domestic raw materials instead of resorting to import those from overseas. The government of India provided special incentives for development of domestic machineries and raw agents.

1.5 HISTORY OF INDUSTRIAL DEVELOPMENT OF INDIA

At the time of India’s independence, there was very little presence of the large scale industries on the Indian industrial horizon. Even after seven decades India is being recognized as an agrarian country although the share of the agriculture in the India’s Gross Domestic Product is less than that of the Industry. India is a land where the traditional craftsmen have a world class capacity to develop handicrafts and they have achieved a name all over the world. It has already been stated that India has a rich storage of natural wealth.

During the course of British Raj they had framed the industrial policy to suit their interests without giving due importance to India’s concerns. This was a deliberate attempt to stem down India’s development. They preferred to export the raw material to Britain and bring back the finished goods and sale it in the Indian market and exploit the local people.

Post Independence Industrial Development of India

The first and foremost priority of the Indian government after attainment of the independence in 1947 is to develop the industries to meet the domestic requirements of several daily consumption items. The then government also realized the potential of the industrial sector in the overall economic development. Therefore, the government of India for the first time announced its first industrial policy in the year 1948 and provided a direction to the industrial development.

The first industrial policy of 1948 was focused on laying down foundation of the Govt.’s policy of mixed economy wherein both the government and the public had a clearly spelt out role for the industrial development. The government gave importance for the working together both by the private and public sector. This policy had also received some criticism.
The Industrial Policy Resolution of 1956

In order to achieve a socialistic pattern of society the govt. adopted a mixed economy policy. The policy clearly spelt out the role of both public and private sector. This was with an aim to achieve a steady and parallel growth of both public and private entrepreneurs to achieve its targeted socialism. Right from this policy the government aimed at removing the regional imbalance in the industrial development. This policy categorized the industrial sector into three sectors.

Schedule A

In this category the government listed all those industrial subsectors which the government wanted to reserve for the State. This sector contained 17 industries. The objective was to ensure that the strategic industries like Arms and ammunition, defence equipment, atomic energy, heavy basic industries like iron and steel etc. remain in the State sector. It also included generation and distribution of electricity, mining and processing of copper, several specified items, Aircraft; Air transport; Railway transport; Ship-buildings; Telephones; Telephone cables; Telegraph and Wireless apparatus. There were some units in the private sector which were pursuing production of the items these were subsequently reserved by the government. The policy made an exception for these industries and allowed them to continue and even to expand. The government also made it clear that whenever need arises they will render assistance to them.

Schedule B

This category included those industries which the government wanted to own progressively and expected the private enterprises to supplement the Govt. efforts. This category included 12 industries like Aluminium and other non-ferrous metals, machine tools, ferro-alloyws and steel tools, Basic and intermediate products required by chemical industries. Sea transport, fertilizers, essential drugs, manufacture of drugs. In course of time the State increased its participation and established new units but did not discourage the private sector to establish and expand new units.

Schedule C

Industries which are not included in the Schedule A or B are included in the third category i.e. Schedule C. The private entrepreneurs were free to establish
industrial units in this category. Thus the government also wanted to develop responsible private sector participation in the industrial development. So far as the development of these industries was concerned the government restricted its role for creation of environment congenial for the development of industries.

**Industrial Policy of 1977**

In this industrial policy the government further classified the small sector into three categories. Mainly this categorization was based on the investment criteria.

a) **Cottage and household industries:** It included those industries which provide self-employment on a large scale.

b) **Tiny Sector:** As the name indicates its size that the investment required for starting those industries where the original cost of equipment used in business is only up to Rs.1 lakh and also there was a condition about location of the unit that it should be in towns having less than 50,000 population.

c) **Small Scale Industries:** All those small industries engaged in production, processing or preservation having initial investment in plant and machinery less than Rs.10 lakhs are referred to as Small Scale Industries. However, in the case of ancillary industries which were having bulk production for the principle large manufacturer, the investment limit was relaxed to Rs.15 lakhs.

In addition to the production of important and strategic goods, the government encouraged public sector to ensure effectively for stabilizing and maintaining supplies of the essential goods to the consumer.

**Industrial Policy of 1980**

Through this policy the government addressed the problem of regional imbalance of industrial development. It wanted to remove this imbalance. It took initiative to provide infrastructural development to attract private investment in the backward regions. It focused its attention for provision of electricity which was the key requirement for industrial development. Alternative sources of energy such solar power, wind power; biogas plants, tidal sea power etc. were encouraged. The
government also recognized the need for use of advanced technology, to meet the international competition.

Thus this policy aimed at promoting competition in the domestic market, use of advanced technology and modernization. The govt. also liberalized inflow of foreign direct investment in high technology areas.

**Industrial Policy of 1991 and thereafter**

The year 1991 turned out to be a landmark year so far as Indian economy is concerned. There was a sea change in the industrial policy of 1991. All along, the government was pursuing mixed economy however since 1991 the government said good bye to it and adopted a policy for encouraging privatization.

**Industrial Licensing Policy**

This policy was so generous that keeping certain key industries which were relating to security and strategic concern, social reasons, hazardous chemicals and riding environment reasons, the rest of the lists of industries included in the Schedule A and B were scrapped. The licensing policy was so liberalized that the population criteria was relaxed to some extent for establishing industrial units at places having less than one million population, no license was required. However, the government restricted the license requirement for establishing industrial units in cities having more than one million of population. The govt. also spelt out that in such cities industries should be of non-polluting nature such as electronics, computer software and printing etc. will be allowed outside 25 km periphery, except in prior designated industrial areas.

**Policy on Public Sector**

The 1956 industrial policy had reserved 17 industries for the public sector. The 1991 industrial policy brought down this number to 8. It covered Arms and ammunition, atomic energy, coal and lignite, mineral oils, Mining of Iron Ore, Manganese ore, chrome ore, gypsum, sulphur, gold and diamond, Mining of copper, lead, zinc, tin, molybdenum and wolfram; minerals specified in the schedule to the atomic energy (control of production and user order), 1953 and Rail Transport.
There were more hurdles for the expansion which were placed by the Monopoly and Restrictive Trade Practices Act, (MRTP) in the form of threshold limit for the assets of these MRTP companies. Because of this restriction these MRTP industries were required to obtain prior approval of the Central Government for their expansion or for establishing any new unit. This 1991 policy removed these hurdles and the government amended the MRTP Act suitably.

**Policy on Foreign investment and Technology agreements**

The 1991 industrial policy drew out a list of priority industries in which high technology and high investment priority is required to be given. India being a developing country there were limitations for capital formation and hence has to be dependent on inflow of foreign direct investment. This policy introduced automatic permission availability for FDI upto 51 percent of foreign equity in these priority listed industries. This improved the FDI inflow and paved the way for inflow of latest technology along with the foreign capital inflow. The industries included mainly those industries which require high dose of capital e.g. metallurgical industries, electronic, food processing and entertainment industry, service sector like IT and BPO industry etc. Besides this the policy included those industries which are key industries for India’s speedy economic growth.

The government of India in the year 1997 issued guidelines for speedy approval of the foreign direct investment in the areas which were not covered by the automatic approval. The list for foreign direct equity investment of automatic approval by the Reserve Bank of India route was further enlarged in the years 1997-98 and again in 1998-99. In a bid to attract FDIs the Govt. of India on the 9th May 2001, announced further concessions for FDI. So far as the pharmaceutical industry is concerned the Govt. of India allowed 100% FDI through automatic approval route. Similarly in respect of airports sector the Govt. of India allowed 100% FDI as against earlier stipulation of 74%. With a view to give boost to the tourism industry the Govt. of India further relaxed the restrictions on FDI from then existing 51 per cent to 100 percent through automatic approval route. So far as mass rapid transport proposals in the coming new township as against earlier stipulation of 51 per cent, 100 per cent FDI was allowed through automatic approval route.
1.6 INDIAN INDUSTRY PRIOR TO REFORMS
(LIBERALIZATION, GLOBALIZATION AND PRIVATIZATION)

Prior to the liberalization of the Indian economy in the year 1991 there was certain protection from the Govt. of India in one form or the other to the Indian firms. Imports were restricted. Payment of royalty was under restriction which had adverse impact on the foreign suppliers to offer latest technology. There were several restrictions under MRTP and Foreign Exchange Regulation Act (FERA). The other restrictions were price controls; certain sectors were having barriers for multinational companies to establish their units in power, electronic, mining, infrastructure, aviation, oil, telecom sector and capital market restrictions. All these restrictions had an impact of importing the latest technology to India.

1.7 IMPACT OF GLOBALIZATION ON INDIAN INDUSTRY

After adopting the policy of globalization the Govt. of India initiated several steps and speeded up the process of integration of the world market. As a result, the Govt. had to remove the various barriers it had placed as discussed in the earlier paragraph. The policy of globalization could achieve trade in goods and services all over the world, movement of capital and the flow of finance. Thus the globalization resulted in the integration of the nation’s economy with that of the Global economy. Since the entire world became one market place and there were no restrictions, it gave rise to the fierce market competition and the survival of the fittest became the rule of the day. If we look at the performance of the Small Scale Industries it was observed that these were playing a prominent role in the development of the Indian economy. It provided jobs to the millions and its exports were showing signs of increase. Because of the globalization there was adverse effect on the small scale industrial sector as the big companies started minting the benefit of the large production at lesser costs. This resulted in closure of number of SSI units in India.

However, the globalization has resulted in positive impact in certain industrial sector. The information technology, Business Process Outsourcing, pharmaceutical sector, petroleum and manufacturing sector were boosted and huge inflow of FDI and technology could be received. This had geared up the Indian economy to a great
extent. The liberalization paved the way for inflow of latest technology as well as the
competition had increased considerably. The domestic industries were required to
maintain high quality of their product to withstand the competition. Therefore, in
number of domestic industries the quality improvement took place and there was
greater awareness about the quality as well as to ensure the reduction of the costs of
the product. Now the goods manufactured in India in number of companies are having
excellent quality which can be compared with that of the world class manufacturers.
The ultimate result of the fierce competition was in shrinking of the profit margins.

1.8 CATEGORIZATION OF INDUSTRIAL UNITS

a) Cottage, Village and Tiny industry

Pt. Jawaharlal Nehru while speaking about the Cottage and small scale
industries stated that these are of very special importance in India. He further
observed that although India lacks capital, it has abundant manpower and that it
should be used to add wealth and employment.

The name itself focuses on the location of the industrial units which puts
certain limitation on its size. The industrial activity is carried out near to their
dwelling. The unit engages the family labour in it. In the rural area for want of
employment opportunities the localites have to pursue this activity using locally
available raw materials. Usually these units were producing home required products
and the marketing was local.

The capital requirement of the Cottage industry was not much as it was using
locally available skills and the raw material. This provided an opportunity to the
family members to carry out the activity as a family activity to supplement their
principle activity namely agriculture.

Before the introduction of the industrialization, the Cottage industries had an
important role in providing employment. However, once the industrialization came in
and the mass production with the use of machinery and power started naturally it had
adverse impact on the Cottage industries and gradually these industries were closed
down.
Nearly 67 per cent of the Indian population resides in the rural area. The main economic activity in the rural area is agriculture. Indian agriculture is mainly dependent on the monsoon. The rural youth do not get yearlong employment in the agricultural activity. There is a situation of disguised unemployment. Therefore there is a greater degree of migration from rural to urban all these years. On this backdrop the industrial sector provides full employment. Especially families which are pursuing cottage industrial activity they get supplementary income to make better living. Keeping this aspect in view the government of India is supporting the establishment of cottage industries by providing various subsidies and reservation of its products for govt. purchases etc.

b) Small Scale Industry

There is a phenomenal growth of the small scale industries after India’s independence. The government in its five year plans accorded top priority in boosting the establishment of the small scale industries. Prior to the adoption of the economic reforms in 1991, the government had extended protection to the small scale industries to make them comfortable to compete with the large scale industries. Certain products were reserved for the production by small scale industries. The government purchases of certain goods were reserved for the small scale industries.

The Industries (Development and Regulation) Act, 1951 for the first time formally defined the term Small Scale Industry using the parameter of original investment in plant and machinery.

The small scale industries carry certain unique features. It’s capital requirement is relatively less. It provides employment to the entrepreneur as well as to some others. Thus it generates employment opportunities. Because of the size, it helps decentralization of industries. The government had conducted study about the employment generation rate of the small scale industries. It was revealed that with an investment of Rs.1 lakh in capital goods it provides 8 fold more employment compared to the large scale industries.
This small scale industrial sector plays a pivotal role in developing the Indian economy. It accounts for nearly 40 per cent of the total production and its share in India’s export is to the tune of 34 per cent.

Due to inflation and the prices of the capital goods were increasing. In order to ensure that the original investment in plant machinery to get qualified for being a Small Scale Industry, from time to time, the government amended the criteria of fixed investment. The following paragraphs depict as to how these limits were enhanced.

It has already been stated that the original criteria was Rs.10 lakhs for small scale and Rs.15 lakhs for ancillaries in 1975. This limit was enhanced to Rs.15 lakhs and Rs.20 lakhs respectively in the year 1980. Again in the year 1985 these limits were enhanced to Rs.35 lakhs and 45 lakhs respectively for SSI and ancillary units.

The year 1991 industrial policy raised this investment limit to Rs.60 lakhs for SSI and Rs.75 lakhs for ancillary units.

The government of India had appointed a committee under the chairmanship of Abid Hussain to review the performance of the SSI and Ancillary units. As per this committee’s report in March 1997 the original investment in plant machinery limits for SSI and Ancillary were further raised to Rs.3 crores and for tiny industries it was raised to Rs.50 lakhs.

The new Policy Initiatives in 1999-2000 defined small-scale industry as a unit engage in manufacturing, repairing, processing and preservation of goods having investment in plant and machinery at an original cost not exceeding Rs. 100 lakhs.

The Planning Commission of India, for small scale industries uses the term “village and small industries” . This term encompasses small scale industry and the traditional cottage and household industry.
c) **Ancillary Industrial Units**

There are certain small scale industries because of their quality performance they get bulk order from the large scale manufacturers. They buy some of the components of their production from these SSI and enter into contract for minimum supply. Therefore, these units have an advantage of assured market for their production. To meet this requirement naturally they are required to invest slightly higher in their machinery. Therefore, to get the benefits of the Small Scale Sector, these units are allowed higher investment in plant and machinery. Those small scale industrial units which supply more than 50 per cent of their production to large scale industries and which forms a part/component of the large scale industry’s finished product, are called as ancillary industry.

d) **Small Medium Scale Enterprises (SMES)**

It has been seen from the above discussion that the terms relating to small scale industrial activity have been changed from time to time. Currently a new term has been coined which refers to small scale industry as Small Medium Scale Enterprises.

Today, the SME sector is a backbone of the Indian economy and its share is about 45 per cent of the total industrial production. The share of SME’s in the India’s export is 40 per cent and it provides employment to over 60 million people. The job creation rate of the SME sector is also high at 1.3 million jobs every year and the range of the products of these SMEs is over 8000 quality production which are also forming part of the exports.

The government has estimated that the SMEs will provide about 12 million jobs in the ensuing 3 years. The annual growth rate of this sector is placed at 8 per cent per annum. Keeping in view the employment potential and its share in the exports, of this SME sector, the Govt. has offered several sops to this sector. The sops include provision of the required credit on the liberal terms and also according timely approval/sanction by banking sector.
The growth of the SME sector in India is attributed to several factors, to name a few, 1) funding of SMEs requirement by domestic and foreign institutions, technology used, facilitation of trade between buyer and the supplier, greater use of information technology etc.

As per the latest legislation i.e. “Micro Small and Medium Enterprises Development Act, 2006” the currently prescribed investment in Plant and Machinery is as follows:

**Table 1.1 Manufacturing Enterprises – Investment in Plant & Machinery**

<table>
<thead>
<tr>
<th>Description</th>
<th>Indian Rupees</th>
<th>US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Upto Rs.25 lakhs</td>
<td>Upto $ 62,500</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>Above Rs.25 lakhs &amp; upto Rs.5 crores</td>
<td>Above $62,500 and Upto $ 1.25 million</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Above Rs.5 Crores and Upto Rs.10 Crores</td>
<td>Above $ 1.25 million upto $ 2.5 million</td>
</tr>
</tbody>
</table>

**Service Industries – Investment in Equipments**

<table>
<thead>
<tr>
<th>Description</th>
<th>Indian Rupees</th>
<th>US $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Upto Rs.10 lakhs</td>
<td>Upto $ 25,000</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>Above Rs.10 lakhs &amp; Upto Rs.2 Crores</td>
<td>Above $ 25,000 upto $ 0.5 million</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Above Rs.2 Crores &amp; Upto Rs.5 Crores</td>
<td>Above $ 0.5 million and upto $ 1.5 million</td>
</tr>
</tbody>
</table>

*Source: Micro Small and Medium Enterprises Development Act, 2006.*

Following are some of the special features of the SMEs:
- Low level of investment
- Export earnings
- Operational flexibility,
- Limited mobility of the labour
- Capacity to develop indigenous technology,
- Import substitution
- Development of entrepreneurs.
The contribution of SMEs on the Indian canvas is worth praising. Its contribution to domestic production as well as the export earning is high.

1.9 LARGE SCALE INDUSTRIES

The term large scale industries have been defined by several authors using various parameters. Some have used the turn over criteria and some have used the employees employed and some have used the originally cost used in plant and machinery. There is no uniformity about these definitions at the world level. Now the term SMEs has been defined by the legislation of 2006. So far as Indian definition of Large Scale Industries is concerned, it can be defined as any industry which is larger than SME.

Large Scale Industries (LSIs) are those industries with investment more than Medium Manufacturing Enterprises, under MSMED Act 2006 and as shown in the earlier table. It is because of this rationale the researcher has followed this definition of the large scale industries for the purpose of identifying the large scale industries for this study.

Normally the large scale industries are capital intensive. These industries also require huge infrastructure and sizable man power. These large scale industries include iron and steel industries, textile industries, pharmaceutical industries, automobile industries, telecom industry etc. Presently the Information Technology industry is growing fast wherein the human capital is large. Therefore, these IT industries wherein the number of employees is large, are also termed as Large Scale Industries irrespective of their investment in plant and machinery.

1.10 MONOPOLY & RESTRICTIVE TRADE PRACTICES COMMISSION

In order to avoid concentration of economic power, in the past it was considered appropriate to have a quasi-judicial body to restrict such concentration of any particular company. Therefore, in the year 1969, through Monopolies and Restrictive Trade Practices Act, a Commission popularly known as MRTP Commission was constituted under the Department of Company Affairs.
The main function of the MRTP Commission is to enquire into and take appropriate action in respect of unfair trade practices and restrictive trade practices. The Commission is empowered under section 10(b) to inquire into such practices:

(i) Upon a reference made to it by the Central Government or

(ii) Upon its own knowledge or information and submit its findings to Central Government for further action.

1.11 DEFINITION OF HUMAN RESOURCES DEVELOPMENT

In business administration, Human Resources Development is a part of overall Human Resource Management. Various authorities have defined Human Resources Development in different ways. Prominent amongst them are: Warner and DeSimone – HRM Scholar. He defined it as: “A set of systematic and planned activities designed by an organization to provide its members with the opportunities to learn necessary skills to meet current and future job demands”.

In the year Haslinda-a gave a definition of HRD in 1964. This definition was in the form of a broader perspective. This definition explained HRD in relation to culture, the economy and social and political contexts rather than individuals and organizations. They defined HRD as:

“HRD is the process of increasing the knowledge, the skills, and the capacities of all the people, in a society. In economic terms, it could be described as the accumulation of human capital and its effective investment in the development of an economy. In political terms, HRD prepares people for adult participation in the political process, particularly as citizens in a democracy. From the social and cultural points of view, the development of human resources helps to people lead fuller and richer lives, less bound to tradition. In short, the processes of HRD unlock the door to modernization”.¹

“HRD is the integrated use of training and development, career development and organizational development to improve individual and organizational effectiveness” (McLagan).²

“HRD is organized learning activities arranged within an organization to improve performance and personal growth for the purpose of improving the job, the individual, and the organization” (Gilley and England).³

“HRD is the process of determining the optimum methods of developing and improving the human resources of an organization and the systematic improvement of the performance of employees through training, education and development and leadership for the mutual attainment of organizational and personal goals” (Smith)

1.12 EVOLUTION OF CONCEPT OF HUMAN RESOURCES MANAGEMENT IN INDIA

Since independence, in India there have been several changes in the personnel management and the approach of the organization. After the independence India adopted mixed economy model for its economic growth. There was coexistence of both private and public sector. Industries classification was broadly based on the ownership – whether private or public owned. Those types of heavy basic industries which were capital intensive were taken up in public sector as India being a developing economy the rate of capital formation was low and it was difficult to the private entrepreneur to mop up huge capital investment. In the large sector manufacturing industries the number of employees was quite large. The Indian Constitution has given several protections to the working class.

Alongwith the industrialization process, there was a growth of trade union movement which also protected the employees’ rights and interests. The trade unions

educated their members of their rights and in the organized sector; chances of employees getting exploited were remote. During 1970 – 80 decade the HRM department attended to the following functions:

(1) Personnel and administration,  
(2) Industrial Relations, and  
(3) Labor welfare. The prescribed and assumed role was crisis driven or issue driven. (Chaterjee, 2006).

This period also witnessed the rise of managerial unionism. The white collar workers, though deprived of formal union rights, formed their associations and these associations started working as pressure group to obtain their demand settled by the management. This development paved the way for Associations of Managements again with the same objective to protect their interests. The industries concentrated on development of tools that would increase the efficiency and productivity of the employees. This development led to defining the work output, staffing pattern and productivity linked compensation / incentives.

Today, HRD in India has come out of infant stage but has not reached a stage of adulthood. For the first time, in India, in the year 1975, the first HRD department was established in Larsen & Turbo. Then in the year 1979, HRD department was established by State Bank of India – a large service sector organization, having the largest branch network and number of white collared employees. It had an integrated approach to HRD functions. Dr. T. V. Rao of Indian Institute of Management, Ahmedabad conducted a workshop on HRD and brought out a draft book on Designing and managing Human Resource System. Then after, number of organizations showed interest in establishing HRD department in their organization and now it has reached a stage that almost all the large sized organization this department is in existence.

As the time passed, the concept of HRD has undergone various stages of transformation. By mid seventy it started using motivational tools to build the competence. In 1980s, by and large motivational needs were fulfilled. Today, the role of HRD has been understood in right perspective by the organizations.
1.13 IMPORTANCE OF HUMAN RESOURCES DEVELOPMENT

Today, the Human Resources Development department plays a pivotal role in any organization. This is the most important department in every organization. It takes care of recruiting the people, maintaining benefits to the organization and at the same time takes care of the all important assets including the talent management for the organization.

There are various reasons for assigning a key position to the Human Resources Development department. The department takes care of all the employees of the organization through which the employees voice their views. It creates a bond of confidence between the employees and the management. At the same time it also takes care of the organization to ensure that the right type of employee is available for the right posting and that he/she devotes wholly and gives maximum output at the affordable costs.

1.14 SIGNIFICANCE OF HUMAN RESOURCES PLANNING

The importance of planning in every department cannot be undermined and the HRD department is not an exception to it. It is the objective of the HRD that there is uninterrupted supply of adequate number of qualified and motivated employees which are best suited to the job requirement. This requires proper planning, giving training input to the newly recruited employee and that they are introduced to the management’s objectives, mission systems and procedures.

Importance of Human Resource Planning

Human Resource Planning is important for any organization in the following ways;

- Provides quality workforce,
- Reduces labor costs,
- Facilitates rise in skills,
- Effective motivation,
- Safety of health,
**Reduces labor costs**

The HRD dept. has to perform a tight rope walk as while gaining the confidence of the human resource it has also to satisfy the management. Particularly in today’s marketing scenario when there is a fierce competition in the market, in order to ensure that the cost of production is kept at low level it has to ensure that the labour costs are to the extent possible at low level.

**Facilitates rise in skills**

The employees recruited by the organization are required to be oriented and introduced to the organization’s policies, culture, practices and procedures, mission of the organization etc. for which the HRD dept. should organize proper training to the employees and ensure that their skills are sharpened on continuing basis.

**Effective motivation**

Fully motivated employees are invaluable assets to the organization. Through various techniques the HRD dept. has to ensure that the employees are fully skilled as well as fully motivated so that they will give their full potential to the organization. It has to innovate on continual basis incentive schemes of various kinds to ensure that the employee’s motivational needs are fully met. Motivational tools are not necessarily monetary all the time. Even for achieving motivation job satisfaction environment, recognition of the individual achievements, appreciation etc. are also important from the employee’s point of view.

**Safety of health**

Ensuring health care of the human resources receives the top most priority of the HRD dept. Only when the employee and his family’s health care has been taken by the organization, the full potential of the employees can be drawn. For this purpose the HRD Dept. takes every care for safety of the human resources

**1.15 IMPACT OF GLOBALIZATION ON HR PRACTICES**

India became the founder member of the WTO and adopted policy of globalization, liberalization and privatization in the year 1991. This made the entry of foreign direct investment possible in a phased manner due to which number of
multinational organizations came to India and established their manufacturing / research and development and back offices in India. Along with this these multinational companies also brought the modern technology as well as various latest management practices including the Human Resources Management practices. Not only for the trade but also for human resources the entire globe became a market place. Lots of Indians are now working in various countries in various key positions and also lots of foreign nationals have been inducted in the Indian companies and are working in India. The whole canvas of the Human Resources Development has undergone a sea change. It has received a global dimension. This led to the complex role of the Human Resources Department as they have to take into account various factors in handling their day to day functions.

The origin of the concept of “BEST HR PRACTICES” lies on this background. In order to ensure that there is no attrition of the talented employees, the HRD organizations has to be on its toes to innovate various HR practices that will interest the talented people to continue with the organization. The best HR practices according to its dictionary meaning are the recognized methods of correctly running business or providing services. “Best practice is a method or technique that has constantly shown good results with other means and that is used as a benchmark”. ⁴

“A practice which is most appropriate under the circumstances, especially as considered acceptable or regulated in business; a technique or methodology that, through experience and research, has reliably led to a desired or optimum result”. ⁵

Thus the HR department is expected to be pursuing the identification of the Best HR practices without much involving the costs and at the same time improving the morale of the employees. The HRD should also ensure that the human resources remain motivated all the time for attainment of the corporate goals. E.g. provision of various acceptable fringe benefits to the employees, providing a well drawn career path etc.

⁴ http://www.businessdictionary.com/definition/best-practice.html#ixzz30Mb0fLWT
⁵ Collins English Dictionary –unabridged edition 2009
Therefore, we can say that the globalization has brought in the positive approach to the functioning of the Human Resources Development dept. Not only this phenomenon is restricted to the multinational companies but also the domestic companies have adopted those with some little changes here and there to suite their staff expectations. Indian companies are also deputing their staff to overseas sites for onsite assignments and these employees also give feedback to their management about the work environment and the various facilities the employees get there. This feedback is useful to the HRD dept. to assess the possibilities to adopt similar facilities in their company. HRD dept. has to perform a balancing act as it has to satisfy the management and the human resources at the same time.

1.16 STRATEGIC HR MANAGEMENT

The strategic HR Management address the attainment of the organizational objective and at the same time meeting the expectations of the employees on various fronts. HRD has to perform a skilful job of undertaking the compensation negotiations, training and administration etc. It also provides various incentives, safety procedure and other routine aspects such as framing of leave rules and administering those.

Strategic human resource management is a proactive management of people. It involves planning for achievement of company needs of human resources and meets those well in time. It involves in improving the hiring practices, training programmes, enforcement of discipline and development of work culture conducive for the attainment of the company goals.

1.17 OBJECTIVES AND GOALS OF HUMAN RESOURCES

Today, in order to remain in business and achieving growth the organizations are using modern technology not only in the manufacturing sector but also in the services sector. Therefore the need of the hour is to have skilled and competent employees. There is a shift in demand for skilled and competent workers as well as managers. Therefore, HRD Dept. has to develop and design new tools for the proper recruitment, training and formulating the policies for employee retention. The success of the HRD dept. lies in ensuring that there is very low attrition of the talented
employees and that the staff at all levels remains motivated to offer best potentials they are having.

The Goal of HR Management is usually simplified as “right people at right places”. The “at right time” should be added as well. This simplified goal represents the complex system of HR processes, which have to be aligned to allow the skilled work with employees and managers in the organization.

The HR Management consists of several areas and the key goals are defined for each of them:

- Organizational Effectiveness
- Human Capital Management
- Knowledge Management
- Performance Management
- Compensation Management
- Employee Relations

In modern organizations organizational effectiveness is a key requirement. Survival of the fittest is the order of the day. One who can withstand with the current competition and ensure achievement of the organizational goals will help the organization to function effectively.

In the current scenario where there is a constant increase in the demand for the quality and skilled staff the HR department has to accord top most priority in the knowledge management and the other aspect associated with it is the compensation management. This is very crucial when there is flight of skilled talent from one organization to the other.

The HRD dept. has to perform one more crucial job and that is the performance management. This is important from both the sides. From the management side attainment of the targets set out for achievement are important and for the employees their performance is also required to be assessed using well designed assessment system. Such a system should be impartial, unbiased and based on the actual performance and using scientific
method which is also acceptable to the employees. This confidence of the employees that there is a fair assessment of the performance goes a long way in ensuring employee turnover.

The HRD dept. has to ensure that the employer and employee relations are always cordial and healthy. Both of them should have confidence in each other which will be an enviable environment. Satisfied employee is an asset to the organization. This should be recognized by the management in true spirit. At the same time the employees should also be considerate towards management’s approach when there is a full transparency.

1.18 FUNCTIONS OF HR

The HRM Executive assumes the staff position at the corporate office. The direct handling of people is usually attended to by the line managers. The functions and the responsibilities of HR have been listed hereunder:

1. Right person is placed at the right job.
2. Employee’s induction and orientation
3. For those employees who are new to the job they are required to be trained.
4. Ensuring improved job performance of each employee.
5. Soliciting cooperation from the employees for smooth running of the organization.
6. Interpretation of the company’s policies and procedures.
7. Containing the labour costs.
8. Developing abilities of each employee.
9. Ensuring high morale of the employees.
10. Take health care and physical conditions of all the employees.

In providing this specialized assistance, the human resource manager carries out three distinct functions:

A line function: The Human Resource Managers provides direction to the employees in his/her own department.
A coordinative function: The HR Managers has to use his functional authority and exercise coordination amongst the various departments of the organization.

Staff (assist and advice) function: The most crucial job that the Human Resources Development Manager has to attend is to assist and advise the line managers. He understands the personnel aspects of the company’s strategic options, and briefs those to the Head of the Organization. He renders assistants in hiring, training, evaluation, rewarding, counseling, promoting and also firing the employees. The HRD manager has to remain always upto date as to what is happening in the similar organization which information helps him to decide the HR policies.

In large organizations the HRD has following specialists in the department:

1. **Recruiters:** Search for qualified job applicants.
2. **Human resource development specialist:** Manage employee development activities in an integrated manner.
3. **Engagement and fun specialists:** Ensure that the workplace is fun-filled and enjoyable.
4. **Employees’ welfare officer:** Take care of welfare amenities for employees prescribed by law or otherwise.
5. **Job analysts:** Collect and examine information about the job descriptions.
6. **Compensation managers:** Develop compensation plans and handle the employee benefits program.
7. **Training Specialists:** Plan, organize, and direct training activities.
8. **Employment/Industrial relations specialists:** Advise management on all aspects of union-management relations.

1.19 THE ROLE OF HR MANAGER

The primary objective of HRM is to ensure the availability of a competent and willing work force to an organization. HRM objectives are fourfold: societal, organizational, functional and personal.
The HR Manager has to ensure that the organization attains to the social requirements, i.e. enforcement of laws relating to the employees, reservation, discrimination etc. It also encompasses legal compliance and rationalizing the benefits and staff relations.

By performing the duties the HR Manager assist the organization to reach its primary objective. This includes human resource planning, employee relations, selection, training and development, appraisal, placement and assessment.

The performance appraisal, placement, and compensation finalization are covered in the personal objectives of the HR Manager. The HRM has also to ensure that the while satisfying the personal goal the cost to the company should not be kept aside.

1.20 INTRODUCTION TO CONCEPT OF BEST HR PRACTICES

Definitions:

Usually the Best HR Practices are set forth by an authority, such as governing body or management, depending on the costs involved. Normally the Best HR Practices are the recommended course of action.

Any practice devised to increase the competence, commitment and improve the culture building can be termed as HR Practice, and this can be in the form of a norm, rule, system, or some practices.

Following are the few examples of the best HR practices:

- HR Executive greeting / wishing the employee on his/her birth day or marriage anniversary day.
- Provision for health care / regular medical check up, reimbursement of the hospitalization expenses including those for the family members.
- Providing babysitting facility.

6 http://www.investopedia.com/terms/b/best_practices.asp
7 http://www.talentnet.vn/information-center/hr-articles/best-hr-practices
Provision for granting special allowance if the employee attends office on his/her birth day.

Updating the employees of the organization about the organization’s policies and latest policy decisions, performance through an internal house bulletin. (Ensuring transparency).

Highlighting the achievements of the employee and his family members through the house bulletins.

Job rotations to remove the monotonous feeling.

The best HR practices differ from company to company as the composition of the human resources is different and the expectations of the employees also differ. Therefore, the HR Manager has to carefully study as to what the employees expect from the company in the form of Best HR Practices.

Factors that influence Best HR Practices

Communication

According to the employees good communication should be broad based and clear and at the same time it should be in the language known to the employees. The HR manager should provide an opportunity to the employees at periodical intervals to voice their suggestions to improve upon the working of the organization. A patient listening of these suggestions by the management builds confidence of the employees.

Continuous Improvement

The concept of improvement is a dynamic concept and not a static one. It should be an ongoing exercise. This enables the employees to bring out their hidden talent.

Risk Taking

In terms of economics, profit is the reward for risks. Therefore, the management should encourage the employees to take calculated risks. There should be an atmosphere congenial to take calculated risks.
Recognition
The employee’s initiative will come only when the management is willing to recognize the employees suggestions based on cost benefit analysis. The recognition provides motivation to the employees.

Work life balance
This is an important aspect of handling human relations in business. Some companies celebrate the birthdays of the employees and extend invitation to the employees to participate in it. Else when the employee is being recognized or an award is being given the employee’s spouse is also invited. Some companies have started Kids clubs for the employee’s kids.

Cultural Consciousness
This is a very vital aspect of HR Management. The organizations are currently very much concerned about maintaining high level of organizational culture. Number of schemes is formulated for this purpose. On the company’s foundation day the company organizes an opportunity to all those who contribute to the success of the organizational culture, i.e. An opportunity is provided to the Employees, Management and the prominent customers of the organization to share their views which go a long way in framing the future strategy of the organization.

Training & Development
In the companies while undertaking annual performance appraisal exercise, the employee’s training needs are also assessed and arrangements are made to provide training in those areas so that his/her utility to the organization enhances. Companies now consider the expenditure on training as investment and naturally they are also concerned with the return on this investment.

Recruitment
Today the old practice of obtaining employees referral for the recruitment of the vacancies in the organization are solicited and those are given due weightage. This also acts as a motivational tool for the employees. On the final selection of the employees some of the companies have introduced a practice of congratulating the employees parents. (e.g. Max New York Life Insurance Co.). Companies also provide
opportunities to the internal employees to compete with the outsiders while filling up the higher grade positions in the organization.

In order to enable the prospective to decide joining the organization or otherwise, in some companies the list of Best HR Practices that they observe are also briefed. The best practices may be financial or otherwise. Similarly in the Human Resources department the best practices may focus in bringing out the hidden talent of the employee along with his commitment for the job. The best H.R. practices may cover various aspects of HR such as recruitment, training, promotion, compensation, motivation etc.

The principle objective for the introduction of the Best HR Practices is to ensure that the organization achieves the targets set out by it. This is very vital issue as far as the organization is concerned. The best HR practices enable the employees to offer their best hidden talents to achieve the targets set out by the organization.

The role of the HRM executive or the manager assumes greater importance. Apart from the educational qualifications the HRM executive should have excellent leadership qualities which have greater bearing on the organization’s performance.

The best HR practices should be more transparent, flexible, and those should depict the management’s philosophy of taking utmost care of its human resources. These aspects of leadership enables the employees that they identify themselves with the organization.

The objectives of initiating best HR practices are:
- It goes beyond employee satisfaction and gives the employee delight.
- It creates a feel of good factor.
- It achieves focus impact.
- It adds to the creativity of the employee.
- It improves the organization culture.

Worldwide in various sectors of industry and business the best HR practices have been proved to be successful in achieving the desired goal.
1.21 SUMMARY

The industrial sector plays an important role in the economic development of India. India has a rich historical background of industrial development. The government of India has rightly recognized fright from the independence about the role of the industry and has provided support for its development on sound footing. From time to time the Govt. has rightly modified the definition of the industries and have adopted policies which are congenial for its sustainable development on sound footing. The Central as well as the State Govt.s have recognized the need for development of industries and removing the regional imbalance.

For the couple of years in the manufacturing sector automobile, forging, pharmaceutical, gems and jewelry industries are doing well. In the services sector, Information Technology, Business Process Outsourcing, etc. are also faring well and progressing. Because of the nature of work these industries have, the manpower that they require need to be trained and motivated. This has added the importance of the Human Resources Development Department.

After the adoption of the policy of globalization the entire canvas and the perspective of the human resources development has been thoroughly changed. There is a cut throat competition and the profit margins are shrinking. This has led to give thrust on the reduction of the cost of production / services. Initially the attrition rate in the above named industries was quite high due to entry of number of new industries in those sectors. However, over a period this attrition rate has been arrested and it is now getting stabilized at low rate. This has been possible because of the policies pursued by the Human Resources Development dept. for retaining the talented employees.

Now the industries in the large manufacturing as well as service sector have very well recognized the importance of the Human Resources Development Dept. Accordingly these departments are pursuing policies which ensure availability of talented, skilled and fully motivated staff at the required number. It has been well recognized that the satisfied employee is an asset and accordingly every care is being taken by the organizations. The process of innovating best HR practices will be an ongoing process and it will continue in times to come.