enterprises? If so, how? The first two questions are addressed in this section. The next section of the chapter is devoted to answering the "how" question.

It is easy to start small enterprises but difficult to make them survive. It is more so in the context of ever increasing competition in business brought by liberalisation, globalisation and privatisation of the Indian economy. Only those enterprises can survive who possess strength to face the stiff and complex competition. Further, small enterprises find it more difficult to face competition due to their small size in all respects be these finance, technology, managerial competencies, etc. Then, the question arises is how to develop competitive strength among small enterprises to meet competition effectively. The answer to this question is 'quality'. As mentioned earlier, quality is conformance to requirements. According to David Kearns, the former CEO Xerox, quality has assumed so importance that it has become the battlefield of nineties; only the fittest will survive beyond 2000.

Quality serves as competitive advantage and enables small enterprises to withstand the onslaughts of competitive environment. As competition always keeps changing to more and more complex, so is required continuous improvement in quality to face such ever complex competition effectively. It is TQM, as stated earlier, that ushers in continuous improvement in organisational performance. TQM, thus, strengthens the competitive strength of small enterprises to conform to the changing requirements of business. The same underlines the need for TQM in small enterprises.

In aggregate, TQM offers the following advantages to small enterprises:

- Increased efficiency in processes.
- More time for innovation and creativity.
- Higher morale of employees.
- Improvement in the quality of products and services.
- Increased customer satisfaction.
- Larger market share
- Higher productivity
- Higher profits

Having appreciated the need for TQM in small enterprises, let us now see how TQM is applied in small-scale enterprises.

28.4 TQM PROCESS IN SMALL-SCALE ENTERPRISES

The purpose of TQM is to meet the requirements of customers consistently by continuous improvement in the quality of work of all employees. For this, TQM involves the following process:

1. Customer Satisfaction
2. Processes
3. Continuous Improvement
4. Team Work
5. Personal Initiative

A brief description of these follows:

Customer Satisfaction:

Customer is one who buys other's goods and services. Today, customer dictates production or market. The long-term success of any business, therefore, depends on customer satisfaction. This is especially true for small businesses where the impact of losing even a single customer can be serious. The first step in planning for customer satisfaction is to understand what customers expect from the product or service is to be provided to them.

For any business, there can be two types of customers: internal and external. *Internal customers* are those individuals or departments within an organisation to whom another department provides their products and services. *External customers* are those who are the ultimate purchaser or end user of product or service.

The following steps[6] can be followed to understand customer requirements:

1. Document the results of the work performed.
2. Identify everyone (customer) who receives the outputs.
3. Pinpoint the output characteristics the customers want, require, or expect.
4. Verify output requirements, determine requirement importance, and understand current level of satisfaction.

Processes

Process can be defined as a series of inter-dependent tasks that produce results. This requires transformation of inputs into outputs. Processes exist in every part of an organisation. People mistakenly think of only production or manufacturing operations. In fact, the word 'process' is all embracing one. As every part of an organisation performs work, all these should be systematically defined to include them in the process. Administration, billing, sales, maintenance, recruitment, and training are the examples of different parts of organisation in which process exists. It may be true that there may be some processes in the organisation that are obvious, while others may not be so obvious. Such processes need to be clearly defined.

The various steps that can help define the processes that any organisation performs are listed in the following Figure 28.1

1. **List team outputs**
   (*to document the results of the work performed.*)
2. **Group similar outputs**
   (*to create an outline of the process.*)
3. **Name the process**
   (*to allow it to be easily referenced.*)
4. **Define process boundaries**
   (*to establish beginning and ending points.*)
5. **List process activities**
   (*to provide examples of the tasks involved.*)
6. **Identify inputs**
   (*to determine the resources required.*)

Fig. 28.1: Process definition steps.

Continuous Improvement in Processes

The third step involved in TQM is making efforts for continuous improvement in performance/process. The first step in improving a process is to eliminate the waste associated with the process. But, the question is how to eliminate the waste? The various techniques like value-added assessment, minimize checks and inspections, and minimize administrative tasks help reduce/eliminate waste in process. Process simplification is the second step involved in improving process. Simplification means reducing the complexity of a process. Further, simplification can lead to fewer activities and fewer things to go wrong.

6. Terry Ehresman: *Small Business Success Through TQM*, Tata McGraw-Hill Publishing Company Limited, New Delhi, 1995, p. 32.

Experience suggests that the simpler a process is, the easier it is to learn and perform consistently. Reducing cycle time is yet another technique to improve process. Cycle time is the time required to deliver a product or service to customer. Cycle time includes delays, processing time, time required to check and handover, and so on. Long cycle times not only prevent prompt deliveries to customers, but also increase costs. Hence, there is need for reduction in cycle time.

Team Work

The fourth element involved in TQM process is team work. A team is a group of individuals who work together on one or more common processes. These individuals may all be from the same department, represent several departments, or involve an external supplier or customer. The five faculty members in the Department of Business Administration in the Assam Central University responsible for teaching management programme is an example of team.

Effective team work has its foundations on consensus. Consensus is a general agreement by everyone involved. Consensus is arrived when all members of a team understand a decision, and, even if they do not completely agree with the decision, accept and support it.

Encouraging Personal Initiative

TQM process completes with encouraging personal initiative in organisational functioning. Empowerment breeds personal initiative. According to Stephen R. Covey, "An empowered organisation is one in which individuals have the knowledge, skill, desire, and opportunity to personally succeed in a way that leads to collective organisational success"[8]. Now, the question is how to create an empowered organisation to make the employees personal initiative in the organisational processes? The key to preparing employees to take appropriate personal initiative is to train them in the concepts and techniques of TQM process. Such a training helps employees manage the processes they are responsible for performing.

The whole TQM process discussed so far is diagramatically presented as follows:

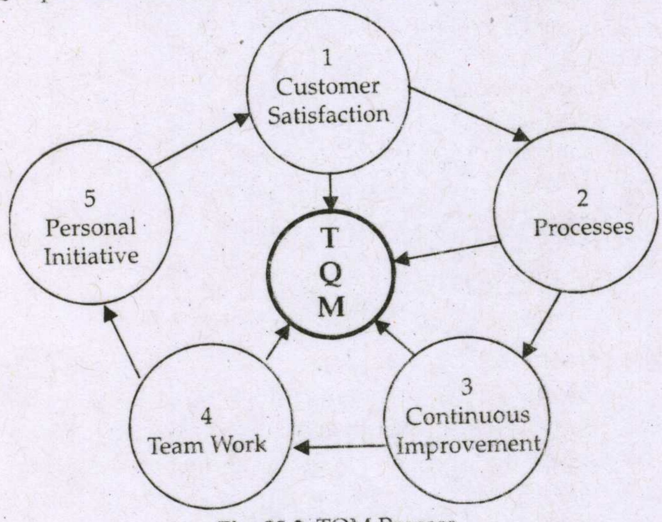

Fig. 28.3. TQM Process.

7. Jon R. Katzenbach and Douglas Smith: *The Wisdom of Teams: Creating the High Performance Organisation*, Harvard Business School Press, Boston, Mass, 1993.
8. Stephen R. Covey: *Principle – Centered Leadership*, Summit Books, New York, 1990, p. 212.

Now, what follows from the preceding description can be summed up as quality is the result of comprehension and action, not of some mystic system of procedures.

28.5 LET US SUM UP

TQM is a continuous improvement in all parts of an organisation with a view to consistently satisfy customer needs. TQM differs from ISO-9000 in the sense that it is a finishless race for improvement whereas ISO-9000 is only a milestone in this race. TQM is needed to satisfy 3 Cs i.e., customer, competition and cost. The five elements involved in TQM process are customer satisfaction, processes, continuous improvement, team work and personal initiative.

ASSESSMENT QUESTIONS

1. Define quality and total quality management. Why is TQM needed in small enterprises?
2. How is TQM different from ISO-9000? Discuss the elements of TQM.
3. "TQM is a continuous process for continuous improvement in organisational performance." Explain.
4. Delineate a TQM process appropriate for small enterprises.
5. "ISO is like a 200 metres sprint whereas TQM is a marathon." How will you explain this statement?

PART – V
DEVELOPMENT

- *Accounting for Small Enterprises*
- *Growth Strategies in Small Business*
- *Sickness in Small Business*
- *Small Enterprises in International Business*
- *Export Document and Procedure for Small Enterprises*
- *Electronic Commerce and Small Enterprises*
- *Franchising*

CHAPTER 29

ACCOUNTING FOR SMALL ENTERPRISES

• 29.1 Need for Accounting • 29.2 Meaning of Accounting • 29.3 Objectives of Accounting • 29.4 Accounting Proces • 29.5 Journal • 29.6 Ledger • 29.7 Trial Balance • 29.8 Final Accounts • 29.9 Accounts from Incomplete Records • 29.10 Let Us Sum Up. • Assessment Questions

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Appreciate the need for accounting in small scale enterprises.
- Define accounting.
- List the objectives of accounting.
- Identify the stages/process involved in accounting.
- State the meanings of book-keeping, journal and ledger.
- Describe Trial Balance.
- Prepare Final accounts, i.e., Profit and Loss Account and Balance Sheet.
- Prepare final accounts from incomplete records.

You have so far studied from the genesis of an idea to establish a small scale enterprise to its actual establishment and operation. You also know that business is undertaken mainly with profit motive. Hence, the entrepreneur now needs to know whether his/her business earned profit or incurred loss over a period of time and how is the financial position of the business. These questions are answered by accounting. In this chapter, we intend to discuss accounting for small enterprises in its various aspects like the need for and objectives of accounting, stages involved in accounting, preparation of final accounts, etc.

29.1 NEED FOR ACCOUNTING

Running a business involves a large number of transactions to achieve its main objective, i.e., to earn profit. In a business, various items are purchased and sold frequently. Payments are made and received every now and then. Amounts are to be received and paid to various parties time and again. An entrepreneur cannot remember the exact details of numerous transactions taken place during a period of time. Because, there is a limit to human memory. But, the entrepreneurs has to remember all transactions so as the profit earned or loss incurred the business during the period could be ascertained. This necessitates the recording of transactions taking place from time to time. The recording of business transactions in a systematic manner is the main function served by accounting. As a matter of fact, accounting is necessary not only for business organisations, but also for non-business organisations like educational institutions, hospitals, clubs etc. Here, we especially concentrate on accounting for small business enterprises.

29.2 MEANING OF ACCOUNTING

What is accounting? Different scholars and Institutes have defined accounting differently. The important among them are as follows:

According to *Smith* and *Ashburne*, "Accounting is the science of recording and classifying business transactions and events, primarily of a financial character and the art of making significant summeries, analysis and interpretations of these transactions and events and communicating results to persons who must take decisions or form judgement."

The Committee on Terminology, appointed by the American Institute of Certified Public Accountants defined accounting as, "Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof."

In fact, this is the popular definition of accounting that outlines fully the very nature and scope of accounting activity. The sum and substance of accounting, thus, is from the recording of transactions to communicating the results thereof to the concerned parties.

29.3 OBJECTIVES OF ACCOUNTING

The following are the main objectives of accounting:

1. **To maintain full and systematic records of business transactions:** Accounting is the language of business transactions. Given the limitations of human memory, the main objective of accounting is to maintain a full and systematic record of all business transactions.

2. **To ascertain profit or loss of the business:** Business is run to earn profits. Whether the business earned profit or incurred loss is ascertained by accounting by preparing Profit & Loss Account or Income Statement. A comparison of income and expenditure gives either profit or loss.

3. **To depict financial position of the business:** A businessman is also interested in ascertaining his financial position at the end of a given period. For this purpose, a position statement called Balance Sheet is prepared in which assets and liabilities are shown. Just as a doctor will feel the pulse of his patient and know whether he is enjoying good health or not, in the same way by looking at the Balance Sheet one will know the financial health of an enterprise. If the assets exceed liabilities, it is financially healthy, i.e., solvent. In the Other case, it would be insolvent, i.e., financially weak.

4. **To provide accounting information to the interested parties:** Apart from owner of the business enterprise, there are various parties who are interested in accounting information. These are bankers, creditors, tax authorities, prospective investors, researchers etc. Hence, one of the objectives of accounting is to make the accounting information available to these interested parties to enable them to take sound and realistic decisions. The accounting information is made available to them in the form of annual report.

29.4 ACCOUNTING PROCESS

The accounting process consists of the following four stages:

1. Recording the Transactions
2. Classifying the Transactions
3. Summarising the Transactions
4. Analysing and Interpreting the Results.

These are discussed one by one.

Recording the Transactions: Accounting begins with recording or writing of all business transactions in the book of original entry called *Journal*. This book may be further divided into various subsidiary books such as cash book, sales book, purchase book, etc. The number of subsidiary books to be maintained depends upon the size and nature of business and the type of transactions. The business transactions are recorded in the

Journal in a chronological order with the help of vouchers like cash memos, cash receipts, invoices, etc.

2. **Classifying the Transactions:** Classifying is the process of grouping of transactions of one nature at one place. This is done by opening accounts in a book called 'Ledger.' For example, all transactions related to cash like cash sales, cash purchase, cash expenses are posted to cash account. The transactions pertaining to different persons are entered separately in the name of each person in a ledger. The objective of classifying the transactions in this manner is to ascertain the combined effect of all transactions taken place during a period in respect of each ledger account.

3. **Summarising the Transactions:** After classifying all transactions and balances, a statement called *'Trial Balance'* is prepared to adjudge the arithmetic accuracy of the books of account. If the Trial Balance tallies, it means that the transactions have been correctly recorded and posted into ledger. Then, the final accounts consisting of Profit and Loss Account and Balance Sheet are prepared on the basis of Trial Balance. Profit and Loss Account shows whether the business earned profit or incurred loss during the period, usually, a year. The Balance Sheet reveals the position of assets and liabilities of the business as at the end of the year.

4. **Analysing and Interpreting the Results:** The last stage consists of analysing and interpreting the results shown by the Profit and Loss Account and the Balance Sheet. For this, various ratios are calculated to analyse and interpret the results. These results are used to make future plans for the business and communicated to the interested parties like management, investors, bankers, creditors, etc.

29.5 JOURNAL

Journal is a book of original entry. All day-to-day transactions of business are recorded first in it in a chronological order with the help of vouchers like cash receipts, cash memos, invoices, etc. Journal is also called a *'Day Book'*. The process of recording business transactions in the journal is called 'Journalising' and the entries passed in this book are called 'Journal Entries'. The ruling of Journal is given below:

Journal

Date	*Particulars*	*L. F.*	*Dr. Amount*	*Cr. Amount*
			Rs.	*Rs.*

The Journal consists of five columns. The first column is used for recording date of the transaction with year. In the second column i.e., 'Particulars', the journal entry is made by mentioning the two accounts affected by the transaction. The accounting entry is passed following the 'Accounting Equation' or 'Dual Aspect Concept'. The two accounts affected by the transaction are debited and credited by the same amount. The third column L.F., i.e. Ledger Folio is used for writing the page number of the ledger on which the particular account appears. The fourth and fifth columns of journal are meant for writing respectively 'Debit' and 'Credit' amounts of the transaction.

Look at the following transactions and study how journal entries are passed for them in the Journal:

Illustration 1

Pass journal entries for the following transactions in the books of Nikhil Bhusan:

1997		Rs.
Jan. 1	Commenced business with a capital	20,000
" 3	Amount deposited in S.B.I.	5,000
" 6	Goods purchased for cash	7,000
" 10	Furniture purchased from Chinmoy	5,000
" 11	Goods sold to Majumdar for cash	8,000
" 13	Goods sold to Ashim Das	2,000
" 25	Cash drew for private uses	500
" 31	Salaries paid	800

Solution:

Journal

Date	*Particulars*		*L. F.*	*Dr. Amount Rs.*	*Cr. Amount Rs.*
1997 Jan. 1	Cash Account To Capital Account (Being capital invested)	Dr.		20,000	20,000
" 3	Bank Account To Cash Account (Being cash deposited into bank)	Dr.		5,000	5,000
" 6	Purchase Account To Cash Account (Being goods purchased for cash.)	Dr.		7,000	7,000
" 10	Furniture Account To Chinmoy's Account (Being furniture purchased from Chinmoy.)	Dr.		5,000	5,000
" 11	Cash Account To Sales Account (Being goods sold to Mazumdar on cash.)	Dr.		8,000	8,000
" 13	Ashim Das' Account To Sales Account (Being goods sold to Ashim Das.)	Dr.		2,000	2,000
" 25	Drawings Account To Cash Account (Being cash drew for personal use)	Dr.		500	500
" 31	Salaries Account To Cash Account (Being salaries paid.)	Dr.		800	800

The following explanation with regard to account, the classification of accounts' and the rules for debit and credit will help you understand journal in a better manner.

What is an Account?

In simple words, an account is a summarised record of all transactions relating to a particular person, a thing or an item of income or expense. You will know more about the ruling of an account under the next context titled Ledger 26.6. An account resembles the shape of the English alphabet 'T' as follows:

Name of the Account	
Dr.	*Cr.*

Classification or Types of Accounts

All business transactions relate to three accounts, namely, (*i*) Personal Accounts, (*ii*) Real Accounts, and (*iii*) Nominal Accounts. When real and nominal accounts are taken together, these are called 'Impersonal Accounts.'

Let us have a brief discussion of each of these.

Personal Accounts: Accounts relating to persons and organisations representing to persons are called 'Personal Accounts.' Examples are Chinmoy's Account, Mazumdar's Account, The State Bank of India Account, Tanmoy & Sons' Account, Cachar Paper Mills' Account, Salaries Outstanding Account etc.

Real Accounts: Accounts which are related to properties or assets are called 'Real Accounts.' They are called Real Accounts because they represent things of value owned by the business. Cash Account, Furniture Account, Building Account etc. are the popular examples of Real Accounts.

Nominal Accounts: Accounts relating to expenses, losses, incomes, gains, profits are called 'Nominal Accounts.' Examples of nominal accounts are Wages Account, Salaries Account, Commission Received Account, Insterest Received Account, etc.

Rules for Debit and Credit

The rules applicable for debiting and crediting the three types of accounts are summarised in the following Table 29.1.

TABLE 29.1. Rules for Debit and Credit

Accounts	*Debit*	*Credit*
Personal	Receiver	Giver
Real	What comes in	What goes out
Nominal	Expenses and Losses	Incomes and Gains

29.6 LEDGER

You have just seen that journal is just a chronological record of all business transactions. But, if we want to know the net effect of various transactions affecting an item, we need to go through the whole journal. It takes time. You know that time is money in business.

Therefore, to overcome this difficulty, we maintain another book called 'Ledger.'

Ledger is a book which contains, in a summarised and classified form, a complete record of all transactions. Since it contains complete information about various transactions, it is called the 'Principal Book'. Final accounts of a business are prepared on the basis of ledger.

You have learnt the 'T' Form of an account. The left hand side is called the *debit side* and the right hand side the *credit side*. The proper form of each account maintained in ledger is given as follows:

Specimen of Ledger Account

Ledger

Dr.							*Cr.*
Date	*Particulars*	*F*	*Amount*	*Date*	*Particulars*	*F.*	*Amount*
			Rs.				*Rs.*

You will notice that both sides of ledger account have four columns, namely, date, particular, folio and amount.

Rules for Posting into Ledger

Posting into ledger is made from journal entries passed in the journal. It is important to mention that every journal entry will have to be posted into all accounts which have been debited and credited in the journal entry. Going back to Illustration 1, for goods purchased for cash, Purchases Account is debited and Cash Account is credited. While posting this entry into ledger, it will be posted both in Purchase Account as well as in Cash Account.

Posting will be made on debit side of the account which has been debited in the journal entry and, similarly, on credit side of the account which has been credited in the journal entry. Remember, the postings into ledger account will be made in chronological manner (date-wise).

In the particular column, the name of the account (preceded by 'To') credited in the journal entry will be written. Similarly, while posting on the credit side of the account, we shall write the name of the account (preceded by 'By') debited in the journal entry.

The amount of journal entry will be shown in the amount columns of both accounts and finally accounts will be balanced.

Let us again take Illustration 1 and study how the posting of journal entries is made in the ledger.

LEDGER

Cash Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 1	To Capital A/c		20,000	Jan. 3	By Bank A/c		5,000
Jan. 11	" Sales A/c		8,000	Jan. 6	" Purchase A/c		7,000
				Jan. 25	" Drawings A/c		500
				Jan. 31	" Salaries A/c		800
				Jan. 31	" Balance C/d		14,700
			28,000				28,000
1997 Feb. 1	To Balance b/d		14,700				

Capital Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 31	To Balance c/d		20,000	Jan. 1	By Cash A/c		20,000
			20,000				20,000
				1997 Feb. 1	By Balance b/d		20,000

Bank Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 3	To Cash A/c		5,000	Jan. 31	By Balance c/d		5,000
			5,000				5,000
1997 Feb. 1	To Balance b/d		5,000				5,000

Purchase Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 6	To Cash A/c		7,000	Jan. 31	By Balance c/d		7,000
			7,000				7,000
1997 Feb. 1	To Balance b/d		7,000				

Furniture Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 10	To Chinmoy's A/c		5,000	Jan. 31	By Balance c/d		5,000
			5,000				5,000
1997 Feb. 1	To Balance b/d		5,000				

Chinmoy's Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan 31	To Balance c/d		5,000	Jan. 10	By Furniture A/c		5,000
			5,000				5,000
				1997 Feb. 1	By Balance b/d		5,000

Sales Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997	Rs.		
Jan. 31	To Balance c/d		10,000	Jan. 11	By Cash A/c		8,000
				" 13	"Ashim Das' A/c		2,000
			10,000				10,000
				1997 Feb. 1	By Balance b/d		10,000

Ashim Das' Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 13	To Sales A/c		2,000	Jan. 31	By Balance c/d		2,000
			2,000				2,000
1997 Feb. 1	To Balance b/d		2,000				

Salaries Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 31	To Cash A/c		800	Jan. 31	By Balance c/d		800
			800				800
1997							
Feb. 1	To Balance b/d		800				

Drawings Account

Dr. Cr.

Date	Particulars	F	Amount	Date	Particulars	F	Amount
1997			Rs.	1997			Rs.
Jan. 25	To Cash A/c		500	Jan. 31	By Balance c/d		500
			500				500
1997							
Feb. 1	To Balance b/d		500				

Balance in an account signifies the net result of all transactions relating to it during a given period of time. For example, the balance in personal account will indicate whether the business owes to the party or the party concerned owes to the business. The debit balance in a personal account i.e., excess of debit total over its credit total, shows that the party concerned owes to the business. On the contrary, in case of credit balance in personal account, it indicates that the business owes to the party concerned.

All real accounts relate to assets, hence, show the debit balance only.

The balance in nominal accounts indicate profit (in case of credit balance) and loss (in case of debit balance). The balance in nominal accounts are transferred to Profit and Loss Account.

29.7 TRIAL BALANCE

You have seen that for every transaction, one account is debited and some other account is credited with the same amount. In other words, for every debit, there is an equal and corresponding credit. This is the basic element of the principle of *double entry system.* This being precisely the case, it is but natural that the total of all the debit balances should agree with the total of the credit balances. The businessmen, therefore, periodically tabulate the debit and credit balances separately in a statement to know whether the total of debit balances agrees with the total of credit balances or not. Such a statement is called **'Trial Balance'.**

If the total of debit balances agrees with the total of credit balances, it is called that the Trial Balance is tallied. It means that both the aspects of each transaction have been correctly recorded in the ledger. Remember that it is not a conclusive proof of accuracy but of arithmetic accuracy only. If the two totals do not tally, it implies that some errors have been committed here and there while posting the journal entries into ledger.

Methods of Preparing the Trial Balance

There are mainly two meethods of preparing the Trial Balance. These are:

(*i*) Totals Method, and

(*ii*) Balances Method.

Totals Method: Under this method, the total of each side of account is shown respectively in the debit and credit columns of the Trial Balance. This type of Trial Balance is known as the 'Gross Trial Balance'.

Balances Method: As the name itself indicates, in this method, the balances of each account are shown in the Trial Balance. The debit balance is shown in debit column and credit balance is shown in credit column of amount.

Let us prepare the Trial Balance from the ledger accounts prepared on pages 305 to 307.

Trial Balance as at 31st January 1997

S. No.	*Name of Account*	*L. F.*	*Totals Method* Dr. Rs.	Cr. Rs.	*Balances Method* Dr. Rs.	Cr. Rs.
1.	Cash Account		28,000	13,300	14,700	-
2.	Capital Account		-	20,000	-	20,000
3.	Bank Account		5,000	-	5,000	
4.	Purchase Account		7,000	-	7,000	
5.	Furniture Account		5,000	-	5,000	-
6.	Chinmoy's Account		-	5,000	-	5,000
7.	Sales Account		-	10,000	-	10,000
8.	Ashim Das' Account		2,000	-	2,000	
9.	Salaries Account		800	-	800	-
10.	Drawing Account		500	-	500	-
			48,300	48,300	35,000	35,000

We see that the total of debit balances column in the above Trial Balance is equal to the credit balances column. This implies that the ledger has been correctly written up.

29.8 FINAL ACCOUNTS

The final accounts are primarily prepared for ascertaining the operational result and the financial position of the business. These are prepared with the help of Trial Balance. The final accounts consist of the following two accounts:

1. Profit and Loss Account, and
2. Balance Sheet.

The preparation of these two accounts is discussed one by one.

Profit and Loss Account

The Profit and Loss Account is prepared for ascertaining whether the business earned profit or incurred loss during a particular period of time called accounting period. All nominal accounts are entered into Profit and Loss Account. As a rule, all expenses and losses are shown on the debit side and all incomes and gains are shown on the credit side of the Profit and Loss Account. Then, the totals of debit side and credit side are compared for ascertaining profit or loss of the business during the accounting period. If the total of credit side exceeds the total of debit side, the excess will be profit earned during the period. On the contrary, if the total of debit side exceeds the total of credit side, the excess will be loss incurred during the period. The net result, whether profit or loss, is transferred to the Balance Sheet also called **'Position Statement.'**

Taking our previous Illustration 1 here again, let us study how the Profit and Loss Account is prepared.

Remember, the first part of the Profit and Loss Account contains the Trading Account which contains information on opening stock, purchases, direct expenses and sales. There is a common practice to prepare a combined Trading and Profit & Loss Account.

Trading and Profit & Loss Account
(For the period ended on 31st January, 1997)

Dr. *Cr.*

Particulars	*Amount*	*Particulars*	*Amount*
	Rs.		*Rs.*
To Purchases	7,000	By Sales	10,000
" Salaries	800		
" Net Profit (Transferred to Capital A/c in the Balance Sheet)	2,200		
	10,000		10,000

Balance Sheet

Having ascertained the operational results, i.e., profit or loss by preparing the Profit & Loss Account, one final account still remains to be prepared is the Balance Sheet. The Balance Sheet is primarily prepared to know the financial position of the business. Hence, the Balance Sheet is also called 'Position Statement.' In other words, the Balance Sheet shows what the business owns and what it owes to others, or say, how much assets and how much liabilities it has.

As already mentioned, all nominal accounts i.e., accounts relating to expenses, losses, profits, incomes, gains, etc. are shown in the Profit and Loss Account. All remaining accounts representing personal and real accounts are shown in the Balance Sheet. The accounts showing debit balances represent assets and the accounts showing credit balances represent liabilities. All assets and liabilities are, then, shown on their respective sides in the Balance Sheet. Like Trial Balance, the total of asset side should be equal to the total of liability side. The reason being the double entry passed for every transaction. As mentioned earlier, for every debit entry, there is an equal and corresponding credit entry and *vice versa*. However, if the two totals do not tally, it implies that some errors have been committed in the books of accounts. These errors need to be traced out and, then, rectified.

The preparation of the Balance Sheet is illustrated with the help of our imaginary Trial Balance given earlier.

Balance Sheet
(As on 31st January, 1997)

Liabilities		*Rs.*	*Assets*	*Rs.*
Capital	20,000		Cash	14,700
Add: Profit	2,200		Bank	5,000
	22,200			
Less: Drawing	500	21,700	Furniture	5,000
Chinmoy		5,000	Ashim Das	2,000
		26,700		26,700

Now, you have noticed that each account appearing in the Trial Balance is shown either in the Profit and Loss Account or in the Balance Sheet. As a rule, all nominal accounts appeared in the Trial Balance are shown in the Profit and Loss Account and all personal and real accounts are shown in the Balance Sheet.

29.9 ACCOUNTS FROM INCOMPLETE RECORDS

There are two systems of accounting viz., (*i*) The Double Entry System, and (*ii*) The Single Entry System. The accounts discussed so far are prepared according to the Double Entry System. In case of Double Entry System, both the aspects of a transaction are recorded. For every debit, there is an equal and corresponding credit. Single Entry System actually refers to incomplete records. Under this system, for certain transactions both the aspects are recorded while for others only one aspect is recorded. Some transactions are ignored. They are not recorded at all. The Single Entry System of accounting is usually followed by small enterprises, petty shop-keepers, doctors, advocates and other professionals. The reason is that the single entry system is easy and less expensive as it does not require to employ qualified persons for maintaining accounts.

Whether an enterprise has maintained complete records of its transactions or not, it needs to ascertain profit earned or loss incurred during a period. Under the Single Entry System, in the absence of complete records, profit or loss is ascertained by comparing capitals (also called net worths) at the begnning and at the end of the accounting period. The simple reason being any increase or decrease in capital of a business takes place as a result of the profit earned or the loss incurred during the year. The capitals of the business at the beginning and at end of the accounting period are ascertained by preparing Statement of Affairs at two dates. If the capital at the end is more as compared to the capital at the beginning, the difference is treated as profit earned during the period. On the contrary, if the capital at the end is less than the capital at the beginning, the difference is treated as loss incurred by the business during the period.

Look at Illustration 2. It will help you understand how opening and closing capitals are ascertained by preparing the Statement of Affairs and then how profit or loss is ascertained.

Illustration 2

Shri Chinmoy Roy keeps his books on single entry system. His poition on 31st December, 1996 was as follows:

Cash in hand Rs. 2,000; Cash at Bank Rs. 22,000; Debtors Rs. 16,500; Stock Rs. 25,000; Furniture Rs. 9,000; Creditors Rs. 20,000; Expenses Outstanding Rs. 1,500.

On September 1997, he introduced Rs. 7,500 as additional capital in the business of which a machine costing Rs. 4,000 was purchased for the business. He drew Rs. 3,000 during the year.

His position on 31st December, 1997 stood as follows:

Cash in hand Rs. 3,000; Cash at Bank Rs. 31,500; Stock Rs. 28,000; Debtors Rs. 30,000; Furniture Rs. 7,000; Creditors Rs. 18,000; Prepaid Insurance Rs. 2,500.

You are required to ascertain his profit or loss for the year ending on 31st December, 1997.

Solution:

Statement of Affairs of Chinmoy Roy
(As at 31st December 1996)

Liabilities	*Rs.*	*Assets*	*Rs.*
Creditors	20,000	Cash in hand	2,000
Expenses Outstanding	1,500	Cash at Bank	22,000
Capital (balancing figure)	53,000	Debtors	16,500
		Stock	25,000
		Furniture	9,000
	74,500		74,500

Statement of Affairs of Chinmoy Roy
(As at 31st December, 1997)

Liabilities	*Rs.*	*Assets*	*Rs.*
Creditors	18,000	Cash in hand	3,000
Capital (balancing figure)	88,000	Cash at Bank	31,500
		Stock	28,000
		Debtors	30,000
		Furniture	7,000
		Machinery	4,000
		Prepaid insurance	2,500
	1,06,000		1,06,000

Statement of Profits of Chinmoy Roy
(For the year ended on 31st December, 1997)

	Rs.
Capital as on 31st Decembre, 1997	88,000
Add: Drawings	3,000
	91,000
Less: Additional Capital introduced	7,500
	83,500
Less: Capital as on 31st December, 1996	53,000
Profit earned during the year	30,500

Thus, the ascertainment of profit or loss from the incomplete records can now be expressed as follows:

Profit = Capital at the end + Drawings – Additional Capital Introduced–Capital at the beginning.

If capital at the beginning is more than the capital at the end, the difference will be treated as loss.

29.10 LET US SUM UP

Accounting is a systematic record of business transactions which help ascertain the operational result and financial position of the business. It involves four steps or stages, namely, recording, classifying, summarising and analysing the ultimate results. All business transactions are first recorded in a book of original entry called 'Journal' in a chronological manner. Journal entries are passed for every transaction. In order to have all information regarding a particular item, another book called 'Ledger' is maintained. In this book, we open separate accounts for each item appeared in journal entries. An account has two sides, namely, debit side and credit side. Having all accounts appeared in the ledger balanced, a statement called Trial Balance is prepared to check the arithmetical accuracy of posting into the ledger. Since entries are made on double entry system, hence the total of debit side of the Trial Balance should be equal to the total of its credit side.

Finally, the businessman prepares the final accounts with the help of Trial Balance. The final accounts consist of (*i*) Profit and Loss Account and (*ii*) Balance Sheet. All nominal accounts of Trial Balance are shown in the Profit and Loss Account which shows profit or less of the business during the period. The remaining personal and real accounts are transferred to the Balance Sheet. The Balance Sheet is prepared for ascertaining the financial position of the business at the end of the year.

The system of maintaining incomplete records of business transactions is known as *Single Entry System*. It is usually followed by small business enterprises and the professionals. In the absence of complete records, proper final accounts cannot be prepared. Hence, the profit or loss of the business is ascertained in an indirect method of capital, also called net worth method. Under this method, the profit or loss is ascertained by comparing the opening capital with closing capital of the period. The capitals, both opening and closing, are worked out by preparing the Statement of Affairs at the two points of period.

ASSESSMENT QUESTIONS

1. Appreciate the need for accounting for small enterprises.
2. What is ledger? How is it maintained?
3. Explain the various steps involved in accounting.
4. What is a trial balance? Discuss its uses and limitations.
5. What are final accounts? How will a small enterprise prepare its final accounts from incomplete records?
6. Explain how a trial balance is prepared?
7. Explain the capital or net worth method of ascertaining profit when accounting records are incomplete.
8. What do you mean by incomplete records? Why does a small enterprise prefer to keep its accounts in the form of incomplete records?

CHAPTER 30

GROWTH STRATEGIES IN SMALL BUSINESS

• 30.1 Objectives of Growth • 30.2 Stages of Growth • 30.3 Types of Growth Strategies
• 30.1.1 Expansion • 30.1.2 Diversification • 30.3.3 Joint Venture • 30.3.4 Merger
• 30.3.5 Sub-Contracting • 30.4 Let Us Sum Up • Assessment Questions

LARNING OBJECTIVES

On completion of this chapter, you should be able to:

- State the need for or objectives of growth strategies in business.
- Describe the various stages of growth in the life of a small scale enterprise.
- Discuss the strategies used for growth of a business.

In the previous chapters, we discussed the processes involved in setting up of a small-scale industry. We also examined the various issues related to functional areas such as finance, personnel and marketing in the context of a small industry. In this unit, we will present a holistic view of growth strategies generally adopted in small-scale industries.

30.1 OBJECTIVES OF GROWTH

A business enterprise is an outcome of business environment prevalent at a point of time. Business environment like social, economic and political environments, changes with change in time. In order to survive in the changed and changing business environment, a business enterprise needs to be strong enough to cope with the changes and challenges before it. The same underlines the need for growth of business enterprises. Strictly speaking, growth is a natural phenomenon and continuous process in the business. Business enterprises start small and grow to big with the change in time. Here, some pertinent questions that arise are: What is the need for growth of business enterprises? or Why do business enterprises need to grow? or What motivates business enterprises to grow? The precise answers to these questions are given as follows:

1. In simple terms, growth implies strength and stamina. Growth enables a business enterprise to face adversities, challenges, competitions, hardships, etc. Thus, *growth ensures the survival of the business* even in adverse and hard times.

2. Increase in sales turnover and output, *inter alia,* have been the major symptoms of a growing business. These result in economies in production and marketing, etc. These economies, in turn, reduce production cost per unit and increase profits earned per unit. These advantages are popularly known as *economies of scale.*

3. The need for appropriate technology also changes with changes in business environment. The use of modern technology involves huge investments. Since *the big size of business facilitates the use of technology,* business enterprises feel need for growth.

4. A big business enjoys more benefits in several matters than a small one. Big business enterprises are in a better position to complete cumbersome procedure, make good rapport with the concerned agencies and avail of the facilities provided for setting up business enterprises particularly in backward areas so notified for this purpose. *These*

benefits motivate a small enterprise to grow big. The fact remains that a small enterprise experiences a disadvantageous position in these matters.

5. Last but no means the least, the entrepreneurs' desire to do something specific in business also leads to growth in business. The lust for social and economic recognition motivates one to build the so-called business empires. Tata, Birla, Dalmia, etc. are the popular examples of such business empires in India. In nutshell, *the personal factors of the entrepreneurs also lead to growth of business.*

While one can add more factors to this list to explain the need for business growth, the above listed factors appear to be the major ones.

30.2 STAGES OF GROWTH

Before we discuss growth strategies in small businesses, let us first know the stages of growth in the context of small enterprises.

Just like human beings, business enterprises also pass through different stages in their lives. This is called *Enterprise Life Cycle.* Enterprise life cycle is broadly classified into five stages[1]: Start Up, Growth, Expansion, maturity and decline. Each stage has distinct characteristics. The strategies required to effectively cope with each stage also vary. This calls for a proper understanding of each stage to enable entrepreneurs to adopt the right strategies for growth. A brief description of each of the five stages is given here.

1. **Start Up Stage:** This refers to the birth or emergence of a business enterprise in the economy. The production takes place in limited scale. Scale is also limited to a small area. The enterprise is not faced with any type of competition during this stage. Profits may not be earned during the start up stage.

2. **Growth Stage:** Start up stage is followed by the growth stage. During this stage, the enterprise is known to and accepted by the market. Production and sales increase yet supply falls short of demand for the product produced by the enterprise. Profits increase. The competitors begin to enter the particular product market. The enterprise at this stage tries to change its strategy from *'buy my product to try my product'.*

3. **Expansion Stage:** This is the stage in which business enterprise expands by way of opening its branches and introducing new product lines. Business activities at this stage are diversified to reap the best benefits from the available business opportunities.

4. **Maturity Stage:** During this stage, due to keen competition, sales increases but at a decreasing rate. As a result, profits tend to decline. In such situation, marginal enterprises start leaving the scene/market. Some enterprises adopt methods such as *'trading in'* to survive for some more time in the market.

5. **Decline Stage:** This is the final/last stage of business enterprises. At this stage, the enterprises find it difficult to survive either due to the gradual replacement of enterprise product or due to some new innovations or on account of change in customer behaviour. Sales drops abruptly. Enterprises start incurring losses at an increasing rate. In such situations, enterprises prefer to close their shutters.

If we depict these stages of growth in a diagram, these follow S-shaped curve as shown in Figure 30.1.

Thus, we notice that the metamorphoses take place in an enterprise at every stage of its growth. An entrepreneur faces critical problems at every stage and, therefore, requires distinct strategies to overcome the problems. Growth and expansion stages can be clubbed together as *Growth Strategies.*

1. N.C. Churchill and V.L. Lewis: The Five Stages of Small Business Growth, *Harvard Business Review,* May/June, 1983, pp. 30-50.

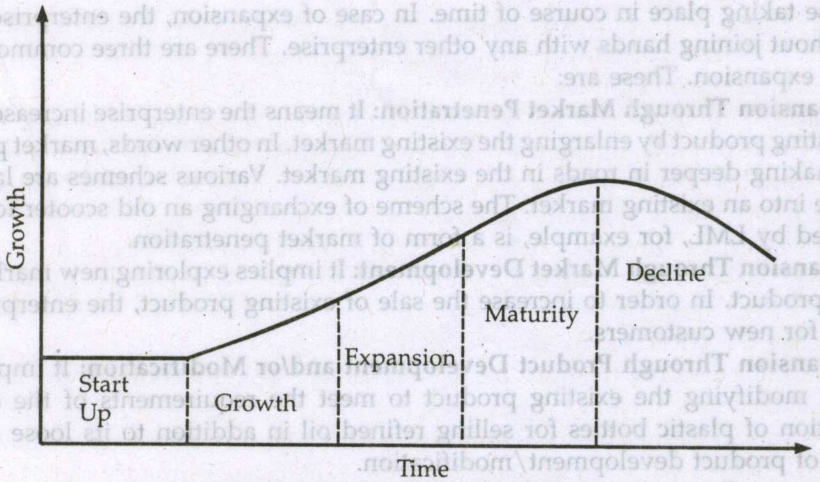

Fig. 30.1: Stages of Small Business Growth.

It deserves mention here that the time period for which an enterprise remains in each of the stages varies widely from enterprise to enterprise. Some enterprises take years together to pass through the start up stage, while others may pass through or be accepted in a few weeks only. An enterprise like salt producing seems to remain in maturity stage for ever. In brief, the time taken for all enterprises to move from one stage to another is not the same but varies widely from enterprise to enterprise.

30.3 TYPES OF GROWTH STRATEGIES

The term 'strategy' is commonly used in our day-to-day life. It is easy to understand but difficult to describe. In simple terms, strategy is a well-planned course of actions devised to achieve an objective. Accordingly, growth strategy means a well designed scheme meant to expand business operations. In other words, growth strategy means a plan to help the enterprise grow big in course of time. In practice, the types of growth strategies vary between the enterprises. Nonetheless, growth strategies are broadly classified into two types.

1. **Internal Growth Strategy:** These imply that enterprises grow their own without joining hands with other enterprises. Expansion and diversification have been the popular forms of internal growth strategies.

2. **External Growth Strategy:** What is not internal growth strategy is external growth strategy. In case of external growth strategy, enterprises grow by joining hands with other enterprises. The forms of external growth strategy include joint ventures, mergers and sub-contracting.

In this way, the main strategies of growth can be listed as follows:

1. Expansion
2. Diversification
3. Joint Venture
4. Merger, and
5. Sub-Contracting
6. Franchising

These are now discussed one by one.

30.3.1 EXPANSION

Expansion is one of the forms of internal growth of business. It means enlargement or increase in the same line of activity. Expansion is a natural growth of business enterprise taking place in course of time. In case of expansion, the enterprise grows its own without joining hands with any other enterprise. There are three common forms of business expansion. These are:

1. **Expansion Through Market Penetration:** It means the enterprise increases the sales of its existing product by enlarging the existing market. In other words, market penetration means making deeper in roads in the existing market. Various schemes are launched to penetrate into an existing market. The scheme of exchanging an old scooter for new one introduced by LML, for example, is a form of market penetration.

2. **Expansion Through Market Development:** It implies exploring new markets for the existing product. In order to increase the sale of existing product, the enterprise makes searches for new customers.

3. **Expansion Through Product Development and/or Modification:** It implies developing or modifying the existing product to meet the requirements of the customers. Introduction of plastic bottles for selling refined oil in addition to its loose sales is an example of product development/modification.

Advantages: Expansion provides the following benefits:

1. Growth through expansion is natural and gradual.
2. Enterprise grows without making major changes in its organisational structure.
3. Expansion makes possible the effective utilization of existing reasources of an enterprise.
4. Gradual growth of enterprise becomes easily manageable by the enterprise.
5. Expansion results in economies of large-scale operations.

Disadvantages: However, expansion is not an unmixed blessing. It has some disadvantages also. These are:

1. Growth being gradual is time consuming.
2. Expansion in the same line of product delimits enterprise growth making enterprise unable to take advantages from new business opportunities.
3. The use of modern technology is limited due to the limited resources at the disposal of enterprise. It weakens the competitive strength of the enterprise.

30.3.2 DIVERSIFICATION

Diversification is another form of internal growth of business. As stated earlier, expansion has its own limitations of business growth. Diversification is evolved to overcome the limitations of business growth through expansion. A business cannot grow beyond a certain point by concentrating on the existing product/market only. In other words, it is not always possible for a business to grow beyond a certain point through market penetration. This underlines the need for the adding the new products/markets to the existing one. Such an approach to growth by adding new products to the existing product line is called 'diversification'. In simple terms, diversification may be defined as a process of adding more products/markets/services to the existing one. This is necessary because, according to product 'lifecycle concept', every product has a definite life period. Like human beings, product also dies/disappears from the market. Hence, the introduction of new products to the basic product line becomes necessary to keep the business on.

The use of diversification as a growth strategy has been continuously on increase both in the private and public sectors. In the private sectors, Kelvinator India Limited, which was originally a refrigerator manufacturer, diversified its product line into mopeds. Similarly, Larsen and Toubro, an engineering company, diversified into cement. LIC's diversification into mutual funds and SBI's into merchant banking are the examples of diversification adopted by the public sector in India.

Advantages: Diversification offers the following advantages:

1. Diversification helps an enterprise make more effective use of its resources.
2. Diversification also helps minimize risk involved in the business.
3. Diversification adds to the competitive strength of the business.
4. Diversification also enables an enterprise to tide over business fluctuations and, thus, ensures smooth running of the business.

Disadvantages: All is not good with diversification. It also suffers from certain disadvantages.

1. Diversification involves business reorganisation which requires additional resources. Thus, diversification becomes a costly proposition.
2. It becomes difficult, is not impossible, to effectively manage and coordinate the diverse business.

Types of Diversification

There is no uniform type of diversification adopted by all enterprises. It varies from enterprise to enterprise. Usually, diversification is of four types:

1. Horizontal Diversification,
2. Vertical Diversification,
3. Concentric Diversification, and
4. Conglomerate Diversification.

A brief description of these follows:

Horizontal Diversification: In this type of diversification, the same type of product or market is added to the existing ones. Adding refrigerators to its original products of steel safes and locks by Godrej is an example of horizontal diversification.

Vertical Diversification: In this type of diversification, complementary products or services are added to the existing product or service line of the enterprise. The new products or services serve either as inputs or as a customer for the firm's own product. A T.V. manufacturer may start producing picture tubes needed by it. Similarly, a sugar mill may develop a sugarcane farm to supply raw material or inputs for it. Setting up of retail shops by companies like Delhi Cloth Mills to sell its fabrics is also vertical type of diversification.

Concentric Diversification: In case of concentric type of diversification, an enterprise enters into the business related to its present one in terms of technology, marketing or both. Nestle, originally a baby food producers, entered into related products like 'Tomato Ketchup' and 'Maggi Noodles'. Similarly, a tea company like Lipton may diversify into coffee.

Conglomerate Diversification: This type of diversification is just contrary to concentric diversification. In other words, in this type of growth strategy, an enterprise diversifies into the business which is not related to its existing business neither in terms of technology nor marketing. JVG carrying on business in newpaper and detergent cake and powder, Godrej manufacturing steel safes and shaving cream are examples of conglomerate diversification.

30.3.3 JOINT VENTURE

Joint Venture is a type of external growth strategy adopted by business firms. In simple terms, joint venture is a restricted or a temporary partnership between two or more firms to undertake jointly to complete a specific venture. The parties who enter into agreement are called co-ventures and this joint venture agreement will come to an end on the completion of the work for which it was formed. The co-ventures participate in the equality and operations of the venture/business. The profits or losses are shared between the co-ventures in their agreed ratio and in the absence of such agreement, the profits or losses are shared equally. In general, joint venture is formed for the purpose of consigning the goods from one place to another, undertaking contracts for construction works, underwriting of shares or debentures of joint stock companies, etc.

Advantages: The main advantages the joint venture offers are as follows:

1. Joint venture reduces risk involved in business.
2. It helps increase competitive strength of the business.
3. It makes possible the use of advanced technology and knowhow not available within a firm.
4. Joint venture provides the benefits of scale of economy by reducing production and marketing costs, on the one hand, and by increasing sales volumes, on the other.

Disadvantages:

1. In case of lack of proper understanding between the co-venturers, the functioning of the business is adversely affected.
2. Excessive legal restrictions on foreign investments limit joining hands with foreign firms.
3. Sometimes, more equity participation by one or more co-venturers, creates conflicts between them.

30.3.4 MERGER

Merger is yet another form of external growth strategy. Merger means combination of two or more existing enterprises into one. In other words, when two or more existing enterprises are combined into one, it is called *'merger'*. Merger may take place in two ways. *First*, an enterprise or enterprises may be acquired by another, usually a big one. It is called *'absorption'*. *Second*, when two or more existing enterprises merge into one to form a new enterprise. It is called *amalgamation*. Thus, while no new enterprise is formed in case of former, a new enterprise is formed in case of latter.

Usually, mergers are classified into four types.

1. Horizontal Merger,
2. Vertical Merger,
3. Concentric Merger, and
4. Conglomerate Merger.

All these four types are already discussed under 'Types of Diversification'. Hence, these are not discussed here again to avoid repitition.

Advantages: Merger provides the following advantages:

1. It provides benefits of economies of scale in terms of production and sales.
2. It facilitates better use of resources.
3. It enables sick enterprises to merge into the healthy ones.
4. It also promotes deversification in product line to take advantages of opportunities available in the particular business.

Disadvantages: Merger also suffers from the following drawbacks:

1. Larger scale operations often make co-ordination and control ineffective. This adversely affects business performance as a whole.
2. Sometimes merger leads to monoply in the particular business. Monoply is not welcome in the interest of the society.

30.3.5 SUB-CONTRACTING*

What is Sub-Contracting System?

Sub-contracting system is a mutually beneficial commercial relationship between the two companies. This is known as *Ancillarisation* in India and more generally as *Sub-contracting*. Sub-contracting can be defined as follows:

A sub-contracting relationship exists when a company (called a *contractor*) places on order with another compay (called the *sub-contractee*) for the production of parts, components, sub-assemblies or assemblies to be incorporated into a product sold by the contractor. Such orders may include the processing, transformation, or finishing of materials or parts by the sub-contractor at the request of the contractor.

In practice, large scale industries do not produce all goods on their own, instead they rely on small scale enterprises called sub-contractors for a great deal of production. When the work assigned to small enterprises involves manufacturing works, it is called *Industrial Sub-contracting*. In the other cases, it is known as *Commercial Sub-Contracting*. It is not unusual for sub-contractors to work for more than one contractor.

Historical Background of Sub-Contracting

Before we discuss the role of sub-contracting system in development of small-scale enterprises, it seems pertinent to first trace out the evolution of sub-contracting system in the industrial world. Japan is considered the birth place of modern sub-contracting system.[2] In Japan, when military demand for machinery industry expanded enormously during 1930s, the large firm could not meet the ever huge orders. In 1938, Mitsubishi Heavy Industry could not meet orders equivalent to over its two years' production capacity, for example. *Increasing production capacity of heavy machinery industries had crucial importance in the Japanese economy.* As per the need of the hour, small enterprises and cottage industries shifted their production to support the large machinery firms to meet their orders. In view of poor technological knowledge of small enterprises, a new relationship known as *Sub-contracting System* was introduced to make long-term and direct trade relations between small and large industries, instead of floating and short-term relations mediated by the brokers. Today, the key to so many small firms in Japan lies in this Sub-contracting System only. As a matter of fact, sub-contracting has become basic to the character of the Japanese industries. 56 per cent of the small manufacturing companies (having less than 300 employees) are producing under sub-contracting system. *In India, sub-contracting has emerged in the name of ancillarisation or 'ancillary units'.*

We have only mentioned the historical background of sub-contracting system in the industrial economy of Japan. The real role of sub-contracting can perhaps be clearly seen by juxtaposing of its advantages and disadvantages to small-scale enterprises. To this we turn in the following paras.

Advantages:: Sub-contracting system bears the following advantages:
1. It increases production in the fastest way without making much efforts.
2. The contractor can produce products without investing in plant and machinery.
3. Sub-contracting is particularly suitable to manufacture goods temporarily.

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* Adapted from S.S. Khanka: Sub-Contracting System and Small Scale Enterprises, *Udyog Vyapar Patrika*, published by India Trade Promotion Organisation, New Delhi, Vol. 46, No. 1, January 1997, pp. 8-9.

2. Tetsuo Minato: Strategic Outsourcing for Global Competition, *Productivity*, Vol. 36, No. 1, April-June 1995, pp. 72-77.

4. It enables the contractor to make use of technical and managerial abilities of the sub-contractors.
5. Despite leading to dependence, sub-contracting ensures existence of sub-contractors by providing them business.
6. Last but no means the least, sub-contracting makes the core firms more flexible in their production.

Disadvantages: However, sub-contracting is not an unmixed blessing. It has some disadvantages also. These are:

1. It does not ensure the regular and uninterrupted supply of goods to the core firms, i.e. contractors which adversely affect the functioning of the core firms.
2. Goods produced under sub-contracting system are often qualitatively inferior.
3. Sub-contracting also delimits the expansion and diversification of the core firms.
4. Delays in payments, a common feature, by the contractor to the sub-contractors endangers the very survival of the latter.

Sub-Contracting or Ancillarisation in India

In India, sub-contracting in the form of ancillarisation of ancillary units has been receiving Government support since sixties. An anciallary unit is one which sells not less than 50% of its manufactures to one or more industrial units, presumably large units. The Government has been repeatedly advising public sector undertakings to ensure that a large number of items are farmed out for manufacture by small-scale units. In order to encourage sub-contracting system, *an important development in this area has been the establishment of sub-contracting exchanges at the Small Industries Service Institutes* (SISI's) *all over the counry.* These exchanges maintain uptodate information on the unutilized capacities of the small-scale enterprises and then match these with the requirements of the large scale industries. Thus, these exchanges ensure orders for the small-scale enterprises from the large units. In China, the ancillary development is described as the *'Dragon Dance'*—the head of the dragon symbolising the parent unit and tail representing the ancillary units.[3]

In India, commercial sub-contracting and inter-dependence between localised community of small enterprise is found in existence around specialised industries. The diamond polishing and garments industries are such examples. In both these industries, production is carried out in small firms or home-based putting-out systems, but the crucial functions such as supply of raw materials and selling the products are performed by the large units. There are also a large number of clusters of small enterprises engaged in specialized industries—woollen garments, bicycles and parts, sewing machines and parts in Ludhiana, sports goods in Jallandhar, locks in Aligarh, leather goods in Agra and Kanpur, cotten hosiery in Delhi and Calcutta. Thus, sub-contracting system makes possible to take advantage of flexibility in production. At the same time, *despite leading to dependence, it also ensures existence of small enterprises.*[4] In the recent past, the concealed industrial sub-contracting has also risen substantially in India. The pronounced rise in the employment share but not in income share of the unorganised sector is an indicator of such phenomenon.[5]

3. Ram K. Vepa: *Modern Small Industry in India*, Sage Publications, New Delhi, 1988, p. 180.
4. K.V.S.M. Krishna & D.N. Awasthi: Responsiveness of Small and Tiny Enterprises to Policy Reforms in India, *The Journal of Enterpreneurship*, 1994, Vol. 3, No. 2.
5. S.P. Kashyap: Emerging Industrial Policy Reforms: Implications for Small Entlerprises, *Productivity*, Vol. 36, No. 1, April-June, 1995, p. 24.

The new policy document for small enterprises titled *'Policy Measures for Strengthening Small, Tiny and Village Enterprises, 1991'* also makes a special mention of industrial sub-contracting and contains special measures to promote it through equity participation by others, presumably large, industrial units in small-scale enterprises not exceeding 24% of the shareholding. This measure is expected to boost ancillarisation. However, the product reservation policy and continuous support to tiny enterprises would continue to constrain ancillarisation process in the country. Yes, the extent to which the reform regime in India is trying to create a competitive business environment augurs well for boosting sub-contracting system in the coming time in India. Let us wait for the same.

30.3.6 FRANCHISING

Franchising is discussed separately in a full-fledged chapter 35 later in the book.

30.4 LET US SUM UP

Change or growth is fundamental to business success. Growth strategy means a well-planned scheme to expand business operations. Depending upon the given situations of a business enterprise, the commonly adopted growth strategies are expansion, diversification, joint venture, merger and sub-contracting. Each of these strategies have their advantages and disadvantages and suit to different situations.

ASSESSMENT QUESTIONS

1. Explain the need for growth of a business. What is meant by growth strategy?
2. Discuss the stages of business growth.
3. Discuss the various types of growth strategies adopted by business firms.
4. Write short notes on:
   (*i*) Expansion
   (*ii*) Diversification
   (*iii*) Joint Venture
   (iv) Merger
   (*v*) Sub-Contracting

CHAPTER 31

SICKNESS IN SMALL BUSINESS*

• 31.1 Concept of Sickness • 31.2 Signals and Symptoms of Sickness • 31.3 Magnitude of Industrial Sickness • 31.4 Causes and Consequences of Industrial Sickness • 31.5 Corrective measures • 31.6 Let Us Sum Up. • Assessment Questions

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Define industrial sickness.
- State the signals and symptoms of industrial sickness.
- Delineate the magnitude of sickness in small enterprises.
- Discuss causes and consequences of sickness.
- Suggest the corrective measures to curb growing sickness in small enterprises.

INTRODUCTION

By now, you have learnt about the process involved in setting up a small-scale enterprise. During the course of its operation, sometimes a small enterprise falls sick. Like a sick man, sickness is good neither for the enterprise itself nor for the society as well. Since sickness errodes the health of an enterprise, hence it needs to be removed/cured. This chapter deals with various aspects of sickness like meaning of sickness, its signals and symptoms, its magnitude, its causes and consequences and cures of industrial sickness.

31.1 CONCEPT OF INDUSTRIAL SICKNESS

Sickness is easy to understand but difficult to define. It is a relative term. In common parlance, a sick industry is one which is not healthy. A healthy unit is one which earns a reasonable return on capital employed and which builds up reserves after providing reasonable depreciation. Different agencies have defined industrial sickness differently. Some important definitions of industrial sickness are reproduced as follows:

According to the *Reserve Bank of India*[1], (*i*) "a sick unit is one which incurs cash losses for one year and, in the judgement of the bank, it is likely to continue to incur cash losses for the current year as well as for the following year; (*ii*) the unit has an imbalance in its financial structure such as current ratio of less than 1 : 1 and worsening debt-equity ratio, i.e., the ratio to total outside liabilities to the net worth; and (*iii*) when the cumulative *losses exceed capital and reserve*".

Thus, the emphasis in the Reserve Bank of India's definition of sickness is on *profitability, liquidity* and *solvency*.

The definition of sick small-scale industrial units under the *Reserve Bank of India's* (RBI) instructions followed in September 1989 is as follows:

* This Chapter draws heavily from S.S. Khanka: Growth *vis-a-vis* Sickness in Small-Scale Industries in India, *Productivity*, Volume 35, Number 3, October-December, 1994 pp. 488-493.

1. Reserve Bank of India: *Trend and Progress of Banking in India 1987-88*, Government of India, New Delhi, 1988.

A small scale industrial unit is considered as sick when: (*i*) any of its borrowal accounts has become a doubtful advance i.e., principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2 & 1/2 years and (*ii*) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.

The Sick Industrial Companies (Special Provisions) Act, (SICA)[2], 1985 defines a sick industry as "an industrial company (being a Company registered for not less than seven years), which has at the end of any financial year accumulated losses equal to or exceeding its entire networth and has also suffered from cash losses in such financial year immediately preceding such financial year."

The SICA also calls a company incipiently sick if it has eroded 50% or more of its peak net worth during any of the preceding five financial years.

The Study Team of the State Bank of India (SBI), 1975 in its *Report on Small-Scale Indusltry Advances* defined a sick unit as "one which fails to generate as internal surplus on a continuing basis and depends on its survival upon frequent infusion of external funds."

It is evident from the above definitions that the criterion of cash loss, in one sense or another, represents the common elements underlying above all definitions of industrial sickness given by different agencies. The concept of industrial sickness is, thus, viewed from financial angle. The reason is not difficult to seek. The fact remains that the performance of a unit in terms of production, marketing, etc. are utilimately reflected on the financial performance of the unit. Besides this, the financial results of a unit are easily seen, understood and calculated also.

31.2 SIGNALS AND SYMPTOMS OF SICKNESS

It becomes clear from the definitions of industrial sickness that industrial sickness does not occur all of a sudden in the life history of an industrial unit. In fact, it is a gradual process with distinct stages taking from 5 to 7 years to corrode the health of a unit beyond cure. It starts with downturn in the industry whose continuation leads to setting in of industrial sickness. The process of industrial sickness can be presented in different ways. For example, Bidani and Mitra[3] put this process of industrial sickness in the following manner.

PROCESS OF INDUSTRIAL SICKNESS	
Normal Units	Functional areas, viz., production, marketing, finance and personnel are normal and efficient. Generating profits, Current ratio is more than one Not worth is positive Debt-equity ratio is satisfactory
Tending towards sickness	Initial aberration in some of the functional areas mentioned above. Decline in profit during last year Losses anticipated in current year.
Incipient Sickness	Deterioration in the above functional areas continues. Cash losses incurred in last year are expected in current year. Deterioration anticipated in current year. Although current ratio is more than one during last year.

(Contd.)

2. Government of India: *Sick Industrial Companies (Special Provisions) Act, 1985.*
3. S.N. Bidani and P.K. Mitra: *Industrial Sickness: Identification and Rehabilitation*, Vision Books, New Delhi, 1983, p. 17.

Sickness	Deterioration anticipated in debt-equity ratio during current year Unit's functional areas have become inefficient, cash losses incurred in last year, expected in current and next year Curent ratio is less than one and worsening of debt-equity ratio

Srivastava and Yadav[4] chalk out the above process of industrial sickness in their own manner (show in Fig. 31.1.)

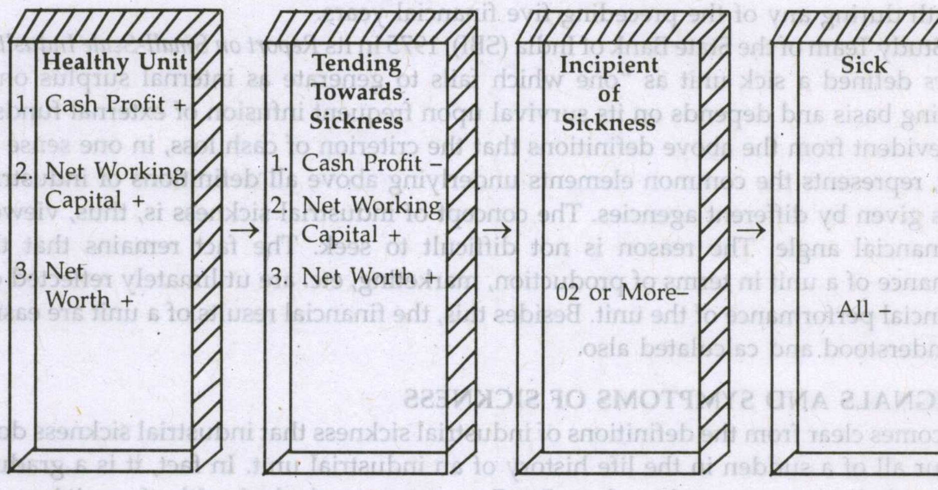

Fig. 31.1 : Path to Industrial Sickness

In confirmity with these processes of industrial sickness, Gupta[5] investigating into the typical path to the present cash loss situation of sick units also reported that in the early stages (i.e. up to 6 years preceding the cash loss period), the profitability index showed a marginal decline, followed by sustained decline during the period of 3 years preceding the cash loss period. Thereafter, it showed continuous and significant cash loss during the subsequent period. This is confirmed by Table 31.1.

Signals of Industrial Sickness

It has already been mentioned that industries do not fall sick overnight rather the process of failure can take number of years. This implies that the signs of sickness may be discernable quite early in the life of an industry. These warning signs in several functional areas are termed as *'signals'*. In fact, the timely identification of various signals makes the detection of sickness easier. Therefore, the various signals need to be identified and monitored at an early stage of sickness.

One can produce a number of signals of industrial sickness. The important signals of sickness are:

4. S.S. Srivastava and R.A. Yadav: *Management and Monitoring of Industrial Sickness*, Concept Publishing Company, New Delhi, 1986, p. 13.
5. L.C. Gupta: *Financial Ratios for Monitoring Industrial Sickness*, Oxford University Press, New Delhi, 1983.

TABLE 31.1: The Time Gap Between First Appearance of Sickness and 100 Per cent Erosion of Net Worth

Sl. No.	*Name of Companies*	*Year of Negative Working Capital*	*Year of Cash Loss*	*Year of 50% Erosion of Net Worth*	*Year of 100% Erosion of Net Worth*
1.	Mysore Spinning and Manufacturing Co. Ltd.	1964	1965	1971	1972
2.	The Elphistone Spinning and Weaving Mills Ltd.	1963	1967	1975	1976
3.	The Ahmedabad Jupiter Spinning, Weaving and Manufactu-ring Co. Ltd.	1963	1967	1970	1971
4.	The Aurangabad Mills Ltd.	1962	1963	1970	1971
5.	The Azam-Jahi Mills Ltd.	1962	1963	1968	1969
6.	The Himabai Manufacturing Co. Ltd.	1962	1965	1967	1968
7.	The Jahangir Vakil Mills Co. Ltd.	1961	1966	1969	1978
8.	The Tata Mills Ltd.	1963	1968	1977	1980
9.	The Indore Malwa United Mills Ltd.	1963	1965	1968	1969
10.	The Cannanore Spinning and Weaving Mill Ltd.	1964	1966	1969	1971
11.	India Paper Pulp Co. Ltd.	1968	1967	1970	1973

Source: Adapted from S.S. Khanka: *Industrial Sickness in India,* Commonwealth Publishers, New Delhi, 1995, p. 11.

(*i*) decline in capacity utilization;
(*ii*) shortages of liquid funds to meet short-term financial obligations;
(*iii*) inventories in excessive quantities;
(*iv*) non-submission of data to banks and financial institutions;
(*v*) irregularity in maintaining bank accounts;
(*vi*) frequent breakdowns in plants and equipments;
(*vii*) decline in the quality of product manufactured or service rendered;
(*viii*) delay or default in the payment of statutory dues such as providend fund, sales tax, excise duty, employees' state insurance, etc.;
(*ix*) decline in technical deficiency; and
(*x*) frequent turnover of personnel in the industry.

Symptoms of Industrial Sickness

The persistence of various signals over a long period of time becomes symptoms of sickness. The various symptoms ultimately reflect on plant performance, capacity utilization, financial ratios, share market price and practices in the diverse areas of finance, production, marketing and labour relations in the industry. Some of the important symptoms which characterise industrial sickness are given below:

(*i*) persisting shortage of cash;
(*ii*) deteriorating financial ratios;
(*iii*) widespread use of creative accounting;
(*iv*) continuous tumple in the prices of the shares;
(*v*) frequent request to banks and financial institutions for loans;
(*vi*) delay and default in the payment of statutory dues;
(*vii*) delay in the audit of annual accounts; and
(*viii*) morale degredation of employees and desperation among the top and middle management level.

However, the financial ratios, in all cases, cannot be considered as true symptoms of industrial sickness mainly due to two reasons. *First,* the sickness prone units, in order to present a better and sound image do a lot of window dressing. *Second,* the financial data is available after a gap of one year. However, an early identification of signals and symptoms of industrial sickness makes the task of detecting sickness easier.[6]

31.3 MAGNITUDE OF INDUSTRIAL SICKNESS

The global experience indicates that in the process of economic and industrial development, a certain level of industrial sickness is inevitable to exist as the inefficient units are bound to be displaced from the industrial scene by more efficient ones. For example, during the period 1972 to 1983, the number of bankruptcies per annum has increased from around 10,000 to more than 25,000 in the United States, from less than 7,000 to around 20,000 in Japan, from around 4,000 to more than 10,000 in West Germany and from 3,000 to more than 12,000 in the United Kingdom.[7] But, sickness in the Indian industries has grown rapidly in the recent years and has assumed alarming proportions, particularly in small-scale industries. During 1980-81, while non-SSI sick units experienced an increase of 67% only, SSI sick units recorded an increase of the order of 857%. In fact, sickness has become endemic and epidemic in small scale sector in India. Table 31.2A bears out data on the number of total small scale industries *vis-a-vis* number of sick small scale industries for the period 1977-91.

A close look at the figures on total small scale units and sick small units during 1977-91 clearly reveals that the growth of sick small units far exceeds the growth of small scale units whether indicated by the ratio of sick units to total units, annual growth rates and compound growth rate. It is also noticed that the incidence of sickness in small scale units assumed alarming proportion during the eighties. To quote, the ratio of sick small units to total small units trailed at 1:20 which reached to 1:5 by 1988. The cause of very high incidence of sickness during the eighties is *inter alia* due to the liberalisation policy of the Government of India declared during the Sixth and the Seventh Five Year Plans. As a result, numerous small scale units came into existence resulting in more and more competition amongst them. The units which could not withstand the onslaughts of the tough market competition fell sick. Today, there is one sick small unit out of every ten small units.

That not only the endemic of sickness has spread to a large number of industrial units, but also the incidence of sickness has advanced to an exterme form making the majority of the units non-viable. As can be seen from Table 31.3 that at the end of March 1991, out of 2,21,472 sick small scale units, 2,02,998 units (91.66%) were considered as non-viable with outstanding credit of Rs. 1997.13 crores, i.e. 71.53% of total outstanding credit to all sick small scale units. Thus, almost 9 out of every 10 sick small units are found to be non-viable and only 1 as viable. These non-viable units cannot be cured. They are as good as dead.

The total number of sick SSI units as at end March 1998 was 2,21,536. Of the 2,21,536 sick SSI units, banks have conducted viability studies in respect of 2,18,320 units and identified 18,686 units (84 per cent) as potentially viable. There are 1,99,634 non-viable units (90 per cent) with outstanding bank credit at Rs. 3,296.58 crore. The banks have yet to decide on viability of the remaining 3216 units with outstanding bank credit at Rs. 104.10 crore. Banks have so far put 13,063 units (with outstanding loans of Rs. 281.19 crores) under nursing programmes.

6. Baruch, Lev: *Financial Statement Analysis: A New Approach,* Prentice Hall, Inc., New Jersey, 1974, p. 134.
7. O.P. Kharbanda and E.C. Stallworthy: *Corporate Failure Prediction, Panacea and Prevention,* McGraw Hill Book Co. (U.K.) Ltd., London, 1985.

TABLE 31.2: Growth of Sickness in Small Scale Industries

Year	Total Small Units		Sick Small Units		Percentage
	Number	% Increase	Number	% Increase	of 4 to 2
1	2	3	4	5	6
1977	2,95,720		16,730		5.66
1978	3,33,337	12.89	18,950	13.27	5.68
1979	3,91,750	17.34	20,975	10.69	5.35
1980	4,47,821	14.31	23,149	10.36	5.17
1981	5,23,185	16.83	25342	9.47	4.84
1982	6,07,049	16.03	58,551	131.04	9.64
1983	6,87,295	13.22	78,363	33.84	11.40
1984	7,57,092	10.15	91,450	16.70	12.08
1985	8,54,843	12.91	1,17,789	28.80	13.78
1986	9,50,334	11.17	1,45,776	23.76	15.34
1987	10,48,253	10.30	2,04,259	10.12	19.48
1988	11,58,765	10.54	2,40,573	17.78	20.76
1990	19,40,000	67.41	2,18,828	(-) 9.04	11.28
1991	20,00,000*	3.09	2,21,472	1.21	11.07
Compound Growth Rate 1977-91		14.41%			21.86%

*Provisional

Sources: (*i*) State/Union Territory Directorates of Industries.
(*ii*) Economic Survey of Respective Years, Government of India, Ministry of Finance (Economic Division).

TABLE 31.3: Viability Status of Sick Small Scale Units

Sl. No.	Description	June 1987	December 1988	March 1990	March 1991	March 1998
1.	Total Number of Sick Small Units	2,04,259	2,40,573	2,18,828	2,21,472	2,21,536
2.	No. of Units for which viability assessment has been made	1,99,318	2,37,113	2,16,543	2,19,138	2,18,320
3.	No. of Units found viable	12,484	13,033	16,451	16,140	18,686
4.	No. of Units found non-viable	1,86,834	2,24,080	2,00,092	2,02,998	1,99,634
5.	Percentage of viable units to total sick units	6.1	5.4	7.5	7.3	8.4
6.	Outstanding bank credit for units found viable (Rs. crores)	359.50	471.92	590.50	693.10	77,931
7.	Percentage of viable units in total bank credit given to sick units	21.7	22.0	24.3	24.8	21.6
8.	Units under nursing programme	8,470	7,788	12,160	13,224	13,063
9.	Percentage of units under nursing programmes to total viable units	67.8	59.8	73.9	79.4	69.9

Source: Ministry of Finance, Government of India; *Economic Survey* of respective years.

The growing incidence of sickness in industry has become all-pervasive in terms of ownership (public and private sector), across scale (small, medium and large), across states and industries. Therefore, it seems pertinent to study the spread of industrial sickness across the states and the industries as well. The statewise distribution of industrial sickness is presented in Table 31.4A.

Four distinctly different points are noticed from Table 31.4A. *First*, the size of sickness, in absolute terms, is larger in the industrially developed States. *Second*, the incidence of sickness, i.e. the percentage of sick SSI units to the total SSI units, is fairly higher in the industrially backward States. *Third*, increase in both number of SSI units and sick SSI units is higher in industrially backward States than industrially developed States. The reason is not difficult to seek. Development of small-scale industries has been the major policy plank of the State Government. As a result, a large numbr of SSI units were established in these backward States during eighties. On the other hand, an increasing number of SSI units fell sick soon after their establishment due to lack of infrastructural facilities available in these backward States. *Fourth*, on the whole, increase in sick SSI units was about three times higher than increase in the total number of SSI units during 1979-89. The lowest incidence of sickness experienced by the two agriculturally developed States like Punjab and Haryana suggests that development of agriculture, among other things, seems necessary for the development of industries as to ensure input supply especially in the case of agro-based industries.

TABLE 31.4A: State-wise Distribution of Small Scale Units vis-a-vis Sick Small Scale Units

States	1979			1989		
	No. of SSI Units	*No. of Sick SSI Units*	*% of 3 to 2*	*No. of SSI Units**	*No. of Sick SSI Units*	*% of 6 to 5*
1	2	3	4	5	6	7
Andhra Pradesh	20,287	1,323	6.52	70,149	21,461	30.59
Tamil Nadu	24,320	955	3.93	86.499	10,105	11.68
Gujarat	24,189	856	3.58	65,553	6,302	9.61
Maharashtra	25,983	2,763	10.63	54,610	14,497	26.55
Karnataka	15,627	1,039	6.65	62,534	8,318	13.30
West Bengal	96,288	6,948	7.21	1,31,656	25,648	19.48
Bihar	17,788	802	4.51	59,886	5,250	8.77
Orissa	6,207	772	12.43	16,061	4,486	27.93
Madhya Pradesh	24,636	525	2.13	1,38,729	14,675	10.57
Uttar Pradesh	29,080	1,125	3.87	1,45,797	24,401	16.74
Punjab	28,818	403	1.39	96,519	4,467	4.63
Haryana	14,470	225	1.55	61,229	2,179	3.56
Rajasthan	21,164	323	1.53	56,761	11,925	21.01
Kerala	13,984	653	4.67	30,178	17,021	56.40
Others	28,909	2,129	7.36	64,464	17,706	27.47
All India	3,91,750	20,841	5.32	11,58,765	1,86,441	16.09

N.B.:* These relate to the year 1988.

Source: (1) For the number of total SSI units—*Hand Book of Statistics 1989, Small Scale Industries in India*, Development Commissioner, Small Scale Industries, Ministry of Industry, Government of India, New Delhi.

(2) For the number of Sick SSI units—*Report on Currency and Finance, Volume I, Economic Review 1990-91*, Reserve Bank of India, Government of India, New Delhi.

Table 31.4B bears data on state-wise and region-wise position of sick small-scale industrial units as of end-March 1997 and 1998.

TABLE 31.4B: Region-wise positon of sick small-scale industrial units*

(Rupees crore)

State/Union Territory	End-March 1997		End-March 1998	
	No. of Sick units	Amount Outstanding	No. of Sick units	Amount Outstanding
1	2	3	4	5
I. Eastern Region	**105109**	**626.60**	**106756**	**648.96**
% share to All-India	*44.72*	*17.36*	*44.72*	*17.36*
Andaman and Nicobar Islands	13	0.08	45	1.60
Arunachal Pradesh	26	0.12	456	0.94
Assam	10133	54.18	15774	60.62
Bihar	22702	120.62	24935	142.74
Manipur	2707	9.85	1919	8.79
Meghalaya	5531	8.20	4076	6.52
Mizoram	1199	2.76	615	2.45
Nagaland	2738	9.44	1386	4.98
Orissa	3408	45.08	1889	35.63
Sikkim	30	0.14	33	0.11
Tripura	3171	4.46	2011	6.26
West Bengal	53451	371.67	53617	378.32
II. Northern Region	**49967**	**850.37**	**40579**	**954.97**
% share to All-India	*21.26*	*23.56*	*21.26*	*23.56*
Chandigarh	170	14.41	163	16.69
Delhi	3943	264.81	3580	298.59
Haryana	2574	63.95	2149	92.41
Himachal Pradesh	2206	17.68	735	22.15
Jammu and Kashmir	761	8.10	1627	25.15
Punjab	2466	84.44	2376	91.70
Rajasthan	14561	97.51	15655	108.62
Uttar Pradesh	23286	299.39	14294	299.66
III. Western Region	**38549**	**1128.94**	**33758**	**1137.57**
% share to All-India	*16.40*	*31.28*	*16.40*	*31.28*
Dadra and Nagar Haveli	1	0.90	2	1.16
Daman and Diu	4	1.41	5	3.83
Goa	604	13.86	670	16.15
Gujarat	6510	196.80	6808	224.63
Madhya Pradesh	12070	151.44	8348	141.86
Maharashtra	19360	764.53	179.25	749.94
IV. Southern Region	**41407**	**1003.39**	**40443**	**1115.14**
% share to All-India	*17.62*	*27.80*	*17.62*	*27.80*
Andhra Pradesh	15460	214.39	12074	218.77
Karnataka	6937	203.26	6680	223.19
Kerala	8908	168:28	8969	190.12
Lakshadweep	0	0.00	0	0.00
Pondicherry	293	18.64	431	26.13
Tamil Nadu	9809	398.82	12289	456.93
All-India (I+II+III+IV)	**235032**	**3609.20**	**221536**	**3856.64**

* A small scale industrial unit is considered as sick when: (*i*) any of its borrowal accounts has become a doubtful advance i.e., principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2 & 1/2 years and (*ii*) there is erosion in the net worth due to accumulated cash losses to the extent of 50 per cent or more of its peak net worth during the preceding two accounting years.

Source: *Industrial Export & Credit Department*, Reserve Bank of India.

It is seen from figures in Table 31.4B that the region-wise, the majority of sick SSI units (44.7 per cent) continue to be in the Eastern Region, followed by Northern Region (21.2 per cent), Southern Region (17.6 per cent) and Western Region (16.4 per cent). However, in terms of the outstanding book credit, the Western Region ranked first with its 31.3 per cent share, followed by Southern Region, Northern Region and Eastern Region in that order.

Sickness is an industry phenomenon also. Four industry-groups viz. engineering and electricals, textiles, chemicals and iron and steel accounted for 22% and 41% of the total sick SSI units and outstanding bank credit respectively (Table 31.5). These four groups are distantly followed by paper and rubber industries in that order.

TBALE 31.5: Industry-wise Classification of Sick Small Scale Industrial Units and Outstanding *Bank Credit*

Industry	*As at the end of March 1989*		*As at the end of March 1997*	
	Number of Units	*Outstanding Bank Credit (in Crore Rs.)*	*Number of Units*	*Outstanding Bank Credit (in Crore Rs.)*
Engineering & Electricals	23,597 (12.66)	514.10 (22.92)	30,475 (12.97)	788.37 (21.36)
Iron & Steel	2,356 (1.26)	110.49 (4.92)	3,407 (1.45)	166.83 (4.53)
Textiles	15,308 (8.21)	151.12 (6.74)	11,211 (4.77)	247.98 (6.72)
Chemicals	6,751 (3.62)	206.45 (9.20)	7,249 (3.08)	320.70 (8.70)
Sugar	371 (0.20)	14.27 (0.64)	267 (9.11)	14.59 (0.41)
Jute	203 (0.11)	12.75 (0.57)	848 (0.36)	19.14 (0.52)
Rubber	953 (0.51)	36.50 (1.63)	2,690 (1.14)	59.47 (1.59)
Cement	405 (0.22)	13.61 (0.61)	1,263 (0.53)	28.82 (0.78)
Paper	1,881 (10.09)	46.02 (2.05)	3,407 (1.45)	166.83 (4.39)
Other Industries	1,34,616 (63.12)	1,138.00 (50.52)	1,74,215 (74.14)	1,875.00 (51.00)
Total	1,86,441 (100.00)	2,243.31 (100.00)	2,35,032 (100.00)	3,688.57 (100.00)

Source: *Report on Currency and Finance, Volume I, Economic Review 1990-91 and 1998-99,* Reserve Bank of India.

31.4 CAUSES AND CONSEQUENCES OF INDUSTRIAL SICKNESS

Causes

So far as the causes of industrial sickness are concerned, it cannot be attributed to a single factor alone. In fact, it is an ultimate result of the cumulative effect of many factors/causes working simultaneously[8] which may be closely inter-related or even independent of each other. In view of the origin of the causes of industrial sickness, these are broadly classified into two categories:

1. External or Exogenous Causes, and
2. Internal or Endogenous Causes.

Let us discuss these in turn.

I. **External Causes:** The external or exogenous causes which are beyond the control of the industry usually affect the industry-group as a whole.[9] There may be serval external factors causing a unit sick and which may vary from time to time for industry to industry and even from one point of time to another for the same industry. The important external factors causing industrial sickness include the following:

(*i*) Changes in the industrial policies of the Government from time to time.

(*ii*) Inadequate and untimely availability of necessary inputs like raw materials, power, transport and the skilled labour.

8. John Argenti: Symptoms of Sickness, *Accountancy.*
9. S.N. Bidani and P.K. Mitra: *op. cit.,* 1983, p. 39.

(iii) Lack and shrinkage of demand for the product.
(iv) Recessionary trends hovering in the economy.
(v) Frequent industrial strikes and labour unrest.
(vi) Shortage of financial resources especially working capital.
(vii) Natural calamities like drought, floods, etc.

In view of the nature of all these factors, these can broadly be classified into three categories: (i) Govrnment Policy, (ii) Environment, and (iii) Natural Calamities.

II. **Internal Causes:** Internal or endogenous causes are those which are within the control of the unit. These causes arise due to some internal deficiencies in various functional areas like finance, production, marketing and personnel. Many studies[10] have brought out the fact that sickness is normally caused by internal factors, in one way or other, related with the mismanagement in various operational areas (see Table 31.6).

TABLE 31.6: Causewise Distribution of New Projects in Default

Causes	*No. of Projects*	*% of the Projects*	*Contribution of Cause Default*
1. Lack of good management	36	16.1	22.19
2. Poor Implementation	56	15.1	21.70
3. Marketing Problems	29	13.1	15.81
4. Non-Availability of Raw Materials	53	23.8	13.45
5. Shortfall of Working Capital	03	1.4	7.20
6. Labour Trouble	12	5.4	5.74
7. Technical/Operational Problems	13	5.3	5.55
8. Other Problems	21	9.4	8.36
Total	223	100.0	100.00

Majority of projects (53.8%) are found in default due to internal causes like problems of poor management, poor implementation, shortage of working capital and operational and labour problems.

Sandesara[11] has delineated sickness from the angle of stages in which it may be routed. In the planning and construction stage, the unit may be found to be located at an uneconomic location, to have adopted an inefficient method of production or to be planning to produce an obsolete product. In the second stage of sickness, the unit may have committed some mistakes in recruitment and training of the workers, underestimates of various inputs such as powers, funds etc., which cannot be easily corrected later. The third and final stage of sickness may arise even when the unit is in full swing but the demand for product may have changed, new and advanced methods of production may have devised and meanwhile new competitors may also have emerged.

Instances are gallore to note that small scale units are mainly beset with external factors while large sick units are plagued by internal factors.

Small in India is literally too small. According to *Economic Survey 1992-93*, about 90% of sick units lie in small scale sector. A too small unit cannot withstand fluctuation set-backs, frequent changes in government policies, market changes, etc. Small operates on very small margins and a small error can make the unit sick. Small units command small resources and expertise both in absolute and relative terms. Small is basically poor and

10. S.S. Srivastava and R.A. Yadav: *op. cit.*, 1986, pp. 15-16.
11. J.C. Sandesara: Industrial Sickness in India, *Decision*, Volume 35, Nos. 3 & 4 (Combined), July-October, 1988, pp. 162-63.

unorganised set of the industry. These units work with large number of handicaps and constraints. All these shortcomings ultimately make small scale units highly prone to sickness.

Consequences

The main evil effects/consequences of industrial sickness on an economy have been locking up the economy's financial resources, wastages of scarce capital assets, loss of production and increase in unemployment. An attempt has been made in this section to discuss the various consequences of industrial sickness in a more orderly manner:

Huge Financial Losses to the Banks and the Financial Institutions: The banks and the financial institutions provide substantial funds to start an industry. To quote, by March 1992, the amount of outstanding bank credit against the sick units have reached a staggering figure of Rs. 11,533.30 crores. These huge funds are locked up in 1336 non-SSI sick units and 245575 small sick units and 813 weak units. Obviously, the locking up of substantial funds in the sick industrial units impinges on the future lending capacity of the banks and the financial institutions. Further, recovery of overdue takes an unduly long period of time and in many cases only a small portion of overdue amount is finally recovered. Thus, these bear an adverse effect on the financial health of the banks and the financial institutions.

Loss to Employment Opportunities: One of the serious consequences of industrial sickness has been loss to employment and, thereby, aggravating the most dangerous socio-economic problem of unemployment in a labour surplus economy like ours. According to an estimate[12], nearly 30 lakhs of workers are likely to be affected by the closure of sick and weak units. In relative terms, about 6% of total employment in industrial sector is likely to be affected by industrial sickness. Out of total 30 lakh workers likely to be affected by closure of sick units, even more than two-thirds (68%) of total will be rendered jobless in small sector alone. This presents a grim prospect in the employment scenario of the country.

Emergence of Industrial Unrest: The closure of sick units causes not only unemployment, but leads to industrial unrest also. Whenever the workers are retrenched and rendered out of jobs, the trade unions oppose it and resort to industrial strikes. Such disturbances threaten the peace and tranquility of the industrial environment. This results in setback to industrial production.

Adverse Effect on Prospective Investors and Entrepreneurs: Industrial sickness adversely affects the prospective investors and the entrepreneurs also. Due to sickness, the share price of the unit tumbles down which, in turn, adversely affects the stock market of the country. In this way, industrial sickness creates a psychology of despair for invstments amongst the prospective investors. Added to this, the failure and closure of a unit acts as an unhappy example of disincentive to the prospective entrepreneurs who are planning to plunge into the same lines of production. On the whole, the industrial climate becomes non-conducive for the industrial development of the economy.

Wastages of Scarce Resources: In an under-developed economy like ours, the resources are already scarce. If these scarce resources are locked up in sick units, it becomes the watage of scarce resources which otherwise invested would have yielded substantial returns to the economy.

Loss of Revenue to the Government: The government raises a substantial portion of

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12. S.S. Khanka: Industrial Sickness and Repurcussions, *Yojana*, Vol. 37, No. 23, December 31, 1993, pp. 6-8.

its revenue from industrial units by way of various taxes and duties levied on them. But, when a large number of industrial units becomes sick, the possibilities for raising substantial revenue from the sick units by way of various levies are greatly reduced. Thus, industrial sickness results in loss of revenue to the Government also. The shortage of revenue ultimately affects the functioning of the economy as a whole.

The Planning Commission[13] commenting on the consequences of sickness mentions: "The phenomenon of industrial sickness not only tends to aggravate the problem of unemployment, but also renders infructuous capital investment and generally creates an adverse climate for further industrial growth. While in advanced countries where there are adequate social security benefits, this is accepted as a normal feature of industrial scene. But such sickness has much more serious economic consequences in a country where unemployment is a major problem and resources are scarce.... clearly the problem of industrial sickness is an area to which the Government must give priority."

In nutshell, whatever may be causes, the consequence is always the same: Loss of employment and production to an economy already suffering from chronic unemployment and shortage of goods. Thus, *industrial sickness is a bane on the Indian economy.*

31.5 CORRECTIVE MEASURES

The growing incidence of sickness by size, region and industry followed by its far reaching socio-economic evil effects lends a strong realisation of urgency to the solution of the sick industry problem in India. Therefore, this last section of the Chapter deals with the remedial measures to detect the fast spreading disease of sickness in indusries.

1. Industrial sickness is not an overnight occurence but it is a gradual process taking from 5 to 7 years corroding the health of a unit beyond cure. Therefore, the identification and detection of sickness at the incipient stage is the first and foremost measure to detect and reduce industrial sickness. It will not be less than correct to argue that delayed identification of sickness could have been mainly responsible for such high proportion of non-viable units among the identified sick units. For identifying sickness at an early stage, appropriate yardsticks need to be evolved and developed.

2. In view of limited resources at the disposal, a large number of sick units may have to be permitted to close/liquidate; a fewer number of sick units may be picked up for revival/rehabilitation and a larger number of weak units may be combined together to prevent sickness. The time has come to substitute the adage that *'what cannot be cured has to be endured'* by *'what cannot be cured should be ended'*. However, merger of a large number of sick units will be a welcome proposition only when complete social security for labourers displaced due to unit closure is prevalent in the society.

3. At present, the attitudes of three different sets of a unit-management, financial institutions and labour do not converge as they view the problems of industrial sickness quite differently. For example, management seeks freedom to close the unit if it feels it is no more viable. Financial institutions think that whatever can be salvaged should be salvaged. Labour view is that in the event of the closure of the unit, they will lose job, providend fund and other benefits, therefore, the unit should continue production. Thus, all the three drag in different directions. But, if these diverse view points could be properly integrated, their approach could be integrated and their interests could also be converged, the unit can be salvaged in the best interest of all three.

4. It is a happy augury that now sick small-scale industries also fall within the purview of Board for Industrial and Financial Reconstruction (BIFR). It will be better to open a

13. Planning Commission: *Draft Five Year Plan, 1978-83*, Government of India, New Delhi, p. 186.

separate division in BIFR to deal with sickness in small-scale industries because small-scale industries are characterised by different sets of problems and prospects as compared to medium and large scale industries.

5. It is found that the rehabilitation programmes for sick small units are often carried out in an *adhoc* and haphazard manner. The rehabilitation packages provided to the sick units consist of only financial measures such as rescheduling of debts, sanction of additional term loans for installation of new machineries, enhancement of working capital limit etc. However, other problems like managerial, marketing, power and raw material are equally important which remain unattended to in the rehabilitation programmes. The need is, therefore, to provide for managerial efficiency, marketability of products, adequate availability of power and raw material in the rehabilitation programmes.

6. Having taken a decision to rehabilitate a sick unit, the programme should be finalised quickly and implemented speedily. Instances are many to suggest that any delay in these two matters aggravates the position and revival becomes a distant goal. At the same time, the rehabilitation programme need to be implmented in full as a piece-meal implementation often jeopardizes the efforts to rehabilitate the unit. For instance, if the need-based funds are not released in full, the unit may not be able enough to operate above the break-even point. As a result, the unit may continue incurring losses and the additional working funds may also be wiped out to meet such losses.

7. In order to arrest sickness, at the incipient stage, banks and financial institutions should periodically review the accounts of small scale industries borrowers to identify units which are becoming sick or are prone to sickness. The Government of India and the Reserve Bank of India should be requested to direct commercial banks and financial institutions to provide information on sickness to the agencies like BIFR implementing the rehabilitation programme to facilitate them to take appropriate action.

8. Last but not the least, past experiences indicate that many industrial units fall sik because of the improper opportunity scanning made by the entrepreneurs themselves. They start an industrial unit mainly to avail of subsidies, concessions and incentives from the Government. We know that a small scale industry entrepreneur is like a one-man band. He/she may possess one or two or three ingredients/requisites but not the all. To quote, an entrepreneur may have land, building, machinery etc., but had no experience in functional areas like production and marketing. Therefore, the necessity of the situation is to impart necessary knowledge to the entrepreneurs in various functional areas through the training programmes like Entrepreneurship Development Programme (EDP).

31.6 LET US SUM UP

If the accumulated losses of an industry reach equal to or exceed its entire networth i.e., capital and reserve, it is called a sick industry. A small scale unit is considered sick when its accumulated losses equal to or exceed 50% of its peak net worth in the immediately preceding five accounting years.

Sickness in industry does not occur overnight rather it takes 5 to 7 years to erode the health of an industrial unit. Thus, the signs of sickness are discernable quite early in the form of decline in capacity utilization, shortage of liquidity, irregularity in maintaining bank accounts, delay in meeting statutory dues, etc. The persistence of these signals takes the form of symptoms like continuous shortage of liquid funds worsening financial position, continuous tumble in share prices, frequent request to financial institutions for loans, etc. The identification of these signals and symptoms helps in detecting industrial sickness at an early stage.

(Contd.)

Sickness in small scale industries is continuously on incrase. As against 14.41% compound growth rate in small-scale units, the number of sick small scale units has increased at a compound growth rate of 21.86% during 1977-91. The ratio of sick small units to total small units has slumped from 1:20 in 1981 to 1:5 in 1988. Out of every 10 sick small scale units, as many as 9 have become sick beyond cure, i.e. non-viable. These non-viable units are as good as dead. The ever increasing sickness in small-scale industries has become all-pervasive in terms of industries and states.

The various causes of industrial sickness are classified into external and internal causes. While small scale units fall prey to external factors like lack of infrastructure, lack of finance, problems of marketing, etc., large and medium scale units fall sick mainly due to internal factors like mismanagement.

Whatever may be the causes of industrial sickness, the main consequences of industrial sickness on an economy have been locking up the country's financial resources, wastages of scarce capital assets, loss of production and increase in unemployment. *Industrial sickness is, thus, a bane of an economy.* Hence, it needs to be detected and cured.

ASSESSMENT QUESTIONS

1. Define industrial sickness with special reference to small-scale industry. Enumerate the signals and symptoms of industrial sickness.
2. "Sickness in small-scale sector has become all-pervasive in India". Discuss.
3. Delineate the magnitude of sickness in small-scale sector in India.
4. Why do industries fall sick? Explain with special reference to small-scale industries.
5. What are the reasons for sickness of most of the small business enterprises in India?, What should an entrepreneur do to prevent sickness? *(Delhi Univ. B.A. 1995)*
6. "Industrial sickness benefits none." Explain with facts and figures.
7. "Industrial sickness is a bane of the Indian economy." Comment.
8. What remedial measures do you think necessary to arrest the growing industrial sickness in India?
9. Discuss the various causes and consequences of industrial sickness in India.

CHAPTER 32

SMALL ENTERPRISES IN INTERNATIONAL BUSINESS*

• 32.1 Introduction • 32.2 Export Performance and Trends of Small Enterprises • 32.3 Major Constraints • 32.4 Export Potentials of Small Scale Units • 32.5 Some Suggestions • 32.6 Let Us Sum Up • Assessment Questions

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Highlight the role of small scale enterprises in the national economy.
- Delineate the export performance and pattern of small scale units over the years.
- Indentify the major constraints faced by small enterprises in exporting their products.
- Explore the possibilities for increasing exports of small industry products.
- Submit suggestions for increasing exports of the products manufactured by small sector.

32.1 INTRODUCTION

India today operates the largest and oldest programme for the development of small scale enterprises in any developing country. The small enterprises have made an impressive and phenomenal growth in units, production, employment and exports over the years. The small sector has now emerged as a dynamic and vibrant sector of the Indian economy in the recent years. An idea of the overall growth of this sector since 1977-78 can be obtained from Table 32.1.

TABLE 32.1: Growing Small Enterprises

Year	*Number of Units* (in lakhs)	*Production* (Rs. in crores)	*Employment* (in lakhs)	*Exports* (Rs. in crores)
1977-78	2.96	14300	54.0	845
1980-81	4.48	28060	71.0	1643
1985-86	8.55	61228	96.0	2769
1986-87	9.50	72250	101.4	3648
1987-88	10.48	87300	107.0	4373
1988-89	11.59	106400	113.0	5490
1989-90	16.58	132300	119.6	7626
1990-91	19.40	157500	126.2	9100
1991-92	20.00	160000	126.6	13883
1992-93	22.35	209300	134.1	17785
1993-94	23.84	241648	139.4	24149 (P)
Overal Growth 1978-94	705%	1589%	158%	2740%

P = Provisional

Source: Office of the Development Commissioner (SSI), Department of SSI & ARI, Ministry of Industry, New Delhi.

* Based on S.S. Khanka: Small Enterprises in International Business, *Journal of Commerce*, Vol. III, 1999, pp. 12-20.

A remarkable feature seen from Table 30.1 is fast increasing exports of small enterprises to the international market. The significant role of small enterprises in the Indian economy is that it accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of the total exports of the country.

Export promotion is one of the top agenda items of the economic reforms in India. In view of above, the present chapter analyses the export trends in small enterprises with focus on the constraints and potential and lastly tries to offer some concrete suggestions to promote exports of small enterprises in the country.

32.2 EXPORT PERFORMANCE AND TRENDS OF SMALL ENTERPRISES

Exports from small enterprises have been on increase registering an annual growth of about 171 per cent during 1978-94. One way to view at the impressive growth of exports from small enterprises is their increasng share year after year to the total exports from the country. The percentage share of small enterprise exports to the total from 1971-72 onwards is presented in Table 32.2.

TABLE 32.2: Increasing Exports from Small Enterprises

(Rs. in crore)

Year	*Total Exports*	*Exports from Small Enterprises*	*Percentage 3 to 2*
1	2	3	4
1971-72	1608	155	9.6
1976-77	5142	766	14.9
1981-82	7890	2071	26.5
1986-87	12567	3644	29.0
1991-92	44040	13883	31.5
1992-93	53688	17785	33.1
1993-94	69547	24149 (P)	34.5

P = Provisional

Source: *Office of the Development Commissioner (SSI)*, Department of Small & ARI, Ministry of Industry, New Delhi.

It is interesting to note that the total exports of the country increased by about 43 times, while the exports from small enterprises inceased by about 155 times, It is important to mention here that the information presented in Table 30.2 is with regard to the direct exports only. Small enterprises also make indirect exports through merchant exporters, trading houses, export houses and large enterprises. These indirect exports are estimated at around 10 per cent of the total exports. It is also expected to increase in future when the ongoing economic reforms in the country start giving results.

Though the growth of exports from the small enterprises is, no doubt, impressive, it is also true that India's share in world's exports is very low, at about 0.5 per cent. India is now the member of the *World Trade Organisation* (*W.T.O.*). Hence, it has to improve its share in world's exports to be a global player. Given the large industrial sector's attention focused more on internal market than the international market, on the one hand, and decreasing exports of primary products and traditional items, on the other, we need to concentrate on small enterprises to increase our exports as it holds potential for it.

In order to have an idea of the export potential of small enterprise, let us examine the itemwise export performance of this sector.

Item-wise Exports from Small Enterprises

Table 32.3 gives information about the item-wise export performance of small enterprises in 1992-93. In view of the wide range of items produced by small enterprises, only a few items i.e., sports goods, ready-made garments, leather products, processed food, plastic goods, engineering goods, electrical and electronic goods, basic chemicals and pharmaceuticals, play dominant role in exports. The share of some items in exports is as high as 100 per cent in sports goods, 90 per cent in ready-made garments, 98 per cent in lac, 86 per cent in cashew, 80 per cent in leather products, 65 per cent in processed goods and 55 per cent in chemicals and pharmaceuticals and cosmetics. One interesting point to note is that four items, namely, ready-made garments, leather products, basic chemicals and engineering goods alone account for more than four-fifths (83.1 per cent) of the total exports from the country. These items, thus, hold good promise for increasing exports in future also. Exports of traditional products like cashew and lac is not less encouraging.

TABLE 32.3: Item-wise Exports from Small Enterprises (1992-93)

(Rs. in crores)

Products	*Total Exports*	*Share of Small Enterprises*	*% of 3 to 2*
1	2	3	4
I. **Non-Traditional Products**	Rs.	Rs.	
Engineering goods including electrical and electronics	6450.00	1950.00	30.23
Basic Chemicals, Pharmaceuticals and Cosmetics	3623.20	1992.76	55.00
Chemicals and Allied Products	4299.44	118.98	2.81
Plastic Products	389.55	175.40	45.02
Finished Leather & Leather Products	3692.48	2953.98	80.00
Marine Products	1767.43	506.81	28.67
Processed Foods	1293.00	840.45	65.00
Woollen Garments & Knitwear	594.65	208.12	35.00
Sports Goods	93.63	93.63	100.00
Ready-made Garments	8,840.75	7956.67	90.00
Rayon & Synthetic Products	N.A.	15.73	N.A.
Tobacco, Snuff and Bidi	507.74	240.14	47.30
	31481.87	17052.67	54.16
II. **Traditional Products**			
Cashew Kernel & Cashew Nut Shell Liquid	749.23	642.46	85.75
Lac	52.63	51.49	97.85
Spices, Spice Oils, Oleoresins	382.06	38.20	10.00
	1183.92	732.15	61.82
Total (I + II)	32665.79	17784.82	54.44

N.A.: Not Available

Source: Same as *Table* 32.2.

However, the export performance of small sector exhibits some disturbing features also. (*i*) About 83 per cent of total exports from small sector accounted for by four items alone denotes the lack of diversification in export items of small sector. Even the items having good potential for export like leather products, account for only 3 to 4 per cent of global exports. (*ii*) At present, most of our exports are channelised to the highly competitive markets of developed countries where our products find difficult to make their headway. Hence, in order to boost the SSI exports, the new potential markets need to be explored and tapped. A visit made by a team from the National Small Industry Corporation (NSIC), New Delhi to South Africa recently has revealed that there is enormous potential for the Indian engineering and machinery products in this country.[1]

32.3 MAJOR CONSTRAINTS

Among about 24 lakh registered and unregistered small scale units in the country, about 90 per cent units are tiny with an investment in plant and machinery upto Rs. 5 lakhs. Technology is the crux of quality and competitiveness. But, many small scale units particularly tiny units find it difficult to go for modernisation and technology upgradation because of low ceiling on investment in plant and machinery. According to the *Second All India Census of Registered Small Scale Industrial Units*, out of 5.82 lakh units working in 1987-88, the number of exporting units was 4,554 only, i.e., only 0.7 per cent of the total units. The share of exports to the total value of production within the small scale sector is also low. In 1992-93, out of the total value of production, at current prices, of Rs. 2,09,300 crores, the value of exports for the year was Rs. 17,785 crores, which is in single digit about 8.5 per cent of the total production.

The major constraints encountered by the small scale units in exporting their products are as follows:

Credit Policy

The small scale units have very weak-base of their own funds, on the one hand, and have no access to other sources of funds like capital market, on the other. Hence, they have to depend upon the *State Financial Corporations* (*S.F.C.s*) and the commercial banks to meet their long-term and short-term capital requirements. However, as against the minimum norm of 20% prescribed by the Nayak Committee[2], the actual availability of credit from the financial institutions was very low at 8.1 per cent of output. In case of tiny units, it was merely 2.7 per cent of their output. This underlines the need for a comprehensive credit scheme targeted at small industry exports.

Infrastructure

Lack of infrastructure facilities like power supply, transportation and communication adversely affect the quantity and quality of production, its costs and delivery. These, in turn, tell upon the export performance of small scale units. The launching of a new scheme of *Integrated Infrastructure Development* in rural and backward areas is a right step in right direction.

1. C.S. Prasad: Export Potential of Small-Scale Industries, *Productivity*, Vol. 36, No. 1, April-June, 1995, p. 55.
2. Reserve Bank of India: *Report of the Committee to Examine the Adequacy of Industrial Credit to the SSI Sector and Related Aspects*, Rural Planning and Credit Department, Government of India, New Delhi, 1992, p. 29.

Technology

Technology is the crux of quality and competitiveness.[3] However, the adoption of technology in small industries hampered due to lack of infrastructural facilities, on the one hand, and the present investment ceiling of the small scale industry, on the other. Nevertheless, the Government has set up several tool rooms, production-cum-process development centres, regional testing centres and workshops, schemes of industrial parks and ISO-9000 to break the prevailing inertia and promote exports from small scale units.

The recent telecommunication revolution has offered hi-tech application for market research which is more cost effective substitute for exploratory personal visits abroad. As a matter of fact, the conventional method of market explorations through trail and error and private contacts has been replaced by the electronic network exchanging business queries between the trading parties.

32.4 EXPORT POTENTIAL OF SMALL-SCALE UNITS

Given the weaknesses of small scale sector, one cannot conclude that small sector has no strong point which will help it emerge as a global player. The small units are inherently flexible to react to market signals and changing tastes. This makes the small enterprise more innovative and open to new ideas. Opportunities exist for small-scale sector to emerge a strong global player especially in the exports of the following products.

Food Processing Industries

India has been the second largest producer of a very wide variety of fruits and vegetables in the world. But, it processes less than one per cent of production. This figure of India is far behind the figures of 30 per cent of Philippines and 83 per cent of Malaysia. At the end of 1992, the number of processing units registered under *Fruit Products Order* was 4,057 of which 87 per cent belonged to small scale and cottage industries sector. However, India's share in the world exports of fruit and vegetable and fish and fish products is just 0.3 per cent and 1.7 per cent respectively. The major reasons for country's low share in the international market have been over-dependence on a few recognized international markets, lack of quality control, poor packaging, high cost of production, inadequacy of infrastructure like transport and power and non-availability of required inputs at right time and price. Considering the growing international demand for processed foods, the items which hold good potential for exports from India are sea- foods, spices, cashew nuts, fruits and vegetables, fruit pulp, juices, jams, pickles, canned fruits and vegetables, dehydrated vegetables and gaur gums.

Leather Goods

India has the largest cattle population and, thus, has a substantial raw material base for leather-based industries. At present, the country's share in the world leather market is about 4 per cent and the target is to raise it by 10 per cent by 2000 because this sector holds potential for exports. However, this sector is plagued by certain weaknesses too. These are low volume of production units, poor quality, lack of standardisation, poor delivery and absence of technological upgradation. These weaknesses need to be attended to expeditiously and adequately tap the export potential of leather goods in the country.

3. Ashok Desai and Nisha Taneja: Small Firms in Indian Industry: Economic Characteristics and Functioning, *Journal of Indian School of Political Economy*, No. 2, April-June, 1993.

Electronic Goods

The electronic industry has registered a phenomenal compound growth rate of 35 per cent during the last decade 1981-90. The share of small sector, in 1993-94, was 40% of output and 30% of exports of electronic industry. Though the small scale industrial units have been exporting items from ordinary to hi-tech products, yet its share in the global market is very low just 0.15 per cent and that too 80% exports are from Exort Processing Zones alone. The electronic industry holds tremendous potential for exports in electronics, shoftware and contract manufacturing. This potential needs to be tapped.

India has the third largest technical manpower in the world. Recently, the technically qualified people have started assuming the role of exporters. Some of them have made an impressive headway in export within a short period. What is needed is to provide them support in terms of developed industrial sheds/plants and credit facility.

Plastic Goods

The plastic industry has made an impressive growth in recent years. At present, out of 18,500 units manufacturing various industrial and consumer plastics, around 18,000 units are in small sector. The items of plastic exports include carrier bags, garbage bags, shopping bags, woven sacks, plastic moulded household items like insulated thermoware, pens, spectacle frames, PVC hoses, PVC leather cloths, etc. In 1992-93, the small sector accounted for 45 per cent of these exports. There still exists enough scope to diversify the products and penetrate new markets. The main problems this industry is facing is shortage of plastic raw material, i.e., polymer. But, this has, in turn, helped the development of recycling of plastic waste industry, an eco-friendly measure.

These are some of the illustrative items and not an exhaustive list of exportable items. It definitely shows the good potential of small scale industry sector to increase its exports in the coming years.

32.5 SOME SUGGESTIONS TO IMPROVE EXPORTS

The Government of India has accorded high priority to the development of small scale industries in the country. Under the protective and promotional policies of the Government, the small scale enterprises have made their presence felt nationally and internationally. The share of small scale enterprises in the country's exports has risen from 11 per cent in 1970-71 to 35 per cent in 1993-94. Realising the good export potential of small sector, the Board of Trade and Ministry of Commerce have identified 8 sectors and 15 items respectively for boosting exports from the small-scale sector. However, the bug bear of the sector has been the inadequacies of capital, technology and marketing. If the export potential of small scale enterprises is to be tapped to the full extent, then the issues like simplification of procedures, easier access to the bank and institutional credit, improvement in infrastructure and marketing issues need to be attended to expeditiously and adequately. Then, it would not be difficult for the small scale enterprises to help the country achieve a target of at least 1.5 per cent share in the world export in the next 10-15 years. We wish our small enterprises a vibrant player in the international market.

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4. C.B. Gupta and S.S. Khanka: *Entrepreneurship and Small Business Management*, Sultan Chand & Sons, New Delhi, 1996, pp. 2.168-2.169.

30.6 LET US SUM UP

Though small sector has made an impressive growth in terms of units, production, employment and exports, yet its growth in exports is particularly impressive over the period. At present, the share of small enterprise export accounts for about 35 per cent of the country's total exports. However, given the wide range of items produced by small enterprises, only a few units export a few items. Among them too, only four items contribute more than four-fifth of total exports from small sector. Further, most of our exports are channelised to the highly developed markets of developed countries.

Exports from small sector suffer from the bug bears of credit, infrastructure, technology, etc. Notwithstanding, in view of its inherent flexibility to react market signals and fast changing tastes, the small sector holds good potential for exporting certain products like food, leather, electronics and plastic products. In order to tap the export potential of small sector to the full extent, the issues like simplification of procedures, easier access to the banks and institutional credit, improvement in infrastructure and marketing need to be attended to well in time. Sooner it is done, better it will be.

ASSESSMENT QUESTIONS

1. Discuss the performance and pattern of exports from small-scale sector in India.
2. "Exports from small sector have fallen prey to some bug bears." Justify the statement.
3. Bring out the problems and potentials of expots from small-scale enterprises.
4. "There is still a lot of room for increasing exports from small sector in India." Explain.
5. What measures will you suggest to promote exports from small-scale sector?

CHAPTER 33

EXPORT DOCUMENTS AND PROCEDURE FOR SMALL ENTERPRISES

• 33.1 Types of Documents • 33.1.1 Commercial Documents • 33.1.2 Regulatory Documents • 33.1.3 Documents for Export Assistance • 33.1.4 Documents required by Importing Country • 33.2 Processing of an Export Order • 33.3 Let Us Sum Up • Assessment Questions

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Know the various documents to be prepared for exporting goods/products manufactured by small enterprises.
- Understand how an export order is actually processed.

In the preceding Chapter 30, you have seen the role of and potential for exports from small-scale enterprises in India. However, as is export so impressive is not so easy. You may have perhaps come across such comments as "export is a botheration because one has to fill-up so many forms and documents." In fact, expert business is complex as the number of documents to be filled in is large, so also is the number of concerned authorities to whom the relevant documents are to be submitted. These tend to discourage people from entering export business. Just what are the various documents submitted to different authorities and how an export order is actually implemented are discussed in the present chapter with an objective to facilitate the prospective entrepreneurs in this regard.

33.1 TYPES OF DOCUMENTS

Why is documentation needed in export business? Answer to this question lies in the nature of the business relations between the exporter and the importer operating from two countries. One knows, unlike the domestic business, the commercial practices and legal systems are different in the two countries the exporter and importer are operating from. Therefore, in order to protect the respective interests of the exporter and the importer involved in export business, certain documentary formalities become essential. Such documentation facilitates the smooth flow of goods and payments thereof across national frontiers.

Export documents based on the functions performed by them, are classified into four types:

1. Commercial Documents
2. Regulatory Documents
3. Export Assistance Documents
4. Documents required by Importing Countries.

Let us now discuss the specific documents and functions performed by them under each category.

33.1.1 Commercial Documents

1. *Commercial Invoice*: This is the first basic and the only complete document in an export

transaction. It is, in fact, a document of contents containing information about goods, Harmonised System Nomenclature (HSN), price charged, the terms of shipment and marks and numbers on the packages containing the merchandise. The exporter needs this document for other purposes also such as (*i*) obtaining export inspection certificate (*ii*) getting excise clearance (*iii*) getting customs clearance and (*iv*) securing such incentives as cash compensatory support (CCS) and import licence. This document is prepared at both the pre-shipment and post-shipment stages.

Besides commercial invoice, there is a *proforma invoice* also. It is a temporary commercial invoice which is sent by the exporter to the importer. It covers contemplated shipment which may or may not be made in future. The importer requires this document for obtaining an import licence and opening a letter of credit in favour of the exporter. With such obvious importance of proforma invoice, the exporter should cultivate a habit of sending proforma invoice to the importer even if the same is not demanded.

2. *Bill of Lading*: Bill of lading (B/L) is a document which is issued by the shipping company acknowledging that the goods mentioned therein are either being shipped or have been shipped. This is also an undertaking that the goods in like order and condition as received will be delivered to the consignee, provided that the freight specified therein has been duly paid. Bill of lading serves three distinct functions.

(*i*) It is an evidence of the contract of affreightment (transport).

(*ii*) It is a receipt given by the shipping company for cargo received by it.

(*iii*) It is a document of title to the goods shipped.

The bill of lading gives the details about the exporter, carrying vessel, goods shipped, port of shipment, destination, consignee and the party to be notified on arrival of the goods at destination. Bill of ladings are made in sets.

3. *Airway Bill*: In air carriage, the transport document is known as the airway bill. This document performs three functions of a forwarding note for the goods, receipt for the goods tendered, and authority to obtain delivery of goods. Since it is non-negotiable, so it does not carry the same validity as a bill of lading for sea transport.

4. *Bill of Exchange* (*B/E*): Bill of exchange is an instrument or draft used for the payment in international/export business. It is an instrument in writing containing an unconditional order, signed by the marker, directing a certain person to pay a certain sum of money only to or to the order of a person or to the bearer of the instrument. The person to whom the bill of exchange is addressed is to pay either on demand or at a fixed or a determinable future.

There are three parties involved in a bill of exchange:

(*i*) *The Drawer* (*Exporter*): The person who makes and executes the B/E. Or say, the person to whom payment is due.

(*ii*) *The Drawee* (*Importer*): The person on whom the B/E is drawn and who is required to meet the terms of the document.

(*iii*) *The Payee* (*Exporter or Exporter's Bank*): The party to receive the payment.

5. *Letter of Credit*: It is a written instrument issued by the buyer's (importer's) bank, authorising the seller (exporter) to draw in accordance with certain terms and stipulating in a legal form that all such bills (drafts) will be honoured.

Letter of credit provides the exporter with more security than open accounts or bills of exchange.

A commercial letter of credit involves the following three parties:

(*i*) The opener or importer — the buyer who opens the credit (*ii*) The issuer — the bank that issues the letter of credit.

(*iii*) The beneficiary — the seller in whose favour the credit is opened.

Based on differing conditions, letters of credit may be of the following types:

(*a*) *Revocable and Irrevocable*: In case of revocable letter of credit, the buyer or issuer can cancel or change an obligation at any time prior to payment without prior notice to the exporter or seller. When the letter is irrevocable, the buyer cannot cancel or change obligation without the exporter's permission.

(*b*) *Confirmed and Unconfirmed*: In case of confirmed letter of credit, the payment is guaranteed by the issuing bank. When the letter is unconfirmed, no such guarantee is given by the bank.

(*c*) *With and Without Recourse*: With recourse means if the buyer fails to pay the bank after a specified period, the bank can have recourse on the exporter. There is no such provision in the letter of credit without recourse.

33.1.2 Regulatory Documents

1. *Legal Documents for Export from India*: There are two types of regulatory documents: (*i*) documents needed for registration, and (*ii*) documents needed for shipment. The first category documents include applications and other supporting documents for obtaining (*i*) code number from the Reserve Bank of India (RBI), (*ii*) importers and exporters code numbers from the Chief Controller of Imports and Exports, (*iii*) registration-cum-membership certificate (RCMC), etc.

The documents needed for shipment of goods include the following:

(*a*) *GR Form*: It is required to be filled in duplicate for all exports other than by post. Both of the copies have to be submitted to the customs authorities at the port of shipment. They will retain the original copy to be sent to the Reserve Bank of India directly. They will return the duplicate copy which is submitted to the negotiating bank along with other documents after shipment of goods. The negotiating bank sends the duplicate copy to the RBI after the export proceeds have been realised.

(*b*) *PP Form*: Exports to all countries by parcel post, except when made on 'value payable' or 'cash on delivery' basis should be declared on PP forms.

(*c*) *VP/COD Form*: It is required to be filled in one copy for exports to all countries by post parcel under arrangements to realise proceeds through postal channels on 'value payable' or 'cash on delivery' basis.

(*d*) *EP Form*: Shipment to Afghanistan and Pakistan other than by post should be declared on EP forms.

(*e*) *SOFTEX Form*: It is required to be prepared in triplicate for export of computer software in non-physical form.

2. *Shipping Bill*: The shipping bill is the main document on the basis of which the custom's permission for export is given. Post parcel consignment requires customs declaration form to be filled in. There are three types of shipping bills available with the customs authorities. These are:

(*i*) *Free Shipping Bill*: It is used for export of goods for which there is no export duty.

(*ii*) *Dutiable Shipping Bill*: Printed on yellow paper, it is used in case of goods which are subject to export duty/cess.

(*iii*) *Drawback Shipping Bill*: It is usually printed on green paper and is used for export of goods entitled to duty drawback.

3. *Marine Insurance Policy*: It is the basic instrument in marine insurance. A marine policy

is a contract and a legal document which serves as evidence of the agreement between the insurer and the assured. The policy must be produced to press a claim in a court of law. An exporter must also put up the marine insurance policy as a collateral security when he gets an advance against his bank credit.

33.1.3 Exports Assistance Documents

For availing of a number of incentives and assistance, an exporter is required to fill in a number of documents. Some of the important ones of these are discussed here:

1. *Application Form for Registration*: Exporters desirous of availing themselves of the benefits of the import policy are required to register themselves with the appropriate registering authority such as Export Promotion Councils, Commodity Boards and Chief Controller of Imports and Exports, New Delhi. The application for registration should be accompanied by a certificate from the exporter's bankers in regard to his financial soundness. In case of a firm having branches, the application for registration shall be submitted only by the Head Office.

2. *Allotment of Indigenous Raw Materials on Priority Basis*: Manufacturer-exporters may apply to the Director of Export Promotion, Ministry of Commerce, for replenishment of the indigenous materials used in the manufacture of goods for export.

3. *Duty Drawback*: For claiming this incentive, the main document is the customs attested drawback copy of shipping bill. This is to be accompanied by other documents such as drawback payment order, final commercial invoice and a copy of bill of lading or airway bill, as the case may be.

4. *REP Licence and CCS*: For claiming REP licence and cash compensatory support (CCS), the exporter is required to prepare and file a number of documents. The main documents in this regard are:

(*a*) Application in the prescribed form
(*b*) Acknowledgement slip
(*c*) Bank challan issued by the treasury for the application fee paid.
(*d*) Advance receipt for cash assistance amount
(*e*) A duly certified copy of shipping bill.
(*f*) Non-negotiable copy of bill of lading/airway bill.

33.1.4 Documents Require by Importing Countries

In case of export business, the importing countries need some documents because of the legal necessity. These documents are obtained by the exporter and are sent to the importer. Some of the well-known documents are as follows:

1. *Consular Invoice*: It is usually issued on the specified form by the consulate of the importing country situated in the exporting country. It gives a declaration about the true value of goods shipped. The customs authorities of importing company charge valorem based on the value mentioned on consular invoice.

2. *Certificate of Origin*: This certificate is issued by the independent bodies like chamber of commerce or export promotion council in the exporting country. This is a certification that the goods being exported were actually produced in that particular country.

3. *GSP Certificate of Origin*: Goods which get the benefit preferential import-duty treatment in countries which implement the Generalised System of Preferences should be accompanied by the GSP certificate of origin. This certificate is given on the forms prescribed by the importing countries.

4. *Customs Invoices*: It is also made out on a specified form prescribed by the customs authority of the importing country. The details given on the document will enable the customs authority of the importing country to levy and charge import duty.

5. *Certified Invoice*: This is the self-certified invoice by the exporter about the origin of the goods.

33.2 PROCESSING OF AN EXPORT ORDER

You have so far learnt the range of documents required in export business. In reality, an export exercise is concluded successfully only after the exporter has been able to deliver the consignment in accordance with the export contract and receive payment for the goods. Therefore, you will now learn in this section the various steps involved in the processing of an export order. These are:

1. *Having an Export Order*: Processing of an export order starts with the receipt of an export order. An export order, simply stated, means that there should be an agreement in the form of a document, between the exporter and importer before the exporter actually starts producing or procuring goods for shipment. Generally an export order may take the form of proforma invoice or purchase order or letter of credit. You have already learnt these just in the preceding section.

2. *Examination and Confirmation of Order*: Having received an export order, the exporter should examine it with reference to the terms and conditions of the contract. In fact, this is the most crucial stage as all subsequent actions and reactions depend on the terms and conditions of the export order. The examination of an export order, therefore, includes items like product description, terms of payment, terms of shipment, inspection and insurance requirement, documents realising payment and the last date of negotiation of documents with the bank. Having being satisfied with these, the export order is confirmed by the exporter.

3. *Manufacturing or Procuring Goods*: The Reserve Bank of India (RBI), under the export credit (interest subsidy) scheme, extends pre-shipment credit to exporter to finance working capital needs for purchase of raw materials, processing them and converting them into finished goods for the purpose of exports. The exporter approaches the bank on the basis of laid down procedures for the pre-shipment credit. Having received credit, the exporter starts to manufacture/ procure and pack the goods for shipment overseas.

4. *Clearance from Central Excise*: As soon as goods have been manufactured/procured, the process for obtaining clearance from central excise duty starts. The Central Excise and Sale Act of India and the related rules provide the refund of excise duty paid. There are two alternative schemes whereby 100 per cent rebate on duty is given to export products on the submission of the proof of shipment. The first scheme is to make payment of the excise duty at the time of removing the export consignment from the factory and file a claim for rebate of duty after exportation of goods. The second scheme is to remove goods from factory/ warehouse without payment but under an appropriate bond with the excise authorities. The exporter needs to apply on a form known as AR4 or AR4A to the Central Excise Range Superintendent for obtaining excise clearance. Form A is filed when goods are to be cleared after examination by the excise inspector. In all other cases, form AR4A is filed.

5. *Pre-Shipment Inspection*: There are a number of goods whose export requires quality certification as per the Government of India's notification. Consequently, the Indian custom authorities will require the submission of an inspection certificate issued by the competent and designated authority before permitting the shipment of goods takes place.

Inspection of export goods may be conducted under:

(*a*) Consignment-wise Inspection

(*b*) In-process Quality Control, and

(*c*) Self-Certification.

The Inspection Certificate is issued in triplicate. The original copy is for the customs verification. The second copy of the certificate is sent to the importer and the third copy remains with the exporter for his reference purpose.

6. *Appointment of Clearing and Forwarding Agents*: On completion of the process of obtaining the Inspection Certificate from the custom agencies, the exporter appoints clearing and forwarding agents who perform a number of functions on behalf of the exporter. The main functions performed by these agents include packing, marking and labelling of consignment, arrangement for transport to the port, arrangement for shipment overseas, customs clearance of cargo, procurement of transport and other documents. In order to facilitate the exporter in discharging his duties, the following documents are submitted to the agent:

1. Commercial invoice in 8–10 copies
2. Customs Declaration Form in triplicate
3. Packing list
4. Letter of Credit (original)
5. Inspection Certificate (original)
6. G.R. Form (in original and duplicate)
7. AR4/AR4A (in original and duplicate)
8. GP-1/GP-2 (original)
9. Railway Receipt/Lorry Way Bill, as the case may be

7. *Goods to Port of Shipment*: After the excise clearance and pre-shipment inspection formalities are completed, the goods to be exported are packed, marked and labelled. Proper marking, labelling and packing helps quick and safe transportation of goods. The export department takes steps to reserve space on the ship through which goods are to be sent to the importer. The shipping space can be reserved either through the clearing and forwarding agent or freight broker who works on behalf of the shipping company or directly from the shipping company. Once the space is reserved, the shipping company issues a document known as *Shipping Order*. This order serves as a proof of space reservation.

If goods are sent through a road carrier to the port, no specific formality is involved. In case, the goods are sent by rail to the port of shipment, allotment of wagon needs to be obtained from the Railway Board. The following documents are submitted to the booking railway yard/station:

(*i*) Forwarding Note (A Railway Document)

(*ii*) Shipping Order

(*iii*) Wagon Registration Fee Receipt.

Once wagons have been allotted, goods are loaded, for which railways will issue Railway Receipt (RR). Then, this receipt and other documents are sent to the clearing and forwarding agent at the port town. At the same time, the production/export department takes insurance policy in duplicate for risk coverage (internal as well as overseas) for the goods to be exported.

8. *Port Formalities and Customs Clearance*: Having received the documents from the export department, the clearing and forwarding agent takes delivery of the cargo from the

railway station or the road transport company and stores it in the warehouse. He also obtains customs clearance and permission from the port authorities to bring the cargo into the shipment shed. The custom department grants permission for export at the office of the customs and physical verification of goods in the shipment shed. The clearance for export is given on the *Shipping Bill*.

The clearing and forwarding agent is required to submit the following documents with the Customs House for obtaining customs clearance and permission:

(*i*) Shipping Bill
(*ii*) Contract Form
(*iii*) Letter of Credit, if applicable
(*iv*) Commercial Invoice
(*v*) GR Form
(*vi*) Inspection Certificate
(*vii*) AR4/AR4A Form
(*viii*) Packing List, if needed

After receiving documents from the export department, the clearing and forwarding agent presents the Port Trust Document to the Shed Superintendent of the port. He obtains carting order bringing the cargo to the transit shed for physical examination by the Dock Appraiser. The Dock Appraiser is presented the following documents to facilitate him in physical examination of export goods:

(*i*) Shipping Bill
(*ii*) Commercial Invoice
(*iii*) Packing List
(*iv*) AR4/AR4A Form and Gate Pass
(*v*) GR Form (duplicate)
(*vi*) Inspection Certificate (original)

The Dock Appraiser, after making examination, makes *'Let Export'* endorsement on the duplicate copy of the Shipping Bill and hands over it to the Forwarding Agent. All these documents are presented to the Preventive Officer who puts an endorsement *'Let Ship'* on the duplicate copy of the Shipping Bill. The preventive officer supervises the loading of cargo on board the vessel.

After the goods are loaded on board the vessel, the captain of the ship issues a receipt known as *'Mate's Receipt'* to the Shed Superintendent of the port concern. The forwarding, agent after paying port charges, takes the delivery of the *'Mate Receipt'*. He submits it to Shipping Company and requests it to issue the Bill of Lading.

9. *Despatch of Documents by Forwarding Agent to the Exporter*: After obtaining the Bill of Lading from the Shipping Company, the clearing and forwarding agent despatches all the documents to his/her exporter. These documents include:

(*i*) Commercial Invoice (attested by the customs)
(*ii*) Export Promotion Copy
(*iii*) Drawback Copy
(*iv*) Clean on Board Bill of Lading
(*v*) Letter of Credit
(*vi*) AR4/AR4A and Gate Pass 2
(*vii*) GR Form (in duplicate)

10. *Certificate of Origin*: On receipt of above documents from the forwarding agent, the

exporter now applies to the Chamber of Commerce for a *Certificate of Origin* and obtains it. If the goods are exported to countries offering GSP concessions, the exporter needs to procure the GSP Certificate of Origin from the concerned authority like Export Inspection Agency.

11. *Despatch of Shipment Advice to the Importer*: At last, the exporter sends 'Shipment Advice' to the importer intimating the date of shipment of the consignment by a named vessel and its expected time of arrival at the destination port of the importer. The following documents are also sent to the importer to facilitate him for taking delivery of the consignment:

(*i*) Bill of Lading (non-negotiable copy)
(*ii*) Commercial Invoice
(*iii*) Packing List
(*iv*) Customs Invoice

12. *Submission of Documents to Bank*: At the end of the process, the exporter presents the following documents to his bank for realisation of his amount due to the importer:

(*i*) Commercial Invoice
(*ii*) Certificate of Origin
(*iii*) Packing List
(*iv*) Letter of Credit
(*v*) Marine Insurance Policy
(*vi*) GR Form
(*vii*) Bill of Lading
(*viii*) Bill of Exchange
(*ix*) Bank Certification
(*x*) Commercial Invoice

13. *Claiming Export Incentives*: On completion of the processing of an export order at the three levels of shipment i.e., pre-shipment, shipment and post-shipment, the exporter claims for export incentives admissible to him/her. The various types of export incentives have already been discussed earlier in this chapter, hence the same are not mentioned here for the sake of repetition.

33.3 LET US SUM UP

Export business is unlike domestic business in many respects. The different rules and regulations governing exports and imports in the countries the exporter and importer are operating from make the export business complex. Therefore, various documents need to be filed with different agencies to make the export business smooth between the two countries. Various export documents are needed to comply with commercial, legal and incentive requirements.

The execution of an export order follows a definite procedure. An export business/excercise is concluded successfully after the exporter finally delivers the export goods in accordance with the export contract and receives his/her payment for the same.

ASSESSMENT QUESTIONS

1. What is the need for documentation in international business? Exemplify.
2. What are the major Commercial Documents? Highlight the salient characteristics of Bill of Exchange and Bill of Lading.
3. "In export business, people are dealing in documents and not in goods". Comment.
4. Discuss the major documents needed by the importing country.

5. Mention the main export incentives available in India. What documents are needed to claim them.
6. Discuss the process involved in processing an export order.
7. Make a flow chart of processing of an export order upto the shipment stage.
8. Discuss the procedure involved in getting customs clearance.
9. Why is a clearing and forwarding agent is appointed by the exporter? What functions does he perform on bahalf of the exporter?
10. Write short notes on the following:
    (*a*) Bill of Lading
    (*b*) Bill of Exchange
    (*c*) Letter of Credit
    (*d*) Duty Drawback
    (*e*) Certificate of Origin

CHAPTER 34

ELECTRONIC COMMERCE AND SMALL ENTERPRISES

•34.1 Meaning of Electronic (E) Commerce. •34.2 Evolution and Growth • 34.3 Benefits • 34.4 Suitability for Small Enterprises •34.5 Prospective Areas •34.6 Challanges •34.7 Let Us Sum Up • Assessment Questions

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Define E-Commerce
- Trace out the evolution and growth of E-Commerce
- Enumerate the benefits E-Commerce offers
- Explain how E-Commerce is suitable for small enterprises
- Identify the prospective areas of E-Commerce in small enterprises
- Point out the challanges E-Commerce is presently facing in India.

Of late, invent and innovate have become the key mantras of modern marketing. In this process, marketers have evolved one after another newer modes of marketing to meet the requirement of their customers. Electronic Commerce, popularly known as 'E-Commerce', has emerged as the modern day **avatar** in marketing. It has become the buzzword of the day. It has been assuming acceptability and popularity by leaps and bounds in the present day business. Given such backdrop, it seems pertinent to examine and explore the suitability of e-commerce for small enterprises in our country. The present chapter, accordingly, deals with the various aspects of e-commerce such as its meaning, evolution and growth, benefits, suitability and challanges small enterprises are facing in India.

34.1 MEANING OF E-COMMERCE

It seems pertinent to mention at the outset that e-commerce is not about reinvesting business, it is about streamlining current business process to improve operating efficiencies which, in turn, will strengthen the value to provide to customers, which in turn will provide the competitive advantage over competitors. In simple words, electronic commerce is the process of doing business electronically or over internet. Among a few definitions of e-commerce so far given, the most widely accepted and used is one given by the World trade Organisation (WTO) According to the WTO:

"........production, distribution, marketing, sale or delivery of goods and services by electronic means. A commercial transaction can be divided into three main stages : advertising and searching stage; ordering and payment stage; and delivery stage. Any or all of these may be carried out electronically and may, therefore, be covered, by the concept of *electronic commerce.*"

In other words, e-commerce encompasses the use of technologies, processes and management practices that enhance organisational competitiveness through strategic use of electronic information. E-commerce is, thus, a modern methodology that addresses the need of organisations merchants, and consumers. It cuts costs while improving the quality of goods and services and increasing the speed of service delivery.

34.2 EVOLUTION AND GROWTH

The evolution of e-commerce is traced back to 1970's with the emergence of of internet. E-commerce was developed for the business community in the early 1970s to facilitate processing high volume and high value transactions electronically. Electronic Data Interchange (EDI) was the first business-to-business (B2B) application. Subsequently, internet added a prodigious new dimension to e-commerce. The power of the Internet, as a global access, was realised with the arrival of the World Wide Web (WWW) in 1994. Never in the history of manking has a popular innovation spread as fast as internet. US has been considered the leader in the application of e-commerce. The quick spread of internet in US can be gauzed from the fact that it took 16 years for telephones to be used by a quarter of all US households and 133 years for the cell-phones to be so widely used, but Internet has made similar penetration in less than 5 years. It is predicted that by 2003, the digital economy will overtake the traditional economy in U.S. So far only 8 per cent of manufacturing sector in US is aplying e-commerce and, thus, remaining 92 per cent have yet to realise its benefits. Further, e-commerce in US is taking place more in the service oriented activities than the product oriented ones. This is because of the fact that no two products are the same. But, services have a commonality that makes maxim for more general applicable whether it is hospitality or airlines, transport services, banking, reading of books and alike.

After its fast debut in US, e-commerce is rapidly spreading beyond US boundaries and is growing speedly global. Numerous e-commerce success stories abound in Europe.

The origin of e-commerce in India coincides with the introduction of Internet connectivity in the country in 1989. As such, e-commerce in India is in its infancy. Historically, Rediff-on-the-net, one of India's leading online services, set up India's first e-commerce on August 13, 1998. Then, India entered the age of e-commerce the day the government de-regulated the Internet Service Provider (ISP) policy in Novemebr 1998. Since then, there is no looking back and the country is proliferating in Internet. The rate of growth of penetration of Internet has been spectacular. It took radio 50 years to have 50 million owners, T.V. 16 years and personal computers 17 years. But it has taken Internet only 4 years to reach that figure after the invention of WWW and browsers.

Till now, Internet penetration in india is about 0.5 per cent of the population against 50 per cent in Singapore. Nevertheless, India is fast emerging as the largest country for registering domain names in the entire Asia-Pacific region. According to the latest dotcom index for the year upto February 2000, India occupies 11th place in it after US, UK, Korea, Canada, France, Germany, Japan, China, Spain and Itlay. Presently, India has nearly 35 ISPs in various stages of operations. Added to these are 187 more ISPs granted licences. The popular ISPs already providing access to internet in the country are the Videsh Sanchar Nigam Limited (VSNL), Mahanagar Telephone Nigam Limited (MTNL), Satyam Online, BT Internet, Intel India, Max India, Quark, HCL Perot, Infosys, Future Divices and Dishnet. Satyam Online, India's largest ISP mega corporation has got over 1,15,000 subscribers across the country. As of March 31, 2000, there were 7.5 lakh Internet connections in the country with 3.2 million Internet users. According to Forrester Research, over 27 million households in india will access the Internet by 2003.

NASSCOM (National Association of Software and Service Companies), the apex body and Chamber of Commerce of India's software-driven IT industry, has recently released findings of its survey to evaluate the E-Commerce scenario in India. As per the findings of the survey[1], the total volume of e-commerce transactions in India were about Rs. 131 crore in the year 1998-99. Out of this volume, about Rs. 12 crore were contributed by retail Internet or business-to-consumer transactions and about Rs. 119 crore were contributed by business-to-business transactions. The figure for the year 1999-2000 was estimated to reach Rs. 450 crore. Here, it is significant to note that India's experience in e-commerce transactions is compatible with that of US and other countries where percentage share of B2B remained much larger than that of B2C. This implies that businesses are more willing and able than individuals to use e-commerce technology.

This is attributed to the fact that in B2B transactions, both buyers and sellers are known to each other and enjoy sufficient mutual trust. Added to it is that B2B transactions are relatively of higher value in nature and companies trading on Internet offer very high and attractive cost-saving options. But, such a situation is not obtainable in case of a B2C transactions. Very possibly, the same explains why e-commerce in this area has still not taken off. That this trend is also expected to continue in future as well is indicated by a serious study forecasting B2B transactions' share of the order of 79 per cent of the total e-commerce business in India by the year 2002.

Another point worthmentioning is that the expansion of e-commerce in India, so far, has been uneven concentrating in a few metropolitan cities, namely, Bangalore, Hyderabad, Mumbai and Delhi. The common man residing in rural areas of the country is, however, still unaware of happening in Information Technology sector. Obviously, much progress in e-commerce cannot be achieved until the country's vast rural sector is not brought within the folds of internet. Hence, hitherto untouched rural sector by Internet so far offers a great potential for e-commerce in India. This is discussed in more detail later under the heading 34.4. The former US President, Bill Clinton during his visit to India in March 2000 also hailed India's remarkable progress in IT sector and also remarked that India has the potential to become the world's largest economy using the power of Internet. It is a matter of great satisfaction that, today, India is the fifth largest market in the world in terms of purchasing power. About 8 per cent of India's population has a per capita income exceeding US$ 3,500 which is 80 million people. In nutshell, e-commerce has set in but much is yet to be tapped in this respect.

34.3 BENEFITS

E-commerce is a win-win situation for the consumer and the product/service provider. The distinct advantages e-commerce can offer to the consumer are:

1. Consumers have a much wider choice available on the cyber market.
2. They can compare products, features, prices and even look up reviews before they select what they want.
3. They also have the convenience of having their orders delivered right to the doorstep.
4. Finally, consumers are driven to e-shopping in hordes as even branded goods cost less on the Net.

The major advantages that e-commerce can bring to the companies are:

1. *It minimizes inventory cost.* E-commerce venture need not maintain huge inventories or expensive retail showrooms. Their marketing and sales force is a fraction of that of traditional mortar-based businesses. E-commerce can minimize inventory costs by adopting just-in-time system enhancing the firm's ability to forecast demand more accurately.

1. Dewang mehta; *Information Systems Computer World*, July 16-31, 1999.

2. *It can improve customer services.* It has been found that providing both customer and after-sale services account for upto 10 per cent of the operating costs. By putting these services on-line under e-commerce, these costs get reduced, on the one hand, and simultaneously the quality of services also gets improved, on the other. High quality customer relationship called "customisation" is crucial for retaining customers in the e-commerce environment. That is the reason why customer Relationship Management (CRM) has become the buzzword which everybody is talking of now. E-commerce provides ample opportunity for CRM solution and, therefore, in establishing better relationship with the customers. It becomes absolutely necessary for the company to enhance customer loyalty, otherwise the customer who is full of choices, can jump from one website to another. If company is to stay in business then it will have to deliver the products or services to customers as they want, when they want and how they want.
3. *It reduces distribution costs as well.* The Electronic Data Interchange (EDI) based on OECD study has revealed that the time needed to process an order declined abruptly by a minimum of 50 per cent to a maximum of 96 per cent. It is really amazing.
4. *It helps business globalise.* As stated earlier, e-commerce by minimizing costs enables companies especially small ones to make information on its products and services available to all the potential customers spread over worldwide. This is well confirmed by Amazon. Com, founded by Jeff Bezos, the largest bookstore in the net by taking away a large amount of sales from the traditional booksellers. In India, the experience of rediffusion-on-the-net presents the similar case.
5. *It helps market products more quickly.* By taking the entire product design process online, drawing partners and customers into the process and removing the traditional communication barriers, companies can bring products and services to makret far more quickly. Internet commerce solutions allow customer to reduce the costs of sales and open new markets, speed and simplify order accuracy, approval, processing, tracking and delivery and improve decision making, leverage existing investments in infrastructure, business systems and repositions and link manufacturers with suppliers on the same network.

Having enumerated several benefits e-commerce offers to companies, it seems now pertinent to examine how e-commerce is distinctly suitable for small enterprises. The subsequent section elaborates the same.

34.4 E-COMMERCE SUITABILITY FOR SMALL ENTERPRISES

Like elsewhere in the world, small enterprises play a vibrant and vital role in the Indian economy as well. They contribute significantly to the national production, employment, equity and export, as mentioned earlier in the chapter 10. In fact, it is due to its such excellent role, Sehuman Cher[2] extolled them as *Small is Beautiful.* Because of the significance of small enterprises worldwide, it is increasingly being realised that if small sector gets left behind in the information, then the whole economy gets left behind. Given the need of the hour, small enterprises, therefore, cannot have the luxury to adopt a wait and watch attitude in the matter of marketing. Late adoption of e-commerce will adversely affect the small enterprises for years to come.

With strong realisation, small enterprises worldwide are turning to the use of modern

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2. E.F. Sèhuman Cher : *Small is Beautiful*, Radha Krishna Publishers, New Delhi, 1978.

technology to compete with their big brothers — medium and large size enterprises. According to a survey conducted by the Yankalovick Partners Inc., 90 per cent of the small enterprises in US are using wired technology in their operations. Numerous e-commerce success stories abound in other countries as well. For example, 70 per cent of the small and medium enterprises in Ireland have accessibility to the Net. Similarly, Spain and Italy, with their sound Internet business culture, have promoted their small sector to a remarkable level. In Asia, Singapore is pioneer in e-plus technology and expanding its solution services beyond the local 92,000 small and medium enterprises to others in the region. It's noteworthy that more than four-fifths (81 per cent) of Singapore enterprises are linked to Internet.

Let us now delineate the situation at the home front. In India too, Internet based business is set in and is in offing. In fact, initial signs are already visible in the market place. To quote, while Delhi housewives log on to cyberspace to place an order for vegetables (bababazaar. com*), 'paans' are' made available in Mumbai at a mouse-click. Image, farmers in Madhya Pradesh log on to the Net to update themselves on the wholesale prices of vegetables and commodities in the region before deciding on the price for the day[3]. The penetration of e-commerce in the national economy is on. It is steadily moving towards rural india. To quote, in the Warana village and other like Nayla village in Rajasthan, net has become a vital aspects of daily economic life of the villagers. You might be remembering the Nayla village was visited by the former US President, Bill Clinton also in March 2000.

The information revolution has opened up a great deal of potential for small enterprises in the marketing field. The excellent opportunities e-commerce offers to small enterprises are to :

- Access new markets
- Improve customisation
- Lower various kinds of costs
- Reduce the size of the enterprise
- Sell products/goods into global market

It is e-commerce that facilitates, for example, a tailor is sweden to make a suit by hand for a lawyer in London. Similarly, a software designer in Bangalore to write a programme to a firm located in Moscow. The fact remains that e-commerce has empowered small enterprises like nothing else had done so in the past. E-commerce has emerged as an opportunity for small enterprises. Not making use of it will turn into a threat to their very survival. The adoption of e-commerce in small enterprises has reached to global presence and is offering stiff competition to their big brothers. It is noticed that web-based big companies eventually have forced numerous small companies to go online for their business operations.

The scope for adoption of e-commerce is likely to be enlarged with cable, telelphones and TVs making inroads in rural areas in the country. 'Sankhya Vahini' a massive project commissioned by the Government of India is likely to focus on activities such as tele-agriculture and tele-medicine in rural areas. Thus, there exists good scope for e-commerce to be adopted in small enterprises in the country.

3. E-Revolution : Its India's turn Now, *The Times of India*, March 12, 2000.
* For details, see Case No. 8 at the end of the book.

34.5 PROSPECTIVE AREAS

E-commerce is ideally found suitable for certain types of products and services amenable to online transactions. The products that are already being traded electronically mainly in small enterprises and are also expected to record high growth rate include computer products, books, music, gifts and flowers, clothing and food items. Similarly, the services which are likely to be quite fertile for e-commerce, are advertising and marketing services, financial services, tourism, entertainment and information services. Experts opine that the top three industry categories for e-commerce in India in this year 2001 will be financial/insurance services, travel and entertainment/sports services. The success stories of Amazon.Com (online bookstore), Charles Schwab (online brokerage) or dull(selling computers online) well indicate above statements. India is not behind. Bababazaar.Com, Fabmart.Com, Pitara.Com and Rediff. Com e-commerce success stories well abound in the country.

In India, small sector is an all embracing term. Small enterprises in India include agriculture and agro-based industries, transportation, financial services, housing, handicarafts, readymade garments, footwear, professional services, electronic and engineering, chemicals, pharmaceuticals, gems and jewellery, cosmetics, furniture, poultry, bakery, retail trade, entertainment, health care, tourism, education, social services, public utilities, etc. As mentioned earlier, whatever e-commerce has so far taken place in India is concentrated in the metropolitan cities itself. Due to dismal penetration of PCs and telephones into rural economy, the vast potential for e-commerce offered by rural areas so far remains untapped. There is no denying the fact that rural sector is the main stay of the Indian economy that supports nearly three-fourths of the country's population. Hence, there is a need for e-commerce mandarins to make inroads in rural areas of the country.

It is worth mentioning that efforts are on to bring small enterprises and rural areas within the folds of e-commerce. For example, a new website, namely, *Indianmarkets.com* is created with an objective to provide small enterprises direct access to the corporate sector as well as national market. Expectedly, this gateway will provide a seamless system for interaction between buyers and suppliers by providing them single contact point online. Following this, Satyam Computers Services have also created an ASP to facilitate small enterprises with advanced e-commerce applications/solutions. It is a happy augury that the government has also come forward to encourage e-commerce application in small enterprises. With this objective in view, the Ministry of small scale industries has formulated a comprehensive plan to prepare small-scale industry (SSIs) for e-commerce with required infrastructure support in the country. However, there does not seem perceptible visible e-commerce in small sector and rural areas of the country. The reasons for the same are scanned in the following section.

34.6 CHALLANGES

E-commerce in spite of opportunities, hoopla and hype, also bears the connotations of challanges as well at the same time. We, therefore, enumerate the major challanges e-commerce in small enterprises is facing and also submit the remedial measures to met these challanges.

1. *Infrastructural Problems* : Internet is the backbone of e-commerce. Unfortunately, Internet penetration in India is so far dismally low at 0.5 per cent of the population against 50 per cent in Singapore. Similarly, penetration of personal computer (PC) in India is as low as 3.5 per thousand of population compared to 6 per thousand in China and 500 per thousand in US. Internet is still accessible through PCs with the help of telephone lines. Given the penetration of telephone only 2.1 per cent of

population, e-commerce remains far away from the common man. It is difficult for e-commerce to reach to 1,000 million population spread over 37 million households in 6,04,374 odd villages and 5,000 towns and cities. Besides, both cost of PCs and internet access in India are quite high.

2. *Absence of Cyber Laws*: Another big challange associated with e-commerce market is the near absence of cyber laws to regulate transactions on the Net. WTO is expected to enact cyber laws soon.

   The India's Information Technology Bill (IT Bill) passed by the Indian Parliament on May 17, 2000 intends to tackle lagislatively the growing areas in e-commerce. The Bill also intends to facilitate e-commerce by removing legal uncertainties created by the new technology. As it stands today, the Bill deals with only commercial and criminal areas of law. However, it does not take care of issues such as individual property rights, content regulation to privacy and data protection specific legislation.

3. *Privacy and Security Concern* : As of to-day, quite vulnerable issues related to e-commerce are privacy and security. So far, there is no protection offered either by Website or outside watchdogs against hazard created by exloitating one's privacy.

4. *Payment and Tax Related Issues* : Problems related to payment and tax are yet another problems continuously hunting e-traders. The electronic payment is made through credit card or plastic money which could, however, not become popular so far in India mainly due to two reasons. *First*, the penetration of credit card in India is very low(2 per cent of the population). *Second*, the Indian customers are quite skeptical of paying by credit card with the increasing threat of fraud played by hackers. Like elsewhere, credit card could not gain growth in India mainly because of authentification and recognition problems of electronic signatures[4].

   Similarly, tax administration is yet another complex problem in this seamless worldwide e-commerce. As establishing incidence of tax in case of e-commerce transactions becomes difficult, this, thus, provides ample scope for tax evasion. How to get rid off this? Some suggest total tax holiday till 2010 for e-commerce in the country. There are others who support zero duty on e-commerce to flourish it in the country. It has already been decided in US that there will be no tax on anything sold on the Internet in digital form by October 2001. Should India not follow US, at least for the time being? We have to ponder over it.

5. *Digital Illiteracy and Consumer Psyche* : At present, digital illiteracy is one of the formidable problems e-commerce is facing in India. On the other hand, the continuous exodus of skilled computer engineers to other countries has denuded India of software engineers. This has posed a real threat to the Indian IT industry. Obviously, solution to this problem lies in curbing the computer brain - drain and use the same in the country.

   The Indian consumer is also characterised by his unique psyche. Usually, the Indian consumer does not go long distances for having any good of his choice when a neighbourhood store provides him whatever he wants. That is why the consumer does not browse the Net knowing the consequent hussles of connectivity and other botherations. Added to this is that building trust on the electronic media also takes long time more especially when the vendor is situated at a very far off place.

6. *Virus Problem* : That computer virus is also a formidable problem in the execution of

4. L.N. Dahiya and K.P. Singh : Understanding E-commerce Impact, *Indian Management*, August 2000, p.70.

e-transactions is confirmed by the recent computer virus originated in Manila. A computer virus lagged '*I Love You*' originated in Manila, Phillippines on May 5, 2000 rippling across world, inflected millions of computer files causing colossal loss of US $7 billion to the governments and the businesses. The offenders causing 'virus' must be awarded deterrent punishment, otherwise similar assualts in future can cause lasting blows to the quite young e-commerce in India as well.

7. *English Specific* : Last but not the least, the software so far in the country is English specific. But, in order to make e-commerce reach to the small enterprises, it needs to be available in the languages (regional) of the owners of the small enterprises to enable them to adapt e-commerce processes in their operations. Sooner it is done better will be it for small enterprises to adapt e-commerce.

34.7 LET US SUM UP

Electronic commerce is doing business over internet. E-commerce originated way back during 1970s in US. In India its origin coincides with Internet connectivity in 1989. Since the introduction of www in 1994, expansion of e-commerce in the country is continuously on spreading across the country. At present there are 3.2 million Internet users giving a total volume of Rs. 131 crores e-business.

The distinct advantages such as improvement in customer service, reduction in inventory and distribution costs, speedy delivery of goods and services and globalisation of business, e-commerce provides make it suitable for small enterprises in the country. Certain types of products such as computer products, books, music, gifts and flowers, readymade garments and food items and certain types of services such as advertising, marketing, financial, insurance, tourism, entertainment and information services are amenable to online transactions.

Lack of infrastructural facilities, absence of cyber laws, payment and tax related matters, digital illiteracy and virus problems are the major challanges before e-commerce in India.

ASSESSMENT QUESTIONS

1. Define the term 'e-commerce'. What are the advantages e-commerce can offer to the customer and the suppliers?
2. "E-commerce is a win-win situation for the consumer and the product/service provider." Explain.
3. Explain with examples how e-commerce is suitable for small enterprises?
4. List prospective areas for e-business in small sector.
5. "E-commerce is not an unmixed blessing." Explain.

CHAPTER 35
FRANCHISING

• 35.1 Franchising Defined • 35.2 Advantages • 35.3 Disadvantages • 35.4 Evaluation of a Franchise Arrangement • 35.5 Franchising in India • 35.6 Let us Sum Up • Assessment Questions

LEARNING OBJECTIVES

On completion of this chapter, you should be able to:

- Define franchising.
- Enumerate the advantages and disadvantages that are associated with franchising
- Evaluate a franchising option.
- Delineate franchising scenario in India.

There are three ways for an entrepreneur to go into business : starting a new one, franchising one or buying an existing one. We have so far discussed the first option. In this chapter, we shall discuss the second option — that of becoming franchised. We shall first define the concept of franchising, then, identify and explain the advantages and disadvantages of frachising as an option to go into business. This will be followed by an evaluation of a franchised arrangement. Finally, we shall present a bird's eye view of franchising practices in India.

35.1 FRANCHISING DEFINED

In a sense, franchising is very much akin to branching. Franchising is a system for selectively distributing goods or services through outlets owned by the retailer or dealer. Basically, a franchise is a patent or trademark license, entitling the holder to market paritcular products or services under a brand name or trademark according to predetermined terms and conditions.

According to David D. Settz[1], "A franchise is a form of business ownership created by contract whereby a company grants a buyer the rights to engage in selling or distributing its products or services under a prescribed business format in exchange for royalties or shares of profits. The buyor is called the '*franchisee*', and the company that sells rights to its business concept is called the '*franchisor*'"

David H. Holt[2] has defined franchising as "a business system created by a contract between a parent company, called the *franchisor*, and the acquiring business owner, called the *franchisee*, giving the acquiring owner the right to sell goods or services, to use certain products, names, or branded, or to manufacture certain brands."

Now, franchising can simply be defined as a form of contractual arrangement in which a retailer (*franchisee*) enters into an agreement with a producer (*franchisor*) to sell the producer's goods or services for a specified fee or commission.

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1. David D. Settz : *How to Get Started in Your Own Franhised Business*, Farnsworth, Rockville Centre, New York, 1980, pp. 6-8.
2. David H. Holt : *Entrepreneurship* : *New Venture Creation*, Princtice-Hall of India Private limited, New Delhi, 1999, p.531.

DIFFERENCE BETWEEN FRANCHISING/DISTRIBUTORSHIP/AGENCY

In common parlance, franchising, distribution and agency mean the samething and are often loosely used. However, they mean different meanings.

The two terms — distribution and agency — have the more traditional forms of distributing goods or services. Under these, the principal is not allowed to exert the real control over the distributor or the agent. Here, the franchising differs from the distributorship and the agency in the sense that it allows the franchisor to exercise a higher degree of control over the franchisee. As a matter of fact, the franchisor has a right to say in all important matters like branding, methodology and mergers.

Franchising arrangements are broadly classified into *three types* :

1. Product Franchising
2. Manufacturing Franchising
3. Business-Format Franchising

A brief description of these follows :

Product Franchising : This is the earliest type of franchising. Under this, dealers were given the right to distribute goods for a manufacturer. For this right, the dealer pays a fee for the right to sell the trademarked goods of the producer. Product franchising was used, perhaps for the first time, by the Singer Corporation during the 1800s to distribute its sewing machines[3]. This practice subsequently became popular in the petroleum and automobile industries also.

Manufacturing Franchising : Under this arrangement, the franchisor (manufacturer) gives the dealer (bottler) the exclusive right to produce and distribute the product in a particular area. This type of franchising is commonly used in the soft-drink industry.

Business-format Franchising : This is recent type of franchising and is the most popular one at present. This is the type that most people today mean when they use the term franchising. In the United States, this form accounts for nearly three-fourth of all franchised outlets[4]. Business-format franchising is an arrangement under which the franchisor offers a wide range of services to the franchisee, including marketing, advertising, strategic planning, training, production of operations manuals and standards and quality - control guidance. The International Franchise Association (IFA)[5] of America has defined business *format franchising* as follows:

"A franchise operation is a contractual relationship between the franchisor and franchisee in which the franchisor offers or is obligated to maintain a continuing interest in the business of the franchisee in such areas as know how and training; wherein the franchisee operates under a common trade name, format and or procedure owned or controlled by the franchisor, and in which the franchisee has or will make a substantial capital investment in his business from his own resources."

It is because of its wide and growing popularity everywhere in the world including India, we focus on it, in detail, here in this chapter.

35.2 ADVANTAGES

Franchising arrangement is a symbiotic one for the franchisor and the franchisee.

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3. Godon storholm and E. Schewing Eberhard : Ethical Implications of Business Format Franchising, *Journal of Business Ethics*, March 1994, pp. 181-188.
4. Andrew Kostecka : *Franchising in the Economy, 1986-1988*, Government Princting Office, Washington, DC, U.S., p.4
5. M. Mendelsohn : *The guide to Franchising*, Pergamon Press, Oxford, 1979, p.3.

Following are, for example, the distinct advantages that franchising provides to the franchisee:

1. Franchising makes the task of getting started easier because the franchisee gets a business format already market tested and found to work. Hence, buying a franchise is so far safer than trying to start a business.
2. It reduces chances for failure. Here, significant to mention is that fewer than 10 per cent of all franchise fail. In dramatic contrast with this is the fact that two out of every five entrepreneurs who start on their own fail within three years, and eight out of every ten fail within ten years[6].
3. A well-established franchise brings with it the very important advantage of recognition. Many new businesses experience lean months, or years, after start-up. Obviously, the longer the period the business must experience it, the greater the chances of failure. With the well-tested franchise, this period of agony may reduce to only weeks, or perhaps just days.
4. Franchising may increase the franchisee's purchasing power also. Because, being part of a large and that too recognised organisation means paying less for a variety of things such as supplies equipment, inventory, services, insurance, and so on. It also can mean getting better service from suppliers because of the importance of the organisation (franchisor) of you are part (franchisee).
5. One gets the benefit of the franchisor's research and development in improving the product.
6. The franchisee have the protected or priviledged rights to franchise within a given area.
7. The prospects of obtaining loan facilities from the bank are also improved.
8. The backing of a known trading name (franchisor) becomes quite helpful while negotiating for good sites with setting agents or building owners.

35.3 DISADVANTAGES

Franchising is not an unmixed blessing. There are some disadvantages as well associated with a franchise arrangement. The main ones are listed as follows :

1. Unlike entrepreneurs who start their own business, the franchisees find no room or scope for enjoying their creativity. They have to work as per the given format. One classic example of regimentation in franchising can be found in the McDonald's restaurant organisation. A McDonald's franchise is given very little operational latitude, indeed, the operations manual attends to such minor details as when to boil the bearings on the potato slicer. The purpose of these restrictions is not to frustrate the franchisees, but to ensure that each outlet is run in a uniform, correct manner.
2. A number of restrictions are also imposed upon the franchisees. Restrictions may relate to remain confined to product line or a particular geographical location only.
3. Franchisees usually do not have the right to sell their business to the highest bidder or to leave it to a member of their family without approval from the franchisor.

6. S.S. Khanka : *Entrepreneurship in Small-Scale Industries*, Himalaya Publishing House, New Delhi,1990, pp. 11-24

4. Though the franchisee can build up goodwill for his or her business by his or her efforts, goodwill still remains the property of the franchisor.
5. The franchisee may become subject to fail with the failure of the franchisor .
6. Another disadvantage facing franchisees is that franchisors generally reserve the option to buy back an outlet upon termination of the contract. Many franchisees become vulnerable to this option. As such, they operate under the constant fear of non-renewal of the franchise arrangement.

Then, do these disadvantages mean that franchising is no longer a desirable way to go into small business? Certainly not. Franchising is a proven and complete business concept. In fact, what do they really mean is that the security that some people associate with franchising is an illusion. Hard work, realistic expectations, and very careful investigation are required if becoming a franchisee is to be a successful, satisfying experience. This underlines the need for evaluation of a franchising arrangement. Our next section does the same.

35.4 EVALUATION OF A FRANCHISE ARRANGEMENT

The choice between starting one's own business and buying a franchise is simply not a simple decision. Instead, it involves a perspicacious investigation of the prospective franchisee in terms of his or her background, interests and personality, and also a careful analysis of industry and the franchisor to be chosen. Doing so is necessary because a bad decision or choice may involve costs of devastating proportions. We now reflect on these one by one.

The Franchisee : Let us begin with looking at the prospective franchisee identifying the requirements to be successful as a franchisee. Obviously, these requirements may vary in number and nature from individual to individual. To quote, a U.S. Department of Commerce publication, The Franchise Opportunities handbook[7], says that anyone going into franchising must be willing to work long hours, engage in hard work, and face personal sacrifices. Added to these is the individual must know how to enjoy working with others, be a good supervisor, and be an organised person. Furthermore, added to this could be his/her ability to accept orders and policy as handed down by the franchisor in the arrangement. The list of requirements just mentioned may lead us to conclude that the ideal franchisee might be a fine blend of the entrepreneur and the corporate manager.

Nerilee Hing[8] conducted a research study in Australia to identify the determinants of franchisee satisfaction of 127 franchisee – managers in 1995. He finds that most franchisee characteristics were unrelated to their post-purchase satisfaction is a significant step towards differentiating the personal characteristics of franchisees from those of independent entrepreneurs. In other words, the results found in this study were contrary to those describing 'convential' entrepreneurs. Thus, such difference in personality characteristic underscores the significance of franchising as a route into business, distinct from the independent start-up.

One's background, like all other vocations, also matters in making a franchise arrnagement as successful or otherwise. Knowing about the proposed business can have a powerful influence on whether the undertaking succeeds in addition to the operating manuals provided by the franchisor. For example, a Sanskrit teacher who wants to operate an automobile paint and repair franchise may find the franchisor manual to be helpful but not

7. *Franchise Opportunities Handbook*, US Department of Commerce, Washington, D.C., 1994, pp. ix-xii.
8. Nerilee Hing : Franchisee Satisfaction : Contributors and Consequences, *Journal of Small Business Management*, April 995, pp. 12-25.

enough to allow him to deal with all of the technical problems frequently encountered in the shop. What this suggests is that one should build on the skills one already have, rather than try to develop a whole new set[9].

A final area of concern is to know whether you would enjoy the business you are thinking about entering. This can be ensured by having some direct experiences and knowledge about the particular business.

The Industry. The yet another area of great concern is to select the industry as your frnachise business which will complete and succeed. Addressing to the following set of questions may facilitate one to enter the right industry :

(*i*) What are the industry's dominant economic characteristics? How big is it? What is its growth rate? How many competitors are there? How easy is it to enter or exit the industry?

(*ii*) What is the competition like? Who are the major forces in the industry? Who buys the product? Are new entrants likely?

(*iii*) Are there substitute products be marketed? Are foreign competitors likely to emerge?

(*iv*) What are the key factors for competitive success? Are they technology related, marketing - related, distribution-related?, and manufacturing – related?

Obviously, answering to these questions will take time. It will involve library consultation, conversation with the experienced people in the particular area, visiting trade fairs/shows, making use of government information, and so on.

The Franchisor. As mentioned earlier, the franchisor-franchisee relationship is symbiotic one. hence, one most important element for the prospective franchisee to investigate is his business partner, i.e, the franchisor. Knowing whether the franchisor is fradulent or just inept is a must because choosing a wrong one can be catastrophic.

35.5 FRANCHISING IN INDIA

The word franchise has originated from the French word *Fransis* meaning privileged or freedom. In middle ages, the local sovereign or lord used to grant the right to hold fairs or to operate the local ferry or to hunt on his land. Similarly, the kings would grant a franchise to select people for all manner of commercial activities such as building roads etc. Gradually, this practice more and more regulated and laws were introduced governing franchise business. As per the literature surveyed, the first recorded case of franchising is dated in the 1840s in Germany, where certain major ale brewers granted license to certain taverns, giving exclusive right to sell their ale.

In 1851, the Singer Sewing Machine Company in US introduced the first sophisticated written franchise contract which is still considered the basis of modern franchise agreements. Around the turn of the century, the oil refinery companies and the automobile manufacturers also began to grant the right to sell their products.

The business format franchising, which is the most common mode of franchising to-day, popped up after the World War II with the return of the millions of US servicemen and women. As such, there was an overwhelming need for all types of products and services, and franchising was considered the ideal business model for the rapid expansion of various industries. Franchising became so popular in the USA that it representedone-third of the

9. Peggy Lambing and Charles Kuehl : *Entrepreneurship*, Printice Hall, Upper Saddle River, New Jersey, 1997, pp. 108-109.

retail turnover in the USA. Today, one in 12 business establishments in the USA is a franchise[10].

Franchising in India is of recent origin and is in its nascent stage. But it is gaining growing popularity in the retail segment in India, more particularly in the areas of food products and drinks, restaurant chains, consumer goods, and computer training centres. In fact, franchising is distinctly suited to take advantage of India's vast market with a degree of control that other traditional forms of distribution cannot match[11]. At present, the prominent examples of the franchise arrangements in India are Pepsi Food Ltd., Coca-Cola, Wimpy's, Damino McDonald and Nirula.

Legal Framework of Franchising in India: As a matter of fact, there is no legislation in India specifically related to franchising. As mentioned earlier, the relationship between a franchisor and a franchisee flows from a contract. Therefore, in the absence of specific governing legislation, the law of contracts as embodied in the Indian Contract Act, 1872, and other allied Acts is applicable to a franchise agreement also. These are :

- Intellectual Property Laws
- Competition Laws
- Consumer Protection Laws
- Labour Laws

A brief mention of these follows :

Intellectual Property Act : A franchisor is the properietor of intellectual property rights, know-how, etc. Therefore, protection of intellectual property rights is of paramount importance to any franchisor. Any foreign franchisor can protect his trade marks in India under the 'Trade and Mercandise Marks Act, 1958 (TM Act)' by registering them under the prescribed class. But, service marks cannot be registered in India (Section 8 of the TM Act).

The Copyright Act 1957 provides protection to the manuals of the franchisor. Civil remedies for infringement of copyright include injunction, damages and accounts of profits made by the defendant by violating the copyright (Section 55 of the copyright Act 1957). There is a provision for criminal remedies also for a period from six months to three years.

Competition Laws : The highly restrictive terms incorporated in all franchise agreements bring franchising under the purview of the 'Monopolies and Restrictive trade Practices Act, 1969 (MRTP Act)'. Hence, franchise agreement is subject to scrutiny by the MRTP Commission or the Director General of Investigation and Registration.

Restrictive trade practice is a trade practice which has or may have the effect of preventing, distorting or restricting Competition (Section 2(O) of the MRTP Act). Thus, the first one inquiry into the nature of trade practice under the MRTP Act is to see the effect of trade practice on competition. Similarly, in line with the objective of MRTP Act to protect public interest is to investigate into the effect of trade practice on public interest.

Here reference can be made to the Indian Supreme Court's decision in the case M/s Gujarat Bottling Co. Ltd. vs. Coca-Cola Company, AIR 1995 S.C. 2372. In this decision, the Supreme Court observed that, "(t)here is a growing trend to regulate distribution of goods and services through franchise agreements and providing for grant of franchise by the franchisor on certain terms and conditions to the franchisee. Such agreements often incorporate a condition that the franchisee shall not deal with competing goods. Such a condition restricting the right of franchisee to deal with competing goods is for facilitating the distribution of goods of the frachisor and it cannot be regarded as in restraint of trade."

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10. S. Shiva Ramu : Franchising, Wheelers Publishing, New Delhi, 1997, pp. 11-12.
11. Deepak Agrawal and Rajiv Lal : Contractual Arrangements in Franchising : An Empirical Investigation, *Journal of Marketing Research*, vol. XXXII. May 1995, pp. 213-221.

Consumer Protection Laws : Franchise agreements in India also come under the purview of the 'Consumer Protection' Act, 1986.' The matters like tort and other actions arising from the sale of defective goods are dealt with this Act. In case, a defective product sold by a franchisee causes injury to a consumer or causes damage to the consumer's property, then will consumer recourse to the franchisor or franchisee or both? The answer to this dpends upon factors such as the degree of control exercised by the franchisor, the distance between the franchisor and the franchisee geographically, and the equipment and know-how supplied to the franchisee by the franchisor in relation to the product.

Labour Laws : No franchising agreement in India can derogate from the myriad Indian labour laws. Labour laws become applicable as and when the conditions of employment and termination of employment are affected by the closure or shut down of any franchise outlet.

35.6 LET US SUM UP

Franchising is a business system created by a contract between a parent company called a *franchisor*, and the acquiring business owner, called the *franchisee*, giving the acquiring owner the right to sale goods or services, to use certain products, names or brands or to manufacture certain products.The main types of franchising contracts are product franchising, manufacturing franchising and business-format franchising.

The major advantages a franchising arrangement provides to the franchisee are minimized risk, combined growth, financial leverage, operating support and reduced advertising costs. Lack of freedom and creativity, royalties, franchise fee, fear of non-renewal of the franchise and restrictions imposed in the contract are the disadvantages associated with a franchising contract.

A perspicacious evaluation of oneself (franchisee), the industry and the franchisor prior to entering into franchise contract help succeed in franchise business.

The concept of franchising which originated in France in the 1800s, is of recent origin in India. It is gaining popularity in retail segment in India. In the absence of any legislation in the country specifically related to franchising, the laws such as intellectual property laws, competition laws, consumer protection laws, and labour laws are applicable to a franchise agreement.

ASSESSMENT QUESTIONS

1. Define franchising. Distinguish between franchising and distributionship and agency.
2. "The franchisor-franchisee relationship is a symbiotic one." Explain.
3. Give an account of franchising in India.
4. How is franchising business governed in India? Would you like to suggest some measures to make this system of business more successful?
5. Give the reasons for growing popularity of franchising in India.
6. Explain with examples the role of franchising in developing entrepreneurship in India.
7. Write notes on :
   (a) Business-format Franchising
   (b) Restrictive trade Practices

PART – VI

CASE STUDIES

- *Rai Bahadur Singh Oberoi Did All His Way*
- *Right Rails of Ravindra Bam*
- *Shahnaz Husain: World's Greatest Woman Enterpreneur*
- *Reeta Singh: From Dairy Woman to Helicopter Owner*
- *Surendra Kumar Agarwal: Long Way from Brass Utensils to Construction Industry*
- *TQM Implementation in the Health Care Industry*
- *bababazaar.com*
- *YCB: Dedicated to Rural Entrepreneurship Development*

CASE 1

Rai Bahadur Mohan Singh Oberoi Did All His Way*

It is not often acknowledged that Rai Bahadur Mohan Singh Oberoi, 100, chairman of an empire of 29 hotels spanning most of the world's landmass is also the man who pioneered India as a brand, way back when it was only a bazaar of begging bowls and exotica. At 90, he looked back in something close to awe and said, "I often wonder how I did it."

Certainly he did not give much of the credit to luck. True, he stood at the right time at the right place to confront his destiny, but this was just physical happenstance. What he did with the situation was amazing for a man from the boondocks of Bhaun, with little education, and really not to the manner born.

Indeed, if anything the Rai Bahadur made his fortune out of calamity. If his father hadn't died of cholera when he was only an infant, his mother would not have returned to the ancestral home which gave Oberoi the connections and contacts that helped him raise money later to buy his first hotel, the Clarke's at Simla. If he hadn't flunked the interview for his first job as clerk with the Government of India, he would never have made his way to the Simla Mall, gazed in wonderment at the glitter of the Cecil and made up his mind that he would work there. If a fatal bug in the water supply, hadn't laid low Calcutta's mighty Grand Hotel. It would never have been up for grabs. Again Oberoi just chanced to hear about it at the Delhi railway station when he was leaving to return to base in Simla. He simply changed his ticket and his direction and went to mint millions out of war-time Calcutta — another catastrophe. Life served his lemons regularly but with even greater regularity did the Rai Bahadur made lemonade.

The story of the Rai Bahadur is all the more impressive because there was nothing in his background to suggest that he would be able to create the world-class ambience and sophistication for which the group is now celebrated, that he would be able to foresee India's current positioning in the global market, while doffing a deferential hat to history when it was demanded.

For instance, when other hotels were cramming their lobbies with brassbound chests and colonial nostalgia, Oberoi created the first international business hotel, the Oberoi Intercontinental in Delhi. However, in the Mena House, Egypt, and the Windsor, Australia, he went to extraordinary lengths and expense to produce authenticity to the last detail, including countrywide searches for memories and memorabilia. In order to replicate the flooring in the Windsor, he tracked down the original supplier of the tiles in distant Stoke-on-Trent, England.

Celebrating his 100th birthday last week with his mind almost as clear as it was 50 years ago, perhaps the one philosophy responsible might be his dictum. "I never worry. It clutters the brain. The problem may not happen, and even if it does, worrying will only come in the way of a clear-headed solution."

Questions:

1. "Nature and nurture play a key role in entrepreneurship development." Explain with reference to above case study.
2. In your opinion, what are the significant determinants in the making of Shri Oberoi's entrepreneurial career.

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* Adapted from S.S. Khanka: *Organisational Behaviour: Text and Cases*, S. Chand & Company Ltd., New Delhi, 2000, pp. 51-52.

CASE 2

Right Rails of Ravindra Bam

He claims to have saved over 25,000 trees in eight years. Ravindra Bam has achieved this by selling his 'Decorail' curtain carrier systems to people who would otherwise have got pelmets. An arts graduate, Bam worked in banks for 16 years and as an administration manager for a Muscat-based construction company for another six before deciding to return home and set up his own business. "My wife and I used to collect any new thing we saw while we were in the Gulf," he recalls. "We saw this product there, and decided to manufacture it in India."

Active in the Students' Federation of India while at college, Bam still believes in creating employment in rural areas. So after coming back to Pune in 1986 and surveying the market for two-and-a-half years, he searched for a place where there was no industry, and bought land at Gauddara off the Bangalore highway. All his 40 employees today are locals. And in this composite project to make curtain rods, tape and hooks, lack of knowledge of either textiles or engineering proved to be a plus point. "I might not have ventured into it had I been an engineer!", he says.

Today, Bam's Ajay Windecor products makes and exports a range of rope operated drapery systems – Rollonrail, Draperail, Minirail, Fast Track and Easyline Track, besides the original Decorail. All of them, except Fast Track which was developed for heavy-duty use in hotels, hospitals and public places, are telescopic: there are four basic sizes, which provide rust-resistant, powder-coated rods between 90 cm and 4.5 metres in size.

With 13 components to make, Ajay Windecor needs 150 press-shop operations with 250 different dies. Everthing is done in-house, from shaping and punching the mild steel strips to powder-coating the finished rods and hooks, and weaving of the polypropylene and cotton ropes which open and close the curtains. Bam is especially proud of the fact that he is the only Asian manufacturer of the tape used for his systems. "Unlike the normal curtain tape, which becomes flaccid after washing, this stays stiff so that the curtain retains the right fall," he points out.

Another division, to make the 'tie bags' used to pull the ropes, was set up as a separate company in collaboration with British Trimmings in 1994. But the UK firm's participation ended when it was itself taken over by a US-based company in 1996; and Saj Trimmings, named after Bam's daughter, is now wholly owned by his family though it continues to supply tie bags to its former partners. Bam employs only women in this unit, and intends to stick to this policy even after an impending expansion. "Every family in the village has at least one woman who has been widowed, or deserted, or faces other problems," he explains.

In developing a dealer network, Bam did not want established businessmen. Most of his 150 dealers today are people who started with Decorail. About 30 of them are women; and the others involve their families in business, because he insists that every dealer must also offer a curtain stitching service: "The customer wants the curtains, not the rod!" he remarks. Along the way, he has also set up three centres to train his dealers' wives and family members for this purpose.

The advantage, he points out, is a close dealer – customer rapport, so much so that there are instances where the dealer's son fell in love with – and married – the customer's daughter! Obviously, the dealers are happy: each sells about 100 units a month, earning between Rs. 10,000 and Rs. 15,000 from commission, cloth and stitching, and fitting charges.

Bam insists he has no competition because he keeps his products at least 25 per cent cheaper than other systems. Sales have grown 20 per cent a year since Decorail entered the market in 1991, barring the last year-and-a-half which saw a slump in new housing. His is the only company from Pune besides Telco and Bajaj Auto to advertise on national television, with a monthly adspend of Rs. 2 lakhs; but Bam prefers to participate in exhibitions catering to middle-class people rather than those held in five-star hotels. The strategy works: "Today, people ask for even ordinary curtain rods as Decorail" he adds. So, will Decorail soon become generic for curtain rods?

Questions:

1. What factors, in your opinion, helped Ravindra Bam make his brand virtually a generic name in curtain systems?
2. List the major entrepreneurial competencies you find in Ravindra Bam.

CASE 3

Shahnaz Husain: World's Greatest Woman Entrepreneur

There are perhaps few others who can stand testimony to the truth of these words, as Shahnaz Husain, India's pioneer in herbal cosmetics.

Credited with single-handedly placing Indian herbals on the world cosmetic map, her success story — that of young girl from a conservative Muslim family who rose to become an international trailblazer in the field of herbals — is by now legend.

President of CIDESCO, the first Asian to enter Selfridges in London and break a 40-year old sales record. GQM Commitment to Quality award, FICCI's outstanding woman entrepreneur, US magazine Success's "World's Greatest Woman Entrepreneur" — the list of accolades and achievements is endless.

An entrepreneur in the truest spirit of the word, the lady has a whopping 80 per cent of the domestic herbal market, and sales counters in the best stores internationally, be it the Seibu chain in Japan, Bloomingdales in the US, Galeries Lafayette in Paris, Harrods and Selfridges in London... it goes on.

Meeting the high priestess of herbals in her office in Greater Kailash, one is struck by the fact that Shahnaz wears the accolades with the confidence of a person who deserves them — there is no self-effacing embarrassment when she discusses the more than humble beginnings of the Shahnaz Husain empire.

"Though I was married at a very young age, I always knew that I was made for something more," begins Shahnaz.

Not prepared to sit back as a housewife and mother at the age of 16, the young Shahnaz set about writing for magazines to earn money so that she could fund her education. Staying with husband Nasir in Tehran, Shahnaz found the ideal opportunity in the international beauty schools there. After studying cosmetic chemistry in international beauty schools in centres including London, Paris and Denmark for close to eight years, Husain hit upon the idea of exploring the 4,000-year-old Indian Ayurvedic system, so that she could research and develop herbal cures and treatments.

"I had seen the debilitating effects of synthetic cosmetics abroad; there was no doubt in my mind that the herbal system would work," recalls Shahnaz.

She returned to India to set up shop in one room, with a startup investment of Rs. 35,000, borrowed from her father. The going was tough — Shahnaz had priced her product well above the existing market.

"I began with just one product – Shalife, a massage cream. My facial were priced at Rs. 100, while you get one in the market for a paltry Rs. 6," reminisces Husain. However, that did not stop the crowds from coming in, and soon, Shahnaz had more than clients than she could handle.

The lady invented a marketing style uniquely her own; she decided to make the brand a personality-driven one, flying in to various cities to lecture on herbals and Ayurveda, inaugurating Shahnaz franchises and salons, and returning the same day.

"I would go to a place for one day, offer free prescriptions and advice, inaugurate the salon, and go back," says Shahnaz. It worked — today, there are more than 600 salons in India and abroad.

The Shahnaz Husain group of companies has acquired a global presence, with exports to 132 countries including those in the Middle East, South-East Asia, Australia and all over

Europe. Recently, the company has been approached by a Fortune 500 investment company to explore business opportunities.

The strategy was one she applied with great success internationally as well — at one point, during a makeup demonstration in Russia, Shahnaz was asked to stop as the floor was caving in under the pressure of the people who had turned up to watch.

Interestingly, Shahnaz has never advertised her product, a fact that had Harvard in the US wanting to use her marketing system as a case study.

In retrospect, Shahnaz attributes her success to her "sheer grit and determination." "I do not believe in destiny — the word "fail" does not exist in my dictionary. I never fail, because I never stopped trying," says she.

That she doesn't is obvious — 17 herbal lines, with many more in R&D, Husain is busy expanding her empire by adding health resorts, signature garments, accessory lines and more to her portfolio.

Having completed 25 years in the business, the self-taught marketing miracle reveals her formula for success. "In life, you get what you negotiate. Any woman has the capacity to do what I did — it doesn't matter what you want, what matters is how badly you want it."

Question:

1. Examine the true qualities involved in Mrs. Shahnaz Husain as a successful entrepreneur.

CASE 4

Reeta Singh: From Dairy Woman to Helicopter Owner

Reeta Singh, 45 years old in January 2000, the founder of Mesco Company with an annual turnover of Rs. 1,500 crore had to put hard labour to reach to the pinnacle of her success. When she was just 7 years old, her father retired from the post of lecturer. She got married with an Air Force officer at the age of 19 years. When she felt boredom after marriage, she planned to start a milk dairy. She started it with three buffaloes at Hindon near Ghaziabad. She started earning profits from selling milk and thought to expand her dairy business. However, it was not accepted to the luck. Her husband was, meanwhile, transferred to Sarwana. Like most of the Indian wives, she joined her husband at Sarwana but certainly with her innate enterprising attitude.

That place and situations do not deter one from marching ahead in accomplishing one's mission was certified by Reeta Singh by installing a Sugar Plant at Sarwana. She was so strong in her mission that she dared to do her own even the risky jobs like driving tractors packed with sugarcane. There came yet another trial for her. Her husband had to retire 20 years before his super annuation age as he fell prey to paralysis. Now, there was no other option for Reeta Singh but struggle and struggle. This struggle period sparked an altogether new business idea in her head. Reeta Singh started thinking of venturing into the export business that was least known to her. But she was firm on it and her ardent effort brought an order for the tune of 5,000 tons of Tepeo (a kind of cattle fodder) to supply to Germany and America. Reeta Singh somehow complied with the order without any sufficient capital at her disposal and toured Germany all alone. Though she did not earn any profit out of her business tour to Germany, she could well understand the complex procedure involved in export business. This came as a turning point in her life. Then, there was no looking back for Reeta Singh.

The Hindi word 'Singh' means lion. The name 'Reeta Singh' symbolises 'lion'. She was so strong in strengths and serious in efforts as lion is. Today, the outcomes of Reeta Singh's tireless hard labour to achieve greater and greater things in life are the Mesco Pharmaceuticals, Steel plant, Leather Goods, Shoe Company, and Mesco Airlines. There is no denying of the fact that to erect such a gigantic business empire and to reach to her self-actualisation stage, Reeta Singh underwent through every trial of struggles she was put in. That is why her success founded on series of struggles has made Reeta Singh inclined to simple life and ordinary things. She does not like much to join the status symbol parties till late night. What she likes is to look after her business empire by travelling abroad in her own two Helicopters. She likes to pass her holidays in her holiday home in Mauritius. In fact, her likings are bundles of contradictions. While she likes to be adorned with diamond and pearl, she loves to remember her days of struggle by looking at people travelling on rickshaws and in jampacked DTC and blue line buses while travelling in her costliest Rolls Royes on the heavily crowded roads in the national capital city of Delhi. This is not the end of her likings. Last time, she also contested from the Ghaziabad parliamentary constituency which she lost. She wants to live life with fulfilment for which she is always ready to take any risk.

Reeta Singh believes: "Risk needs to be taken in life because it is impossible to climb the stairs of success without taking risks."

Questions:

1. In your opinion, which theory of motivation does apply to Reeta Singh?
2. Discuss the major entrepreneurial competencies that you find in this case.

CASE 5

Surendra Kumar Agarwal: Long Way from Brass Utensils to Construction Industry

Despite coming from a family which had three generations of businessmen, Surendra Kumar Agarwal had to virtually start from scratch and has struggled his way up in life. His forefathers were well-settled at Batala in Punjab, where they had foundries non-ferrous rolling mills, and machine tool units. In 1957, Agarwal's father decided to separate from his family and shift to Bhandara, near Nagpur. There he started Paras Metal Works in partnership with a local businessman to manufacture non-ferrous utensils.

Agarwal schooled in Bhandara and joined the Benaras Hindu University. Having graduated with a bachelor's degree in mechanical engineering in 1968, he took over his father's business, only to find that the income from the business was barely enough to sustain his large family of four brothers and a sister. He also realised that most of the raw materials like brass scrap, copper and zinc came from the western region of Maharashtra, mainly from Mumbai and Pune. Even large chunk of the finished products, that is, brass utensils, were sold in this region. So, in order to save on transportation costs and come closer to his markets, Agarwal decided to shift to Pune.

In 1969 he bought a piece of land at Vadgaonsheri on the city's outskirts for Rs. 30,000 and invested another Rs. 4 lakhs in building and machinery to set up Vishnu Metal Works, his first major business venture and flagship company for a little over a decade. "In the first two years it was an uphill struggle and he barely broke even. I used to work 18 hours a day in the factory and even stayed with my family on the premises in a small 500-square-foot house," he reminisces. "But the speciality of the brass utensils we manufactured were that they were lightweight and had a superior finish. As a result, the price per piece of our products was the lowest in the market. We could thus quickly establish ourselves and the demand for our products grew," he adds.

The business grew rapidly and, in the next five years, the turnover touched Rs. 25 lakh. Agarwal now needed to expand his operations and so, in quick succession, he started Five Star Metal Works, B.T. Rollings Bramha Metal Works, and Radha Rollings at different locations in and around Pune. "Since the rolling operations attracted excise duty, we had to have two separate rolling units," he explains. The scrap metal was first melted in the foundries, then rolled, and then transported back to the other factories for pressing, polishing, and finishing.

The first diversification

The business continued to grow and, by 1980, Agarwal's companies were producing 500 kg of utensils per day and the group turnover had reached Rs. 75 lakh. In 1980 Agarwal diversified into the manufacture of HDPE bags and set up yet another company called Pawgir Jute Mills, which contributed in no small measure to the group's turnover. However, at around the same time, the brass utensils business began to be threatened by the growing popularity of stainless steel, which had by then become more widely affordable. Housewives preferred stainless steel to non-ferrous utensils because they were easier to clean and saved them the hassle of periodic tinning.

Aggarwal quickly realised that he would eventually have to close down all his facilities unless he quickly diversified into another line of business. The opportunity presented itself in the form of a court auction of a plot of land. Agarwal's lawyer S.K. Jain knew the owners of the land and advised him to buy the plot as it was a prime property located in the heart of the city. The 60,000-sq-ft plot cost him Rs. 32 lakh and he entered the construction business with Bramha Builders. The new company's first project consisted of 24 residential flats and 20 shops, and the turnover was over Rs. 1 crore. "We made good money from our first project. Also, that was the time when there was a boom in real estate. So we decided to concentrate on the construction business," says Agarwal. Ultimately he closed down his other business, including Vishnu Metal Works, and sold off some of his other factories to invest in real estate. He also sold off Pawgir Jute Mills to the Kirloskars.

Turnover increased at the rate of 50 per cent annually, and Bramha Builders soon became one of the leading builders in Pune and, during the next decade or so, completed 14 projects and sold 660 flats, 16 bungalows, 28 offices, and 75 shops. By 1990, turnover had crossed Rs. 10 crore. Meanwhile, in 1986, Agarwal had bought a beautiful British mansion, which stood on a plot of land spread over 7 acres located near the Pune railway station. Five years later he started the Residency Club at this location because there was a dearth of good clubs in Pune and it was tough to become a member of any of the existing clubs because of long waiting lists.

Residency Club has a swimming pool, a well-equipped health club, a good restaurant, 20 residential rooms, and a large banquet area. When membership opened the response was overwhelming. The initial fee of Rs. 20,000 has gone up to Rs. 1 lakh. Today, the club has over 2,000 members and is one of the leading clubs in Pune. Looking at the demand for the 20 rooms at the club, Agarwal thought of building a hotel. Accordingly, he bought a two-acre plot at a prime location just behind Pune railway station in an auction by the income tax authorities, at a throwing away Rs. 4.2 crore (an adjoining plot of similar size was subsequently sold to someone else for Rs. 30 crore).

Thus, Bramha Bazar Hotels Ltd. came into existence in 1995. Agarwal roped in Hafeez Contractor, the well-known architect, to design his five-star hotel. Says Agarwal, "I knew Hafeez Contractor personally and, though he was a leading architect in the building line, he had never got the opportunity to design a five-star hotel completely. He had many new ideas which we liked very much and we not only contracted him to do the exteriors and interiors of the hotel, but he was also responsible for installing the utilities like air-conditioning, boilers, plumbing, etc." This made co-ordination easier and the whole project was completed in a record time of two-and-a-half years at a cost of Rs. 70 crore. The management contract was given to Le Meridian and the hotel opened on 18 March in 1999.

Agarwal's Le Meridian has many unique features. It is the largest five-star hotel in Pune with 178 rooms, which are more spacious than those in conventional five-star hotels. Each has an interactive TV and the hotel is perhaps the only one in India to have videoconferencing facilities and a squash court. It has a full floor devoted to banquets and one of the conference halls can accommodate as many as 1,200 people, making it one of the largest banqueting facilities in Maharashtra. It has four-layered glass windows to make it completely soundproof.

The architecture is a unique fusion of classical Rajasthani palace style blending superbly with unobtrusive European charm. Inside the hotel are exquisite carvings in marble and wood, especially handcrafted by over 300 artisans from Jaipur. Within two months of its opening, the occupancy rate is 45 per cent and this is expected to reach 80 per cent within the next two months (the breakeven is 50 per cent). The expected turnover in the first year is Rs. 35 crore for the hotel and Rs. 40 crore for the group.

With an asset base of Rs. 100 crore, Agarwal now plans to open more hotels in Pune, Mumbai, and Mahabaleshwar once Le Meridien Pune starts generating profits. He's come a long way, and he's still going places.

Question:

1. Go through the case and analyse the factors making Agarwal's diversification a successful venture.

CASE 6

TQM Implementation in the Health Care Industry

The organisation where the TQM implementation action plan initiated about five years ago is a multinational organisation manufacturing health-care person products. The manufacturing activities initiated in 1990 with a total workforce of about 500 employees has currently over 1,000 employees and a four-fold increase in sales turnover during these five years.

Quality management initiatives

Awareness Training: The first step towards implementing a structured programme for quality management was to conduct an awareness training for all management staff and this was initiated in early 1991, just the beginning of manufacturing of products in the newly supervisors. It was a two-day off-site exercise with the objective of installing an awareness of *total quality management* and to provide the basic tools for effective group problem-solving process. The broad contents of the training programme were: historical perspective of quality, current principles of TQM, customer–supplier relationship, teamwork and basic problem-solving tools. At the end of this training programme, it was observed that the participants were highly motivated in contributing towards continuous improvement process. The factors contributed towards the success of the training programme were:

- The involvement of all levels of management. This inspired the confidence in them for the success of continuous improvement programme.
- The opportunity to attend a training session (particularly off-site) only after a few weeks of joining of work.
- The implementation of TQM at the early stages reflected long-term perspective of the organisation.

The management staff who joined the organisation after this initial training have been made to compulsorily attend similar training programmes organised at least once a year and this is being practised even today.

Improvement Steering Committee: The second step in TQM implementation process was the establishment of Improvements Steering Committee (ISC) consisting of Managing Director as the Chairman and Senior Managers with TQM officers as members. This committee met once every months, at 2 pm every third Thursday. The functions of ISC were:

- Spearhead the company-wide continuous improvement process.
- Provide direction and guidance for the implementation of an effective quality management system.
- Be proactive in providing improvement opportunities to meet the changing needs of the business.

Mission Statement: The ISC first worked towards developing a mission statement for the organisation. Three factors were given priority in the mission statement. They were:

- Providing quality products to customers.
- Continuous improvement through teamwork.
- Employees are the greatest asset to the organisation.

The mission statement provided a direction for the organisation in achieving its quality goals. The ISC also developed a *slogan* to create an awareness amongst the employees of the organisation towards quality. After a series of discussions and deliberations, the slogan adopted by the organisation read *Excellence Through Continuous Improvement*. The above slogan emphasised that excellence can be achieved through continuous improvement. All possible communication means were used to popularise the slogan. In fact, the organisation is now looking into the possibility of patenting the slogan.

Team Briefing: The ISC identified *communication* as the key factor for the success of quality management, and thus launched *Team Briefing* activity by min-1991. This involved weekly briefing session to the employees by their respective supervisors before the commencement of work. The briefing included announcement, progress of work area/section and questions and answers.

Another means of communication used by ISC was through *newsletter*. The newsletter was named "Site Review" and was published every week to give/share current happenings in the organisation and not as a record of historical happenings. Site Review consisted of one page printed, both sides, and carried information on quality improvement activities, management information and employee activities. Both English and Malay versions were printed in-house and widely circulated.

Performance Indicators: The ISC used performance indicators to measures the progress of various activities in the organisation. These were reviewed during the monthly meetings and the emphasis was placed on the trend rather than the numerical value. The primary objectives of these indicators were:

- To identify opportunities for improvements.
- To monitor the progress of the critical functions of the manufacturing.

One of the important advantages of these indicators, realised after some meetings, was that since these were reviewed collectively in the same meeting, any special causes giving rise to problems were identified immediately and solutions were also found out. During 1991 when these performance indicators were introduced, there were in all 34 indicators. Functional breakdown of these indicators were:

Manufacturing	18
Quality Assurance	04
Finance	03
Engineering	02
Personnel	04
TQM	03

These indicators were reviewed during 1995 and were streamlined into 17 indicators. These were grouped into three major areas:

- Financial
- Customer Service
- Productivity

A sample indicators were used during January 1996.. These performance indicators have been used as a source of *opportunity identification* for continuous improvement.

Problem-Solving Teams: Three problem-solving teams known as CAT — Corrective Action Team — were established by mid-1991. Each team comprised of five members drawn from different departments in order to break down departmental barriers and included all senior managers and those trained during the first Awareness Training Programme. The ISC assigned the projects in the following areas:

- Reduce foreign bodies (contamination particles).
- Reduce payroll discrepancies.
- Canteen improvement.

By identifying areas as diverse as above, the management gave a message that TQM is a continuous improvement in all aspects of the organisation and not just an improvement of the product quality. The teams were given a time frame of three months to complete their projects.

The first project on reducing the foreign bodies could not achieve much success due to complex mechanical problems which required specialist task force consisting of engineers who worked with consultant and brought about improvements. The failure of the first project, however, did not deter the continuous improvement strategy in the organisation.

The second project, reducing payroll discrepancies was a major success. The team managed to bring down the average monthly discrepancy from 8 per cent to 2 per cent. However, the team took more than the three months stipulated time. The third project, on improving the canteen also achieved success, but due to the subjectivity of measurements, it was found to be difficult to qualify the improvements.

Following the completion of the first three projects, more teams were formed and a total of 10 other projects were completed by 1992. The projects then completed were:

- Improvement of branding defects
- Improvement of toilet facilities
- Improvement of employee discipline
- Reduction of rejects
- Improvement of main office congestion
- Improvement in safety of drums transportation
- Reduction in the level of mis-matching products
- Improvement in the purchasing system
- Reduction in the chemicals used for washing
- Conversion of daily wage system to monthly wage system

Some of these projects achieved a significant success, but some were just completed without considerable benefits. The reasons for such "non-success" were taken into consideration while structuring the teams for 1993 and for subsequent years. However, all the teams were given due recognition for completing their projects, regardless of the degree of success, and the team members had a lunch together with the Managing Director at a premium restaurant in down.

Statistical Process Control: Statistical Process Control (SPC) was first introduced in 1992 to monitor the process and to take corrective actions before defectives are produced. An inhouse training programme on SPC was conducted for a group of selected key staff in the manufacturing department. Five SPC groups were then formed to introduce control charts at appropriate processes to reduce variability in the process. The five selected areas were: thickness control, temperature control, process time duration, drying time duration and variation in packaging length.

However, after several months, these SPC teams were found to be lacking in enthusiasm as they could not effect significant improvements based on control charts. The limitations with SPC teams will be discussed in the next section. As an immediate strategy, one selected staff from manufacturing was sent for a comprehensive training on SPC so that he could become the resource person for immediate reference on SPC matters. He was also made responsible for implementing SPC on selected processes in manufacturing. This strategy worked well and within a period of one year, the control charts were used effectively at eight processes in the plant.

Shortfalls in Quality Management: During the last five-year period of TQM implementation, despite outstanding successes, there were some shortfalls. The *performance indicators* introduced were met with resistance and suspicion. It was seen as exposing the weakness of individual departments, and some managers questioned and right of TQM section to *measure* other department's activities.

However, Managing Director's directive that this was a requirement for continuous improvement and that everyone has to cooperate fizzled out the resistance. He also emphasised that the measurements are used solely for developing improvements strategies and not for penalising the department. This worked well, and currently the performance indicators are being well received and being discussed at the ISC meetings without any reservations.

Initially, implementation of SPC had its problems. When SPC groups were formed, there were several other groups and task forces in work. Many of the SPC group members were members of some other groups and therefore, they could not spend enough time and put adequate efforts on SPC implementation.

Further, the internal trainer for SPC was only a resource person for SPC and hence could not focus on SPC implementation. Manufacturing did not take full accountability for SPC implementation and they saw it as another project from the TQM section. These initial problems were resolved by appointing a *dedicated* staff for SPC implementation.

The introduction of *Corrective Action Teams* (CAT) met with some dissatisfaction from the managers, as they preferred a team based on work area/section, rather than cross-functional team. Further, the name of the team also gave wrong signals — it implied that they *correct* problems. Thus, when a CAT was assigned to a particular project, the manager responsible for the area felt uncomfortable because his area. This problem was later rectified by changing the name for the team to *Improvement Action Team* (IMPACT).

Current TQM activities and future plans

A total review of TQM activities was carried out during 1995, four years after the initial implementation, to give an appropriate focus to TQM. This was necessary due to the dynamic changing environment. The year 1995 was called as Vision 1995 and the goals set were:

- To apply for the Quality Management Excellence Award of NPC. The objective was to assess the organisation's strengths and weaknesses with regard to quality.
- To achieve a saving of one million ringgit by the end of the year through quality improvement activities.

The outcome of Vision 1995 was very encouraging. The organisation was shortlisted for the "Quality Management Excellence Award" by NPC, although in the final analysis the organisation could not win the award.

The organisation's main weakness was identified as the lack of lower level employee participation. The second objective of achieving one million Ringgit savings was reached within the year and, thus, the organisation used the phrase TQM *Works — We have saved a million* for all subsequent activities.

New Structure of Teams: The nomenclature deficiency in the CAT was rectified and new teams were formed. The membership of these teams were increased to 10 and the teams were called as IMPACT. ISC assigned one project to every IMPACT and the teams were allowed to choose any other project(s) on their own. An evaluation criteria was developed and all the teams were evaluated on a quarterly basis and a winning IMPACT team (every quarter) was duly recognised and rewarded. (The team members with their spouse were given a holiday tour to a local tourist destination.)

TQM Presentation Day: Annual presentation by IMPACT has been scheduled so that the teams can make presentations of their projects. This presentation would be company-wide for a day, just before the beginning of the new financial year and every employee would participate in these presentation. This would give an opportunity to know the TQM activities in the organisation and success/benefits of them. This occasion can also be taken for presenting "best performance" award.

It is expected that these initiatives taken by the management will encourage everyone to participate in TQM activities and make the organisation **"Best Quality Organisation"**.

Question:

1. In your opinion, what elements made TQM implementation successful in this industry?

CASE 7

YCB: Dedicated to Rural Entrepreneurship Development

Inspired by the preachings and teachings of Swamy Vivekananda, Mahatma Gandhi and Ekkirala Krishnamacharya (EK), 20 educated youth formed as a group of social activists and established a voluntary organisation named as "Youth Club of Bejjipuram" popularly known as YCB in the year 1980. Registered under the Societies Registration Act, it is managed by a 9 member executive committee. Since, its inception, it has been working for the downtrodden and the destitute, in the target villages or Laveru mandal in Srikakulam district of Andhra Pradesh. Over a period of 19 years the club has gradually extended its activities from 5 villages of one mandal to 150 villages in 5 mandals. The major areas of development are education, health, sanitation, income generation, poverty alleviation, and rural development.

During the period the Youth Club was identified 2520 cataract blind people and organised 60 free eye screening camps. These patients were provided with eye surgical facilities and their vision was restored. About 5200 adult illiterates were identified under the Adult Literacy Programme during 1988 to 1993 and they were provided with the skills of reading, writing and numeracy with the cooperation of the Ministry of HRD. About 3750 non-school going children in the age group of 9-14 were identified in 1417 villages in the last three years and were admitted into 150 non-formal education centres sponsored by the Ministry of HRD and Zilla Saksharata Samithi. These children are identified from the families mostly depending on labour work in the farm and non-farm sectors.

Over a period of 7 years, 2000 women were motivated in 40 villages and were given training in regard to leadership qualities and management of self help groups. They were also made aware of health, savings, small family norm, gender equalities, girl child education, etc. They were able to form 125 Swayam Sakthi Sangams and to save Rs. 15 lakhs. Besides thrift and credit activity, they formed and registered Mahila Sanghams at village level and these tiny groups were actively participating in the developmental programmes launched by the government for their development. About 65 groups were linked with Rashtriya Mahila Kosh, New Delhi, and financial institutions such as Banks and District Rural Development Agency, Srikakulam for meeting their credit needs. All these groups were able to secure matching grants from DRDA ranging from Rs. 5,000 to Rs. 25,000 based on their savings.

About 120 women in five villages were identified and were given skill training in jute based handicrafts over a period of 4 years. About 30 women were given skill training in production of candles. These beneficiaries are being provided for forward and backward linkages by YCB so that their earning capacity and bargaining capacity will increase considerably.

The Youth Club was established a Homeo Medical Dispensary in 1985, in collaboration with the 'World Teacher's Trust', Visakhapatnam which has been providing free medical services to the people of 20 villages.

To impart moral and spiritual education besides primary education based on NCERT syllabus to children in rural areas, Youth Club has established a model school, Bala Bhanu Vidhyalayam Trust, Visakhapatnam founded by master E.K. In view of the good work rendered by the Youth Club, it was adjudged the best service organisation in Andhra Pradesh State by Nehru Yuva Sanghatan during the year 1992-93.

Question:

1. Go through the case and bring out the kev factors making YCB a success story.

CASE NO. 8

Bababazzar.Com

Baba Bazaar is the first Indian E-commerce site offering the convenience to order fresh vegetables and other related food products of various companies, including Nestles and Dabur, over the net. This concept has been tried successfully in Australia and the US. Currently, Baba Bazaar is catering to only selected areas in Chandigarh, Delhi, New Delhi, Noida and parts of Gurgaon. They have plans to extend operations to other major cities for nation-wide operations.

Baba Bazaar launched its web site storefront in early 1998. The initial response was mixed. However, their promotional strategy has facilitated building an extensive customer base. At present Baba Bazaar has a customer base of more than two thousand. This base is growing steadily. They are adding to their base, eight to ten new customers everyday.

Baba Bazaar started with the sale of vegetables as they felt that being a very basic commodity, the market potential was unlimited. From vegetables, they moved on to other food products to become a one-stop shop for foodstuffs. As the volume of business grows, they plan to go in for backward integration and start sourcing the vegetables from the farmers. This will ensure that consumers get better and more fresh vegetables and food products.

Baba Bazaar had devised an inexpensive but engaging procedure of securing the transactions and building 'relationship'. To becomes a preferred Baba Bazaar shopper, the customer has to fill up a simple registration form online. The details furnished in this form are verified telephonically by the staff of Baba Bazaar. On verification, the shopper (customer) is issued a shopper access password, which is required to be used at the time of ordering goods on the site. This password is sent to the shopper by courier to ensure security along with the 'User's Manual'. This manual introduces Baba Bazaar to the shoppers and guides them through it. This has enabled them to initiate a 'relationship' building process before the shopper places the first order. It has also allowed them 'to build trust' and give shopper a positive impression of the business-essential ingredients for the development and growth of their 'online' business.

The shoppers are required to make payment on delivery and have been given the following options:

- Cash on delivery
- Post-dated cheques for up to one week from the time of the delivery
- At the time of the next delivery

This procedure has been designed for the following reasons:

- In India customers do not entertain payment before receiving the goods and/or services
- High processing cost of credit cards transactions, which according to them is about 4-5% of the total transaction cost. This would increase the cost of goods.
- Low penetration of credit cards; and
- Absence of secure payment gateways.

The procedure has enabled them to ensure the prices of goods are competitive, build an extensive database of their shoppers' specific needs and requirements, and provide their shoppers personalised service.

The owners of Baba Bazaar developed the web storefront in-house because available software was unable to provide a seamless integration of their operations. This has also enabled them to incorporate shoopers' suggestions and update the web site on an ongoing basis. Website is simple, product display assists shoppers in making their shopping decisions, easy to navigate, the order form is simple to complete and an order can be placed with a few clicks of the mouse. What started off as a basic E-com web site grew to be a consumer-centric website within a short period. This is primarily due to the overwhelming response to the site, and the felt-need to grow by ensuring fulfilment of the customers' expectations. This strategy has also ensured steady growth in business.

Baba Bazaar is currently patronised by the yuppie, rushed for time working wives, who would be able to get to their nearest vegetable grocer, place an order and have it waiting on their doorstep, when they reach home, all by the click of a mouse from their work desk. Well, it is a matter of time when ordinary housewives may also begin using this web site.

Question

1. Analyse the case in the light of SWOT analysis.