

## UNIT V

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### **BUSINESS COMBINATIONS**

When a voluntary association of firms is formed to achieve common goals and to enjoy the monopoly advantages, that sort of initiative is called business combination.

The combination may be formed by a written or oral agreement among the firms.

Sometimes firms decide to merge themselves into one unit. The main object of the business combination is to achieve common economic welfare for its members.

But it is considered to be unlawful if any of its objectives is against the public interest. Business combinations may be permanent or temporary.

### **Types of Business Combinations**

Combinations may take several forms, such as horizontal, vertical, lateral, and diagonal, circular, or maybe a mixture of two or more of these types.

### **Horizontal Combination**

A horizontal combination comes into being when units carrying on the same trade or pursuing the same productive activity join together with a common end in view.

Example of horizontal combinations are;

- Disney's 2006 acquisition of Pixar.
- Facebook's 2012 acquisition of Instagram.

The intensity of competition is naturally reduced when several units competing in the same line of business join together. The combining units can well take advantage of the various economics

associated with large scale production by making common purchases, pooling resources for research, common advertising, etc.

**Vertical Combinations** - Vertical integration is the combination of firms in successive stages of the same industry. It implies the integration of various processes of an industry.

Vertical combinations are brought into existence with the following objects in view:

1. To eliminate the wasteful and unnecessary expenses involved in carrying on the connected processes separately.
2. To eliminate middlemen functioning between various units
3. To secure economies in marketing, advertising, and transport
4. To maintain control over the quality of raw materials and finished products.

### **Lateral Combination**

Lateral integration refers to the combination of those firms which manufacture different kinds of products though they are 'allied in some way.'

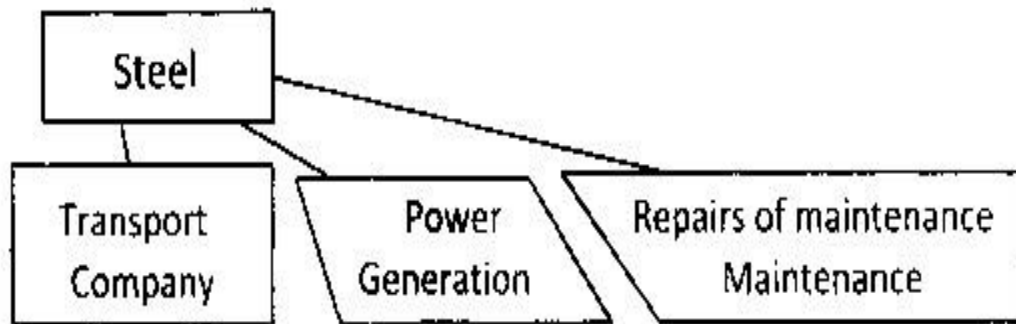
It can be of two kinds;

- i. Convergent lateral integration, and
- ii. Divergent lateral integration.

The convergent lateral combination comes into existence when different forms join together to supply goods and services to help the functioning of major undertakings.

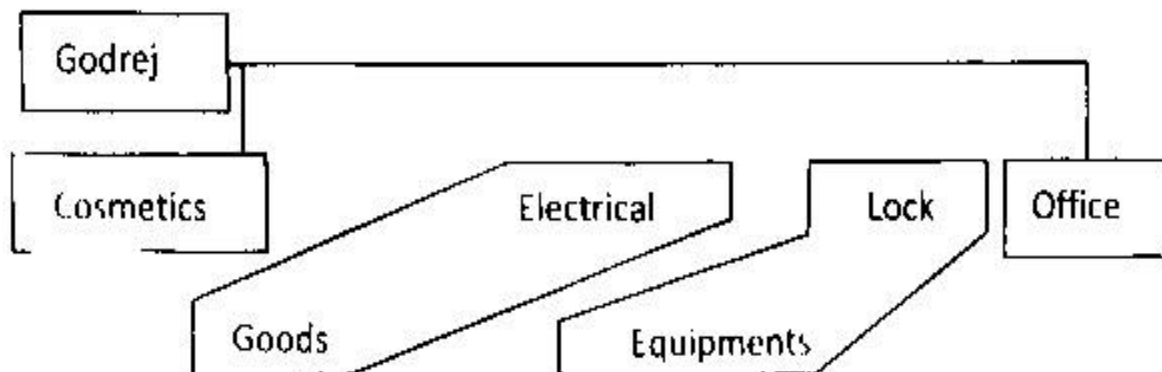
Example: For instance, a book publishing may join with other units producing paper, doing printing work, and providing bookbinding services.

**Diagonal Combination** - It is also called 'Service' integration Diagonal integration comes into existence when a unit providing auxiliary goods and services to industry is combined with a unit engaged in the mainline of production, within the organization.



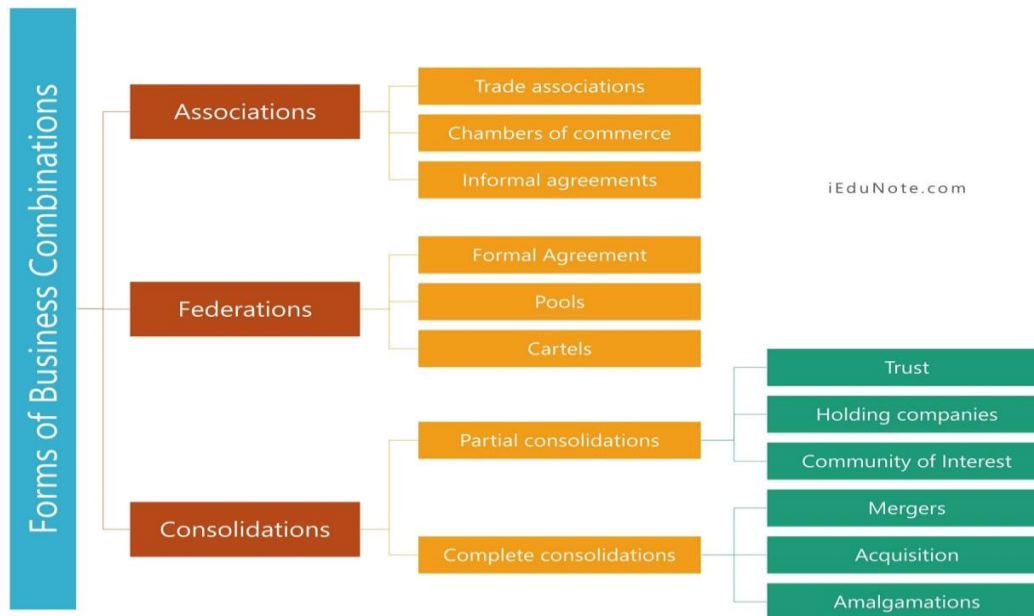
Example: For example, if an industrial enterprise combines with a transport company, a power station or a repairs and maintenance workshop, and makes these facilities available within the organization, it will be said to have effected diagonal integration.

**Circular Combination** - When firms belonging to different industries and producing altogether different products and combine under the banner of a central agency, it is called a mixed or circular combination. This is affected to ensure smooth conduct of business operations by making timely availability of auxiliary services within the organization.



Example, For example, Godrej is engaged in the manufacturing of cosmetics, electrical goods, office equipment locks, etc. The object is to secure the benefits of large-scale operations arising out of co-operation.

## Forms of Business Combinations



Combinations take different forms that have been developed over some time.

### A. Associations

1. Trade associations.
2. Chambers of commerce.
3. Informal agreements.

### B. Federations

1. Formal Agreement.
2. Pools.

3. Cartels.

## **C. Consolidations**

### **1. *Partial consolidations***

- i. Trust.
- ii. Holding companies.
- iii. Community of Interest

### **2. *Complete consolidations***

- i. Mergers.
- ii. Acquisition.
- iii. Amalgamations.

## **Associations**

Business units combine to attain some purposes without surrendering their autonomy.

### **1. Trade Associations**

Under trade association, business units engaged in a particular trade generally come together and discuss matters for the promotion of their economic and business interest. They are generally formed on 'territory bases. Such association is organized on a non-profit basis and is essentially educational. Sometimes the association may make representations to the government to safeguard the interests of a trade or an industry.

### **2. Chamber of Commerce**

Chamber of commerce is voluntary associations of persons connected with commerce, trade, and industry. These are formed with the object of promoting and protecting the interests of business and business communities in a region, country, or even in the world as a whole.

Their functions include promoting, supporting, or opposing legislative or other measures affecting the trade interests of the members, the collection and dissemination of information concerning trade, commerce, etc. to members. They also undertake the function of referring disputes arising out of trade activities to arbitrations for settlement, performing such other things as may be conducive to the expansion of trade.

### **3. Informal Agreement**

Informal agreements involve the exchange of promise among members regarding restriction of output, fixation of prices, etc. They are also referred to as Gentlemen's agreements. It is only the moral duty of business units to keeping the promise.

#### **Federations**

Federations form of combination aims at rendering benefit to member-units for certain specific purposes under an agreement. Of such federations, 'Pools' and 'Cartels' are most notable.

#### **1. Pools**

It means that the members of the pooling agreement joint together to regulate the demand or supply of a product without surrendering their separate entities. The agreement may relate to the regulation of output, reallocation of output, redistribution of income, etc. Haney defines and industrial pools as a form of a business organization established through a federation of business units whose members seek a degree of control over prices by combining some factors in the price making process in common aggregate and apportioning that aggregate among members.

#### **2. Cartels**

A pool having a common sales agency is known as Cartel. It is, thus, an output and profit pool. The object of a cartel is to eliminate competition by forming a federation of producers that pool the output, fixes the price, and sells the product. The profits reaped by cartels are distributed amongst the members – units on a pre-determined basis.

## **Consolidations**

The last form of combination is consolidation. This form involves the highest degree of integration. The consolidation may be of two types:

### **Partial Consolidation**

1. **Trusts**-Trusts may be defined as a form of a business organization through temporary consolidation in which the shareholders of the constituent organizations under a trust agreement transfer a controlling amount of their stock to a board of trustees in exchange for a trusted certificate. These trust certificates show their equitable interests in the income of the combinations. Thus, trustees under the trust manage the affairs of the member concerns in the interests of the real owners, who are entitled to dividends based on trust certificates held by them.
2. **Holding Companies**-A holding company is a form of business organization that is created to combine industrial units by owning a controlling amount of their share capital. Controlled companies are referred to as subsidiary companies. The subsidiaries are independent and function in their name. But they are effectively managed by the holding company.
3. **Community of Interests**-A Community of interest may be defined as a form of business organization, in which without any formal central administration, the business policy of several companies is controlled by a group of common stockholders or directors. Thus, the administration of different companies is possible either through managerial integration, administrative integration, or financial integration.

### **Complete Consolidation**

In complete consolidation, the combining units lose their entity. It is defined as a form of business organization which is established by the outright purchase of the properties of the constituent organizations and the merging of such properties into single business units.

Complete consolidation may be of the following types:

1. **Merger**-A merger takes place when; two or more organizations merge, and their operations are absorbed by a new organization.
2. **Acquisition**-Acquisition refers to the process of acquiring a company at a price called the acquisition price or acquisition premium. The price is paid in terms of cash or acquiring the company's shares or both.
3. **Amalgamation**-Amalgamation is an arrangement where two or more companies consolidate their business to form a new firm or become a subsidiary of any one of the companies. For practical purposes, the amalgamation and merger of the terms are used interchangeably.

### **Causes/Reasons for Business Combination**

Although the business combination is primarily formed for achieving a common (single) goal, it may also be formed keeping in mind the following reasons:-

1. **Elimination of Competition**-Due to hard competition among the firms' rate of profit decreases. Some firms may suffer a loss also. So the industrialists feel pleasure in setting up a combination to avoid the competition.
2. **To Solve Capital Problem**-Small units of production face the problem of capital shortage. They cannot expand their businesses. As a result, small units may form a combination to overcome this problem.
3. **To Achieve Economies**-Some small units combine themselves to achieve the economies of large scale production advantage. It helps to purchase the raw materials at low prices and sell more product which would increase the profit
4. **Effective Management**-Generally, small units are unable to hire the services of experts and experienced managers. So small industrial units combine themselves to hire the services of effective management
5. **Tariff Facilities**-To compete with external firms, some industrial units combine themselves. The government also imposes heavy duties to protect domestic producers.



6. **Uniform Policy**-All the units adopt uniform policy due to business combinations. It regularizes the business activities of all the units.
7. **Use of Technology**-The business combination can use the latest technology and new methods of production because its sources are sufficient. In contrast, a single unit cannot do so.
8. **To Face Crises**-It is very difficult for the small industrial units to face crises in the days of inflation and deflation. So the small units combine themselves to face these problems easily.
9. **Growth of Joint Stock Companies**-The growth of Joint-stock companies has also made it possible for various industrial units to form combinations.
10. **Status in Market**-A big firm enjoys a higher status and respect than the smaller one. So, small business units prefer to combine themselves for higher status.
11. **Demand and Supply Balance**-A business combination is very useful in controlling the overproduction. It adjusts the supply according to the demand of the market. So overproduction cannot take place, and prices remain stable.
12. **Transport and Communication Development Activities**-It has made economic activities fast. Now there is close contact with a businessman with the others. So it has also contributed to the growth of combination.
13. **Research Facilities**-Small firms cannot set up the research department, while through business combination, these facilities can be enjoyed.
14. **Economic Instability**-In the case of economic and political instability, there is a chance of loss in every moment. To reduce the risk, small industrial units combine themselves.

### **Advantages of Business Combination**

The advantages of a combination are controversial because the creation of monopoly and elimination of competition both are considered the merits and demerits of the combination.

Anyway, the following are the significant merits of combination:

1. **Increase in Capital**-The volume of capital may be increased by the formation of a combination. The members combine their resources to conduct large size business.
2. **Elimination of Competition**-By the formation of combination, unnecessary competition is eliminated, and member firms earn monopoly profit.
3. **Saving in Expenses**-Administrative production and distribution expenses reduce due to combination.
4. **Controls over Production**-The combination is very effective in controlling overproduction. It helps to adjust the supply according to the demand.
5. **Large Scale Marketing**-In the market, competition position is strong in bargaining. So it sells the product at a higher price.
6. **Experts Services**-A combination can acquire the services of experienced specialists. It increases the efficiency of the combination.
7. **Research Work**-A combination can spend money on research work, which is very important for the business. This research work reduces its cost and increases its profit.
8. **Use of Modern Technology**-A combination is capable of using the latest inventions and new methods of production as a consequence of a transfer of technology. It will increase profit.
9. **Stability**-A combination is a more stable form of business as compared to the individuals' units. The chances of dissolution are also less than others.
10. **Division of Labor**-The principle of division of labor is applied in combination, which increases the production efficiency of combination.

### **Disadvantages of Business Combination**

Following are important disadvantages of combination:

1. **Creation of Monopoly**-It creates a monopoly that is harmful to the people in the long run.

2. **The concentration of wealth**-It concentrates the wealth in a few hands and divides society into few classes, such as rich, middle, and poor.
3. **Reluctant to be Accepted**-The combination is disliked by the people, and it is not acceptable.
4. **Changes in Friction**-The chances of friction among directors and officers are bright. They quarrel with, each other for their interest
5. **No Personal Contact**- It is not possible to maintain direct contact between employees, creditors, and shareholders, due to this business may suffer a loss.
6. **Costly Management**-A combination hires costly management, which increases the cost of production.
7. **Over Capitalization**-There is always a danger of over-capitalization in the combination. It is harmful to the combination.
8. **Misuse of Funds**-The directors of the company enjoy unlimited power and misuse the capital.
9. **National Interest Ignored**-Generally, the combinations ignore the national interest, and they involved in such activities that are against the national interest

### **Causes for the Growth of Business Combination**

1. **Elimination of Cutthroat Competition**- Large-scale production and intense competition have become the rule of the present day economy. Cutthroat competition leads to wasteful advertising, unnecessary duplication, over production etc., which all ultimately result in lowering the profit margin of the industrialists. Under such circumstances, small units could not survive. Therefore, the only alternative available to the industrialists is the elimination of competition, which could be possible only through business combination.
2. **Economies of Large-scale Production**- Large-scale production has certain definite advantages. If different firms come together and form amalgamations, the scale of operation also become larger and savings in overhead charges can be effected.
3. **Influence of Tariff**-The tariff policies of different countries have also furthered the causes of the combination movement. Tariff is often described as the "*Mother of Combination*". By

imposing high tariff on imported goods, the Governments throughout the world offered protection to home industries. The protection offered by the state resulted in the establishment of a number of business units. Consequently, competition amongst them became tense and the need for business combination was felt.

4. **Transport Revolution**-Another contributory cause for the combination movement was the revolution in transport and development of communications. The development of transport facilities accelerated the growth of large-scale undertakings. The large undertakings began to absorb smaller units to cater to the needs of the local market.

5. **Organizational Revolution**-The growth of joint stock companies has also facilitated combinations. Basically the company form of organization itself is a type of combination. Large companies with huge capital were able to control comparatively small companies by subscribing to their shares. Hence, holding companies came into being.

6. **Control of the Market**-Another important cause for the rise of the combination movement was the desire to control the market by regulating the output. This goal could be achieved only through business combination.

7. **Trade Cycles**-The tendency of business activities to fluctuate regularly between booms and depressions gave a fillip to business combinations. Particularly during the periods of depression, new units cannot enter into the industry and even the existing small and inefficient units cannot survive. During 1930, when the Great Depression occurred, the situation became very awkward and the industrialists began to adopt the technique of business combination.

8. **Technological Factors**-The technological development also paved way for large-scale operations. Small units with limited financial resources were found unable to compete with bigger ones. Hence, they realized the need for business combination.

Moreover, the adoption of modern techniques required huge capital investments, which small units could not provide. Therefore, they were forced to combine themselves to get the benefits of modernization.

9. **Patent Laws**-Business Combination has also been fostered by patent laws. The inventors were given exclusive right of the use of their inventions. This statutory right also furthered the combination movement.

10. **Individual Ability**-Men of technical skill of a superior order are less in number. The scarcity of business talent is also a cause for the centralization of powers in the hands of a few. Many combines have common directors, managers, which in effect would mean their common control.

11. **Policies of the Government**- The labour, fiscal, industrial and taxation policies of the Governments also influenced the formation of business combinations. The Government may even exert pressure on weaker units to merge with bigger ones. Frequent changes in the policies of the Government also increased the uncertainty among the businessmen. The instability of the economic policies also encouraged the growth of the combination movement.

12. **Rationalization**-In fact, combination is the first step towards rationalization. The growth of rationalization movement encouraged the emergence of business combinations to a great extent.

13. **Cult of the Colossal**-The mid-nineteenth century brought in its wake the cult of the colossal-respect for bigness. People began to respect big things and there was a corresponding contempt for small things. The impact of this tendency was felt in the business field also. The glamour for giant undertakings captured the minds of the industrialists. This tendency also furthered the combination movement.

## **COMBINATION MOVEMENT IN INDIA**

The combination movement in India has not been so wide as it has been in some Western countries. In fact, the movement in Indian industry was altogether absent before 1921. However, the movement gained some ground afterwards. But its progress was very slow when compared to the advance countries like U.S.A., Canada, Germany and Japan.

### **Business Combination in India – Reason for Slow Growth, Present Status**

#### **Causes for the Slow Growth of the Movement**

There are several reasons for the slow growth of the movement. Some of them are outlined below:

1. **Slow Industrial Progress**- Combination is the natural offshoot of an advanced industrial development. But our country was not industrially developed in the pre-independence period due to the deliberate attempt of the British Rulers.

2. **Foreign Competition**-Discriminatory protection was given to Indian enterprises only in the year 1921. Prior to this year, industries have to face stiff competition from foreign countries.

3. **Size of the Units**-The size of the industrial units was another factor, which hampered the progress of the movement. The business units were too small in their size and scattered over a wide area.

4. **Managing Agency System**-The existence of the managing agency system can also be cited as a cause for the slow progress of the movement. But it is not wholly true because the managing agency system itself is a form of combination.

5. **Attitude of the Industrialists**-The individualistic and sectional outlook of our industrialists had also arrested the growth of the combination movement in India. They were highly reluctant to form any sort of combination on the assumption that it could upset their independence.

6. **The Government's Policy**-The Government always looked upon this movement indifferently. It has taken all kinds of measures to prevent the growth of combinations because it considered the combination as a social evil.

In spite of these limitations, the Business combinations in Indian industries are developing, particularly for the last forty years. The hardships, experienced by the industrialists during these periods made them to realise the need for some sort of unity between them.

## **PRESENT POSITION OF COMBINATION MOVEMENT IN INDIA**

The present position of the combinations in the industries of the nation may be studied under two heads namely,

1. Industry-wise Combination, and
2. Form-wise Combination.

### **1. Industry-wise Combination**

A few horizontal combinations in the form of pools and cartels have emerged in some of the following Indian industries:

#### **1. Jute Industry**

The Indian Jute Mills Association (I.J.M.A.) was formed in 1886, with a view to control the productive capacity of the industry and to check the uneconomic fall in prices. Jute mill owners representing more than 95% of the trade are the members of the combination. It works as an

output cartel. It has also established an institute of technology to promote research and technical development in the jute industry.

## **2. Cement Industry**

The first attempt to form a combination was made in 1920 in the cement industry. It resulted in the formation of Indian Cement Manufacturers Association. In 1930 the Cement Marketing Company was formed with a view to control the price and avoid competition. It also undertook the distribution function on a collective basis. This cartel, however, did not succeed in its attempt and so the Associated Cement Companies Limited (A.C.C.) was organized in 1937. To make this combination more effective, 11 cement companies went into liquidation. "Sahu Jain and Dalmia groups of cement factories", however, left out this combination. The A.C.C. controls more than 70% of the total production.

## **3. Sugar Industry**

The sugar industry is mainly concentrated in U.P. and Bihar. Prior to 1930, there were only a few sugar mills in these states. But the grant of protection in 1931, resulted in a phenomenal rise in the number of mills. Apart from the competition like Java, the internal competition also became more tense. Therefore, the Sugar Syndicate was formed in 1937 and roughly two thirds of the sugar factories participated in the combination. But the syndicate was dissolved in 1950 owing to the heavy pressure from the Government and partial control on sugar was imposed.

## **4. Paper Industry**

The paper industry offers another excellent example of voluntary pooling agreements. Till recently only three mills, the Titaghur Paper Mills, the Bengal Paper Mills and the Indian Paper Pulp Co. Ltd. were in the field and enjoyed a virtual monopoly. They formed the Indian Paper Mills Association and worked in conjunction. The new mills, which came late into existence, also joined in it. This system still works more effectively.

## **5. Iron and Steel Industry**

The steel Corporation of Bengal was formally consolidated by merger into the Indian Iron and Steel Company Ltd. in 1953, under the directive of the Government. Its management was taken over by the Government with effect from July 1973. The Steel Authority of India was set up in 1973 as a holding company to control the steel units in the public sector.

Besides these, pooling agreement is also found in match industry, shipping industry and petroleum refining industry.

## **2. Form-wise Combination**

All combinations, irrespective of their forms, have been established in India either by mediate or immediate influence of the Managing Agency System. Combinations found in the Indian industries can be briefly discussed below:

### **1. Trade Associations**

The Indigo factory owners made the earliest attempt in this direction. They have formed the Association of Indigo Planters in 1801. Most of the pioneers were European traders and merchants. During the early days, its progress was slow and only two associations, namely, The Calcutta Traders Association (1830) and The Madras Traders Association (1856) were formed in this period. There was a phenomenal growth of such associations after 1860.

The most important associations formed after this period were-

1. Indian Tea Association,
2. Indian Jute Mills Association (1884),
3. Indian Mining Association (1892), and
4. United Planters Association of Southern India (1898).

All these associations were formed by the Europeans to promote their interest and welfare. Indian businessmen also took keen interest in the formation of trade associations. Bombay Mill Owners Association was formed in 1875 due to the combined effort of the Indian and European businessmen. At present, there are a number of trade associations at least one for each trade. According to the Directory compiled by the Indian Merchants Chamber, there are 836 associations throughout the country. Of which, 170 are general and 666 are sectional.

### **2. Chambers of Commerce**

As in the case of trade associations, initiative in the formation of Chambers of Commerce had also been taken by the European. However, the India businessmen also joined with them later. The first Chamber of Commerce established by Europeans was the Bengal Chamber of Commerce (1834). The first Chamber of Commerce of Indian businessmen was found in



Kakinada in 1885. At first, these Chambers were organized on a regional basis to serve the business people of their regions. Later, they were also organized on provincial or national basis. At present, besides the local chambers, there are 15 all India Chambers and 2 Federation of Chambers such as:

1. The Associated Chamber of Commerce, Calcutta, and
2. The Federation of Indian Chamber of Commerce, New Delhi.

### **3. Pools and Cartels**

There are only a few examples of pools and cartels in the Indian business scene. Most of the pooling or cartel agreements are found in some of the industries like jute, cement, sugar, paper, petroleum, refining etc. They were all discussed in the beginning of this chapter.

### **4. Vertical Combination**

Vertical combinations are found in iron and steel and sugar industries in India. The Tata groups have their own collieries and are mines. In the sugar industry, some of the concerns like Raza Sugar Mills of Rampur own sugar cane field and run their own breweries and confectioneries in addition to the manufacturing of sugar.

### **5. Community off Interest**

The managing agency system is solely responsible for the development of community of interest in the Indian industry. According to a survey undertaken in 1955, it was brought to light that eleven leading managing agents were controlling 283 undertakings. The British Managing Agency Houses like Andrew Yule, Martin Burn, Duncan Bros. and Indian Managing Agency Houses like Tatas, Birlas, and Dalmias were the most important of them. However, this system was completely abolished in 1970 by the Central movement in our country.

### **6. Holding Companies**

This type of combination is not very popular in our country. Some of the examples of Holding Companies found in our country are

1. Barrackpur Coal Company Ltd.,
2. The Equitable Coal Company Ltd.
3. The Shaw Wallace and Co, Ltd., and
4. The Tea Estates Ltd.

## 7. Amalgamations and Mergers

This type of complete consolidation is also unfamiliar in our country. This is due to the dominance of the Managing Agents in the Indian business field. In the pre-independence period, amalgamations and mergers occurred in many industries like sugar, electricity, coal mining, jute, banking and textile industry. But its progress in the post-independence period was very slow

## INDUSTRIAL ESTATE

An industrial estate is a place where necessary infrastructural facilities are made available to entrepreneurs. Industrial parks, industrial zone, industrial area, industrial township are some of the other terms used to denote industrial estates.

### Features of Industrial Estates

The following are the salient features of industrial estates:

1. **Separate plots and sheds:** The entire land area allocated to the estate is divided into different plots and sheds. These plots and sheds are then allocated to the entrepreneurs at economical costs.
2. **Cluster:** An industrial estate is a planned cluster of units. For e.g. Tirupur is a planned cluster of knitwear and hosiery, Ludhiana is a planned cluster for machine tools, Surat for diamonds etc.
3. **Regional development:** Industrial estates promote regional development. They have been instrumental in developing backward areas in the country. They provide employment opportunities to many of the unemployed youth in the regions in which they are located. For e.g. Ambattur Industrial Estate in sub-urban Chennai has ensured development of areas in and around Ambattur.
4. **Common infrastructure:** Infrastructure such as roads, electricity, water, telecommunications, postal facilities, banks etc. are provided in the industrial estate. All enterprises located in the industrial estate can access the infrastructural facilities located in the area.
5. **Promote industrialization:** Industrial estates promote industrialization and economic development. They provide the necessary facilities for setting up of industries. Since the required infrastructure is made available, entrepreneurs feel encouraged to set up industrial enterprises.

6. **Different sizes:** Industrial estates can be promoted in different sizes based on the land availability, requirements and potential for development.

7. **Developed in all areas:** Industrial estates can be developed in all areas such as urban, suburban and rural areas. They can be developed in developed as well as in under developed areas.

8. **Promotion through any agency:** Industrial estates can be set up by the government, co-operatives or by the private agencies. It can also be set up by public-private partnership.

### **Objectives of Industrial Estates**

The following are the objectives of setting up industrial estates:

1. Ensuring well planned and structured industrial development.
2. To provide the necessary infrastructure.
3. To provide common facilities to a number of industries.
4. To promote development of clusters.
5. To enable small units to source products from one another.
6. To enable dispersal of industries.
7. To promote balanced regional development.
8. To ensure development of backward areas.
9. To provide a climate for smooth functioning of industrial enterprises.

### **Types of industrial estates**

The following are the types of industrial estates:

1. **Composite industrial estates:** They comprise of a wide variety of industries. Most of the industrial estates are of this type. For e.g. in Ambattur Industrial Estate and Guindy Industrial Estate, Chennai, enterprises manufacturing different types of products are located.

2. **Special purpose:** They comprise of enterprises engaged in a specific industry such as hosiery and knitwear (Tiruppur), machine tools (Ludhiana), handicrafts, etc.,
3. **Ancillary industrial estates:** Ancillary industrial estates comprise of firms which manufacture ancillary products. They are found in industries such as automobiles, electronics, leather goods etc.
4. **Flatted industrial estates:** They comprise multi-storeyed building where light weight goods are produced with the help of machine tools.

## **MERITS OF INDUSTRIAL ESTATES**

### **1. Provision Of Premises And Amenities At A Reasonable Cost**

Industrial estate provides premises i.e. Land and Factory Shed for the establishment of a new industrial undertaking and also other amenities such as power, water, transport etc. at a reasonable, cost. Hence the entrepreneur is able to produce goods at cheaper costs.

### **2. Availability Of Service Centers**

As each and every SSI unit established in an industrial estate cannot afford to have their own service centers, the industrial estate itself provides for a repair shop, a testing laboratory etc. for the common benefit of all SSI units situated there.

### **3. Minimum Initial Capital**

Since reasonable sheds are offered to the industrialists either on hire purchase basis or on rental basis, they need not spend a huge amount initially for the construction of the factory building etc. Thus the initial capital investment is less.

### **4. Avoidance Of Unnecessary Delays**

While starting an industrial unit an entrepreneur is required to comply with various rules and regulations regarding the location of factory sheds and obtaining infrastructural facilities. But if an entrepreneur obtains a ready-made premises in an industrial estate, he need not worry about all these things as they are constructed by the Government itself by taking into consideration all these formalities well in advance. Hence the unnecessary delay is avoided.

## **5. Cordial Relationship Between The Industrialists**

A rapid growth of the industrial units is made possible by fostering complementary relationship among them. For instance, some units may obtain raw materials and semi-finished goods as inputs from other units in the same estate or offer a part of the production to the ancillary units in the same area.

## **REASONS FOR POOR PERFORMANCE OF INDUSTRIAL ESTATES IN INDIA**

### **1. Absence of Pilot Surveys**

No techno-economic surveys were conducted by some State Governments before establishing industrial estates. Hence, most of the industrial estates have less growth potential and have proved to be a waste of time and money spent on them.

### **2. Lack of Clear Policy**

There is no vigorous policy for the dispersal of industries on the part of the State Government in India. There is no clear demarcation of industrially backward region in various States also. All these factors led to poor performance of the industrial estate.

### **3. Delays In Providing Infrastructure**

Improper planning of the estates and poor execution of the plan often leads to considerable delays in providing the infrastructural facilities such as water, electric power, roads, drainage etc.

### **4. INEFFICIENT FOLLOW UP**

There is no effective machinery to follow up and supervise the day-to-day operations of the industrial estates with a view to make it successful.

