



**DEPARTMENT OF BBA**

**V SEMESTER BBA**

**ENTREPRENEURIAL  
MANAGEMENT**

**STUDY MATERIAL**

**BY**

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## **5.1 ENTREPRENEURIAL MANAGEMENT**

### **OBJECTIVE**

The objective is to enable students to understand the basic concepts of entrepreneurship and prepare business plan to start a small industry.

### **Unit 1: ENTREPRENEURSHIP 12 Hrs**

Introduction – Meaning & Definition of Entrepreneurship, Entrepreneur & Enterprise – Differences

between Entrepreneurship, Entrepreneur & Enterprise – Functions of Entrepreneur – Role of Entrepreneur for Economic Development - Factors influencing Entrepreneurship - Pros and Cons of being an Entrepreneur – Differences between Manager and Entrepreneur – Qualities of an Entrepreneur – Types of Entrepreneurs. Entrepreneurship Development- Need – Problems – National and State Level Institutions

### **Unit 2: SMALL SCALE INDUSTRIES 10 Hrs**

Small Scale Industries - Tiny Industries - Ancillary Industries - Cottage Industries – Definition – Meaning -Product Range - Capital Investment - Ownership Patterns - Importance and Role played by SSI in the development of the Indian Economy - Problems faced by SSI's and the steps taken to solve the problems -Policies Governing SSI's

### **Unit 3: STARTING A SMALL INDUSTRY 12 Hrs**

Concept of Business opportunity, scanning the environment for opportunities, evaluation of alternatives and selection based on personal competencies. - An overview of the steps involved in starting a business venture – Location, Clearances and Permits required, Formalities, Licensing and Registration Procedures -Assessment of the market for the proposed project - Importance of financial, technical and social feasibility of the project.

### **Unit 4: PREPARING THE BUSINESS PLAN (BP) 10 Hrs**

Business Plan, Importance of BP, Preparation of BP, Typical BP format - Financial aspects of the BP -Marketing aspects of the BP - Human Resource aspects of the BP - Technical aspects of the BP - Social aspects of the BP - Preparation of BP - Common pitfalls to be avoided in preparation of a BP

### **Unit 5: IMPLEMENTATION OF THE PROJECT AND SICKNESS IN SSIs 12 Hrs**

Financial assistance through SFC's, SIDBI, Commercial Banks, KSIDC, KSSIC, IFCI, - Non-financial assistance from DIC, SISI, EDI, SIDO, AWAKE, TCO, TECKSOK, KVIC - Financial incentives for SSI's and Tax Concessions - Assistance for obtaining Raw Material, Machinery, Land and Building and Technical Assistance - Industrial Estates – Role and Types. Sickness: Meaning and definition of a sick industry - Causes of Industrial Sickness - Preventive and Remedial Measures for Sick Industries

**Unit 1:**

**ENTREPRENEURSHIP 12 Hrs**

- 1.1. Introduction – Meaning & Definition of Entrepreneurship
- 1.2. Entrepreneur & Enterprise
- 1.3. Differences between Entrepreneurship ,Entrepreneur & Enterprise
- 1.4. Functions of entrepreneur
- 1.5. Role of Entrepreneur for Economic Development
- 1.6. Factors influencing Entrepreneurship
- 1.7. Pros and Cons of being an Entrepreneur
- 1.8. Differences between Manager and Entrepreneur
- 1.9. Qualities of an Entrepreneur
- 1.10. Types of Entrepreneurs.
- 1.11. Entrepreneurship Development- Need – Problems – National and State Level  
Institutions

## **Introduction**

The word entrepreneur has come from the France word “entreprenra” which means to undertake, to pursue opportunities to fulfil needs and wants through innovation to undertake business.

### **Meaning of entrepreneur :**

A person who sets up a business or businesses, taking on financial risks in the hope of profit.

Someone who exercises initiative by organizing a venture to take benefit of an opportunity and, as the decision maker, decides what, how, and how much of a good or service will be produced.

Entrepreneur a person who takes risk for establishing a new venture or business in order to create utility for the welfare of human being as well as for him or herself. She or he is always a person who seeks out opportunities and takes on challenges.

Originally, the term ‘entrepreneur’ in the French language was used to refer to a person engaged in a leading military operation. Cantillon was perhaps the first to use this concept. According to him, the essence of the function of an entrepreneur was to bear uncertainty.

### **Definition of entrepreneur:**

#### **According to encyclopaedia Britannica**

“Entrepreneur as the individual who bears the risk of operating a business in the face of uncertainty about future condition and who is rewarded accordingly by his profit or losses”.

According to Joseph Schumpeter “The entrepreneur in an advanced economy is an individual who **introduces something new** in the economy – a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material or of the new markets and the like.”

### **Examples of entrepreneur**

Bill Gates, founder of Microsoft. There are probably not many people that have not been touched by one of his products, such as Microsoft Windows, Microsoft Office and Internet Explorer.

- Steve Jobs, co-founder of Apple computers, which produces Macs, iPods and iPhones, as well as Apple TV.
- Mark Zuckerberg, the founder of Facebook.
- Pierre Omidyar, founder of eBay.
- Arianna Huffington, founder of the Huffington Post, a well-known online news site.
- Caterina Fake, co-founder of Flickr, which hosts images and videos on the internet

## Entrepreneurship definition:

### According to S. S. Kanaka:

Entrepreneurship is a process involving various actions to be taken to establish an enterprise.

From the functional view point entrepreneurship is defined as the combination of activities such as perception of market opportunities gaining command over scarce resources purchasing input producing and marketing of product responding to competition and maintaining relation with political administration and public bureaucracy for concession licenses and taxes etc.

**Definition:** Entrepreneurship refers to the process of creating a new enterprise and bearing any of its risks, with the view of making the profit. Entrepreneurship is a process, a journey, not the destination; a means, not an end. All the successful entrepreneurs like Bill Gates (Microsoft), Warren Buffet (Hathaway), Gordon Moore (Intel) Steve Jobs (Apple Computers), Jack Welch (GE) GD Birla, Jamshedji Tata and others all went through this process.

### Entrepreneurial Process



1. **Discovery:** An entrepreneurial process begins with the idea generation, wherein the entrepreneur identifies and evaluates the business opportunities. The identification and the evaluation of opportunities is a difficult task; an entrepreneur seeks inputs from all the persons including employees, consumers, channel partners, technical people, etc. to reach to an optimum business opportunity. Once the opportunity has been decided upon, the next step is to evaluate it.

An entrepreneur can evaluate the efficiency of an opportunity by continuously asking certain questions to himself, such as, whether the opportunity is worth investing in, is it sufficiently attractive, are the proposed solutions feasible, is there any competitive advantage, what are the risk associated with it. Above all, an entrepreneur must analyze his personal skills and hobbies, whether these coincides with the entrepreneurial goals or not.

2. **Developing a Business Plan:** Once the opportunity is identified, an entrepreneur needs to create a comprehensive business plan. A business plan is critical to the success of any new venture since it acts as a benchmark and the evaluation criteria to see if the organization is moving towards its set goals.

An entrepreneur must dedicate his sufficient time towards its creation, the major components of a business plan are mission and vision statement, goals and objectives, capital requirement, a description of products and services, etc.

3. **Resourcing:** The third step in the entrepreneurial process is resourcing, wherein the entrepreneur identifies the sources from where the finance and the human resource can be arranged. Here, the entrepreneur finds the investors for its new venture and the personnel to carry out the business activities.
4. **Managing the company:** Once the funds are raised and the employees are hired, the next step is to initiate the business operations to achieve the set goals. First of all, an entrepreneur must decide the management structure or the hierarchy that is required to solve the operational problems when they arise.
5. **Harvesting:** The final step in the entrepreneurial process is harvesting wherein, an entrepreneur decides on the future prospects of the business, i.e. its growth and development. Here, the actual growth is compared against the planned growth and then the decision regarding the stability or the expansion of business operations is undertaken accordingly, by an entrepreneur.

## 1.2 Enterprise & Entrepreneur

An **enterprise** is an already formed business organization that proposes some goods or services, etc. The enterprise is some business structure/object that usually carries out some commercial activity, creates new job positions, and gains some profits.

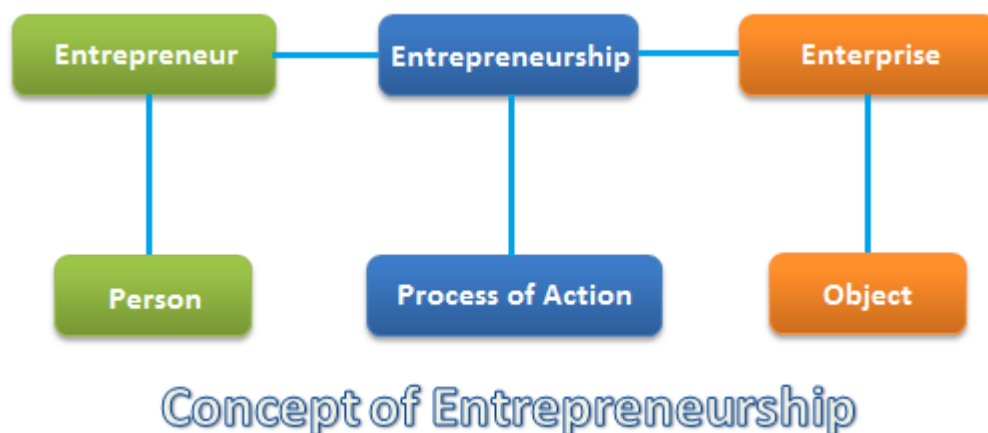
An **entrepreneur** is a person who establishes and manages the enterprise. He/she is often the founder and owner of the business.

## 1.3 Differences between Entrepreneur, Entrepreneurship and Enterprise ,

**Entrepreneur:** is the person forming the organisation/company Entrepreneur is one who has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works for the good of people. He is the key man who envisages new opportunities, new techniques, new lines of production, new products and co-ordinates all other activities.

**Entrepreneurship:** is the act of forming an organisation/company. Entrepreneurship is a process of action an entrepreneur undertakes to establish his enterprise. Entrepreneurship is also a resultant mix of many qualities and traits of an entrepreneur.

**Enterprise :** is the company or the organisation



#### **1.4 Functions of entrepreneur :**

1. Taking Initiative
2. Organizing Resources
3. Identifying Opportunities and Prospects
4. Risk Taking
5. Decision Making
6. Technology Transfer and Adaptation
7. Innovation
8. Fostering Autonomy
9. Social Responsibility
10. Public Relations
11. Experience Sharing
12. Managerial Roles
13. Balanced Economic Development

These are explained below;

##### **1. Taking Initiative**

Entrepreneurship is a pro-active activity that takes such actions, which others can't even perceive. This unique function of entrepreneurship provides our civilization with a wide variety of products, ways of actions, production techniques etc.

Therefore, taking initiative with such end and qualification is the prime function of entrepreneurship in every economy.

##### **2. Organizing Resources**

Organizing entails identifying those resources that are required to transform a particular idea into reality. The resources include human and nonhuman resources.

Organizing in entrepreneurship will increase productivity, promote new venture, distribute and supervise work and responsibility, and will remove barriers to work.

Entrepreneurship, thus, is the tapping tool for assuming indigenous skills and resources for the productive purpose.

##### **3. Identifying Opportunities and Prospects**

Entrepreneurship searches those activities of value that have an economic and social contribution.

It identifies new opportunities in the socio-economic arena which have got profitable prospects therefore, entrepreneurs are called as searchers of hopes into blind spots and this function enormously indebted our society to entrepreneurship.

#### **4. Risk Taking**

Entrepreneurship takes the risk for the new venture. For innovative actions in the field of production technology for new products in a volatile market and for new raw materials used in production.

Moreover, it also takes the risk for theft, robbery, snatching market fall and hooliganism that may be involved with new entrepreneurship This is a major function of entrepreneurship: n developing countries like Bangladesh.

#### **5. Decision Making**

Entrepreneurship is a new initiative therefore; it has to take a decision about multivariate issues that affect new ventures.

Entrepreneurship has to decide upon equipment to be used quality, price and its variation, deficiency, capital structure, the feasibility of the project, organizational structure, philosophy of management etc. that will guide, run and prosper the new venture or distinct attempt for entrepreneurship.

We know that decision-making is a process and entrepreneurship in order to make n a success, goes through this process.

#### **6. Technology Transfer and Adaptation**

Entrepreneurship throughout the world brings invented technology from different comers of the world and makes it appropriate by making required adjustments for local conditions.

This function of entrepreneurship involves with identifying appropriate technology with market potentials and adapts it into the local environment.

Sometimes, the technology uses indigenous materials that reduce cost and wastage of resources. This entrepreneurial function virtually makes the world united in terms of homogeneous technology.

#### **7. Innovation**

Entrepreneurship innovates new production process or technology, market, sources of new materials, management, strategy or technique, investment opportunity etc. that Schumpeter (1934) calls as the fundamental characteristics of entrepreneurship.

Under the context of the hanged environment, entrepreneur locates the most feasible opportunity for the venture as well as improved or distinct technology that gives competitive advantages or a new opportunity to prosperity.

Innovation is a creative means to add new utilities to existing situations or products. Entrepreneurship through innovation creates innovative products or operations for the human society.

#### **8. Fostering Autonomy**

Entrepreneurship is an exposure of creative faculty that provides personal satisfaction and independence. The unique freedom to think differently is the impetus for entrepreneurship.

Thus, entrepreneurship Fosters autonomy so as to advent something new of value by the application of devoted efforts and time.

#### **9. Social Responsibility**

Entrepreneurship with its innovative technology somehow promotes human efforts. It restarts closed industries with innovative managerial strategy and techniques. I ( also motivates new entrepreneurs and attracts them to engage into an entrepreneurial venture.

Entrepreneurship provides new products or ideas that give a momentum and diversity into the society.

Therefore, entrepreneurship performs social responsibility that protects the welfare, benefit and economic gain of the society. It also promotes the community standard by providing jobs and amenities.

### **10. Public Relations**

Entrepreneurship is a new venture that requires social acceptance by the regulatory bodies and the public at large.

The government, as well as the persons' who will be subject of entrepreneurship, would be convinced through public relations to accept and to allow the entrepreneur to execute an entrepreneurial venture.

History tells that many entrepreneurs were disregarded, coerced and even eliminated for their entrepreneurial activities. Failure is costly and therefore, public relation is a significant function of entrepreneurship.

### **11. Experience Sharing**

Entrepreneurship may spread in the society through publishing and sharing its success stories.

Thus, entrepreneurship holds workshops, industrial visits through which the entrepreneurial experience in different counties may be shared in order to a widespread adaptation of success.

This function will benefit the economies of the countries as well as the world bodies,

### **12. Managerial Roles**

Entrepreneurs perform several managerial roles to keep their venture functioning with success.

The roles are interpersonal roles that consist of a figurehead role, leadership role, and liaison role; informational roles that include recipient role, disseminator role, and the spokesperson role; decisional roles that consist of entrepreneurial role, disturbance-handler role, resource allocator role, and the negotiator role.

The entrepreneur also does the associated managerial functions such as planning, organizing, leading and controlling.

### **13. Balanced Economic Development**

Sustainable economic development requires a balanced development among various regions and sectors of a country. Every country tries to ensure such a situation that makes industrialization throughout the country "possible.

Entrepreneurs make it possible by establishing business ventures in various parts of the country in various sectors of industry.

## **1.5 Role of Entrepreneur for Economic Development**

Economic development essentially means a process of upward change whereby the real per capita income of a country increases over a period of time. Entrepreneurship has an important role to play in the development of a country. It is one of the most important inputs in economic development. The number and competence of entrepreneurs affect the economic growth of the country. The economic history of the presently advanced countries like USA, Russia and Japan supports the fact that economic development is the outcome for which entrepreneurship is an inevitable cause. The crucial and significant role played by the entrepreneurs in the economic development of advanced countries has made the people of developing and under developed countries conscious of the importance of entrepreneurship for economic development. It is now a widely accepted fact that active and enthusiastic

entrepreneurs can only explore the potentials of the countries availability of resources such as labour, capital and technology.

### **Role of Entrepreneur for Economic Development**

1. Promotes Capital Formation
2. Creates Large-Scale Employment Opportunities
3. Promotes Balanced Regional Development
4. Reduces Concentration of Economic Power
5. Wealth Creation and Distribution
6. Increasing Gross National Product and Per Capita Income
7. Improvement in the Standard of Living
8. Promotes Country's Export Trade
9. . Creating innovation
10. Entrepreneurs Create New Businesses
11. Entrepreneurs Also Create Social Change
12. Personal Growth
13. Entrepreneurship puts new business ideas into practice

**1 . Promotes Capital Formation:-**Entrepreneurs promote capital formation by mobilising the idle savings of public They employ their own as well as borrowed resources for setting up their enterprises. Such types of entrepreneurial activities lead to value addition and creation of wealth, which is very essential for the industrial and economic development of the country

**2 . Creates Large-Scale Employment Opportunities:-**Entrepreneurs provide immediate large-scale employment to the unemployed which is a chronic problem of underdeveloped nations. With the setting up. of more and more units by entrepreneurs, both on small and large-scale numerous job opportunities are created for other

**3.Promotes Balanced Regional Development:-** Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. The growth of industries and business in these areas lead to a large number of public benefits like road transport, health, education, entertainment, etc. Setting up of more industries lead to more development of backward regions and thereby promotes balanced regional development. When the new entrepreneurship grow at a faster rate, in view of increasing competition in and around cities, they are forced to set up their enterprises in the smaller towns away from big cities. This helps in the development of backward regions.

**4. Reduces Concentration of Economic Power:-**Economic power is the natural outcome of industrial and business activity. Industrial development normally lead to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

**5. Wealth Creation and Distribution:-**It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

**6. Increasing Gross National Product and Per Capita Income:-**Entrepreneurs are always on the lookout for opportunities. They explore and exploit opportunities,, encourage effective

resource mobilisation of capital and skill, bring in new products and services and develops markets for growth of the economy. In this way, they help increasing gross national product as well as per capita income of the people in a country. Increase in gross national product and per capita income of the people in a country, is a sign of economic growth. . An increasing number of entrepreneurism are required to meet this increasing demand for goods and services. Thus entrepreneurship increases the national income.

**7. Improvement in the Standard of Living:-**Increase in the standard of living of the people is a characteristic feature of economic development of the country. Entrepreneurs play a key role in increasing the standard of living of the people by adopting latest innovations in the production of wide variety of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

**8. Promotes Country's Export Trade:-**Entrepreneurs help in promoting a country's export-trade, which is an important ingredient of economic development. They produce goods and services in large scale for the purpose earning huge amount of foreign exchange from export in order to combat the import dues requirement. Hence import substitution and export promotion ensure economic independence and development

**9. Creating innovation:-**An entrepreneur is a person who always look for changes. apart from combining the factors of production, he also introduces new ideas and new combination of factors. He always try to introduce newer and newer technique of production of goods and services. An entrepreneur brings economic development through innovation.

**10. Entrepreneurs Create New Businesses:-**Path breaking offerings by entrepreneurs, in the form of new goods & services, result in new employment, which can produce a cascading effect or virtuous circle in the economy. The stimulation of related businesses or sectors that support the new venture add to further economic development. For example, a few IT companies founded the Indian IT industry in the 1990s as a backend programmers' hub. Soon the industry gathered pace in its own programmers' domain. But more importantly, millions from other sectors benefited from it. Businesses in associated industries, like call centre operations, network maintenance companies and hardware providers, flourished. Education and training institutes nurtured a new class of IT workers offering better, high-paying jobs. Infrastructure development organizations and even real estate companies capitalized on this growth as workers migrated to employment hubs seeking new improved lives.

Similarly, future development efforts in underdeveloped countries will require robust logistics support, capital investment from buildings to paper clips and a qualified workforce

**11. Entrepreneurs Also Create Social Change:-**Through their unique offerings of new goods and services, entrepreneurs break away from tradition and indirectly support freedom by reducing dependence on obsolete systems and technologies. Overall, this results in an improved quality of life, greater morale and economic freedom.

For example, the water supply in a water-scarce region will, at times, force people to stop working to collect water. This will impact their business, productivity and income. Imagine an innovative, automatic, low-cost, flow-based pump that can fill in people's home water containers automatically. Such an installation will ensure people are able to focus on their core jobs without worrying about a basic necessity like carrying water. More time to devote to work means economic growth.

For a more contemporary example, smart phones and their smart apps have revolutionized work and play across the globe. Smart phones are not exclusive to rich countries or rich

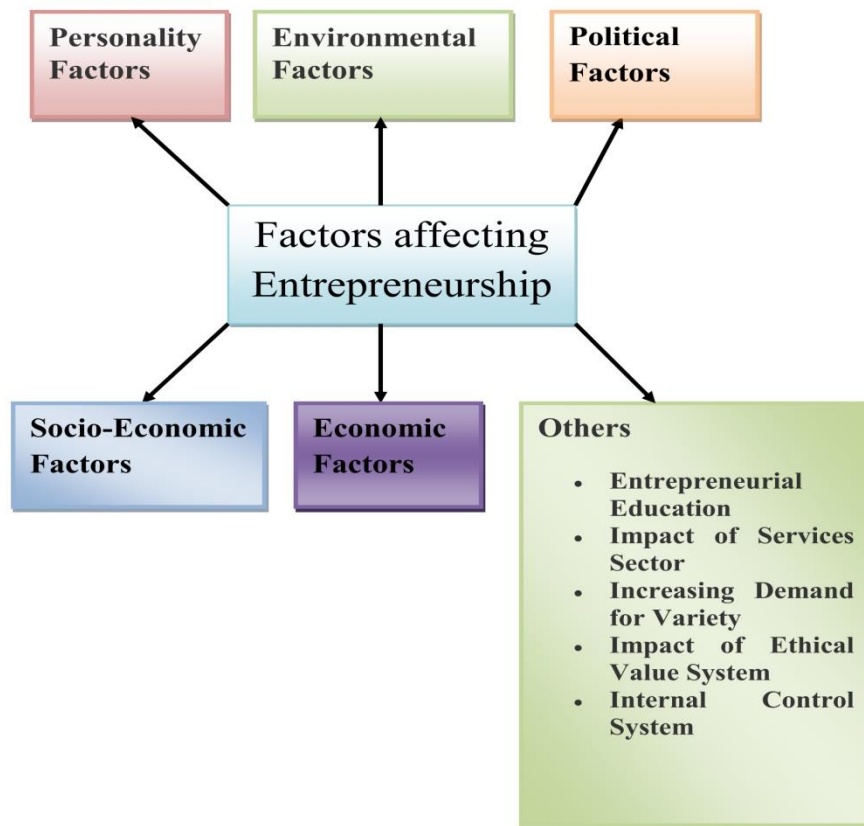
people either. As the growth of China's smart phone market and its smartphone industry show, technological entrepreneurship will have profound, long lasting impacts on the entire human race. Moreover, the globalization of tech means entrepreneurs in lesser-developed countries have access to the same tools as their counterparts in richer countries. They also have the advantage of a lower cost of living, so a young individual entrepreneur from an underdeveloped country can take on the might of the multi-million dollar existing product from a developed country.

**12 Personal Growth:**-Entrepreneurship has created millions of good jobs. In a startup workplace, jobs often call for creativity and collaboration, leading to personal development. Those exposed to entrepreneurship have higher confidence and greater independence. Not bound by the hierarchy and restrictions of large corporations, young entrepreneurs can take on greater responsibility, work flexible schedules and use creative solutions to problem solve. The freedom associated with entrepreneurship comes with certain challenges. Entrepreneurs often work long hours and risk their personal assets in developing their business.

**14. Entrepreneurship puts new business ideas into practice.:**-In doing so, it creates jobs that facilitate personal development. With their innovative and disruptive ideas, entrepreneurs can tackle social problems too. It's a worthy pursuit to consider, but if it's not for you, see how to pass down its principles to the next generation and enrol in How to Encourage and Teach Our Children Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can best be put as "an economy is the effect for which entrepreneurship is the cause"

## **1.6 Factors influencing Entrepreneurship**

Entrepreneurship is a complex phenomenon influenced by the interplay of a wide variety of factors. The entrepreneurial activity at any time is dependent upon a complex and varying combination of economic, social, political, psychological and other factors. These factors may have been both positive and negative influences on the emergence of entrepreneurship. Positive influences constitute facilitative and conducive conducive for the emergence of entrepreneurship whereas negative influences create inhibiting milieu to the emergence of entrepreneurship. Following factors contribute to the success of entrepreneurship:



### 1. Personality Factors

Personality traits such as inner desire for control of their activities, tolerance for risk, high level of tolerance to function in adverse situations and background experiences such as the family environment, level of education, age and work history tolerance for ambiguity are important personal characteristics that affect entrepreneurship. Individuals who are desirous of working independently; willing to work for long hours and assume risk; are self-confident and hard-working are likely to be more successful as entrepreneurs than those who do not possess these qualities

Personal factors, becoming core competencies of entrepreneurs, include:

- (a) Initiative (does things before being asked for)
- (b) Proactive (identification and utilization of opportunities)
- (c) Perseverance (working against all odds to overcome obstacles and never complacent with success)
- (d) Problem-solver (conceives new ideas and achieves innovative solutions)

- (e) Persuasion (to customers and financiers for patronization of his business and develops & maintains relationships)
- (f) Self-confidence (takes and sticks to his decisions)
- (g) Self-critical (learning from his mistakes and experiences of others)
- (h) A Planner (collects information, prepares a plan, and monitors performance)
- (i) Risk-taker (the basic quality).

## 2. Environmental factors

These factors relate to the conditions in which an entrepreneur has to work. If the environment that a individual is working in is unsatisfactory, that is, not conducive to his growth needs, it is likely that the individual will quit his job and start his own business as an entrepreneur. Unsatisfied personal needs for growth and achievement in employment conditions results in successful entrepreneurship.

## 3. Political

Some researchers felt that the growth of entrepreneurship cannot be explained fully unless the political set-up of a country is taken into consideration. Political stability in a country is absolutely essential for smooth economic activity. Frequent political protests, strikes, etc. hinder economic activity and entrepreneurship. Unfair trade practices, irrational monetary and fiscal policies, etc. are a roadblock to the growth of entrepreneurship

## 4. Socio-Economic Factors

The entrepreneurial activity at any time and place is governed by varying combination of socio-economic factors. The empirical studies have identified the following socioeconomic factors:

- Cast/religion
- Family background
- Level of Education
- Level of perception
- Legitimacy of Entrepreneurship
- Migratory character
- Social Mobility
- Social Security
- Investment capacity
- Ambition/motivation

### 1.7 Pros and Cons of being an Entrepreneur:

#### PROS (ADVANTAGES)

- **CONTROL.** You choose the work you like to do and that makes the most of your strengths and skills. The result can be more **job satisfaction**.
- **EXCITEMENT.** Entrepreneurship can be exciting and many entrepreneurs consider their work highly enjoyable. Each day is filled with new opportunities to challenge your abilities, skills, and determination.
- **FLEXIBILITY.** Entrepreneurs can schedule their work hours around other commitments, including spending quality time with their families.

- **FREEDOM.** Freedom to work whenever they want, wherever they want, and however they want draws many to entrepreneurship. Most entrepreneurs don't consider their work actual work because they are doing something they love.
- **RATIONAL SALARY.** As an entrepreneur, your income is directly related to your efforts and the success of your business.
- **BE YOUR OWN BOSS :** one can enjoy their life independently without being controlled by any one.
- **ALTERNATIVE TO CURRENT CAREER:** one can take advantage of second income by starting their own business along with a job by working as an entrepreneur.

### CONS (DISADVANTAGES)

- **ADMINISTRATION.** While making all the decisions can be a benefit, it can also be a burden. Being an entrepreneur comes with a lot of paperwork that can take up time and energy.
- **COMPETITION.** Staying competitive is critical as a small business owner. You will need to differentiate your business from others like yours in order to build a solid customer base and be profitable.
- **LONELINESS.** It can be lonely and scary to be completely responsible for the success or failure of your business.
- **NO REGULAR SALARY.** Being an entrepreneur often means giving up the security of a regular paycheck. If business slows down, your personal income can be at risk.
- **WORK SCHEDULE.** The work schedule of an entrepreneur can be unpredictable. A major disadvantage to being an entrepreneur is that it requires more work and longer hours than being an employee.
- **TIME MANAGEMENT:** as an entrepreneur will be taking more risk time is very precious as time is money for them hence , he has to dedicate himself/herself to the business in the initial stages.
- **EXPERIENCE:** very few acquire entrepreneurial skills when they enter into their own business . an unskilled person without experience would be difficult to carry business in the initial stages.

## 1.8 Differences between Entrepreneur and Manager

BASIS FOR COMPARISON	ENTREPRENEUR	MANAGER
Meaning	Entrepreneur refers to a person who creates an enterprise, by taking financial risk in order to get profit.	Manager is an individual who takes the responsibility of controlling and administering the organization.
Focus	Business startup	Ongoing operations
Primary motivation	Achievement	Power
Approach to task	Informal	Formal
Status	Owner	Employee
Reward	Profit	Salary
Decision making	Intuitive	Calculative
Driving force	Creativity and Innovation	Preserving status quo
Risk orientation	Risk taker	Risk averse

## 1.9 Qualities of an Entrepreneur

- **Mental ability:** - entrepreneur must be intelligent, creative , engage in analysing various problems and situations by anticipating the problems.
- **Clear objective** – a successful entrepreneur should establish clear mission, vision and objectives to make profit and render social service.
- **Business secrecy:** entrepreneur must safe guard his business secrets and select proper assistants.
- **Human relation ability:** entrepreneur must maintain good relation with all the stake holders.
- **Communication ability:** entrepreneur must have effective communication with all the stake holders. Good communication means both sender and receiver must understand each other in the same way.
- **Technical knowledge:** entrepreneur must possess knowledge about the business and technical aspects
- **Others:** motivator, innovator, problem solver, risk taker, goal setter and take initiative.

## **1.10 Types of Entrepreneurs.**

### **A) BASED ON THE TYPE OF BUSINESS:**

#### **1. Trading Entrepreneur:**

As the name itself suggests, the trading entrepreneur undertake the trading activities. They procure the finished products from the manufacturers and sell these to the customers directly or through a retailer. These serve as the middlemen as wholesalers, dealers, and retailers between the manufacturers and customers.

#### **2. Manufacturing Entrepreneur:**

The manufacturing entrepreneurs manufacture products. They identify the needs of the customers and, then, explore the resources and technology to be used to manufacture the products to satisfy the customers' needs. In other words, the manufacturing entrepreneurs convert raw materials into finished products.

#### **3. Agricultural Entrepreneur:**

The entrepreneurs who undertake agricultural pursuits are called agricultural entrepreneurs. They cover a wide spectrum of agricultural activities like cultivation, marketing of agricultural produce, irrigation, mechanization, and technology.

### **B) BASED ON THE USE OF TECHNOLOGY:**

#### **1. Technical Entrepreneur:**

The entrepreneurs who establish and run science and technology-based industries are called 'technical entrepreneurs.' Speaking alternatively, these are the entrepreneurs who make use of science and technology in their enterprises. Expectedly, they use new and innovative methods of production in their enterprises.

#### **2. Non-Technical Entrepreneur:**

Based on the use of technology, the entrepreneurs who are not technical entrepreneurs are non-technical entrepreneurs. The forte of their enterprises is not science and technology. They are concerned with the use of alternative and imitative methods of marketing and distribution strategies to make their business survive and thrive in the competitive market.

### **C) THE BASED ON THE STAGES OF DEVELOPMENT**

i) **First generation entrepreneurs:-**who do not possess any entrepreneurial background. They start industry by their own innovative skills.

ii) **Second generation entrepreneurs:-**who inherit the family business and pass to next generation.

iii) **Classical entrepreneurs:-**who aims to maximize his economic returns at a level consistent with the survival of the unit with or without an element of growth

## **D) BASED ON THE MOTIVATION**

**i) Pure entrepreneurs:-** who are basically motivated to become entrepreneurs for their personal satisfaction, ego etc..

**ii) Induced entrepreneurs:-** who are induced to take up entrepreneurial role by the assistance and policy of government including incentives, subsidies etc.

**iii) spontaneous Entrepreneurs:** They are persons with initiative, boldness and confidence in their ability ,inner urge and inborn talent and drive them to establish their own venture

## **E) BASED ON OWNERSHIP:**

### **1. Private Entrepreneur:**

A private entrepreneur is one who as an individual sets up a business enterprise. He / she it's the sole owner of the enterprise and bears the entire risk involved in it.

### **2. State Entrepreneur:**

When the trading or industrial venture is undertaken by the State or the Government, it is called 'state entrepreneur.'

### **3. Joint Entrepreneurs:**

When a private entrepreneur and the Government jointly run a business enterprise, it is called 'joint entrepreneurs.'

## **F) BASED ON GENDER:**

### **1. Men Entrepreneurs:**

When business enterprises are owned, managed, and controlled by men, these are called 'men entrepreneurs.'

### **2. Women Entrepreneurs:**

Women entrepreneurs are defined as the enterprises owned and controlled by a woman or women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of employment generated in the enterprises to women.

## **G) BASED ON THE SIZE OF ENTERPRISE:**

### **1. Small-Scale Entrepreneur:**

An entrepreneur who has made investment in plant and machinery up to Rs 1.00 crore is called 'small-scale entrepreneur.'

### **2. Medium-Scale Entrepreneur:**

The entrepreneur who has made investment in plant and machinery above Rs 1.00 crore but below Rs 5.00 crore is called 'medium-scale entrepreneur.'

### **3. Large-Scale entrepreneur:**

The entrepreneur who has made investment in plant and machinery more than Rs 5.00 crore is called 'large-scale entrepreneur.'

## **H) BASED ON CLARENCE DANHOF CLASSIFICATION:**

Clarence Danhof (1949), on the basis of his study of the American Agriculture, classified entrepreneurs in the manner that at the initial stage of economic development, entrepreneurs have less initiative and drive and as economic development proceeds, they become more innovating and enthusiastic.

**Based on this, he classified entrepreneurs into four types:**

**These are discussed in seriatim:**

### **1. Innovating Entrepreneurs:**

Innovating entrepreneurs are one who introduce new goods, inaugurate new method of production, discover new market and reorganise the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved, and people look forward to change and improvement.

### **2. Imitative Entrepreneurs:**

These are characterised by readiness to adopt successful innovations inaugurated by innovating entrepreneurs. Imitative entrepreneurs do not innovate the changes themselves, they only imitate techniques and technology innovated by others. Such types of entrepreneurs are particularly suitable for the underdeveloped regions for bringing a mushroom drive of imitation of new combinations of factors of production already available in developed regions.

### **3. Fabian Entrepreneurs:**

Fabian entrepreneurs are characterised by very great caution and skepticism in experimenting any change in their enterprises. They imitate only when it becomes perfectly clear that failure to do so would result in a loss of the relative position in the enterprise.

### **4. Drone Entrepreneurs:**

These are characterised by a refusal to adopt opportunities to make changes in production formulae even at the cost of severely reduced returns relative to other like producers. Such entrepreneurs may even suffer from losses but they are not ready to make changes in their existing production methods.

**Following are some more types of entrepreneurs listed by some other behavioural scientists:**

### **1. Solo Operators:**

These are the entrepreneurs who essentially work alone and, if needed at all, employ a few employees. In the beginning, most of the entrepreneurs start their enterprises like them.

### **2. Active Partners:**

Active partners are those entrepreneurs who start/ carry on an enterprise as a joint venture. It is important that all of them actively participate in the operations of the business. Entrepreneurs who only contribute funds to the enterprise but do not actively participate in business activity are called simply 'partners'.

### **3. Inventors:**

Such entrepreneurs with their competence and inventiveness invent new products. Their basic interest lies in research and innovative activities.

### **4. Challengers:**

These are the entrepreneurs who plunge into industry because of the challenges it presents. When one challenge seems to be met, they begin to look for new challenges.

### **5. Buyers:**

These are those entrepreneurs who do not like to bear much risk. Hence, in order to reduce risk involved in setting up a new enterprise, they like to buy the ongoing one.

### **6. Life-Timers:**

These entrepreneurs take business as an integral part to their life. Usually, the family enterprise and businesses which mainly depend on exercise of personal skill fall in this type/category of entrepreneurs.

## **1.11 Entrepreneurship Development- Need – Problems – National and State Level Institutions**

### **Meaning:**

As the term itself denotes, EDP is a programme meant to develop entrepreneurial abilities among the people. In other words, it refers to inculcation, development, and polishing of entrepreneurial skills into a person needed to establish and successfully run his / her enterprise. Thus, the concept of entrepreneurship development programme involves equipping a person with the required skills and knowledge needed for starting and running the enterprise. Entrepreneurship development is the process of improving the skills and knowledge of entrepreneurs through various training and classroom programs.

### **Need And objectives of Entrepreneurship development :**

#### **The major objectives of the Entrepreneurship Development Programmes (EDPs) are :**

- To Develop and strengthen the entrepreneurial quality, i.e. motivation or need for achievement.
- To Analyse environmental set up relating to small industry and small business.
- To select the product.
- To formulate proposal for the product.
- To understand the process and procedure involved in setting up a small enterprise.
- To know the sources of help and support available for starting a small scale industry.
- To acquire the necessary managerial skills required to run a small-scale industry.
- To know the pros and cons in becoming an entrepreneur.
- To appreciate the needed entrepreneurial discipline.
- Besides, some of the other important objectives of the EDPs are to:
- Let the entrepreneur himself / herself set or reset objectives for his / her enterprise and strive for their realization.

- Prepare him / her to accept the uncertainty in running a business.
- Enable him / her to take decisions.
- Enable to communicate clearly and effectively.
- Develop a broad vision about the business.
- Make him subscribe to the industrial democracy.
- Develop passion for integrity and honesty.
- Make him learn compliance with law.

### **National level institutions**

1. National small industries corporation (NSIC)
2. Small industries development organization (SIDO)
3. Khadi and village industries commission (KVIC)
4. National small industries corporation ltd. (NSIC)
5. National science and technology entrepreneurship development board (NSTEDB)
6. National productivity council (NPC)
7. National institute for small industry extension and training (NISIET)
8. National institute for entrepreneurship and small business development (NIESBUD)
9. Entrepreneurship development institute of India

### **State level institutions:**

1. Directorate of Industries (DIs)
2. District Industries Centers (DICs)
3. State Financial Corporation's (SFCs)
4. State Industrial Development / Investment Corporation (SIDC/SIIC)
5. State Small Industrial Development Corporations (SSIDC)
6. Small scale industries development Bank of India (SIDBI)
7. National Bank for Agriculture and Rural Development (NABARD)

## **Module- 2**

### **SMALL SCALE INDUSTRIES 10 Hrs**

- 1.1 Small Scale Industries
- 1.2 Tiny Industries
- 1.3 Ancillary Industries
- 1.4 Cottage Industries
- 1.5 Capital Investment
- 1.6 Product Range
- 1.7 Ownership Patterns
- 1.8 Importance and Role played by SSI in the development of the Indian Economy
- 1.9 Problems faced by SSI's and the steps taken to solve the problems
- 1.10 Policies Governing SSI's

### Small scale Industries meaning:

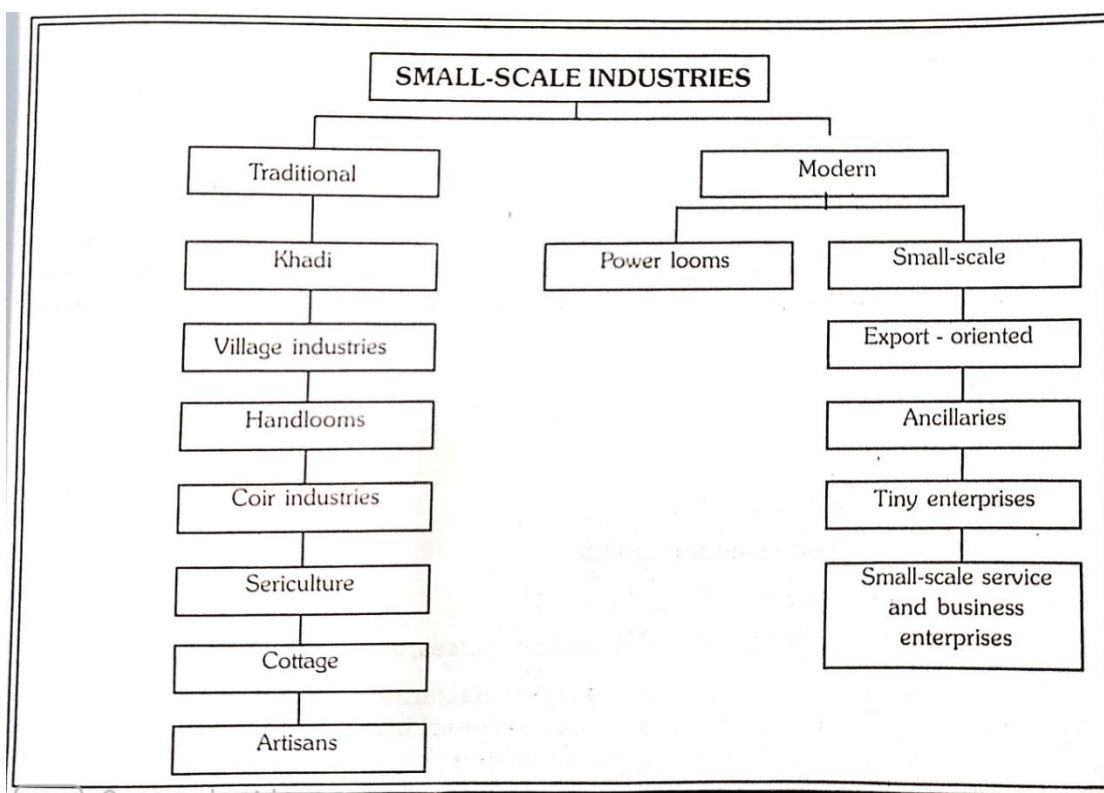
Small scale industries (SSI) are those industries in which manufacturing, providing services, productions are done on small scale or micro scale. For example, these are the ideas of Small scale industries: Napkins, tissues, chocolates, toothpick, water bottles, small toys, papers, pens. Small scale industries play an important role in social and economic development of India. These industries do a one-time investment in machinery, plants, and industries which could be on an ownership basis, hire purchase or lease basis. **But it does not exceed Rs. 1 Crore.**

Example : Agarbatti Making Any individual can start agarbatti making business as small scale or large scale basis. Agarbatti is considered as household goods having a great market potential. The burning of Agarbatti or incense in religious and social functions has been practiced in India since early times. Apart from big brands, local agarbatti companies are doing good in India

### Small scale industries definition:

#### According to national income accounting

“ A small industry is defined as a unit engaged in manufacturing ,servicing, repairing, processing and preserving of goods having an investment in plant and machinery at original cost not exceeding one crore “



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Chart: Classification of SSI

### **Ancillary industry:**

An ancillary unit was defined as an industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more other industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 10 million.

Examples: Nut And bolts , Small plastic and paper products like plates, plastic cups, spoons Manufactured for the Food industries.

### **Tiny Industries :**

Tiny Industry: Tiny Scale industry is one in which the investment in plant and machinery is less than Rs.25 lakhs irrespective of the location of the unit.

Examples: .bakery , Toys,

### **Cottage Industry:**

An industry in which employees work in their own homes, often using their own equipment

Definition:

A **cottage industry** is a small-scale industry, where the creation of products and services is home-based, rather than factory-based. While products and services made by cottage industries are often unique and distinctive, given that they are mostly not mass-produced, producers in this sector often face manifold after deals when they are without the backing of the government or when latter is in favour of large-scale industrialisation, and hence is the lesser popularity of such industry in the latter-day world.

**Example:** knitting, sewing, wall hangings, Agarbatti making and pottery.

**Note:**

### **Khadi industry**

- Khadi, (pronounced Khādī) refers to hand-spun and hand-woven cloth. The raw materials may be cotton, silk, or wool, which are spun into threads on a charkha (a traditional spinning implement)

### **Village industries:**

Village industries are industries which are located in a rural area which produces any goods or renders any service with or without the use of power and in which the fixed capital investment per head or artisan or workers is specified by the Central Government form time and time.

## **Handloom industry- Textile**

- A **loom** is a device used to weave cloth and tapestry. handloom is a simple machine used for weaving. In a wooden vertical-shaft looms, the heddles are fixed in place in the shaft. The warp threads pass alternately through a heddle, and through a space between the heddles (the shed), so that raising the shaft raises half the threads (those passing through the heddles), and lowering the shaft lowers the same threads — the threads passing through the spaces between the heddles remain in place. This was a great invention in the 13th century.

### **Coir Industry:**

**Coir** (/ˈkɔɪər/), or **coconut fibre**, is a natural fibre extracted from the husk of coconut<sup>[1]</sup> and used in products such as floor mats, doormats, brushes and mattresses.

### **Seri culture:**

Sericulture, or silk farming, is the cultivation of silkworms to produce silk.

### **Artisan:**

An artisan (from French: *artisan*, Italian: *artigiano*) is a skilled craft worker who makes or creates things by hand that may be functional or strictly decorative, for example furniture, decorative arts, sculptures, clothing, jewellery, food items, household items and tools or even mechanisms such as the handmade clockwork movement of a watchmaker. Artisans practice a craft and may through experience and aptitude reach the expressive levels of an artist.

### ***Objectives of Small Scale Industries:***

The objectives of small scale industries are:

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

## **Micro small and medium scale industries Investment limit**

**Definitions of Micro, Small & Medium Enterprises** In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

1. **Manufacturing Enterprises**-he enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are **defined in terms of investment in Plant & Machinery.**

2. **Service Enterprises**:-The enterprises engaged in providing or rendering of services and are **defined in terms of investment in equipment..**

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under

## **Investment Limit**

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant machinery</b>
Micro Enterprises	Does not exceed 25 lakh rupees
Small Enterprises	More than 25 lakh rupees but does not exceed 5 crore rupees
Medium Enterprises	More than 5 crore rupees but does not exceed 10 crore rupees
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in equipments</b>
Micro Enterprises	Does not exceed 10 lakh rupees:
Small Enterprises	More than 10 lakh rupees but does not exceed 2 crore rupees
Medium Enterprises	More than 2 crore rupees but does not exceed 5 crore rupees

**Govt. of India Development Commissioner (MSME) Ministry of Micro, Small & Medium Enterprises**

## **The Product Group Matrix**

There are about twenty-one major industry groups in the small scale sector. These are listed below :

1. Food Products
2. Chemical & Chemical Products
3. Basic Metal Industries
4. Metal Products
5. Electrical Machinery & Parts
6. Rubber & Plastic Products
7. Machinery & Parts Except Electrical goods
8. Hosiery & Garments - Wood Products
9. Non-metallic Mineral Products
10. Paper Products & Printing
11. Transport Equipments & Parts
12. Leather & Leather Products
13. Miscellaneous Manufacturing Industries
14. Other Services & Products
15. Beverages, Tobacco & Tobacco Products
16. Repair Services
17. Cotton Textiles
18. Wool, Silk, Synthetic Fiber Textiles
19. Jute, Hemp and Mesta Textiles
20. Other Services

A survey of indices of industrial production (IIP) maintained for these major industry groups reveals what the sunrise industries are and on what segments the sun has set. SSI units produce an amazing variety and type of products. Over 7500 products are known to be manufactured in this sector. Even in a particular product, there would exist a wide range of qualities or specifications catering to different market segments, particularly in consumer/household products. Small Scale sector has emerged as a major supplier of mass consumption items like

1. Leather And Leather Goods
2. Plastic And Rubber Goods
3. Ready-Made Garments
4. Hosiery Goods, Sheet Metal Goods
5. Stationery Items - Soap And Detergents
6. Domestic Utensils
7. Toothpaste And Toothpowder
8. Safety Matches
9. Preserved Foods And Vegetables
10. Wooden And Steel Furniture
11. Paints And varnishes etc.,
12. Electric Motors
13. Pesticide Formulators
14. Photographic Sensitised Paper
15. Razor Blades

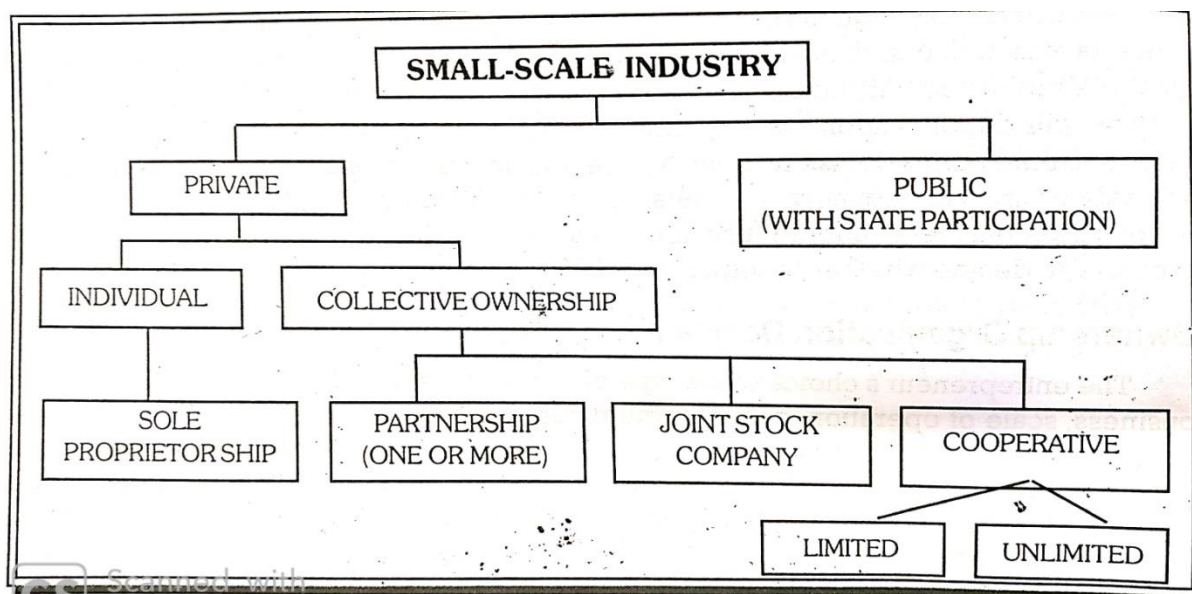


Fig: Organisational Structure of small-scale Industries in India

## OWNERSHIP PATTERN IN SMALL SCALE INDUSTRIES

### Sole Proprietorship

Sole Proprietorship in simple words is a one-man business organisation. It is the type of entity that is fully owned and managed by one natural person (not a legal person/entity) known as the sole proprietor. The business and the man are the same, it does not have a separate legal entity.

A sole proprietorship usually does not have to be incorporated or registered. It is the simplest form of business organisations and the ideal choice to run a small or medium scale business. Let us look at some important features of a proprietorship.

#### **Features of Sole Proprietorship**

##### *1] Lack of Legal Formalities*

A sole proprietorship does not have a separate law to govern it. So there are not many special rules and regulations to follow. It does not require incorporation or registration of any kind. In most cases, only a license is required to carry out the desired business.

And just like in its formation, there is hardly any legal process involved in its closure. Overall it allows for ease of doing business with minimum hassles.

## **2] Liability**

Since there is no separation between the owner and the business, the liability of the owner is also unlimited. So if the business is unable to meet its own liabilities, it will fall upon the proprietor to pay them. All of his personal assets (like his car, house, other properties etc) may have to be sold to meet the liabilities of the business.

## **3] Risk and Profit**

The owner is the only risk bearer in a sole proprietorship. Since he is the only one financially invested in the company, he must also bear all the risk. If the business fails or suffers losses he will be the one affected.

However, he also enjoys all the profits from the business. He does not have to share his profits with any other stakeholders since there are none. So he must bear the full risk in exchange for enjoying full profits.

## **4] No Separate Identity**

In legal terms, the business and the owner are one and the same. No separate legal identity will be bestowed upon the sole proprietorship. So the owner will be responsible for all the activities and transactions of the business.

## **5] Continuity**

Just as we saw above the business and the owner have one identity. So a sole proprietorship is entirely dependent on its owner. The death, retirement, bankruptcy, insanity, imprisonment etc will have an effect on the sole proprietorship. In most of such cases, the proprietorship will cease to exist and the business will come to an end.

## **Advantages of Sole Proprietorship**

- A proprietor will have *complete control of the entire business*, this will facilitate quick decisions and freedom to do business according to their wishes
- Law does not require a proprietorship to publish its financial accounts or any other such documents to any members of the public. This allows the business a great deal of *confidentiality* which is sometimes important in the business world
- The owner derives *maximum incentive* from the business. He does not have to share any of his profits. So the work he puts into the business is completely reciprocated in incentives
- Being your own boss is a great sense of *satisfaction and achievement*. You are answerable only to yourself and it is a great boost to your self-worth as well

## **Disadvantages of Sole Proprietorship**

- One of the biggest limitations of a sole proprietorship is the *unlimited liability of the owner*. If the business fails it can wipe out the personal wealth of the owner as well and affect his future business prospects too

- Another problem is the *limited capital* a sole proprietor has access to. His own personal savings and money he can borrow may not be enough to expand the business. Banks and financial institutions are also wary lending to proprietorships
- The *life cycle of a sole proprietorship is undecided* and attached to its owner. If the owner is incapacitated in any way it has a negative effect on the business, and it may even lead to the closure of the business. A sole proprietorship cannot carry on without its proprietor.
- A sole proprietor also has *limited managerial ability*. He cannot be an expert in all the fields of the business. And limited resources may mean that he cannot even hire competent people to help him out. This may lead to the business suffering from mismanagement and poor decisions.

## 2 Meaning of Partnership

Partnership is an **association of persons** who have agreed to run the business and share the profits and losses of a business. The business may be run by all the partners or any of them acting for all.

An agreement is signed between the partners before they actually start the business. This agreement is termed as **Partnership Deed**. The **persons who owns the business** are called partners and collectively they are known as Firm.

Section 4 of the Indian Partnership Act, 1932, defines partnership as

The Indian Partnership Act, 1932, Section 4, defined partnership as “the relation between persons who have agreed to share the profits of business carried on by all or any of them acting for all”. The Uniform Partnership Act of the USA defined a partnership “as an association of two or more persons to carry on as co-owners a business for profit”.

## Features of Partnership

1. At least two persons are required to start and run a partnership firm. It is subject to a maximum of ten persons for banking business and twenty for non banking business.
2. There must be an agreement between all the partners. The agreement may be oral or written.
3. A partnership business exists on the mutual trust and faith of the partners.
4. Each partner has unlimited liability like sole proprietorship.
5. No partner can transfer share without getting the consent of all the other partners.
6. **Unlimited Liability:** Like proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm’s obligations, the partners’ private assets will also be used for the purpose.

## 7 . Principal-Agent Relationship:

The partnership firm may be carried on by all partners or any of them acting for all. While dealing with firm’s transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm and of the other partners

8. The business may be run by all or any of them acting for all. Each and every partner in a partnership are the joint owners of the business. When a partner deals with other parties in business transactions, he/she acts as an agent of the others and at the same time others become the principal. So, a principal — agent relationship always exist between partners.

9. The agreement contains details about the amount of capital contributed by each partner and profit or loss sharing ratio.

8. The business carried by the partners should be lawful.

### **Advantages of Partnership**

1. It is easy to establish partnership firm as there exists contractual relationship between the partners.

2. Each partner contributes capital and hence more funds are available in the business.

3. A partnership firm comes to an end in the event of lunacy, death or bankruptcy of any partner.

4. A taxation rate applicable to partnership firm is lesser than sole proprietorship.

5. Since two or more partners join hand to start partnership business, it may be possible to pool more talent of partners.

6. It is a flexible organization. At any time the partners can decide to change the size or nature of business or area of its operations.

7. The risks are shared by the partners.

### **Disadvantages of Partnership**

1. Each partner has equal right to participate in the management of the business. So conflict may arise between the partners.

2. Partnership may be discontinued due to death or incapacity of partners.

3. The liability of partners is unlimited.

4. The capital to be raised is always limited as the total number of partners cannot exceed 20.

5. Partners cannot transfer share of interest to outsiders without the consent of other partners.

### **Joint Stock Company**

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as “*a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company.*” Studying the features of a joint stock company will clarify its structure.

## **Features of a Joint Stock Company**

### *1] Artificial Legal Person*

A company is a legal entity that has been created by the statutes of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.

However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

### *2] Separate Legal Entity*

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

### *3] Incorporation*

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

### *4] Perpetual Succession*

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

### *5] Limited Liability*

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

### *6] Common Seal*

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

### 7] *Transferability of Shares*

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

### **Advantages of a Joint Stock Company**

- One of the biggest drawing factors of a joint stock company is the *limited liability of its members*. their liability is only limited up to the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies
- The shares of a company are *transferable*. Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.
- *Perpetual succession* is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.
- A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the *best talent and professionals*.

### **Disadvantages of a Joint Stock Company**

- One disadvantage of a joint stock company is the complex and lengthy procedure for its *formation*. This can take up to several weeks and is a costly affair as well.
- According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete *lack of secrecy* for the company.
- And even during its day to day functioning a company has to follow a numerous number of laws, *regulations*, notifications, etc. It not only takes up time but also reduces the freedom of a company
- A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees. the debenture holders etc. All these stakeholders look out for their benefit and it often leads to a *conflict of interest*.

### **Definition of Co-Operative Organisation:**

#### **Co-operative organisation may be defined as follows:**

Co-operative organisation is a voluntary association of usually economically weaker sections of society; who join together to achieve a common objective by fighting against some social evil-through working collectively according to established principles of co-operation

## **Features of Co-Operative Organisation:**

### **Fundamental features of a co-operative organisation are as follows:**

#### ***(i) Registration:***

A co-operative society must be registered under the Co-operative Societies Act, 1912 or under a State Co-operative Societies Act. On registration, the society becomes a body corporate, having a separate legal entity of its own, with perpetual succession and limited liability of its members.

#### ***(ii) Voluntary Association:***

A co-operative organisation is a voluntary association of persons. Everyone having a common interest is free to join a co-operative society; irrespective of caste, creed, religion or political affiliation. No person can be forced to become the member of a co-operative society or continue as a member.

A member after giving proper notice can leave the society; and will get back his capital according to the rules of the co-operative. But no member can transfer his shares to another person.

#### ***(iii) Minimum Ten Persons Needed:***

A minimum of ten adult persons are needed to form a cooperative organisation. Maximum number of members is 100, in a co-operative credit society; with no such limit in non-credit co-operative societies.

#### ***(iv) Service-Motive:***

The primary aim of a co-operative society is to provide some service or benefit to its members (or even general public's) by fighting against some social evil.

#### ***(v) Finance:***

A co-operative organisation is a voluntary association of persons. Everyone having a common interest is free to join a co-operative society; irrespective of caste, creed, religion or political affiliation. No person can be forced to become the member of a co-operative society or continue as a member.

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**(v) Finance:**

The capital of a co-operative is raised from members through issue of shares. A co-operative can also obtain loans from the Central or State Co-operative Banks.

**(vi) Limited Liability:**

The liability of each member of a co-operative is limited to the extent of the value of shares held by him, in the share capital of the co-operative.

**(vii) Democratic Management:**

Business of a co-operative society is managed by a managing committee; which is elected by the members. The members lay down the broad policy guidelines within which the managing committee manages the affairs of the co-operative society.

**The managing committee usually consists of the following office-bearers:**

1. President
2. Vice-president.
3. Secretary
4. Joint Secretary, if any
5. Treasurer.

**(viii) 'One-Man One-Vote' Rule:**

Every member in a co-operative has one vote; irrespective of the number of shares held by him. 'One-man one vote rule', as such conveys the idea of equality of status for all members of the society.

**(ix) Limited Return on Capital and Disposal of Surplus:**

A limited interest up-to 10% is paid to members on their capital contribution-as an incentive to invest money in the cooperative society. However, interest is paid only out of profits. Profits are distributed not in form of dividend but in form of a bonus which depends on the volume of business done by a member with the co-operative.

For example, in a consumer co-operative this bonus depends on the amount of purchases made by a member from the co-operative, during the year; and similar other bases in case of other types of co-operatives.

**(x) State Control:**

Government exercises control over co-operatives to protect the interests of members of co-operatives; who, otherwise, are economically quite weak. Every co-operative society must furnish annual accounts and reports to the Registrar of Co-operatives. Further, accounts of all co-operatives are subject to compulsory audit.

### Features of co-operative organisation-at a glance

1. Registration
2. Voluntary organisation
3. Minimum ten persons needed
4. Service-motive
5. Finance-through issue of shares and loans
6. Limited liability
7. Democratic management
8. 'One-man one-vote' rule
9. Limited return on capital and disposal of surplus
10. State control.

### Following are the advantages of the co-operative organisation:

#### *(i) Easy to Form:*

A co-operative society is easy to form. Its registration is very simple and does not involve many legal formalities.

#### *(ii) Universal Brotherhood:*

A co-operative organisation represents universal brotherhood. Membership of a co-operative is open to all having a common interest; irrespective of caste, creed, religion and political affiliation. Any member may leave the society, after giving proper notice. There is no compulsion to stick to the co-operative against one's will.

#### *(iii) Fully Democratic Management:*

Managing committee of a co-operative is elected, by members. Further, 'one-man one-vote' principle is followed in all co-operatives. As such, each member has equal rights and equal voice in the management of the co-operative.

#### *(iv) Perpetual Succession:*

After registration, a co-operative society acquires a separate legal status with perpetual succession. Its life is not affected by the death, insolvency or lunacy of members. Co-operatives exist for long periods-benefiting members and the community.

#### *(v) Limited Liability:*

Liability of members of a co-operative society is limited to the extent of the value of their shares. Members do not run personal risk; while being members of the co-operative. This fact encourages even poor people to join co-operatives.

#### *(vi) Governmental Patronage:*

As a matter of social welfare policy, Government extends all support to co-operatives e.g. loans at low rates of interest, relief in taxation etc.

#### *(vii) Internal Financing:*

A large part of the profits of a co-operative is transferred to general reserve every year. Through ploughing back of profits, a co-operative can undertake schemes for its growth and expansion.

#### *(viii) Lower Operating Costs:*

**Operating costs of a co-operative are quite low; because:**

1. Office bearers offer honorary services.

2. There is no expenditure incurred on advertising and marketing activities.

***(ix) Fair Distribution of Surplus:***

Surplus of a co-operative is not distributed as dividends are paid in companies. Rather surplus is given away to members, on the basis of their dealings with society. This approach to disposal of surplus is called 'distributive justice'.

***(x) Social Welfare Aspect:***

Co-operatives are non-business organisations. They spread ideals of co-operation in society. They promote feelings of equality, independence, hard work among people in a society and help them morally upgrade themselves.

**Limitations of Co-Operative Organisation:**

**Following are the limitations of the co-operative organisation:**

***(i) Limited Capital:***

**Co-operative organisations have very limited capital; because of the following reasons:**

(a) Members of a co-operative are economically backward, in most of the cases.

(b) Co-operatives do not give more than 10% interest on capital invested. This provides not much incentive to invest huge amounts in co-operatives.

(c) The principle of 'one-man one-vote' discourages people to buy a large number of shares in a co-operative organisation.

All told, limited finances stand in the way of growth of activities indulged in by a co-operative.

***(ii) Inefficient Management:***

Management of a co-operative organisation is called inefficient. In fact, members of managing committee are part-time and inexperienced people.

They usually possess no specialized knowledge of modern management principles and techniques. Because of limited financial capacity, a co-operative is unable to hire the services of professional managers; who charge very high for their services, in the present-day-times.

***(iii) Rift among Members:***

Co-operatives are started with a sense of lot of enthusiasm about co-operation; but this enthusiasm disappears very soon. Over a period of time, differences develop among members as to how to run the society. Selfish interests of dominating members prevail upon the genuine interests of poor members.

Differences among members usually lead to a decline of co-operative activities; and the co-operative organisation runs just as a matter of routine to justify its existence among society.

***(iv) Rigid Rules and Regulations:***

Co-operatives have to function according to rigid rules and regulations. They are subject to excessive Governmental control over their functioning. The result is lack of flexibility of operations in the functioning of co-operatives; which does not permit their growth in view of environmental opportunities.

**(v) Political Interference:**

Government also invests in co-operative organisations. There are, then, members in managing committee, who represent interests of political parties. In fact, members of political parties dominate the working of the co-operative; and the co-operative organisation very often turns into a political organisation.

Thus the very purpose and philosophy of co-operation, which is the basis of a co-operative organisation meets with frustration.

**(vi) Lack of Motivation:**

The office-bearers of a co-operative are honorary officials. They have no incentive to work hard for the co-operative. In the absence of remuneration, they just work minimum and justify their status, in the eyes of the members.

**Advantages and limitations of co-operative organisation-at a glance:**

<p><b>Advantages:</b></p> <ol style="list-style-type: none"><li>1. Easy to form</li><li>2. Universal brotherhood</li><li>3. Fully democratic management</li><li>4. Perpetual succession</li><li>5. Limited liability</li><li>6. Governmental patronage</li><li>7. Internal financing</li><li>8. Lower operating costs</li><li>9. Fair distribution of surplus</li><li>10. Social welfare aspect</li></ol> <p><b>Limitations:</b></p> <ol style="list-style-type: none"><li>1. Limited capital</li><li>2. Inefficient management</li><li>3. Rift among members</li><li>4. Rigid rules and regulations</li><li>5. Political interference</li><li>6. Lack of motivation</li></ol>
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**Role and importance of Small scale industries in economic development:**

Small scale industries play an important role for the development of Indian economy in many ways. About 60 to 70 percent of the total innovations in India comes from the SSIs. Many of the big businesses today were all started small and then nurtured into big businesses. The roles of SSIs in economic development of the country are briefly explained below.

**• Role of SSI in Indian Economy**

- 1. Small Scale Industries Provides Employment
- 2. SSI Facilitates Women Growth
- 3. SSI Brings Balanced Regional Development
- 4. SSI Helps in Mobilization of Local Resources
- 5. SSI Paves for Optimisation of Capital
- 6. SSI Promotes Exports
- 7. SSI Complements Large Scale Industries
- 8. SSI Meets Consumer Demands
- 9. SSI Ensures Social Advantage
- 10. Develops Entrepreneurship

## **1. Small Scale Industries Provides Employment**

1. SSI uses labour intensive techniques. Hence, it provides employment opportunities to a large number of people. Thus, it reduces the unemployment problem to a great extent.
2. SSI provides employment to artisans, technically qualified persons and professionals. It also provides employment opportunities to people engaged in traditional arts in India.
3. SSI accounts for employment of people in rural sector and unorganized sector.
4. It provides employment to skilled and unskilled people in India.
5. The employment capital ratio is high for the SSI.

## **2. SSI Facilitates Women Growth**

1. It provides employment opportunities to women in India.
2. It promotes entrepreneurial skills among women as special incentives are given to women entrepreneurs.

## **3. SSI Brings Balanced Regional Development**

1. SSI promotes decentralized development of industries as most of the small scale industries are set up in backward and rural areas.
2. It removes regional disparities by industrializing rural and backward areas and brings balanced regional development.
3. It promotes urban and rural growth in India.
4. It helps to reduce the problems of congestion, slums, sanitation and pollution in cities by providing employment and income to people living in rural areas. It plays an important role by initiating the government to build the infrastructural facilities in rural areas.
5. It helps in improving the standard of living of people residing in suburban and rural areas in India.
6. The entrepreneurial talent is tapped in different regions and the income is also distributed instead of being concentrated in the hands of a few individuals or business families.

## **4. SSI Helps in Mobilization of Local Resources**

1. It helps to mobilize and utilize local resources like small savings, entrepreneurial talent, etc., of the entrepreneurs, which might otherwise remain idle and unutilized. Thus it helps in effective utilization of resources.
2. It paves way for promoting traditional family skills and handicrafts. There is a great demand for handicraft goods in foreign countries.

3. It helps to improve the growth of local entrepreneurs and self-employed professionals in small towns and villages in India.

### **5. SSI Paves for Optimisation of Capital**

1. SSI requires less capital per unit of output. It provides quick return on investment due to shorter gestation period. The pay back period is quite short in small scale industries.

2. SSI functions as a stabilizing force by providing high output capital ratio as well as high employment capital ratio.

3. It encourages the people living in rural areas and small towns to mobilize savings and channelize them into industrial activities.

### **6. SSI Promotes Exports**

1. SSI does not require sophisticated machinery. Hence, it is not necessary to import the machines from abroad. On the other hand, there is a great demand for goods produced by small scale sector. Thus it reduces the pressure on the country's balance of payments.

2. SSI earns valuable foreign exchange through exports from India.

### **7. SSI Complements Large Scale Industries**

1. SSI plays a complementary role to large scale sector and supports the large scale industries.

2. SSI provides parts, components, accessories to large scale industries and meets the requirements of large scale industries through setting up units near the large scale units.

3. It serves as ancillaries to large Scale units.

### **8. SSI Meets Consumer Demands**

1. SSI produces wide range of products required by consumers in India.

2. SSI meets the demand of the consumers without creating a shortage for goods. Hence, it serves as an anti-inflationary force by providing goods of daily use.

### **9. SSI Ensures Social Advantage**

1. SSI helps in the development of the society by reducing concentration of income and wealth in few hands.

2. SSI provides employment to people and pave for independent living.

3. SSI helps the people living in rural and backward sector to participate in the process of development.

4. It encourages democracy and self-governance.

## **10. Develops Entrepreneurship**

1. It helps to develop a class of entrepreneurs in the society. It helps the job seekers to turn out as job givers.
2. It promotes self-employment and spirit of self-reliance in the society.
3. Development of small scale industries helps to increase the per capita income of India in various ways.
4. It facilitates development of backward areas and weaker sections of the society.
5. Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants of the society.

## **Problems faced by Small scale Industries**

**Major problems faced by the small scale industries are :**

- (1) Finance
- (2) Raw Material
- (3) Idle Capacity
- (4) Technology
- (5) Marketing
- (6) Infrastructure
- (7) Under Utilisation of Capacity
- (8) Project Planning
- (9) Skilled manpower
- (10) Managerial problems

### ***1) Finance:***

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate them working adequate credit on easier terms and conditions must be provided to them.

### ***3 Raw material***

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

**(3) Idle Capacity:**

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

**(4) Technology:**

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery. Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

**(5) Marketing:**

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

**(6) Infrastructure:**

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

**(7) Under Utilisation of Capacity:**

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

**(8) Project Planning:**

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

**(9) Skilled Manpower:**

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

**(10) Managerial:**

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counselling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

## **Steps taken to solve the problems of Small scale industries:**

### **(1) Technical Assistance:**

The elaborate institutional structure consisting of the State Directorate of Industries, the Small Industries Service Institutes and the Small Scale Industries Development Corporation provide technical assistance to the SSIs. The SISI also arrange for training programmes for entrepreneurs, managers and workers.

In 1978, the scheme of District Industries Centres (DICs) was introduced. The objective of this scheme was to provide a “**focal point**” for the development of small industries. The DICs were given the responsibility of providing all the services and support required at pre-investment and post-investment stages to the small scale entrepreneurs.

The DICs provide a package of assistance and credit facilities, raw materials, training, marketing etc., including the necessary help to unemployed educated young entrepreneurs in general.

Institute which offers Technical support:

- Central institute of tool design (CITD)
- National institute of design (NID)
- Product and process development centres

### **(2) Industrial Estates:**

An industrial estate programme has been in operation since 1955. An industrial estate is a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand. It offers all infrastructure facilities like sheds, water, power, communication, transportation etc.

Industrial estates were established in India to encourage the growth of small scale industries, to shift small business units from congested areas to estate premises in order to increase their productivity, to achieve decentralised development in towns and villages and to encourage growth of ancillary industries in the townships surrounding major industrial concerns.

Small industry development has been the main objective of the programme and policy of industrial estates in India. More than 500 industrial estates are working in India.

### **(3) Supply of Raw Materials:**

The scarce raw materials are distributed through an allocation system. In order to ensure the availability of the scarce raw materials to small industries, the State Small Scale Industries Corporation have been entrusted with the responsibility of distribution these materials through the distribution centres located in different parts of each State.

### **(4) Marketing Assistance:**

Marketing of their products is perhaps the most crucial problem facing the small scale enterprises.

### **The assistance provided by the Govt. in this area in these forms:**

- (a) Exclusive purchase of specific products of SSIs for the Govt.
- (b) Price preference to small scale enterprises in public sector purchases and

(c) Assisting the sale of small enterprises products through State-owned cooperatives.

Institutes offering marketing support:

- State trading corporation's
- Export import bank of India (EXIM)
- Export promotion councils and commodity boards

**(d) Fiscal Incentives:**

**Both the Central and State Govts, have provided a number of fiscal incentives for the growth of the SSIs like:**

- (i) Tax holiday for new industrial undertakings,
- (ii) Capital subsidy to industries in backward areas,
- (iii) Excise duty exemption,
- (iv) A price preference of 15% over large industries.

Apart from these assistance schemes of a general nature, the Govt. has also implemented a few special projects (including area development schemes) with a view to assisting dispersal of small scale enterprises into the backward rural areas, like the Rural Industries Projects which were started in specified rural areas with a view to undertaking development of village and small industry and Rural Artisan Programme in selected areas.

**(e) Financial Assistance:**

Every production activity needs finance. In case of small producers, there is a special need for making arrangements for the supply of credit as these producers by themselves can do little. Small industries find it difficult to raise loans due to the small size of their operations. Considering this problem, the official policy treats small enterprises as a priority sector for extending credit by financial institutions.

Institutions offering financial support

- Industrial finance corporation of India (IFCI)
- Industrial development bank of India (IDBI)
- Small industries development Bank of India (SIDBI)

**Thus, government has provided the following institutional support to solve the problem of finance and marketing in the small scale sector**

**(i) National Bank for Agriculture and Rural Development (NABARD)** It was set up in 1982, to promote integrated rural development. Apart from agriculture, it supports small industries, cottage and village industries and rural artisans. It provides credit and offers counselling and consultancy services and organises training and development programmes for rural entrepreneurs.

**(ii) The Rural Small Business Development Centre (RSBDC)** It was set up by the world association for small and medium enterprises and is sponsored by NABARD. It works for the benefit of socially and economically disadvantaged individuals and groups. It aims at providing

management and technical support to current and prospective micro and small entrepreneurs in rural areas.

**(iii) National Small Industries Corporation (NSIC)** It was set up in 1955 with a view to promote, aid and foster the growth of small business units in the Country.

Functions of NSIC include

- (a) Supply of machines on easy hire-purchase terms.
- (b) Procure, supply and distribute raw materials.
- © Export the products of small business units and develop export-worthiness.
- (d) Mentoring and advisory services.
- (e) Serve as technology business incubators.
- (f) Creating awareness on technological up gradation.
- (g) Developing software technology parks and technology transfer centres.

Scheme of 'performance and credit rating' of small businesses is implemented through NSIC to ensure that they score higher rating for their credit requirements as and when they approach the financial institutions for their working capital and investment requirements.

**(iv) Small Industries Development Bank of India (SIDBI)** It was set up as an apex bank to provide direct/indirect financial assistance under different schemes, to meet credit needs of small business organisations and to coordinate the functions of other institutions in similar activities.

**(v) The National Commission for Enterprises in the Unorganised Sector (NCEUS)** It was constituted in September, 2004, with the objectives of recommending measures considered necessary for improving the productivity of small enterprises in the informal sector and to enhance the competitiveness of the sector in the emerging global environment by developing linkages of the sector with other institutions in the areas of credit, raw materials, infrastructure, technology up gradation, marketing, etc.

**(vi) Rural and Women Entrepreneurship Development (RWED)** This programme aims at promoting a conducive business environment and at building institutional and human capacities that will encourage and support the entrepreneurial initiatives of rural people and women by providing training and advisory services.

**(vii) Scheme of Fund for Regeneration of Traditional Industries (SFURTI)** The Central Government set up this fund to make the traditional industries more productive and competitive and to facilitate their sustainable development.

The main objectives of SFURTI are to develop clusters of traditional industries in various parts of the country; build innovative and traditional skills, improve technologies and encourage public private partnerships, develop market intelligence, etc.

**(viii) The District Industries Centres (DICs)** District Industries Centre is the institution at the district level which provides all the services and support facilities to the entrepreneurs for setting up small and village industries including identification of suitable schemes, preparation of feasibility reports, arranging for credit, machinery and equipment, provision of raw materials and other extension services. This was launched on 1st May, 1978.

**Policies governing small scale industries:**

## **Module-3**

### **STARTING A SMALL INDUSTRY 12 Hrs**

1. Concept of Business opportunity,
2. Scanning the environment for opportunities
3. Evaluation of alternatives and selection based on personal competencies.
4. An overview of the steps involved in starting a business venture
5. Location
6. Clearances and Permits required
7. Formalities
8. Licensing and Registration Procedures
9. Assessment of the market for the proposed project
10. Importance of financial, technical and social feasibility of the project.

## **Business Opportunity**

Business opportunity is a concept which explains a situation that there is a wonderful opportunity to start a small scale business.

Business opportunity means a good or favourable change available to run a specific business in a given environment at a given point of time.

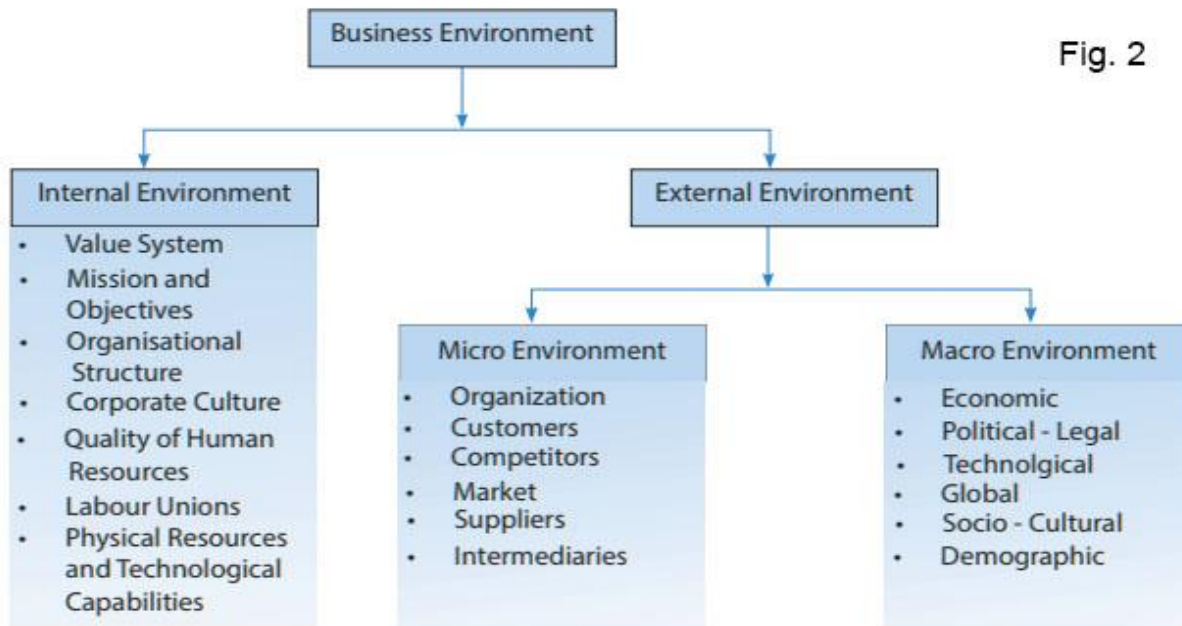
### **Identification of Business opportunity**

- Survey on the existing condition of the proposed product to be manufactured.
- Examining the functional aspects of the proposed business in terms of market condition, financial support, legal aspects and economic viability.
- Market feasibility
- Consumer behaviour
- Finance required and the financial assistance by institutes
- Legal requirements and policies pertaining to the small scale industries
- Cost benefits analysis.

### **Scanning of business environment**

Scanning the external uncontrollable factors and internal controllable factors.

Organizational environment consists of both external and internal factors. Environment must be scanned so as to determine development and forecasts of factors that will influence organizational success. Environmental scanning refers to possession and utilization of information about occasions, patterns, trends, and relationships within an organization's internal and external environment. It helps the managers to decide the future path of the organization. Scanning must identify the threats and opportunities existing in the environment. While strategy formulation, an organization must take advantage of the opportunities and minimize the threats. A threat for one organization may be an opportunity for another.



**Internal analysis** of the environment is the first step of environment scanning. Organizations should observe the internal organizational environment. This includes employee interaction with other employees, employee interaction with management, manager interaction with other managers, and management interaction with shareholders, access to natural resources, brand awareness, organizational structure, main staff, operational potential, etc. Also, discussions, interviews, and surveys can be used to assess the internal environment. Analysis of internal environment helps in identifying strengths and weaknesses of an organization.

As business becomes more competitive, and there are rapid changes in the **external environment**, information from external environment adds crucial elements to the effectiveness of long-term plans. As environment is dynamic, it becomes essential to identify competitors' moves and actions. Organizations have also to update the core competencies and internal environment as per external environment. In a similar manner, there can be changes in factors such as competitor's activities, technology, market tastes and preferences.

While in external analysis, three correlated environment should be studied and analyzed —

- immediate / industry environment
- national environment
- broader socio-economic environment / macro-environment

Examining the industry environment needs an appraisal of the competitive structure of the organization's industry, including the competitive position of a particular organization and its main rivals. Also, an assessment of the nature, stage, dynamics and history of the industry is essential. It also implies evaluating the effect of globalization on competition within the industry. Analyzing the national environment needs an appraisal of whether the national framework helps in achieving competitive advantage in the globalized environment. Analysis of macro-environment includes exploring macro-economic, social, government, legal, technological and international factors that may influence the environment. The analysis of organization's external environment reveals opportunities and threats for an organization

## SWOT Analysis

As we saw previously in the environmental scanning meaning, it is a complex process. The close study of the internal and external environment of an organization will reveal some very valuable information, i.e. the strengths, weaknesses, opportunities, and threats of a company. Let us take a brief look.

- **Strength:** After analysis of the internal environment of a company, we will be able to identify the strengths that give the company a competitive advantage. The entrepreneur can use this information to maximise these strengths and earn more profits.
- **Weakness:** Study of the internal environment also point out the weaknesses of the company. For the growth and stability of the company, these identified weaknesses must be corrected without delay.
- **Opportunity:** Analysis of the external environment helps with the identification of possible opportunities. The entrepreneur can prepare to capitalize on these.
- **Threats:** Analysis of the external environment will also help in the identification of any business threats from competitors or any other factors. The company can come up with a strategy to diffuse such threats or minimize its impact.

## Evaluation of business opportunities:

- **self-Analysis**

According to the Arkansas Small Business Development Center, most small businesses fail because of poor management and the owner's inability to manage resources. Before you even start researching the feasibility of your idea and the market you plan on entering, evaluate your own talents, desires and goals. Consider your willingness to take risks as well as the amount of time and energy you'll need to make the business a success. Review your financial, personnel and marketing skills as well to ensure you have the necessary background to make a success of your new venture.

- **Financial Components**

After learning about the investment required to purchase the existing business or franchise or the start-up costs you'll need initially, evaluate your own resources. Part of a financial assessment includes the amount you have in personal savings to add to the initial investment. Banks typically require entrepreneurs to come up with a portion of the investment to show good faith and willingness to take a risk with the lender. Assess the financing available through the seller, investors and lenders when evaluating your chances of succeeding.

- **Market Research**

To thoroughly understand what you're getting into, perform an extensive market research project to determine the feasibility of your business. In addition to gleaning statistics of trends and current customer buying patterns, you need to know who your customers are, where they are located and what kind of competition exists in your area. Consider market research your first steps in opportunity analysis that help you understand exactly how you will sell products or services to a specific market.

- **Risk Assessment**

A complete evaluation of a business opportunity includes a risk assessment. An honest appraisal of the potential risks inherent in your new business can help you prepare for possible problems and decide whether the risks are worth the investment. Details you need to consider in the risk assessment process include factors that could negatively affect your business, such as the general state of the economy, weather events and your competition's competitiveness. Internal considerations should include your own health, the level of credit available to you and the number and type of employees you'll need to hire to run the business efficiently.

- **Support**

Finally, evaluate the amount of support you expect to receive from your family and the community. You'll most likely spend an inordinate amount of time in the initial stages of opening your new business, which could affect your family relationships. Opportunity evaluation requires professional and personal considerations. Outside hobbies and commitments may need to be curtailed for some time. Attitudes and cultural preferences in your community can impact your ability to grow and sustain your business. Evaluate your standing on all these fronts to ensure you've got the necessary support to be successful.

## **Steps involved in starting a new business venture (small scale industry)**

### ***Step # 1. Selection of Industry and Product:***

Product selected for manufacturing should have good market potential and profitability. For this purpose market study is necessary.

#### **Following factors should be considered while selecting a product for manufacturing:**

- (i) Product should have no or little competition.
- (ii) Innovative idea.
- (iii) Experience in the line.
- (iv) Easy availability of raw material
- v) Government policy about the product.
- (vi) Whether it meets the requirement of the society.
- (vii) Easy access-ability to market.
- (viii) Availability of finances.
- (ix) Availability of water and power.

### ***Step # 2. Location of Enterprise:***

Location should be decided considering the economy between the raw material, transportation cost and availability of land at cheaper rates with other facilities nearby.

In this connection facilities offered by various State Governments are also relevant Industrial estates with pre-built factory sheds/developed plots have been set up in different parts of the country for coordinated, intensified and integrated development of small scale industries.

State Governments provide a lot of facilities at these estates like subsidy on rent for factory accommodation, allotment of sheds on hire-purchase basis, subsidised charges for water and power, exemption of sales tax on certain categories of industries for a given period of time.

### ***Step # 3. Deciding Organisation Pattern:***

**A small scale can be started in any following organisational patterns:**

- (i) Proprietary.
- (ii) Partnership firm.
- (iii) Cooperative Society.
- (iv) Hindu undivided family.
- (v) Company.

### ***Step # 4. Preparation of Project/Feasibility Report:***

It is very essential to prepare a project report or feasibility report which theoretically justifies the starting of a factory profitably. This is also essential for getting loan from the banks and other facilities from other agencies. It also enables an entrepreneur to assess inputs required to guide for his future activities.

**The report should cover the economic and commercial analysis in terms of the following:**

- (a) Technical feasibility.
- (b) Economic viability.
- (c) Financial implications.
- (d) Managerial competence

### **Steps in Making Feasibility Report:**

1. Summary of product selected. For the purpose of choosing the product help of Small Industries Service Institute could be taken and the various reports on various products prepared by them consulted.
2. Market Survey.
3. Technical Study.
  - (a) Design and drawings of the product.
  - (b) Preparation of operation sheets for various components.
  - (c) Material requirements.
  - (d) Mechanical loading.
  - (e) Equipment requirements.
  - (f) Organisational layout.
  - (g) Personnel requirements.
  - (h) Floor area requirements and layout with materials handling arrangement.
  - (i) Quality Control.
4. Costing.
5. Cost analysis. Requirement of Fixed and working capital Controlling project costs over run through effective project planning, implementation and control.
6. Budgeting.
7. Procurement of Finance.
8. Critical report on feasibility. For this rate of return on the invested capital is taken as the criteria for analysing the feasibility of the project.

**Approval of Scheme:**

Once the industry is selected and the scheme is prepared, owner should get this scheme approved. Approval is given by the Directorate of Industries and Civil Supplies of their respective states.

Although approval of the scheme is not compulsory but it is in the interest of the industries to submit their schemes for approval. Technical assistance will be provided to only those whose schemes are approved and registered with it.

The Scheme should be prepared in a prescribed pattern and be submitted to the District Industries Officer/Assistant Director of Industries in 7 copies if imported raw material is required and in 4 copies if such raw material is not required. This approval is valid for 12 months only. If the industry is not started within 12 months of its being approved, scheme is treated as cancelled.

**Step # 5. Registration with Authorities:**

**Small Scale Industries are required to get themselves registered with following authorities:**

**(a) State Directorate of Industries:**

This, although voluntary but for getting various facilities and assistance from Government, small scale entrepreneurs are advised to get their units registered.

**(b) DGS & D:**

**This has a system of registration of firms as approved contractors in the following categories:**

- (i) Manufacturers of all stores purchased by DGS&D.
- (ii) Sole selling agents/sole distributors/distributors who are registered with DGS & D.
- (iii) Stockists of imported and indigenous stores.
- (iv) As assemblies for items like diesel generating sets, air-conditioning plants etc.

DGS&D (Director General of Supplies and Disposal) is the Central Purchase Organisation of the Government of India, who purchases store for most of the Government offices from these registered units.

**(c) Registration under Factories Act****(d) Obtaining Licence from Municipal Authority:**

Permission of Municipal/Local authority is required to undertake an industrial work within its limits.

**(e) Registration with Reserve Bank of India:**

It is compulsory for every exporter to obtain an exporter's code number from the RBI before engaging in export.

**(f) Registration with Regional Licensing Authorities:**

For export or import, a firm is also required to obtain an Importer Exporter Code (IEC) number from the Director General of Foreign Trade. Customs Authorities allow import or export of goods only when the firm has a valid IEC number.

**(g) Registration with Export Promotion Councils:**

In order to enable to obtain benefits/concession under the export-import policy, the firm is required to register with an appropriate export promotion agency.

**(h) Registration with Sales Tax Authorities:**

A firm should be registered with the Sales Tax Authority of the State for getting exemption from both Sales Tax and Central Sales Tax for shipping goods out of the country for export.

***Step # 6. Statutory Licences/Clearances:***

Depending on the product line chosen, size of the units/workers employed etc. an entrepreneur is required to seek approval for specific regulations applicable in his case. Depending upon the nature of the activity a unit has to secure various licences, clearances, no objection certificates, approvals and registrations etc. details of which can be obtained from the District Industries Centres.

Some of such commodities are Alcohol based industries, Arms, Boilers, Cigarette, Cold Storage, Chemical Industry, commercial vehicles, drugs and chemists, explosives, food, furnace oil, fertilisers, kerosene, LPG, minerals, paper, printing press etc.

***Step # 7. Arranging Finance:***

A firm is required to explore internal and external sources for raising funds. A judicious mix of funds should be accorded first preference.

**Internal Sources:**

- (i) Personnel and family savings.
- (ii) Loans from LIC. Provident Fund Account.
- (iii) Personal loans against assets like land and property.
- (iv) Personal loans against shares and debentures.
- (v) Personal loans from societies, chit funds etc.
- (vi) Loans from relatives and friends.

**External Sources:**

Banks and other financial institutions grant loans and advances for the purchase of machinery, equipment and land and buildings etc.

***Step # 8. Obtaining Land and Building:***

To overcome the problem of availability of land for the construction of factory, the State Department of Industries have set up Industrial Areas and Industrial Estates in the urban, semi-urban and rural areas. Land is allotted in Industrial areas on lease for a period of 99 years. Factory accommodations with facilities of water, electricity, transport, bank, post-office etc., are provided in the Industrial Estates.

These factory accommodations are available at reasonable rents, on the hire-purchase basis or on outright purchase. Several state governments allow subsidy on rent for these accommodations, water and electricity, exemption from sales tax on certain categories for a given period of time, and loans to small industries in non-confirming areas for shifting to industrial areas.

***Step # 9. Procurement of Machinery and Raw Materials:***

National Small Industries Corporation Ltd (NSIC) supplies indigenous and imported machinery to small scale units on hire- purchase basis.

Small Industries Development Organisation (SIDO) maintains close liaison with raw material suppliers such as primary producers, channelling agencies like STC (State Trading Corporation), MMTC (Minerals and Metals Trading Corporation) etc. SIDO assists the state Directors of Industries and Small Scale Industries (SSI) Corporations in the estimation of raw materials required by the respective Small Scale industries. State Directorate of Industries fix up specific quotas for industrial units while undertaking distribution of scarce raw materials.

***Step # 10. Connections for Power and Water Supply:***

Consumers are allowed L.T. supply for load upto 75 HP, beyond 130 HP loads they are supplied only H.T. supply. For the load between 75 to 130 HP consumer has option either to avail L.T. supply or H.T. supply. For water, entrepreneur should apply to the water department of the municipality or corporation or make his own arrangement by installing a tube-well.

***Step # 11. Recruitment of Staff:***

In these days of specialisation and competition, professionals and skilled workers are necessary to be recruited. After making realistic assessment of the actual manpower requirements of an enterprise, suitable arrangements should be made for recruitment of personnel. If the entrepreneur himself is not specialised in the particular field, he should appoint a works manager well-versed in that particular field.

***Step # 12. Marketing Management:***

Marketing is a two-way exchange process in which the needs and wants of the buyer and seller are satisfied.

The NSIC provides assistance in marketing the products of SSI sector, both at home and abroad. The corporation markets products of SSI sector under the Government Stores Purchase Programme to meet the requirements of departments, Railways, Defence etc.

**Other schemes which are providing marketing assistance to small scale units are:**

- (a) Government's stores purchase programme through DGS & D.
- (b) Supply of stores to state Governments.
- (c) Supply of stores to Defence.
- (d) Supply of stores to Railways.
- (e) Canteen stores department, Mumbai-400 040.
- (f) Participation in International Exhibition and Fairs through SSIDO, STC and the Indian Trade Promotion Organisation.
- (g) Trade centres established by Govt. of India of Jaipur, Bangalore, Kanpur, Ludhiana, Hyderabad, Ahmedabad, Chandigarh, Bhubaneshwar and Cochin.
- (h) State emporium and departmental stores.
- (i) Export Market through S.T.C, SI SI in the respective states and State Export Promotion corporations.

### ***Step # 13. Quality Gradation and Testing:***

**Four Regional Testing Centres and 19 Field Testing stations have been set up under SIDO in order to:**

- (a) Improve the quality of products being manufactured in the small scale sector, and
- (b) To provide requisite testing facilities.

Governments have also introduced a scheme to provide incentives to those small scale undertakings who acquire ISO-9000 certification or its equivalent.

### ***Step # 14. Training, Research and Design Institutes:***

For the success of any industry, proper training is essential in production techniques, management, marketing and other aspects. Small Industries Service Institute and their extension centres organise training programmes to improve technical skills of workers and acquainting the entrepreneurs with advanced production and management techniques.

- (i) Management Training by SIDO in industrial management, marketing, financial management, costing, and production.
- (ii) Technical training courses for workers by SISIs.
- (iii) Training programmes for engineer entrepreneurs by SISIs and others.
- (iv) Entrepreneurial development for non-engineers by SIDO for different category of entrepreneurs.
- (v) Central Institute of Tool Design (CITD), Hyderabad for fulfilling the needs of SSI in the fields of tool design (including jigs, fixtures, dies and moulds), manufacturing and training of technical personnel.
- (vi) Central Tool Room and Training Centre, Kolkata for assisting SSI by providing modern tools, technical consultancy, training of tool makers and tool designers.
- (vii) Central Tool Room, Ludhiana for providing services in the area of tooling (tool design and tool manufacture), precision machining, heat treatment, technical training and the technical consultancy.
- (viii) Process-cum-Product Development Centre (PPDC) at Ranchi, Agra, Meerut, Kannauj.
- (ix) Indo-German Tool Rooms—Indore, Ahmedabad and Aurangabad.
- (x) National Institute for Entrepreneurship and Small Business Development (NIES BUD), New Delhi conducts training programmes for trainers/motivators and entrepreneurs, prepares model syllabi for training various targets groups, conducts seminars/ workshops/conferences etc.
- (xi) National Institute of Design, Ahmedabad.
- (xii) Central Machine Tool Institute, Bangalore.

## **PLANT LOCATION:**

### **Selection of plant location:**

- (i) Availability of Raw Materials
- (ii) Proximity to Market
- (iii) Infrastructural Facilities
- iv) Government Policy
- (v) Availability of Manpower
- (vi) Local Laws, Regulations and Taxation
- (vii) Ecological and Environmental Factors

viii) Competition

(ix) Incentives, Land costs. Subsidies for Backward Areas

(x) Climatic Conditions

(xi) Political conditions.

***(i) Availability of Raw Materials:***

One of the most important considerations involved in selection of industrial location has been the availability of raw materials required. The biggest advantage of availability of raw material at the location of industry is that it involves less cost in terms of 'transportation cost.

If the raw materials are perishable and to be consumed as such, then the industries always tend to locate nearer to raw material source. Steel and cement industries can be such examples. In the case of small- scale industries, these could be food and fruit processing, meat and fish canning, jams, juices and ketchups, etc.

***(ii) Proximity to Market:***

If the proof of pudding lies in eating, the proof of production lies in consumption. Production has no value without consumption. Consumption involves market that is, selling goods and products to the consumers. Thus, an industry cannot be thought of without market.

Therefore, while considering the market an entrepreneur has not only to assess the existing segment and the region but also the potential growth, newer regions and the location of competitors. For example, if one's products are fragile and susceptible to spoilage, then the proximity to market condition assumes added importance in selecting the location of the enterprise.

Similarly if the transportation costs add substantially to one's product costs, then also a location close to the market becomes all the more essential. If the market is widely scattered over a vast territory, then entrepreneur needs to find out a central location that provides the lowest distribution cost. In case of goods for export, availability of processing facilities gains importance in deciding the location of one's industry. Export Promotion Zones (EPZ) are such examples.

***(iii) Infrastructural Facilities:***

Of course, the degree of dependency upon infrastructural facilities may vary from industry to industry, yet there is no denying of the fact that availability of infrastructural facilities plays a deciding role in the location selection of an industry. The infrastructural facilities include power, transport and communication, water, banking, etc.

Yes, depending upon the types of industry these could assume disproportionate priorities. Power situation should be studied with reference to its reliability, adequacy, rates (concessional, if any), own requirements, subsidy for standby arrangements etc. If power contributes substantially to your inputs costs and it is difficult to break even partly using your own standby source, entrepreneur may essentially have to locate his/her enterprise in lower surplus areas such as Maharashtra or Rajasthan.

Similarly adequate water supply at low cost may become a dominant decisional factor in case of selection of industrial location for leather, chemical, rayon, food processing, chemical and alike. Just to give you an idea what gigantic proportions can water as a resource assumes. Note that a tone of synthetic rubber requires 60 thousand gallons, a tone of aluminum takes 3 lakhs gallons, and a tone of rayon consumes 2 lakh gallons of water.

Similarly, location of jute industry on river Hoogly presents an example where transportation media becomes a dominant decisional factor for plant location. Establishing sea food industry next to port of embarkation is yet another example where transportation becomes the deciding criteria for industrial location.

***(iv) Government Policy:***

In order to promote the balanced regional development, the Government also offers several incentives, concessions, tax holidays for number of years, cheaper power supply, factory shed, etc., to attract the entrepreneurs to set up industries in less developed and backward areas. Then, other factors being comparative, these factors become the most significant in deciding the location of an industry.

***(v) Availability of Manpower:***

Availability of required manpower skilled in specific trades may be yet another deciding factor for the location of skill- intensive industries. As regards the availability of skilled labour, the existence of technical training institutes in the area proves useful. Besides, an entrepreneur should also study labour relations through turnover rates, absenteeism and liveliness of trade unionism in the particular area.

Such information can be obtained from existing industries working in the area. Whether the labour should be rural or urban; also assumes significance in selecting the location for one's industry. Similarly, the wage rates prevalent in the area also have an important bearing on selection of location decision.

While one can get cheaper labour in industrially backward areas, higher cost of their training and fall in quality of production may not allow the entrepreneur to employ the cheap manpower and, thus, establish his/her enterprise in such areas.

***(vi) Local Laws, Regulations and Taxes:***

Laws prohibit the setting up of polluting industries in prone areas particularly which are environmentally sensitive. Air (Prevention and Control of Pollution) Act, 1981 is a classical example of such laws prohibiting putting up polluting industries in prone areas. Therefore, in order to control industrial growth, laws are enforced to decongest some areas while simultaneously encourage certain other areas.

For example, while taxation on a higher rate may discourage some industries from setting up in an area, the same in terms of tax holidays for some years may become the dominant decisional factor for establishing some other industries in other areas. Taxation is a Centre as well as State Subject. In some highly competitive consumer products, its high quantum may turn out to be the negative factor while its relief may become the final deciding factor for some other industry.

***(vii) Ecological and Environmental Factors:***

In case of certain industries, the ecological and environmental factors like water and air pollution may turn out to be negative factor in deciding enterprise location. For example, manufacturing plants apart from producing solid waste can also pollute water and air. Moreover, stringent waste disposal laws, in case of such industries, add to the manufacturing cost to exorbitant limits.

In view of this, the industries which are likely to damage the ecology and environment of an area will not be established in such areas. The Government will not grant permission to the entrepreneurs to establish such industries in such ecologically and environmentally sensitive areas.

***(viii) Competition:***

In case of some enterprises like retail stores where the revenue of a particular site depends on the degree of competition from other competitors' location nearby plays a crucial role in selecting the location of an enterprise. The areas where there is more competition among industries, the new units will not be established in these areas. On the other hand, the areas where there is either no or very less competition, new enterprises will tend to be established in such areas.

***(ix) Incentives, Land Costs, Subsidies for Backward Areas:***

With an objective to foster balanced economic development in the country, the Government decentralizes industries to less developed and backward areas in the country. This is because the progress made in islands only cannot sustain for long. The reason is not difficult to seek.

“Poverty anywhere is dangerous for prosperity everywhere.” That many have-not's will not tolerate a few haves is evidently clear from ongoing protests leading to problems like terrorism. Therefore, the Government offers several incentives, concessions, tax holidays, cheaper lands, assured and cheaper power supply, price concessions for departmental (state) purchases, etc. to make the backward areas also conducive for setting up industries.

It is seen that good number of entrepreneurs considers these facilities as decisive factor to establish industries in these locations. However, it has also been observed that these facilities can attract entrepreneurs to establish industries in backward areas provided other required facilities do also exist there.

For example, incentives and concessions cannot duly compensate for lack of infrastructural facilities like communication and transportation facilities. This is precisely one of the major reasons why people in spite of so many incentives and concessions on offer by the Government, are not coming forward to establish industries in some backward areas.

***(x) Climatic Conditions:***

Climatic conditions vary from place to place in any country including India. And, climatic conditions affect both people and manufacturing activity. It affects human efficiency and behaviour to a great extent. Wild and cold climate is conducive to higher productivity. Likewise, certain industries require specific type of climatic conditions to produce their goods. For example, jute and textiles manufacturing industries require high humidity.

As such, these can be established in Kashmir experiencing humidity-less climate. On the other hand, industrial units manufacturing precision goods like watches require cold climate and hence, will be established in the locations having cold climate like Kashmir and Himachal Pradesh.

***(xi) Political Conditions:***

Political stability is essential for industrial growth. That political stability fosters industrial activity and political upheaval derails industrial initiatives is duly confirmed by political situations across the countries and regions within the same country. The reason is not difficult to seek.

The political stability builds confidence and political instability causes lack of confidence among the prospective and present entrepreneurs to venture into industry which is filled with risks. Community attitudes such as the “Sons of the Soil Feeling” also affect entrepreneurial spirits and may not be viable in every case.

Besides, an entrepreneur will have also to look into the availability of community services such as housing, schools and colleges, recreational facilities and municipal services. Lack of these facilities makes people hesitant and disinterested to move to such locations for work.

Very closer to political conditions is law and order situation prevalent in an area also influences selection of industrial location. Hardly any entrepreneur will be interested to establish his / her industry in an area trouble-torn by nexalites and terrorists like Jharkhand, Nagaland and Jammu & Kashmir.

People will be interested to move to areas having no law and order problem to establish their industries like Maharashtra and Gujarat. It is due to this law and order problem the Nano car manufacturing unit shifted from Nandigram in West Bengal to Gujarat.

There are many qualitative and quantitative techniques adopted to interpolate the above factors to arrive at a logical decision. The simplest and most commonly adopted is weight rating method illustrated in Figure below.

Besides above factors, the location of certain industries also depends upon the delivery of emergency services like fire, police, hospital, etc. (Buffa 1983).

It seems in the fitness of the context to present the real cases of locational considerations of the entrepreneurs of small-scale industries in India. Based on extensive research study, one

12.	Location coincides with the entrepreneur's residence	69.62
13.	Location belongs to the neighbourhood of the entrepreneur's residence	61.58
	<b>Regulative Factors</b>	<b>12.30</b>
14.	Availability of incentives, concessions and subsidies	9.38
15.	Availability of tax exemptions and concession	8.94
16.	Labour and industrial law	11.23
17.	Bureaucratization of the administration	19.68

researcher (Khanka 2010: 45-46) has found the following most important considerations that entrepreneurs consider for selecting the location of their enterprises.

**Table 27.1: Entrepreneurs' Most Important Considerations  
for Selecting the Location of Industries**

		(in %)
<b>Qualitative Factors</b>		<b>33.69</b>
1.	Low costs of Labour	10.32
2.	Availability of skilled labourers	28.67
3.	Availability of land at low cost	21.00
4.	Existence of basic infrastructural facilities	55.38
5.	Availability of raw material	40.62
6.	Availability of financial services	31.93
7.	Climate and environmental conditions	18.56
8.	Economic, social and political milieu	32.76
9.	Proximity to densely populated areas	38.39
10.	High number of customers in the area	63.43
11.	Low number of competitors in the area	29.56
<b>Subjective Factors</b>		<b>65.60</b>



## CLEARANCES FOR SSI

### Approval/Clearances Required for New Projects

Approvals/Clearances Required	Department to be Approached and Consulted
Incorporation of Company	Registrar of Companies
Registration/IEM/Industrial license	District Industry Center for Small Scale Industries(SSI) /Secretariat of Industrial Assistance (SIA) for large and medium industries
Allotment of land	State DI/State Industrial Development Corporation(SIDC)/Infrastructure Corporation/Small Scale Industrial Development Corporation(SSIDC)
Permission for land use  (in case industry is located outside an industrial area)	a. State DI b. Department of Town and Country Planning c. Local authority/District Collector
NOC and consent under Water and Air Pollution Control Acts	State Pollution Control Board
Approval of construction activity and building plan	a. Town and country planning b. Municipal and local authorities c. Chief Inspector of Factories d. Pollution Control Board e. Electricity Board
Sanction of Power	State Electricity Board
Use and storage of explosives	Chief Controller of Explosives
Boiler Inspection Certificate	Chief Inspector of Boilers
Finance	i. State Financial Corporation /SIDC for term loans  ii. For loans higher than Rs. 15 Million, all India financial institutions like Industrial Development Bank of India(IDBI), Industrial Credit and Investment Corporation of India(ICICI), Industrial Finance Corporation of India(IFCI) etc.

<b>Approvals/Clearances Required</b>	<b>Department to be Approached and Consulted</b>
Registration under States Sales Tax Act, and Central and State Excise Act	i. Sales Tax Department ii. Central and State Excise Depts.
Extraction of Minerals	State Director of Mines and Geology
ISI Certificate	Regional Office of the Bureau of Indian Standards (BIS)
Quality Marking Certificate	Quality Marking Center of the State Government
Weights and Measures	Inspector of Weights and Measures
Code Number for Export and Import	Regional Office of Director General of Foreign Trade.

## **Clearances**

An entrepreneur has to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

### **Product Specific Clearances**

### **Environment & Pollution Related Clearances**

#### **Regulatory or Taxation Clearances**

- 1.Registration under Sales Tax Act - Commercial Tax officer of area concerned
- 2.Registration under Central Excise Act - Collector of Central Excise or his nominee for area
- 3.Payment of Income Tax - ITO of the area concerned
- 4.Registration of Partnership deed - Inspector General of area concerned
- 5.Calibration of weights & measures - Weights and Measures Inspector of State
- 6.Power Connection - Designated Officer of State Electricity Board
- 7.Employee strength exceeding 10 with power connection or 20 without power - Chief

Inspector of Factories

#### **Environment & Pollution Related Clearances**

The method of granting consent under water and air pollution to SSI units has been simplified. Except for 17 critically polluting sectors given below, in all other cases SSI units will merely have to file an application and obtain an acknowledgement which will serve the purpose of consent:-

1. Fertilizer (Nitrogen/Phosphate)

2. Sugar
3. Cement
4. Fermentation & Distillery
5. Aluminium
6. Petrochemicals
7. Thermal Power
8. Oil refinery
9. Sulphuric Acid
10. Tanneries
11. Copper smelter
12. Zinc smelter
13. Iron & Steel
14. Pulp & Paper
15. Dye and Dye intermediates
16. Pesticides manufacturing and formulation
17. Basic Drugs and Pharmaceuticals

**Product Specific Clearances**

1. Establishing a Printing Press - District Magistrate
2. License for Cold Storage Construction - Designated Official in State
3. Pesticides - Central/State Agricultural Department - Ministry of Agriculture
4. Drugs and Pharmaceuticals - Drug license from State Drug Controller
5. Safety Matches/ Fireworks - License under Explosives Act from Directorate of Explosives, Nagpur
6. Household Electrical Appliances - License from Bureau of Indian Standards
7. Wood Working Industry within 8 km from forest - District Forest Officer
8. Milk Processing & Milk products manufacturing units - Approval under Milk and Milk Products Order from State Agricultural/ Food Processing Industries Department above a designated capacity.

**LICENSING AND REGISTRATION :**

Small Scale and ancillary units (i.e. undertaking with investment in plant and machinery of less than Rs. 10 million) should seek registration with the Director of Industries of the concerned State Government.

#### Registering your SSI Unit

The main purpose of Registration is to maintain statistics and maintain a roll of such units for the purposes of providing incentives and support services.

States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by States. It must be noted that small industries is basically a state subject. States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

#### Features of the Scheme

- DIC is the primary registering centre
- Registration is voluntary and not compulsory.
- Two types of registration is done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.
- PRC is normally valid for 5 years and permanent registration is given in perpetuity

#### Provisional Registration Certificate (PRC)

- This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions/banks under priority sector lending.
- Obtain facilities for accommodation, land, other approvals etc.
- Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.

#### Permanent Registration Certificate

Enables the unit to get the following incentives/concessions:

- Income-Tax exemption and Sales Tax exemption as per State Govt. Policy.
- Incentives and concessions in power tariff etc.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.
- Permanent registration of tiny units should be renewed after 5 years

#### Procedure for Registration

Features of the present procedures are as follows:

- A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-III and items not listed in Schedule-I or Schedule-II of the licencing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
- Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.
- PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.

- Once the unit commences production, it has to apply for permanent registration on the prescribed form.

#### **The following form basis of evaluation:**

- The unit has obtained all necessary clearances whether statutory or administrative. e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
- Unit does not violate any location restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

#### **FEASIBILITY ANALYSIS:**

A **feasibility study of any business** is basically an analysis of how probable it is that a given project will succeed, when all of the relevant factors have been taken into account. The last part is crucial: in order to say that a feasibility study is valid, it should have taken into account all of the factors that could influence the outcome of a project. Usually, they are grouped into political factors, technical factors, economic factors, scheduling factors, legal factors, and so on, depending on their characteristics.

Before money and time can be invested in a project, a feasibility study should be conducted, and a feasibility report written. The project manager will then review the feasibility report and determine the positives and negatives of the project and whether it makes sense to make any investment in it or whether it should be shelved or modified.

#### **A Feasibility Study Example**

As an example, let's take a company that is considering the relocation of its headquarters. Amazon, the largest online marketplace, has been in the news lately for considering various large cities for its headquarters. Before it can finally settle on a new headquarters, it will have to perform a feasibility study and take into account various factors to figure out whether the relocation makes sense or not.

Some of these factors include both the labor and material costs of the relocation. The employees will be disrupted by that relocation, and therefore that should be taken into account. Also, public opinion on the relocation as well as its social, legal, economic, and political impact should be considered. All of these factors are crucial in determining whether relocating the headquarters to a particular city

#### **The Elements of a Feasibility Study**

A feasibility study isn't one big block of action. Instead, there are components to it, and each component concerns itself with one thing at a time.

1. **Market feasibility**
2. **Technical feasibility**
3. **Financial feasibility**
4. **Organisational feasibility**
5. **Social feasibility**

## **Market Feasibility**

This is a description of the industry within which the project will take place; its market. It talks about the current and future potential, the competition the project will be facing, estimations of the sales, and so on..

Market feasibility must not be mixed up with the economic feasibility. The potential influence of market demand, competitive activities and available market share should be considered in the market feasibility analysis. During the start up, ramp up and commercial start up phases of the project, possible competitive activities (local, regional, national and international) should be analyzed for early contingency funding and impacts on the operating costs.

- Market area
- Market segmentation
- Marketing mix
- Consumer behaviour
- Description of the industry
- Current Market Analysis
- Competition or presence of competing products.
- Anticipated future market potential.
- Potential buyers and sources of revenues.
- Sales projections.

Market feasibility tests can be carried out not only on products but on ideas, campaigns, processes and entire businesses too.

A feasible product is the one which not only caters to the needs of present prospective buyers but also maintains a stable demand in the future. A feasible product enhances the financial surplus of a firm

## **Technical Feasibility**

This is all about the *how* of the feasibility. How will the project deliver what it wants to deliver? How will the business deliver its products and services? It includes the manufacture, transportation, required technology, labour, and raw materials, among others.

The engineering feasibility of the project is viewed in the technical feasibility. Certain important engineering aspects are covered which are necessary for the designing of the project like civil, structural and other relevant aspects. Technical capability of the projected technologies and the capabilities of the personnel to be employed in the project are considered. In certain examples especially when projects are in third world countries, technology transfer between cultures and geographical areas should be analyzed. By doing so productivity gain (or loss) and other

implications are understood due to the differences in fuel availability, geography, topography, infrastructure support and other problems.

A large part of determining resources has to do with assessing technical feasibility. It considers the technical requirements of the proposed project. The technical requirements are then compared to the technical capability of the organization. The systems project is considered technically feasible if the internal technical capability is sufficient to support the project requirements.

The analyst must find out whether current technical resources can be upgraded or added to in a manner that fulfills the request under consideration. This is where the expertise of system analysts is beneficial, since using their own experience and their contact with vendors they will be able to answer the question of technical feasibility.

**The essential questions that help in testing the operational feasibility of a system include the following:**

- Is the project feasible within the limits of current technology?
- Does the technology exist at all?
- Is it available within given resource constraints?
- Is it a practical proposition?
- Manpower- programmers, testers & debuggers
- Software and hardware
- Are the current technical resources sufficient for the new system?
- Can they be upgraded to provide to provide the level of technology necessary for the new system?
- Do we possess the necessary technical expertise, and is the schedule reasonable?
- Can the technology be easily applied to current problems?
- Does the technology have the capacity to handle the solution?
- Do we currently possess the necessary technology?

## **Financial Feasibility**

This is all about the money aspect of the project. How much funding will the project need? Where will the funding come from? How much return on investment can be expected? All of these questions and many others will be answered through a financial feasibility study.

The ability of the project management to raise sufficient funds required to implement the proposed project is included in the financial feasibility.

Additional investors and Other sources of funds are considered by the project proponents for their projects in many cases. In such situations feasibility, sources, soundness and applications of these project funds may be a hindrance.

Other aspects of financial feasibility should also be viewed, if appropriate, like credit worthiness, loan availability, equity, and loan schedule.

The implications of land purchase, leases and other estates in land are also reviewed in the financial feasibility analysis.

- Total capital needed
- Sources of capital

- Working capital requirements
- Application of funds for procuring plant and machinery
- Raw material procurement cost
- Loans
- Projected cash flow statements
- Break even analysis
- Return on investments
- Risk analysis

### **Organizational Feasibility**

This is the part of the study that concerns itself with the legal and corporate structure of the new project. It includes a lot of information about the people behind the project, including their backgrounds and the skill sets they possess to bring the project to life.

### **Social feasibility:**

The affect that a proposed project may have on the social system in the project environment is addressed in the social feasibility. It may happen that particular category of employees may be short or not available as a result of ambient social structure. The influence on the social status of the participants by the project should be evaluated in order to guarantee compatibility. It must be identified that employees in the particular industries may have specific status symbols within the society.

- Impact of project on society
- Social cost benefit analysis
- How the proposed business activity is satisfying the social need
- Environmental protection
- Creation of employment
- Improving salary structure
- Improving the society as a whole

#### **Unit 4: PREPARING THE BUSINESS PLAN (BP) 10 Hrs**

- Business Plan
- Importance of BP
- Preparation of BP
- Typical BP format
- Financial aspects of the BP
- Marketing aspects of the BP
- Human Resource aspects of the BP
- Technical aspects of the BP
- Social aspects of the BP
- Preparation of BP
- Common pitfalls to be avoided in preparation of a BP

#### **Meaning of business plan:**

In simple words, business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course of action what the entrepreneur hopes to achieve in his

business and how is he going to achieve it. In other words, business plan serves like a kind of big road map to reach the destination determined by the entrepreneur. Webster New 20th Century Dictionary defines a project as a scheme, design, a proposal of something intended or devised. Let some important definitions of business plan be presented.

### **Definition of business plan**

**Mar J. Dollinger** has defined the business plan as “the formal written expression of the entrepreneurial vision, describing the strategy and operations of the proposed venture.”

According to Jack M. Kaplan, “The term business plan means the development of a written document that spells out like a roadmap where you are, where you want to be, and how you want to get there.”

Thus, a business plan or project report can best be defined as a well evolved course of action devised to achieve the specified objective, i.e. setting up a small business enterprise within a specified period of time. So to say, business plan is initially an operating document.

### **Importance of business map:**

#### **1 Feasibility of the plan:**

A business plan will in reality help one to understand whether pursuing the opportunity is worth it or not without actually delving in it and ending up losing the two most essential resources of all, that is, money and time.

#### **2. Road map:**

First and most important the business plan is like a road map. It describes the direction the enterprise is going in, what its goals are, where it wants to be, and how it is going to get there. It also enables an entrepreneur to know that he is proceeding in the right direction. Some hold the view that without well spelled out goals and operational methods/tactics, most businesses flounder on the rocks of hard times.

#### **3. Business plan acts as a blueprint:**

The business plan will provide a detailed outline of the business which will not only attract capital and help people be on the same page but will also help equalize our emotions and prevent us from making mistakes, which at the initial stages can be very harmful.

#### **4. Helps identify potential weakness:**

As the head already suggests, despite preventing us from making fatal mistakes, business plans can also locate inherent and unrealized loopholes. Further, through a business plan, one can also receive potential opinions and feedbacks.

### **5. Raising capital:**

Having a business plan will make it easier to raise funds as it will become very easy to communicate with the investors. A business plan will give a detailed view of the business which, as mentioned above, will not only be advantageous for the aspirer but also for the investors.

The preparation of business plan is beneficial for those small enterprises which apply for financial assistance from the financial institutions and the commercial banks. It is on the basis of business plan or project report that the financial institutions make appraisal if the enterprise requires financial assistance or not.

### **6. Chances of Success:**

By being able to evaluate factors such as the feasibility and the potential weaknesses, one can avoid the pitfalls thereby making a progressive step towards success. A business plan increases the chances of success considerably.

## **PREPARATION OF BUSINESS PLAN:**

### **Steps in the business plan / outline of a business plan**

The outline of a business plan is as follows:

#### **I. Introductory page:**

This is the title or cover page that provides a brief summary of the business plans contents. It should contain the following:

1. Name and address of the company
2. Name of the entrepreneur, telephone no, fax, email address, website address
3. Paragraph describing the company and nature of business.
4. Amount of Finance required
5. A statement of the confidentiality of the report for security purposes.

#### **II. Executive Summary:**

The section of the plan is written after the total plan is prepared. The executive summary should stimulate the interest of the potential investors. It would highlight in a concise and convincing manner the key points in the business plan.

#### **III. Environmental and industry analysis :**

Environmental analysis is the assessment of external uncontrollable variables that may impact the business plan. Examples of these factors are

- i) **Economy:** Trends in GNP, Unemployment, disposable income and on
- ii) **Culture:** shifts in the population by demographics, shifts in attitudes concern for environment trends in Safety, health and Nutrition.
- iii) **Technology:** Potential technology developments
- iv) **Legal Concerns:**

Legal issues in starting the ventures, future legislation, deregulation of prices, restriction on media advertising and safety regulations. Once an assessment of the environment is complete the entrepreneur should conduct an **Industry analysis** that will focus on specific industry trends and competitive strategies. Some examples of these factors are.

**i) Industry demand:** whether market is growing or decline, the number of new competitors and possible changes in consumer needs.

**ii) Competition:** potential threats from the larger corporations, their strengths and Weakness.

#### **IV. Description of the Venture:**

This provide complete overview of the products, services and operations of the new venture. This statement describes the nature of the business and what entrepreneur hopes to accomplish with that business.

#### **V Production Plan:**

This plan will describes the complete manufacture process, the sub contractors , including location, reasons for selecting, costs and contracts that have been completed.

#### **VI Marketing plan;**

It describes the Market condition and the strategy related to how products and services will be distributed, priced and promoted.

#### **VII) Organisational Plan:**

It describes the form of ownership and lines of authority of Members of a new venture.

#### **VIII) Assessment of Risk:**

This section will identify the potential hazards and alternative strategies to meet business plan goals and objectives.

#### **IX. Financial Plan:**

This gives the projections of key financial data that determine economic feasibility and necessary financial investment commitment.

#### **X Appendix :**

This section generally contains any backup material that is not necessary in the text of the document.

#### **Need or Importance for Business Plan**

The importance of the business plan is as follows:

1. It helps to define the business plan.
2. It helps in establishing goals
3. It helps to manage risk and uncertainty
4. It ensures effective planning
5. It helps in developing organization structure
6. It helps in establish strategy
7. It helps in allocating resources
8. It helps in decision Making
9. To establish the right steps to starting a new business.
10. It helps in developing new business alliance.

11. It helps in developing new business alliance.
12. To determine the potential to make a profit
13. It creates competitive advantage.

### **OBJECTIVE OR IMPORTANCE OF BUSINESS PLAN**

1. To give direction to the vision formulated by the entrepreneur
2. To objectively evaluate the prospectus of business
3. To monitor the progress after implementing business plan
4. To persuade others to join business
5. To seek loans from financial institutions
6. To visualize concept in terms of market availability, organizational, operational, and financial feasibility
7. To guide entrepreneur in actual implementation of plan
8. To identify actual strength and weakness of plan
9. To identify challenges in terms of opportunities and threats from the external markets.
10. To clarify ideas and identify gaps in management information about their business, competitors and market.
11. To identify the resources that would be required to implement the plan
12. To document ownership arrangements, future prospectus and projected growth of the business venture.

### **Major components of a Business Plan:**

- 1. Financial aspects**
- 2. Marketing Aspects**
- 3. HRM Aspects**
- 4. Technical aspects**
- 5. Social aspects**

#### **1. Financial Aspect:**

A financial can be a Budget, a plan for spending and saving for future income. This plan allocate future income to various types of various types of expenses. A financial plan is also called as investment plan.

#### **i) Cash Budget:**

it is an estimate of cash receipts s from all sources and cash payments for all purposes and net cash balances during the Budget period. It ensures that the business has adequate cash to meet its requirements.

#### **ii) Working capital:**

Working capital refers to the cash a business requires for day to day operations, or more specifically for specifically purchasing of Raw materials, paying rent, wages , transport expenses, inventory maintenance .

#### **iii) Income Statement:**

the Performance of income statement or projected income statement is a projection of Income for a period of time in future. The analyst may wish to evaluate each component of the cost of goods sold. A detailed study analysis of purchases, production wages and overhead costs is likely to produce the most accurate forecast.

**iv) Cash flow statement:**

A statement of changes in the financial position of a firm on cash basis is called cash flow statement. Such a statement enumerates net effects of the various business transactions on cash. A cash flow statement summarizes the causes of changes in cash position of a business enterprise between dates of two balance sheets.

**v) Balance sheet:**

Performance balance sheet is forecasting of flow of funds and according to this the estimation of every item should be made and checked. The preparation of Performance balance sheet is made on the basis of Performance income statement and supporting schedules and budgets.

**Vi. Break even analysis:**

Break Even Point(BEP) refers to the level of operation at which the project neither earns profits nor incurs loss. Calculation of BEP for the given cost and price levels indicates the minimum capacity utilization that the project should be aimed at in order to be in a no profit , no loss situation.

**VII. Equity and debt funds:**

Equity financing is required to start up a Business

Part of debt fund is also taken as it helps purchase of machinery and other fixed assets, whereas short term debt can be utilized for working capital purpose. Major source of financing will be assistance from bank and other financial institutions.

**2. Marketing Aspect:**

All the efforts of the entrepreneur can go in vain if he does not have proper markets to sell his goods or services. A well conceived idea, a strongly supported financial backup can become a failure if the entrepreneurs does not have demand in the market so we shall focus on the marketing aspects of business plan.

1. Target market , Market segmentation and positioning
2. Marketing decisions
3. Product / service strategy
4. Pricing strategies
5. Promotion Strategies:

Advertising, Indoor or outdoor advertising

Personal selling, sales promotion

6. Distribution strategy – Channels of distribution
7. Sales forecast
8. Marketing Strategy

**Human Resources Aspects:**

1. Organization chart with the names and titles of the key executives
2. Brief details of these executives with their previous experience, Education and qualification
3. Detailed resume of the each executives.
4. Contribution of the each individual to the company their duties and responsibilities.
5. Specify their initial salary , incentives fringe benefits and other benefits provided.
6. Attempt should be made to keep the initial salary low and to keep the deferred compensation high.
7. What key position remains unfilled?
8. Bring out the plans to retain and attract the efficient existing employees.
9. List of top level executives
10. Provide the names of the legal, accounting, banking and other important organizations that will guide the organization.
11. If a firm service oriented firm it requires specific skills with required expertise to render services to consumer.
12. If the firm is production unit it requires the people with technical as well as conceptual capabilities. As the form has different departments categories of people like skilled, unskilled, technical, managerial and professional personnel.
13. The Business plan should project on HRD and give details training and departmental Programmes which will be deployed to enhance skills and capabilities of Employees.
14. The business plan should also furnish about the promotion, transfer, Performance appraisal, the audit etc.
15. The Business plan should mention about the number of employees employed presently and future expansion .
16. The details about the management practices, leadership styles, Management development programmes, retrenchment policies ,rules ,organization culture should be clearly depicted in business.

### **3. SOCIAL ASPECTS:**

To maintain good reputation and long survival . The business should not only concentrate on profit maximization but also should focus and share certain profit on general interest of the society.

#### **The various social responsibilities of an entrepreneur:**

1. To produce quality goods or services
2. To provide true data
3. To maintain the safety of the product user.
4. To restrict adulteration of products.
5. Improved and safety packing and packaging should be provided.
6. Mention the steps to control pollution.
7. Optimum utilization of natural resources.
8. To give equal opportunity for women employees.
9. To provide safety and healthy work environment to the employees
10. TO provide educational facility
11. To provide proper insurance facility to employees
12. Firm's involvement in donation, sponsorship of public health projects.

#### **4. Technical Aspect of Business Plan:**

The technical aspect of business plan is an important element and it is necessary whether it is a manufacturing concern, retail or service industry.

The few important technical aspects are :

- 1 . Describe the technical feasibility of the project.
- 2.The business plan should specify the quantity to be provided. Specification of the project etc.
3. Describe the physical plant layout and design required and the method of acquiring the raw materials
4. Measures should be adopted to dispose of waste, various methods of disposal of waste
- 5.Details of pollution control measures..
- 6.it should also choose an appropriate technology based on his affordability, ease, suitability, maintainability and functionality.
- 7.Areas where the latest technologies are implemented like HR, Finance, Marketing, Inventory management, Order tracking, production ,internal communication etc.

**Following factors should be consider while choosing technology;**

- 1. Functions**
- 2. Ease of Use**
- 3. Security**
- 4. Flexibility**
- 5. Maintainability**
- 6.Financial consideration**

#### **Pitfalls of Business Planning**

The pitfalls of Business planning are:

1. Incredible Financial projections
2. Lack of a viable opportunity
3. No clear route to Market
4. Overestimation of revenues
5. Lack of Good cash flow management
6. No clear objectives
7. No evidence of real demand/ Over estimation of demand
8. Business plan inconsistencies.
9. Playing down the competition
10. Rushing the Output
11. Capacity utilization
12. Over estimating of demand
13. Un realistic pricing strategies
14. Underestimation of project demand
15. Wrong selection of Location
16. Lack of Understanding of appropriate technology
17. Selecting appropriate machinery

## **Unit 5:**

### **IMPLEMENTATION OF THE PROJECT AND SICKNESS IN SSIs 12 Hrs**

- Financial assistance through SFC's, SIDBI, Commercial Banks, KSIDC, KSSIC, IFCI,
- Non-financial assistance from DIC, SISI, EDI, SIDO, AWAKE, TCO, TECKSOK, KVIC
- Financial incentives for SSI's and Tax Concessions
- Assistance for obtaining Raw Material, Machinery, Land and Building and Technical Assistance
- Industrial Estates
- Role and Types.
- Sickness: Meaning and definition of a sick industry
- Causes of Industrial Sickness
- Preventive and Remedial Measures for Sick Industries

**Financial assistance** also known as financial aid, refers to loans, loans guarantees, subsidies, tax allowances, cost sharing arrangements or outright grants provided by third parties

**Name of the institutions offering financial assistance.**

1. State financial Corporation (SFC)
2. Industrial Development Bank of India (IDBI)
3. Industrial Financial Corporation of India(IFCI)
4. Industrial credit Investment Corporation of India(ICICI)
5. Industrial Reconstruction Bank of India( IRBI)
6. Commercial Banks
7. Life Insurance Corporation(LIC)
8. General Insurance Corporation
9. Unit Trust of India(UTI)
10. Small Industries Development Bank of India(SIDBI)
11. Mutual Funds
12. Leasing companies
13. Risk Capital Foundation
14. National Bank for Agriculture and Rural Development (NABARD)
15. Khadi and Village Industries commission (KVIC)
16. Stock Exchange
17. Venture capital finance
18. Housing Development Finance Corporation Ltd
19. The shipping credit and investment company of India
20. The World Bank
21. Asian Development Bank
22. Infrastructure and leasing finance corporation

**State Financial corporations : (SFC)**

The state finance corporation was setup under a separate State finance corporation act 1951 on lines of industrial financial corporation set up in 1948. State finance corporation is set up at every state to develop Small and Medium scale industries.

**The objectives of state financial corporation(SFC) are**

1. To fulfill the financial needs of the small and Medium scale Industries
2. To extends loans to industrial units
3. Development of infrastructure facilities
4. Extending financial assistance
5. It provides term loan to small and Medium scale industries for creation of assets.
6. It provide working capital term loan to the industrial unit.
7. It provides non fund based services like merchant banking
8. To establish uniformity in regional industries.
9. To provide incentive to new industries.
10. To bring efficiency in regional industrial units.
11. To provide finance to small scale ,Medium sized and cottage industries in the state.
12. To develop regional financial resources.

### **KARNATAKA STATE FINANCE CORPORATION (KSFC):**

It was established by the government of Karnataka , in march 1959 under the SFC act of 1951. The aim of KSFC was to extend financial assistance to tiny small and medium scale industries in the state.

Rs5 crs for corporate bodies and registered co-operative societies.

Rs2 crs are sanctioned proprietary, partnership and Hindu undivided family concerns.

#### **Objectives of KSFC:**

1. To promote the overall development of Indian Economy
2. To provide financial assistance to tiny ,Small and Medium Scale Industries.
3. To have a balanced Economic growth.
4. To guide new entrepreneur in their venture.
5. To assist the enterprises in acquisition of Machinery, land ,Building, Equipment etc
6. Generate Employment Opportunities.

#### **Functions of KSFC:**

1. To provide loans for a period not exceeding 20 years to industrial units.
2. To underwrite the issue of shares, debentures and bonds for a period not exceeding 20 years of Industrial Units.
3. To give guarantees to loans taken by industrial units for a period not exceeding 20 years.
4. To subscribe the share capital of the industrial unit.
5. To do all such acts as may be incidental of its duties under this act.

#### **KSFC has involved loan schemes for extending financial assistance:**

1. Industrial concern promotes by rural artisans.
2. Weaker sections of the society
3. Disabled entrepreneurs' and others
4. EX-Servicemen
5. Women entrepreneurs and Hire purchase scheme.

### **SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA(SIDBI)**

Small Industries Development Bank of India (SIDBI) was set up by an act of parliament, it commenced operations in April 2 ,1990

#### **The objectives of SIDBI are:**

1. Promotion , financing and developing of industry in the small scale sector.
2. Co-coordinating the functions of other institutions engaged in similar activities.
3. Setting up to new projects
4. Expansion, diversification, modernization, technology up gradation, quality improvement rehabilitation of existing units.
5. Strengthening Marketing capabilities of SSI units.
6. Development of infrastructure for SSI units.
7. Export promotion.

#### **Functions of SIDBI:**

1. Refinances the credits and loans granted by Financial institutions to small scale industries.
2. SIDBI also serves the functions of discounting and rediscounting of bills of SSI units.

3.SIDBI also extend direct assistance to the SSI for exporting goods.

4.SIDBI also assists the SSI units such as Factoring and Leasing.

5.SIDBI helps in National small scale industries making Hirepurchase, leasing and marketing activities.

6.SIDBI provides various soft loans like Mahila vikas nidhi, National enquiry fund, Mahila udayam Nidhi. And also provides seed capital to the start ups.

7.SIDBI took a step ahead in order to renovate the SSI units by instituting advanced technology in their operations.

### **INDUSTRIAL FINANCE CORPORATION OF INDIA(IFCI):**

The industrial finance corporation of India (IFCI) was established in 1 July 1948 under an act of parliament with the object of providing medium and long term credit to industrial concerns in India.

#### **Objectives of IFCI:**

1. To extend financial assistance to industries in Rupees as well as foreign currency as per the necessary.
2. Direct subscription on shares and debentures of Industries.
3. Underwriting shares, debentures and issues of industries.
4. Financial assistance for purchase of equipments.
5. Financing to leasing to leasing and hire purchase companies.
6. The project value more than Rs 300 lakhs are financed by IFCI. The lesser value project taken care by the IDBI or SFC
7. Stand guarantee for loans taken by industries from commercial Banks or state cooperative banks.
8. Guaranteeing for deferred payments due from the industries in connection with purchase of capital goods which may be local or imported.
9. Guarantying loans from outside of the country in foreign currency with approval from the central government.

#### **Functions of IFCI**

1.sactioning loan to the companies or by buying their debentures. Maximum duration of both is 25 years.

2.Raising capital by issuing shares, debentures, bonds etc on behalf of company. Maximum duration of the securities is 7 years.

3.Raising the capital of public limited companies by purchasing their securities ie debentures, shares etc

4.Taking guarantee payments on behalf of those companies which make purchase of capital goods within or outside the India.

5.Sanctioniing loan to the companies on the directive of the central Government or World Bank.

6. to set up a new company.

7.To expand or diversify the existing companies.

8.To renovate and modernize the existing company.

9. to fulfill the requirements of Working capital and to settle the liabilities of existing companies but only in exceptional situations.

### **COMMERCIAL BANKS :**

Commercial banks or scheduled commercial banks are those banks which are listed in the second schedule of RBI act 1943. There are various categories in which scheduled bank are divided ie Nationalised banks, regional rural banks, Cooperative banks, private sector banks and foreign banks.

### **Functions of Commercial Banks:**

1. Accepting deposits like fixed deposit and recurring deposits.
2. To open the current account for business people.
3. To open savings bank account for Savings.
4. To advancing loans
5. To granting loans and credits .banks also invest their surplus fund in Govt securities.
6. All the commercial banks provide cheque leaf to its customers for free or against nominal cost.
7. Banks transfer the fund from the one account to another.
8. Collecting the customer funds
9. Purchase and sale of shares and securities for its customers ex Demat Accounts.
- 10.Payment of premiums in proper intervals of time.
11. Banks acts as a trustee and the executor
12. Income tax consultant
- 13.Purchase and sale of foresin exchange
14. financing internal and foreign trade.
15. To provide locker facility to the customers for their valuables.
16. Issuing the travelers cheque.
17. giving information about its customer
- 18.Underwriting companies shares and debentures.
- 19.Accepting bills of exchange on behalf of the customers.
- 20.Giving advice to the financial matters.

### **II.Non financial assistance:**

Apart from the providing various financial assistance the various financial institutions are also providing non financial assistance. The various no financial assistances are.

1. National Small Industries development Corporation(NSIDC)
2. District Industries Centre(DIC)
3. Small Industries Service Institution (SISI)
4. Small Scale Industries Board(SSIB)
5. Small scale industries development corporation(SSIDC)
6. Entrepreneurship development institutes of India (EDI)
7. Khadi Village industries commission(KVIC)
8. Association of Women entrepreneurs of Karnataka(AWAKE)
9. Technical consultancy organization(TCO)
10. Technical consultancy services of organizations of Karnataka(TESCOK)

11. Small Industries Development Organisation(SIDO)

12. Consultancy Services.

### **1.National Small Industries development Corporation(NSIDC)**

It was established in 1995 to promote and develop micro and small scale industries and enterprises in the country. It was originally founded as an Government of India agency later made into fully owned by Govt corporation.

#### **Objectives of NSIDC:**

1. To get registration under this scheme for participating in govt and public sector undertakings tenders.
2. NSIDC continuously gets updated with the latest specific information on business leads, technology and policy issues.
3. NSIDC helps in acquiring raw materials for SSI at convenient and flexible terms.
4. NSIDC facilitates sanctions of term loan and working capital credit limit of Small enterprise from Banks.
5. NSIDC provides marketing assistance and participates in government tenders on behalf of SSI to produce order from them.

### **2.District industrial centre(DIC)**

The district industrial center(DIC) was established on 8<sup>th</sup> may 1978. With a view to provide integrated administrative frame work at the district level for promotion of Small Scale Industries.

#### **Objectives of DIC:**

1. To accelerate the overall efforts for industrialization of the district
2. To develop the rural industries and handicrafts and promotes rural industrialization.
3. To have balance economic development all over the district
4. Providing the benefits of the government to the new entrepreneurs.
5. Centralization of procedures required to start a new industrial unit and minimization of the efforts and time required to obtain various permissions, Licenses, registrations, subsidies etc.

#### **Functions of District Industrial Centers:**

1. It monitors the registration of MSMEs
2. It provides infrastructural assistance to entrepreneurs in form of grievance redressal through the district level clearances' committees of industries.
3. The DIC organizes entrepreneurship development training programmees.
4. It provides required information about local sources of raw materials and their availability.
5. It sanctions SSI registration
6. It prepare techno-economic feasibility report.
7. It provides opportunity guidance to entrepreneurs.
8. It guides entrepreneur with regard to manpower assessment with respect to skilled and semi skilled workers.
9. It provides information about various Govt schemes, subsidies ,grants and assistance available from the other corporations set up for promotion of industries.
10. Helps entrepreneurs in obtaining sponsored schemes licences from the Electricity Board, Water Supply Board, no objection certificates etc.
11. Implements government sponsored schemes for educated unemployed people like PMRY scheme. Jawahar Rojgar yogana etc.

12. it acts as link between entrepreneurs and Bank and also organizing marketing outlets in liaison with other government agencies.

### **3.Karnataka state Industrial development corporation: (KSIDC)**

KSIDC is another financial institution which extends financial support to SSI s in Karnataka. This organization of Karnataka has no specific financial programmes for adaptation of pollution control etc. but provides medium and long term loans,equipment financing and direct equity participation.

#### **Role or Objectives of KSIDC:**

##### **The role of KSIDC in the up lifting of SSI**

1. KSIDC estates are provided with required amenities like training institute, P&T office, dispensary, community garden banks canteen.
2. KSIDC provides ready to occupy sheds for immediate starting of industries and also provide goddown for storage of its materials.
3. KSIDC being a Government organization is transparent and of the prices of land/building. The prices so fixed are accepted by financial institutions for quick approval of loans.
4. KSIDC estates , once declared as notified area are free from local taxes and Octroi.
5. KSIDC provides a unique opportunities to entrepreneur cluster benefits related to raw material .
6. KSIDC provides special services in a acquiring and allotting land to SSI entrepreneurs.
7. KSIDC allots land on top priority basis to start industry by SC/ST SEDC applicants, further needy SC&ST units of backward areas will be paid subsidy amount and also reduced payment of EMD/application/Scrutiny fee.
8. KSIDC estate provides ISI testing units to help SSI units to process quality products.

### **4.Small Industries Services Institutions (SISI):**

**The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs.**

#### **The main objectives of SISI :**

1. To serve as interface between central and state government.
2. To render technical support services.
3. To conduct entrepreneurship development programmes.
4. To initiate promotional programmes.
5. To assist potential entrepreneurs.
6. To prepare industrial profile of the state
7. To conduct update survey on the potential survey of the industries in the district.
8. To organize management skill development programmes
9. To work in the direction of skill development of entrepreneurs.
10. To prepare the project profiles.

#### **Functions of SISI:**

1. It Assists existing and prospective entrepreneurs.
2. To conduct EDP s all over the country
3. It acts as advising agency
4. It conducts market survey
5. It provides assistance in quality Control.

6. It helps to get financial support
7. It initiates technical assistance
8. Ancillary development

### **5.SMALL INDUSTRIES DEVELOPMENT ORGANIZATION(SIDO):**

**SIDO is an apex body at Central level for formulating policy for the development of SSI in the country.**

#### **Functions of SIDO:**

1. Framing of policies pertaining to SSI sectors.
2. Coordinate with different agencies in the SSI sectors.
3. Monitoring policy implementation
4. Industrial Development
5. Extension services
6. To encourage exporters
7. SIDO provides exhibition space and shipment of exhibits EX Mumbai free of cost for this purpose.
8. Encourages participation in international fairs /Exhibition
9. Conducts training programmes on packaging for exports, with a view to render assistance to SSIs.
10. Technical and managerial consultancy services are provided to SSIs through a network of field offices so as to ensure higher level of production and generation of higher exports.
11. National award for quality products are given to outstanding units, who have made a significant contribution .
12. SIDO has regional testing centers which are equipped with basic testing facilities for raw materials ,semi finished goods , finished goods.

### **6.Association of Women entrepreneurs of Karnataka(AWAKE):**

Association of Women entrepreneurs of Karnataka(AWAKE) is a non profit . non Governmental organization, established in 1983. It aims to promote entrepreneurship among women and thereby empower them to join the economic mainstream.

#### **Services of AWAKE:**

1. It conducts Entrepreneurship Development Program(EDP) for women and youth intending to start a business in urban and rural areas.
- 2.AWAKE conducts need based skill development programmes for women in various sectors like food processing, handicrafts, tailoring, embroidery, garments, artificial jewellery, candle making , herbal products, housekeeping ,beautician training etc
- 3.AWAKE will conduct the programme for both in rural and urban areas considering the business opportunities and market trend of the environment.
4. AWAKE to encourage the women interested in food processing established a business incubator for food processing at Bangalore.
5. AWAKE owes the success of its EDPs because to its holistic approach in including all developmental agencies. Both the Govt and NGO.
6. AWAKE provides special assistance to women entrepreneurs.
7. Business counseling is conducted for potential entrepreneur aspiring to start her own business enterprises.

8. Under this programme AWAKE informs and creates awareness amongst women entrepreneurs.

9. AWAKE in association with various government and non governmental agencies provides a platform for its members and trainees for marketing their products and build their business network.

10. It conducts various programs and workshops on various topics such as Finance, Tax planning, Computer skills, Information technology, packing in marketing, Export/import, communication skills and HRM.

### **7. Technical Consultancy Organisation: (TCO)**

Technical consultancy organizations (TCO) were created for facilitating technical consultancy for industrial projects. TCO were established by financial institutions like ICICI, IFCI, IDBI, SFC etc in collaboration with state level financial institutions and commercial bank to cater to the consultancy needs for small and medium enterprises.

#### **It functions includes:**

1. Giving advice on technical aspects of business
2. Preparing project profiles and feasibility reports.
3. Technical collaborations and technology transfer.
4. Technical consultancy to new entrepreneurs.
5. Financial Potential survey
6. Advice on industrial Management
7. Market research and survey for specific product.
8. offering merchant banking facilities.
9. conduct EDP programmes
10. Conducting survey on behalf of central and state governments on issues like power needs, modernization of plant, rehabilitation of sick industry.

### **8. Technical consultancy services organization of Karnataka( TESCOK)**

Technical consultancy services organization of Karnataka( TESCOK) is a Government of Karnataka organization and it provides the following range of services to the entrepreneurs.

1. Identification of project ideas and selection of investment opportunities.
2. Selection of suitable locations for setting up industrial units.
3. Conduct market surveys.
4. Preparation of detailed techno-economic feasibility report.
5. Trunk assistance.
6. Assurances in obtaining necessary licenses and clearances.
7. Energy audit and conservation.
8. Modernization studies
9. Dissemination of information on industrial policies.
10. Coordinating and conducting management development programme.
11. Identification and development of ancillary industries.
12. Assistance to government in providing information about new policies , programmes and schemes.

### **9. Khadi and village Industries Corporation(KVIC):**

Khadi and village Industries Corporation(KVIC) established under the khadi and village industries corporation **in the year 1957**

**Objectives of KVIC:**

1. Generating employment avenues for rural unemployed people through its different schemes.
2. Developing entrepreneurship ability among the rural unemployed youths.
3. Achieving the goal of rural industrialization.
4. Preserving the traditional arts and crafts in India.
5. Equipping artisans and craftsmen to take up the challenges of the modern market.
6. Promoting handicrafts, Khadi ,village and cottage industries facilitating them with the necessary inputs like Raw materials, equipments, capital etc.
7. Developing market for KVIC products.
8. Bringing about regional balance in assisting cottage industries.
9. Introducing the products even in the international markets.
10. To promote and encourage cooperative efforts among the manufacturer of khadi or persons engaged in village and cottage industries.

**Functions of KVIC:**

1. To plan and organize training of persons employed in KVIC.
2. To build up the reserves of raw materials and implement the supply them to kvic
3. To promote the sale and marketing of khadi or products , handicrafts .
4. To undertake through other agencies studies of the problems of KVIC.
5. To provide financial assistance directly or through specified agencie to institutions.

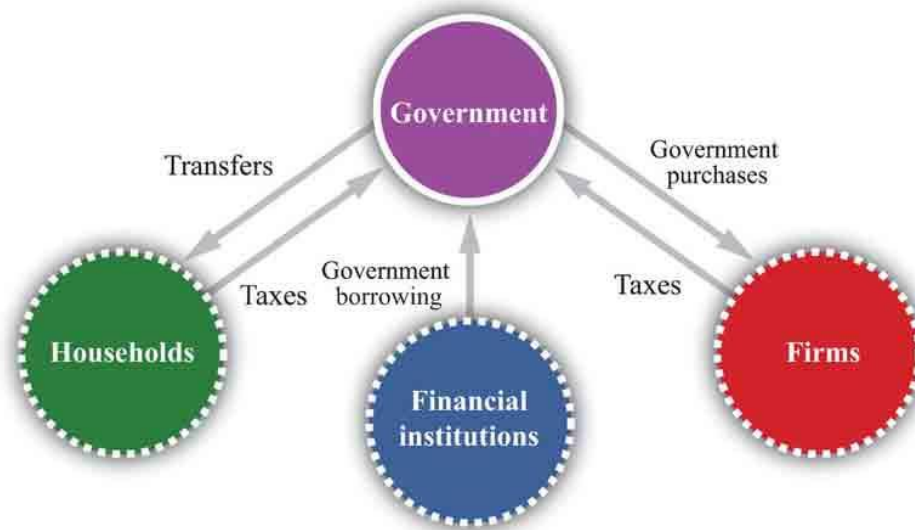
**13 Major Incentives to Small Scale Industries that Deserves Special Mention**

***1. Reservation:***

To protect the small-scale industries from the competition posed by large-scale industries, the Government has reserved the production of certain items exclusively for the small-scale sector. The number of items exclusively reserved for the small-scale sector has been considerably increased during the Five Year Plan Periods and now stands at 822.

***2. Preference in Government purchases:***

The Government as well as Government organisations shows preference in procuring their requirements from the small-scale sector. For instance, the Director General of Supplies and Disposals purchases 400 items exclusively from the small-scale sector. The National Small-Scale Industries Corporation assists the SSI units in obtaining a greater share of Government and defence purchases.



***Price preference:***

The SSI units are given price preference up to a maximum of 15 per cent in respect of certain items purchased both from small-scale and large-scale units.

***4. Supply of raw materials:***

In order to ensure regular supply of raw materials, imported components and equipment's, the Government gives priority allocation to the small-scale sector as compared to the large-scale sector. Further, the Government has liberalised the import policy and streamlined the distribution of scarce raw materials.

***5. Excise duty:***

In respect of SSI units excise duty concessions are granted to both registered and unregistered units on a graded scale depending upon their production value. Full exemption is granted up to a production value of Rs.30 lakhs in a year and 75 % of normal duty is levied for production value exceeding Rs.30 lakhs but not exceeding Rs.75 lakhs. If the production value exceeds Rs.75 lakhs, normal rate of duty will be levied.

***RBI's credit guarantee scheme:***

In 1960, the RBI introduced a Credit Guarantee Scheme for small-scale industries. As per the Scheme, the RBI takes upon itself the role of a guarantee organisation for the advances which are left unpaid, including interest overdue and recoverable charges. This scheme covers not only working capital but also advances provided for the creation of fixed capital

***7. Financial assistance:***

Small-scale industries are brought under the priority sector. As a result, financial assistance is provided to SSI units at concessional terms by commercial banks and other financial institutions. With a view to providing more financial assistance to the small-scale sector, several schemes have been introduced in the recent past the Small Industries Development Fund (SIDF) in 1986, National Equity Fund (NEF) in 1987 and the Single Window Scheme (SWS) in 1988.

SIDF provides refinance assistance to small-scale and cottage and village industries and the tiny sector in rural areas. NEF provides equity type support to small entrepreneurs for setting up new

projects in the tiny/small-scale sector. In 1996, the small-scale sector received 42.3 per cent of the total priority sector advances from public sector banks.

#### ***8. Technical consultancy services:***

The Small Industries Development Organisation, through its network of service and branch institutes, provides technical consultancy services to SSI units. In order to provide the necessary technical input to rural industries, a Council for Advancement of Rural Technology was set up in October, 1982.

The Technical Consultancy Organisation renders consultancy services to SSI units at a subsidised rate. Many financial institutions are also providing subsidies to SSI units for availing of consultancy services. For instance, small entrepreneurs proposing to set up rural, cottage, tiny or small-scale units, can get consultancy services at a low cost from the Technical Consultancy Organisations approved by the All-India and State-level financial institutions.

They have to pay only 20% of the fees charged by a technical consultancy organisation. The entire balance of 80% or Rs.5, 000 whichever is lower is subsidised by the Industrial Finance Corporation of India.

#### ***9. Machinery on hire purchase basis:***

The National Small Industries Corporation (NSIC) arranges supply of machinery on hire purchase basis to SSI units, including ancillaries located in backward areas which qualify for investment subsidy. The rate of interest charged in respect of technically qualified persons and entrepreneurs coming from backward areas are less than the amount charged to others. The earnest money payable by technically qualified persons and entrepreneurs from backward areas is 10% as against 15% in other cases.

#### ***10. Transport subsidy:***

The Transport Subsidy Scheme, 1971 envisages grant of a transport subsidy to small-scale units in selected areas to the extent of 75 % of the transport cost of raw materials which are brought into and finished goods which are taken out of the selected areas.

#### ***11. Training facilities:***

The Entrepreneurship Development Institute of India, financial institutions, commercial banks, technical consultancy organisations, and NSIC provide training to existing and potential entrepreneurs.

#### ***12. Marketing assistance:***

The National Small Industries Corporation (NSIC), the Small Industries Development Organisation (SIDO) and the various Export Promotion Councils help SSI units in marketing their products in the domestic as well as foreign markets. The SIDO conducts training programmes on export marketing and organises meetings and seminars on export promotion.

#### ***13. District Industries Centres (DICs):***

The 1977 Industrial Policy Statement introduced the concept of DICs. Accordingly a DIC is set up in each district. The DIC provides and arranges a package of assistance and facilities for credit guidance, supply of raw materials, marketing etc..

## **INCENTIVES AVAILABLE TO SSI UNITS IN BACKWARD/RURAL INDUSTRIES PROJECT AREAS**

Certain special facilities and incentives have been provided to these back-ward districts. Of these, 101 districts/areas have been declared further as specially backward and hence additional incentives like capital subsidy, special import facilities, etc.. are provided to industrial projects in these 101 districts/ areas over and above what is given in the 247 districts.

In addition, 111 districts in the country have been covered under the Centrally-sponsored Rural Industries Project Programme. Small-scale units set up in these areas get other special concessions and facilities. The various benefits are enumerated below:

1. An outright subsidy of 15% on the fixed capital investment up to a maximum of Rs. 15 lakhs is admissible to new units being set up in backward areas.
2. Allotment of factory or factory sheds in Industrial estates/areas and industrially developed colonies on easy terms.
3. Interest-free loans in lieu of inter-state Sales tax paid/payable by SSI units are available up to 7 years, provided the loan in a particular year will not exceed 8% of the capital investment.
4. Loans and advances to SSI units under the State Aid to Industries Act and Rules framed thereunder, for the construction of factory buildings, purchase of machinery and equipment and working capital on easy terms.
5. The State Financial Corporations grant loans for acquisition of fixed assets up to Rs. 30 lakhs in the case of limited companies and registered co-operative societies and up to Rs. 15 lakhs for others at liberalised margins and rate of interest, and this is done over a longer span of repayment and moratorium period.
6. The Central/State Government directly or through its subsidiary concern—the State Industrial Development Corporation—underwrites or participates in the preference shares of public limited companies on a selective basis for setting up medium and large industrial units. The State Government also considers cases for setting up of joint ventures with the private sector.
7. The SSI units in the backward areas and other industries with a capital investment in plant and machinery upto Rs. 1 lakh are relieved from the following taxation in some States:
  - (i) New units established in the districts are completely exempted from the payment of electricity duty up to a period of 7 years.
  - (ii) (New units are exempted from property tax for a period of 5 years.

(iii) Industrial units set up within the municipal limits are exempted from octroi on capital equipment and building materials subject to a maximum period of 3 years from the date of regular registration.

8. Provision of essential, controlled raw materials to the SSI units on priority and at very liberal terms.

9. State Governments have set up independent testing laboratories on behalf of the Indian Standards Institution, the Export Inspection Council, the Department of Defence, Government of India and various other government organisations for making industrial products of good quality.

10. In order to provide some important and sophisticated common facilities, a network of industrial development centres, heat treatment centres and common facility workshops have been set up in the States to equip the SSI units with modern techniques and process of manufacturing.

Special incentives in the form of transport subsidy to compensate partially for the higher transport cost of established industries in hilly backward areas is also being provided by the Union Government.

The small scale units are now permitted to set up consortia to organise the sales of their own products abroad. Similarly, a co-operative society of small units will also be permitted to do so. Such consortium or a co-operative society of small scale units will be eligible for grant of an Export House Certificate on the following basis :

- (1) The applicant is a corporate body or a partnership firm or a co-operative society and is registered as an exporter;
- (2) All the members of the applicant consortium are small or cottage units,
- (3) The minimum limit prescribed for select products for grant of a certificate will be Rs. 50 lacs (the minimum exports may be either in the immediately preceding years or the annual average of the three years of the base period).

For the purpose of granting the first export house certificate to the consortium, the exports made by its members will be taken into account, if otherwise acceptable. Thereafter, for the purpose of renewal, the exports made in the name of the consortium alone will be acceptable.

### **Seed Capital Assistance**

One of the constraints faced by the entrepreneurs, especially first generation or technical entrepreneurs, is the lack of resources to meet the minimum promoter's contribution. To help the entrepreneurs overcome the problem. IDBI has come up with a scheme which has gained popularity as the Seed Capital Scheme. If the project is coming up in non-backward areas, then the project would not be eligible for subsidy. Hence, the entire amount of promoter's contribution would be brought by the contributor himself. This would be reduced to the extent of

the subsidy if the project is coming up in backward areas like (category A, B, or C). The maximum amount which can be sanctioned is to the extent of Rs. 5 lacs per project on the fulfillment of certain conditions.

### **Objectives of the Scheme**

The objective of the scheme is to create new generation entrepreneurs who have the requisite traits of entrepreneurship but whose financial resources are limited. It envisages extension of assistance at a nominal service charge for meeting the risk capital requirements of entrepreneurs. The scheme is expected to promote wider dispersal of ownership and control of industrial undertakings.

### **Agencies for Operating the Scheme**

The scheme is operated through the agency of notified SIDCs and SFCs. Assistance under the scheme will also be given directly by IDBI in exceptional cases. Projects assisted by commercial banks are also eligible for seed capital assistance. However, the entrepreneurs will have to submit their applications through SFC/SIDC functioning in the region.

### **Eligibility Criteria**

To be eligible for assistance the entrepreneurs should be technically or professionally qualified or possess relevant experience or skills either in industry, business or trade. The following categories of entrepreneurs are eligible for assistance under the scheme:

1. New generation entrepreneurs in small scale requiring seed capital of more than Rs. 4 lacs.
2. Small scale entrepreneurs who undertake expansion/diversification or modernisation.
3. Entrepreneurs intending to graduate from the small scale to medium sector for the first time.
4. Entrepreneurs intending to set up a project in the medium sector for the first time.
5. Entrepreneurs already in medium sector and intending to undertake diversification for achieving better viability. Entrepreneurs seeking additional seed capital to meet project cost over-run caused by factors beyond their control.
6. Entrepreneurs intending to take over an existing sick or closed unit. Projects constituted as public/private limited companies or partnership/proprietary concerns eligible for assistance.

## **Amounts and Mode for Assistance**

The amount of seed capital assistance for project shall not exceed Rs. 15 lacs. However, the actual amount will be determined on the basis of gap in the equity required for the project as also shortfall if any in the prescribed minimum promoter's contribution after taking into consideration his own contribution and from other sources and subsidies and incentives. For deciding the quantum of assistance, the debt equity norms of 2:1 in the case of SSI units and 1.5:1 in the case of medium scale units would be adopted.

The assistance will be in the form of soft loans in the case of proprietary and partnership concerns. In the case of private limited companies the assistance will be by way of soft loans of subscription to 1% cumulative redeemable preference shares. In the case of public limited companies the assistance will be normally by way of subscription to equity capital or cumulative redeemable preference shares (at 1%) or both or by way of soft loan.

The soft loan would be interest free which will carry a service charge of 1% per annum. However, IDBI may have option to charge the interest on soft loan at a different rate. There is no commitment charge. The repayment period depends upon repaying capacity of the unit with an initial moratorium period not exceeding 5 years. Now security except the personal guarantee of the promoter is stipulated.

## **TAXATION BENEFITS**

The taxation benefits available to small scale industries are explained below:

- 1. Tax Holiday:** New small scale industries are exempted from the payment of income tax under Section 80J of the Act on their profits up to 6% (7.5 % for companies) from the total income of the units in the assessment year in which the units began manufacture, provided the small scale units have followed the procedures laid down in Section 80 J. This tax holiday is available up to 5 years from the commencement of production.
- 2. Depreciation Allowance:** Under Section 32 of the Income Tax Act. a small scale industry is eligible to get a deduction on depreciation account of plant and machinery. land and buildings, at the prescribed rates. In the case of small scale industries the deduction from the actual cost of plant and machinery is allowed up to Rs. 20 lakhs.  
  
The depreciation is calculated on the reducing balance system. Full depreciation is available for a year irrespective of the actual number of days for which the assets have been used. Sometime, an additional allowance, called extra shift allowance is available to the units. Any machinery or plant costing less than Rs. 750 is allowed to be written off completely in the year in which it is first used.
- 3. Development Rebate:** In respect of new plant or machinery other than office appliance or road transport vehicles of a small scale unit, which is wholly used for the purpose of

production, a sum, by way of development rebate, as specified below, is allowed under Section 33, in addition to normal depreciation.

- (i) In the case of plant and machinery, 35% of the actual cost, if it were installed before 1st April 1970, and 25% of such cost if it were installed after 31st March 1970.
- (ii) Where the plant machinery was installed after 31st March 1967, being an asset representing expenditure of a capital nature on scientific research related to the business carried on by a unit, development rebate is given at the specified rates.

**4. Rehabilitation Allowance:** This is granted to small scale units, under Section 33 B. whose business has been disturbed by:

- (a) Riot or civil disturbance. (fa) Floods, typhoons, hurricanes, cyclones, earthquakes or other natural disasters.
- (b) Accidental fire or explosion.
- (c) Action by an enemy.

The small scale unit re-established, reconstructed or revived, is allowed a deduction of a sum, by way of rehabilitation allowance, equivalent to 60% of the amount of the deduction allowable to the unit.

**Investment Allowance:** The Investment allowance was introduced in 1976 in place of depreciation allowance. It is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed. The benefit of investment allowance is available for the articles or things except certain low priority items specified in the Eleventh Schedule. However, the Small scale units are eligible for investment allowance irrespective of whether they are used for the purpose of business of construction, manufacture or production of low priority items listed in the Eleventh Schedule.

If a small scale industrial unit produces any article or thing (not listed in the XI Schedule) by using the know-how developed in Government laboratories, public sector companies and universities, the rate of investment allowance will be 35 per cent. This higher rate may be claimed only if the new plant or machinery is installed by it after 20-6-1977 but before 1-4-1982.

The Small scale unit can avail of the benefit of investment allowance only when it has put to use the plant and machinery either in the year of installation or In the immediate following year; otherwise the benefit will be forfeited.

**Conditions to be fulfilled:** An Investment Allowance Reserve must be created during the relevant financial year. This reserve should be utilised for the purchase of plant and machinery for the business purpose of the small scale unit in India. It cannot be used for any other purpose such as distribution of dividends or separation of profits or creation of assets outside India.

**When Withdraw able:** The Investment Allowance will be withdrawn:

- (i) If plant and machinery is sold or otherwise transferred by the assessee to any person (other than the Government, a local authority, a corporation or a Government Company) at any time before the expiry of eight years from the end of the financial year in which it was acquired or installed. It is not withdrawn if the sale or transfer is made in connection with the amalgamation of a partnership firm into a company or where a firm is succeeded by a company in the business carried on by it.
- (ii) If a small scale industrial unit ceases to be a small scale unit by virtue of the total value of plant or machinery installed exceeding the authorised limit.

**Publication of Books :** A small scale industry engaged in the business of publication of books is entitled to claim a deduction of a sum equal to 20 per cent of (i.e. profits and gains derived from such business under section 80 of the Act. "Books" for the purpose of this Section do not include newspapers, journals, Magazines, diaries, brochures, pamphlets and other publication of similar nature.

**Tax Benefits for Amalgamation of Sick Units:** Sickness in an industry, whether large or small. Is quite widespread in the country and has become a national problem which has caused a great deal of concern. It is estimated that the aggregate amount involved in the sick units is more than Rs. 2000 crores. The policy of the Government has been to encourage the amalgamation of sick units and concessions have been announced to induce healthy units to take over sick concerns in the public interest. Tax concessions are available for the amalgamation of sick units.

**Excise Concession:** The long term Fiscal Policy has envisaged to provide the best solution for the problem of cascading effect of taxation of inputs on the value of final product in the Modified Value Added Tax (MODVAT) Scheme. This scheme provides for the extension of the present system of proforma credit to all excisable commodities with the exception of a few sectors like petroleum, tobacco and textile products. The objective of the scheme is to extend the scope of the provisions for set offs for excise and countervailing duties paid on inputs. This programme will be implemented in phased manner over a period of years, taking due account of the revenue implications, the need to revise administrative procedures and the lessons from experience gained in the early stages of the reform.

The purpose to use MODVAT is not to give substantial net reliefs on excise. The loss of duty on inputs will be recouped through higher excise taxation of final products. Indeed, shifting the effective burden of excise taxation away from inputs and on to final products is at the heart of the proposed reform. Aside from reducing distortionary effects on production and thus increasing the competitiveness of Indian industry, the shifting of excise burden to final products will help in tailoring excise duties in such a manner that the well off bear a higher proportionate burden than the poor.

**Tamil Nadu Micro, Small and Medium Industries Policy 2008**

This policy is the first-of-its-kind in the country, with a vision to enhance the Competitiveness of the Micro, Small and Medium Enterprises sector and aim for sustained annual growth rate of over 10 per cent for MSMEs and generate direct and indirect employment opportunities to the tune of 10 lakhs during the XI Five Year Plan period. The Policy focused on all initiatives to be taken up for the development of MSMEs in the State including infrastructure development, incentive schemes, technology development, subsidy schemes for units located in industrially backward areas, skill development, marketing support, deregulation and simplification, administrative reforms and rehabilitation of sick enterprises in the state, Through this initiative, the Khadi and Village Industries Commission. The Khadi and Village Industries Board, Coir Board, Small Industries Development Bank of India (SIDBI), Tamil Nadu Industrial Investment Corporation Limited. Tamil Nadu Industrial Cooperative Bank Limited belonging to the Central and State Governments facilitate assistance and loans along with employment opportunities.

### **Subsidy Schemes**

#### **(a) Micro Manufacturing Enterprises**

Micro Manufacturing Enterprises established anywhere in the State are eligible for the following incentives:

- 15% capital subsidy on the value of eligible plant and machinery, subject to a maximum of Rs. 3.75 lakhs
- 20% low tension power tariff subsidy for 36 months from the date of commencement of commercial production or from the date of power connection, whichever is later, after allotment of Entrepreneur Memorandum.
- 100% subsidy on the net value of value added tax (VAT) paid by them for the first 6 years up to the value of investment made in plant and machinery at the time of allotment of Entrepreneur Memorandum.

#### **(b) Backward Area Development Subsidies**

Micro, Small and Medium manufacturing enterprises established in 251 industrially backward blocks and all industrial estates promoted by the Government and Government Agencies like SIPCOT, SIDCO, etc. (excluding industrial estates located within the radius of 50 Kms. from Chennai City center) and agro based enterprises set up in 385 blocks in the State are eligible for the package of incentives given below:

- 15% capital subsidy on the value of eligible plant and machinery, subject to a maximum of Rs. 30 lakhs-
- 5% additional employment intensive subsidy on the value of eligible plant and machinery for giving employment to 25 workers for 3 years within the first 5 years

from the date of commencement of commercial production, subject to a maximum of Rs. 5 lakhs.

- 5% additional capital subsidy on the value of eligible plant and machinery for units set up by women, SC/ST, physically disabled persons and transgender entrepreneurs, subject to a maximum of Rs. 2 lakhs.
- 25% additional capital subsidy on the value of eligible plant and machinery installed to promote cleaner and environment friendly technologies, subject to a maximum of Rs. 3 lakhs and certification by Tamil Nadu Pollution Control Board.
- 20% low tension power tariff subsidy for 36 months from the date of commencement of commercial production or from the date of power connection, whichever is later.

**(c) Special Capital Subsidy for Thrust Sector manufacturing enterprises set up anywhere in the State**

Ten thrust-sector manufacturing enterprises viz. Electrical and Electronic Industry, Leather and Leather goods, Auto parts and components, Drugs and Pharmaceuticals, Solar Energy Equipment, Gold and Diamond Jewellery for exports, Pollution Control equipments, Sports Goods and Accessories, Cost effective building material and Readymade Garments, set up anywhere in the State are eligible for a special capital subsidy of 15% on the eligible plant and machinery, subject to a maximum of Rs. 30 lakhs.

**(d) Generator** **Subsidy**  
Micro, Small and Medium manufacturing enterprises established anywhere in the State are eligible for a subsidy of 25% on the cost of Generator set purchased (up to 125 KVA capacity), subject to a maximum of Rs. 1.50 lakhs.

**(e) Back-ended Interest Subsidy**

A back-ended Interest subsidy at the rate of 3% (subject to a maximum of Rs. 10 lakhs per enterprise over a period of five years) will be extended on loans taken up to Rs. 100 lakhs by Micro, Small and Medium Enterprises for Modernization by induction of well established and improved technologies in specified sub-sectors/products as listed in the guidelines on Credit Linked Capital Subsidy Scheme (CLCSS) of Government of India.

**Schemes for Technology Development**

**The following new schemes for Technology Development are announced in the Micro, Small and Medium Industries Policy 2008:**

- 50% subsidy on the cost of filing a patent application, subject to a maximum of Rs. 2 lakhs per application and 50% of the cost of the application for trade mark registration or Rs. 25000 whichever is less for Micro, Small and Medium Manufacturing Enterprises.

- Establishment of industrial clusters and mini tool rooms under Public Private Partnership mode by providing 25% of the total project cost, subject to a maximum of Rs. 1 crore as assistance.
- Creation of Technology Development Fund for evolving cleaner/energy efficient/IT enabled technologies for the Micro, Small and Medium Manufacturing Sector.
- Assistance for creation of Centers of Excellence and Technology Business incubators for introduction of a new production techniques and design Development to the tune of Rs. 50 lakhs per incubator/center of excellence.

### **Schemes of Skill Development and Training**

Reimbursement of 50% of the tuition fees for Skill Development Training schemes for the benefit of the educated unemployed youth and upgradation of the skills of existing employees of Micro, Small and Medium Enterprises by the MSME Associations have been announced in the MSME Policy 2008.

### **Marketing support**

Government has announced the following schemes to provide marketing support to Micro, Small and Medium Enterprises in the MSME Policy 2008.

- 15% Price preference for purchase of goods of domestic Micro and Small Enterprises as provided in the Tamil Nadu Transparency in Tenders Act, 1998.
- Purchase preference for items notified from time to time by the State Government.
- Waiver of Earnest Money Deposit for participation in tenders.
- 50% grant on hall rent for participation in exhibitions within the State and also in other States by MSME Associations.
- Support for marketing under a common banner or brand name.

**Credit Linked Capital Subsidy scheme:** The Government of India is operating Credit Linked Capital Subsidy Scheme to facilitate the upgrading of technology in SSI units in respect of 48 specified products/sub-sectors. Under this scheme, 15% capital subsidy is granted for induction of proven technologies approved under the Scheme.

**TUF scheme for textile:** Additional option available for Capital subsidy in lieu of interest rebate for selected sectors. New or existing SME units—including units in cotton ginning and processing sector—are eligible 5%/4% interest reimbursement and (the interest actually charged).

**Mega Projects Subsidy:** The Govt. of Tamil Nadu is offering Mega Project Subsidy for the projects with investment in Fixed Assets above Rs. 5.00 crores and upto 200 crores as back ended ranging between 30.00 lakhs to 100.00 lakhs depending up to the investment and direct employment to the workers.

**Subsidy of Ministry of Food Processing Industries:** The Ministry of Food processing, Government of India with a view to accelerate the growth in this sector is providing grants for setting up of food processing units (including meat and fish processing/milk products/spices/coconut/walnut/cashew nut) or upgradation and expansion of such unit and for establishing Food Parks. Grant is available at 25% of the cost of capital equipment and technical civil works up to a maximum of Rs. 50.00 lakhs.

**Employment Incentive Subsidy:** Employment Incentive Subsidy of an additional 5% subject to a maximum of Rs. 5.00 lakhs will be granted, if at least 25 workers have been employed for a minimum period of 3 years within the first 5 years from the date of commencement of production.

**Special Capital Subsidy to thrust sector enterprises :** Micro/Small/Medium manufacturing enterprises in the following Thrust Sectors are eligible plant and machinery subject to a maximum of Rs. 30.00 lakhs—

1. Electrical & Electronics Industry
2. Leather & Leather Goods
3. Auto Parts and components
4. Drills and Pharmaceuticals
5. Solar Energy Equipments etc.

**Low-tension power tariff (LTPT) subsidy:** Flat rate of 20% for the first 36 months from the date of commencement of production or from the date of power connection, after allotment of an Entrepreneur Memorandum from District Industries Center.

### **INSTITUTIONAL SET UP**

In order to accelerate the small industries development, Governments at the Central and State levels have set up a number of development agencies/institutions such as District Industries Centres (DICs). Small Industries Service Institutes (SISI) and Small Industries Development Organisation, etc. All-India Financial Institutions—IDBI, IFCI, ICICI—have promoted/sponsored a number of Technical Consultance Organisations (TCOs) to assist small entrepreneurs in different ways. In 1986, the Small Industries Development Fund was set up in IDBI in order to assist small scale, village and cottage industries and tiny sector units in the rural areas. Recently, the Small Industries Development Bank of India (SIDBI) has been established to help small scale units. In addition to these institutions there are agencies like National Science and Technology Entrepreneurship Board, Khadi and Village Industries Commission,

Commercial Banks, EXIM Bank and Co-operative Banks who undertake promotional activities aiming at facilitating industrial development.

### **District Industries Centres (DICS)**

Governments—both Central and State, have in the past taken a number of measures for the development of small and village industries, but the actual achievements have been far below the expectations. Also the focus of attention for industrial development was mainly on large cities and State capitals to the neglect of district areas. In addition, multiplicity of institutions involved in small industries development and complicated systems and procedures made the job of promoting the industrial units an uphill task for small entrepreneurs. Hence, it was felt necessary to establish a development agency which could provide all services and facilities to village and small industries under one roof. Accordingly, the DICs were established in May 1978 in order to cater to the needs of small units.

Each district has a DIG at its headquarters. The main responsibility of DIC is to act as the chief coordinator or multifunctional agency in respect of various Government departments and other agencies. The prospective small entrepreneur would get all assistance from DIC for setting up and running an industry in rural areas. Up to 1991 about 422 DICs have been set up throughout the country. These DICs have assisted more than 1.5 lakh units generating employment for more than 10.3 lakh persons. The metropolitan cities of-Delhi, Bombay, Calcutta and Madras have been kept outside the purview of the DIC.

### **Functions of DIC**

**Identification of Entrepreneurs:** DIC develops new entrepreneurs by conducting entrepreneurial motivation programmes throughout the district especially in Panchayat Union Headquarters and small towns.

**Selection of Projects:** DIC offers technical advice to new entrepreneurs for the selection of projects suitable to them.

**Provisional Registration under SSI:** After the selection of projects, entrepreneurs are issued with provisional SSI Registration which is essential for obtaining, assistance from the financial institutions.

**Purchase of Fixed Assets:** DIC sponsors the loan applications to TIIC, SIDCO and banks for the purchase of land and buildings and sanctions margin money under Rural industries Project Loan Scheme payable to other financial agencies for the purchase of plant and machinery.

**Clearances from Various Departments:** It takes the initiative to get clearances from various departments and takes follow up measures to get speedy power connection.

**Assistance to Raw Material Supplies:** It makes necessary recommendations to the concerned raw materials suppliers and issues the required certificates for the import of raw materials and machinery wherever necessary.

**Assistance to Village Artisans and Handicrafts:** DIC arranges for the financial assistance with the lead bank or nationalised banks of the respective areas.

**Interest-Free Sales Tax Loan:** SSI units set up in rural areas can get IFST Loan up to a maximum limit of 8% of the total fixed assets from SIDCO. But the sanction order from the same is being issued by DIC. The DIC also recommends the SSI units to NSIC for registration for Government Purchase Programme.

**Subsidy Schemes:** DIC assists SSI units and rural artisans to get subsidies such as power subsidy, interest subsidy for engineers, subsidy under IRDP, etc., from various institutions.

**Training Programmes:** DIC gives training to rural entrepreneurs and also assists other units giving training to small entrepreneurs.

**Self-employment for Unemployed Educated Youth:** This scheme was introduced in 1983-84 for youths between 18 years and 25 years with SSLC, Technocrats and women are given preference.

District Industries Centres are supposed to provide pre-investment, investment and post-investment assistance to entrepreneurs under one roof. These centres have done commendable work in the promotion of small industries, development of entrepreneurship and generation of self-employment. But much is still desired to be done to make the DIC really one-window service. Steps should be taken to strengthen and suitably restructure the district industries centres for playing a leading role in district level industrial development

## **Industrial Estates**

Developing countries require institutional arrangements for their rapid industrialisation and balanced growth. One such institutional measure is industrial estates. The term 'industrial estate' is called by different names, e.g. industrial park, industrial zone, industrial region, industrial city, industrial area, industrial township, etc.

An industrial estate has been defined as a method of "organising, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand and a variety of services and facilities to the occupants". In other words, an industrial estate is a tract of land sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises. It is a planned clustering of industrial units offering standard factory buildings and a variety of services and facilities to entrepreneurs.

The main features of an industrial estate are as follows:

- (i) It is a tract of land subdivided and developed into factory plots or sheds.
- (ii) It provides several common facilities or infrastructural amenities such as water, power, transport, toolroom, training, bank, post office, repairs and maintenance, etc. to the occupants.
- (iii) It is a planned clustering of industrial units.
- (iv) It is designed as a tool of industrialisation and balanced regional development.

- (v) It may be developed in urban, semi-urban or rural areas,
- (vi) It may be large, medium and small,
- (vii) It may be set up the Government or by cooperatives or by private agencies.

### **Types of Industrial Estates**

Industrial estates may be classified into the following categories:

1. **General Purpose or Composite Industrial Estates:** Such an industrial estate provides- accommodation to all types of smallscale industries.  
  
It consists of a wide variety and range of industrial units. Most of the Industrial estates in India are of this type.
2. **Special Purpose Industrial Estates:** This type of industrial estate is particularly constructed for specified groups of entrepreneurs, e.g., technically qualified persons. craftsmen or artisans, etc. For example, Industrial estates for artisans and technical personnel have been set up at Hyderabad.
3. **Ancillary Industrial Estates:** Such an industrial estate houses manufacturing units, which produce, parts and components for a large industrial unit. It is generally set up near the parent unit.
4. **Functional Industrial Estates:** This type of Industrial estate consists of industrial units manufacturing the same product. Such estates have been set up for leather goods, electronics, sports goods, food preservation, ceramics, etc.
5. **Flatted Factory Estates:** These are multi-storey buildings constructed in big cities, to provide space to industrial units manufacturing light weight goods with the help of simple machine tools. They help to conserve space.

### **Advantages of Industrial Estates**

Industrial estates offer the following benefits:

1. **Economies of Scale:** Location of many medium or small plants within a large area offers several economies. Economies of scale arise because all the industrial units enjoy common infrastructural facilities. As the size of an industrial estate increases the costs of estate development and administration per unit of each facility decline.
2. **Economies of Agglomeration:** In an industrial estate, several industrial units are clustered together. They become interrelated and interdependent. This enables them to enjoy the benefits of agglomeration and external economies. These external economies include access to better transportation facilities, availability of trained labour,

regular supply of power and water, easy access to testing and repair facilities, availability of raw materials, etc.

3. **Low Investment:** A small scale entrepreneur can obtain an Industrial plot or shed on rent or hire purchase basis. This reduces considerably fixed capital requirements as well as fixed costs.

4. **Less Risk:** Industrial estates serve as risk-absorbing device because of low capital investment and provision of common facilities and services.

5. **Saving of Time and Effort:** An individual entrepreneur is relieved of the trouble of searching for a suitable space. He need not waste his time and effort in formalities involved in acquiring land, obtaining the approval of local authorities, securing power connection, etc.

6. **Nursery for New Entrepreneurs:** Industrial estates reduce risks and increase profitability through Internal and external economies. This induces new entrepreneurs to setup industrial units.

7. **Mutual Cooperation:** Industrial estates promote the spirit of cooperation and joint efforts. All industrial units located in an industrial estate face common problems and seek to achieve common objectives.

8. **Balanced Regional Development:** By developing estates in relatively backward regions, the Government can ensure the balanced industrialisation of different parts of the country. This will also lead to decentralisation of industries.

Thus, an industrial estate serves as a multipurpose arrangement for the growth of entrepreneurship. By providing the necessary facilities and services at a single place, it provides a congenial climate for the growth of small scale industries. It encourages the development of new enterprises. Industrial estates not only accelerate industrialisation but also facilitate decentralisation of industry

### **Industrial sickness:**

A sick industrial unit may be defined as one when it fails to generate surplus on a continuous basis and depend on frequent infusion of external funds.

Industrial sickness can be defined a condition wherein an industrial unit fails to generate surplus on a continues basis and depends on frequent infusion of external funds.

### **Causes for industrial sickness:**

#### **Internal causes:**

1. Wrong selection of product ,process layout
2. Under estimation of the project cost.
3. The existing manufacturing process may be outdated.
4. Selection of wrong project site resulting increasing of transport cost etc.
5. Undue investments of fixed assets.

6. Defective working of plant and machinery affecting quality of the production.
7. An improper choice of technology.
8. Inadequate attention towards maintenance management.
9. Lack of inventory and material management leading to hi inventories and wastages.
10. Absence of scientific and efficient quality control system.
11. Unsuitability of product mix
12. An improper demand estimation
13. Insufficient sale promotion activities
14. Improper pricing policies
15. Defective capital structure
16. Inefficient management of working capital
17. Unskilled and semi skilled labour
18. Improper wage ,increment and promotion policies.
19. Absence of Management Information System
20. Problems in partnership leads to sick
21. Labour problems strikes, lockout.

**External causes :**

1. Changes in the industrial policies of the Govt from time to time
2. Inadequate and untimely available of necessary raw materials, power, transport and skilled labour.
3. High cost of manufacture couple with a low realization of sales revenue.
4. Lack of the shrinkage and demand of the product
5. Cheaper variety of the products available in the market.
6. Frequent industrial strikes and labour unrest.
7. Shortage of financial resources especially working capital.
8. Political instability both at domestic and as well as international.
9. A stiff competition from large scale industries.
10. SSI are unable to adopt changes in the economic, social and political scenario of the country and the world.
11. Changes in preference of consumers.
12. Natural calamities like drought, floods etc
13. Foreign exchange fluctuations leading adverse effects on the machinery and raw materials which are imported.

**Remedies to prevent the industrial sickness**

1. A program of monitoring and nursing them during infancy is essential.
2. Financial institutions and banks should initiate necessary corrective action for sick.
3. Wherever the possible ,attempts should be made to restore sick unit with to financial health.
4. Excessive concern over employment resulting from the closure of a sick unit is unwarranted.
5. The BIFR should play the role of a single window clearing agency.

