ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT

M-229

Self Learning Material

Directorate of Distance Education

SWAMI VIVEKANAND SUBHARTI UNIVERSITY
MEERUT-250005
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Published by : Laxmi Publications Pvt Ltd., 113, Golden House, Daryaganj, New Delhi-110 002.
Tel: 43532500, E-mail: info@laxmipublications.com

DEM-2243-56.40-ENTER SMALL BUSI MGMT M-229
Typeset at : Monu Printers, Delhi
Edition : 2016

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UNIT I ENTREPRENEURSHIP

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STRUCTURE

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1.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- explain Meaning of an Entrepreneur
- discuss Function and types of Entrepreneur
- explain Intrapreneur
- discuss Concept and Evolution of Entrepreneurship
- define Stages of Entrepreneurial Process
- state Role of Entrepreneurs in Economic Development.

1.2 INTRODUCTION

Modern business is very complex in nature due to fast technological innovations. This has made the business environment extremely volatile. There are numerous imponderable uncertainties around. Hence, when a business enterprise irrespective of its size, goes on stream in a favorable environment, the entrepreneur may soon discover much to his discomfiture that the apparent advantages he perceived have started to become non-conducive. Answers to such problems in a rapidly changing business environment may technically termed as 'business decisions'. The person who takes such a decision is known as **Entrepreneur**.

The entrepreneur does not function simply as a businessman, or a manager. There are many businessmen who are not entrepreneurs.

Conversely many entrepreneurs are not businessmen. A businessman usually, invests in other assets outside the business whereas as entrepreneur always goes in for expansion and diversification, innovation and invention to further the growth of the enterprise.

Entrepreneur is a person who discovers new ideas and business opportunities, brings together funds to establish a business, organises and manages its operations in order to provide economic goods and services, for the public.

Entrepreneurs have strong convictions, self motivation, and the will to grow and prosper tremendously and also the courage to go bankrupt if they fail in their venture.

But in majority of the cases they start with nothing but entrepreneurial ability and end with positive results.

The term Entrepreneur is often used interchangeably with 'entrepreneurship' Entrepreneurship refers to a process and not person. It can be described as a creative and innovative response to the environment. Such response can take place in any field of social endeavor. In industrial or commercial field or agriculture and social work, for it exists in every economic profession and in every society.

In recent years, significant amount of work has been done to identify the entrepreneur to stimulate entrepreneurship and to investigate the sequence of events, which lead to the formation of a new enterprise. The role of the entrepreneur in the development of new enterprise has not been the only concern.

Many attempts have been made to harness entrepreneurial activities to the development of the small business sector too.

A small business owner is in every way an entrepreneur. He can be found in marketing areas and also in manufacturing the products in a small - scale industry, cottage industry khadi and village industry or he may be active in service industries such as dry cleaning, printing press, transport firms, insurance companies, advertising agencies and building construction firms.

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3 HOW TO PRONOUNCE ENTREPRENEUR?

The Word Entrepreneur has it's root from the French language, it is not pronounced ılable by syllable as it is apparent in English. The first part of the word **'Entre'** is pro-ınced as **'Anthro'**, in the similar way to **Anthro**pologist, **Anthro**poids, and **'preneur'** is ınounced as an English word.

The whole word is pronounced together as **'ANTHRO PRENEURS' or NTHRO PRENEURS'.**

4 MEANING OF AN ENTREPRENEUR

ıtrepreneur as a Risk-Bearer

According to Richard Cantillon , an Irish man residing in France, was the first person :oin the word 'entrepreneur' and his unique risk-gearing function in economics in the .ial 18th century. He defined an entrepreneur as *an agent who buys factors of produc-ı at certain prices in order to combine them into a product with a view to selling it at :ertain prices in future.*

F.H.Knight describes an entrepreneur "as a specialized group of persons who bear :ertainty". Uncertainty is defined as a risk which cannot be insured against and incalcula-. Thus, he draws a difference between risk and uncertainty. A risk can be reduced ıough the insurance principle where the distribution of the outcome of group of instances is ɔwn. On the other end uncertainty is the risk, which cannot be calculated. The entrepre-ır, according to Knight, is the economic functionary who undertakes such responsibility of certainty which by its very nature cannot be insured nor capitalized nor salaried too.

ıtrepreneur as a Organizer

According to **Jean-Baptiste Say,** an aristocratic industrialist, with his unpleasant ıctical experiences developed the concept of an entrepreneur a little further which sur-'ed for almost two centuries. His definition associates entrepreneur with the functions of ordination, organization and supervision. According to him, an entrepreneur is one who mbines the land of one, the labour of another and the capital of yet another, and, thus, ɔduces a product. By selling the product in the market, he pays interest on the capital, rent land and wages to labourers and what remains is his/her profit. Thus, Say has made a ar distinction between the role of the capitalist as a financer and the entrepreneur as an ganizer. He further elaborates that in the course of undertaking a number of complex erations like obstacles to be surmounted, anxieties to be suppressed, misfortunes to be ɔaired and expedients to be devised, three more implicit factors are deemed to be essen-l. These are:

1. Moral qualities for work judgment, perseverance and a knowledge about the business world.
2. Command over sufficient capital, and
3. Uncertainty of profits

ıtrepreneur as a Innovator

According to **Joseph A. Schumpeter,** for the first time in 1934, assigned a crucial le of 'innovation' to the entrepreneur in his magnum opus 'Theory of Economic Develop-ent'. Schumpeter considered economic development as a discrete dynamics change brought entrepreneur by instituting new combinations of production, *i.e.,* innovations. The intro-ıction of new combination of factors of production, according to him, may occur in any one the following five forms:

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1. The introduction of a new product in the market
2. The instituting of a new production technology which is not yet tested by expe ence in branch of manufacture concerned.
3. The opening of a new market into which the specific product has not previou entered
4. The discovery of a new source of supply of raw material.
5. The carrying out of the new form of organization of any industry by creating monopoly position or the breaking up of it.

Joseph A. Schumpeter, also made the very clear distinction between an inven and an innovator. An inventor is one who discovers new methods and new materials. A an innovator utilizes inventions and discoveries in order to make new combination.

Thus, the concept of entrepreneur is closely associated with the three elements:

- Risk bearing,
- Organizing and
- Innovating

Thus, an entrepreneur is defined as *a person who tries to create something n organizes production and undertakes risks and handles economic uncertainty invol in the enterprise.*

1.5 EVOLUTION OF THE CONCEPT

The term "entrepreneur" is defined in a variety of ways. Yet, no consensus has b arrived at on the precise skills and abilities that make a person a successful entrepreneu

The word derives from the French **"entre" (to enter)** and **"prendre" (to tak** and in a general sense applies to any person starting a new project or trying a new oppo nity. The simple meaning of an "entrepreneur" is "a person who is responsible for setting a business or an enterprise." He possesses skill, initiative and innovative ideas and aspi for high achievements in business. He promotes projects for the welfare of people creates wealth for the society, in the process of implementing new projects, he crea employment.

In the early 16th century, the Frenchmen who organized and led military expediti were called entrepreneurs. The French economist CANTILLON applied the term 'en preneur' to business initially in the 18th century to designate a dealer who purchases means of production for combination into marketable products.

Another Frenchman J.B. SAY, expanded Cantillon's idea and conceptualized entrepreneur as an **organizer** of the business firm central to its distributive and product functions. Beyond stressing the entrepreneur's importance to the business, SAY did li with his entrepreneurial analysis.

The Oxford English Dictionary also defined an entrepreneur in similar way as " director or a manager of a public musical institution, one who 'gets-up' entertainment, es cially musical performance"

The leading economists of all schools, including KARL MARX, have emphasized contribution of the entrepreneurs to the development of economics, but JOSE SCHUMPTER, who argues that the rate of growth in an economy depends to a great ext on the activities of entrepreneurs, has probably put greater emphasis on the entrepreneu function than any other economist.

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To him, nobody is an entrepreneur all the time—one behaves as an entrepreneur only when carrying on innovations. Thus, an individual may be an entrepreneur when he sets up the business but ceases to be an entrepreneur when the business is well established.

The term 'entrepreneur' is subject to number of definitions. The entrepreneur is often thought of as the **risk taker.** Schumpeter argued that his sole function was innovation.

Arthur Dewing conceptualised the function of an entrepreneur as one that promotes idea into business.

'Evans views the entrepreneur as the person who has the task of determining the kind of business to be operated.

1.6 A COMPREHENSIVE DEFINITION OF ENTREPRENEUR

After analysing all the above statements, we may broadly define entrepreneur as *a person who specialises in taking judgmental decisions about the coordination of scarce resources, discovers new ideas of business, and manages the entire operations to exploit a market opportunity.*

The above views have broadly classified the word entrepreneur into **three** major groups viz., **Risk bearer, Organizer** and **Innovator.**

1.7 VARIOUS DEFINITIONS FOR AN ENTREPRENEUR

Table 1. Various definitions of Entrepreneur

1.	**17th century**	Person bearing risks of profits (loss) in a fixed price contract with government
2.	**1725: Richard Cantillon**	Person bearing risks is different from one supplying capital.
3.	**1797: Beaudeau**	Person bearing risks, planning, supervising, organizing and owning.
4.	**1803: Jean Baptiste Say**	Separated profits of entrepreneur from profits of capital.
5.	**1876: Francis Walker**	Distinguished between those who supplied funds and received interest and those who received profit from managerial capabilities.
6.	**1934: Joseph Schumpeter**	An entrepreneur is an innovator and develops untried technology.
7.	**1958: Haggen**	An entrepreneur is an economic man who tries to maximize his profits by innovations.
8.	**1961: David McClelland**	Entrepreneur is an energetic moderate risk taker.
9.	**1964: Peter Drucker**	Entrepreneur maximizes opportunities through systematic innovations.
10.	**1980: Karl Vesper**	Entrepreneur seen differently by economists, psychologists, business persons and politicians.

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11.	**1985: Robert Hirsch**	Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the results - rewards of monetary and personal satisfaction.
12.	**1975: Albert Shapero**	Entrepreneur takes initiative, organizes some socio-economic mechanisms, and accepts risk of failure.
13.	**1983 : Gifford Pinchot**	Intrapreneur is an entrepreneur within an already established organization.
14.	**1990: Vasant Desai**	The entrepreneur brings in overall changes through innovation for the maximum social good. Human values remain sacred and inspire him to serve society. "He has firm belief in social betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic, as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities encompasses all fields/ sectors and fosters a spirit of enterprise for the welfare of mankind.

1.8 ENTREPRENEUR—INHERENT FEATURES

A creator - Innovator - Risk taker - Change Seeker - Passes along - Long term views - Works on his own intuitions - Puts his resources at stake - Accepts mistakes - A visionary - out standing Leader - Exploits opportunities - High achiever - A change agent.

Entrepreneur is the originator of a new business venture and a new organization for that venture.

An Entrepreneur:

1. Perceives opportunities which executives do not see or care
2. Uses information to produce something new
3. Creator of ambience and quality for the existing product or service to make it new
4. Innovation and implementing innovative ideas are the main charcterstics of an entrepreneur
5. Involves in initiating changes in production
6. Always searches for change, responds to it, and exploits it as an opportunity
7. A person who looks for the whole process of economic change to give a new look to a particular activity
8. Agent of change in a market economy

1.9 URGES OF AN ENTREPRENEUR

An urge to exercise power over things and objects persists among all human beings. The urge may vary in degree from person to person. This urge is an intrinsic quality of an

entrepreneur. Sociologists consider him as a sensitive energizer in the modernization of the societies. The psychologists look upon him as an "entrepreneurial man", his motivations and aspirations as conducive to development. Political scientists regard him as a leader of the system. To economists, he is harbinger of economic growth. He combines entrepreneurial drive with leadership and innovativeness.

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1.10 ENTREPRENEURSHIP—A CONCEPT

1. It is a process undertaken by an entrepreneur to augment his/her business interests
2. It is an exercise involving innovation and creativity that will go towards establishing his/ her enterprise.
3. It is a composite skill to bring together and put to use factors of production in an appropriate manner
4. It is the propensity of mind to take calculated risks with confidence to achieve a predetermined business

Higgins defined entrepreneurship as "the function of foreseeing investment and production opportunities, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing new technique, discovering new source of raw materials and selecting top managers for day-to-day operation".

Cole's definition for entrepreneurship is "the purposeful activity of an individual or a group of associated individuals undertaken to initiate, maintain or organize profit by production or distributing of economic goods and services".

1.11 CHARACTERISTICS OF ENTREPRENEURSHIP

The process of entrepreneurship in a complex one having a multi dimensional characteristics. The following are some of the commonly accepted characteristics suggested by experts

Organization. It brings together various facilities of production for an efficient and economical use.

Decision Making. Decision making is a very vital characteristic of an entrepreneurship. Taking decisions at all levels and stages of entrepreneurship is a routine task.

Making the enterprise a success. Entrepreneurship is mainly an economic activity as it deals with creating and operating an enterprise. It involves in satisfying the needs of customers with the help of production and distribution of goods and services. This makes the enterprise a success.

Innovation. Entrepreneurship involves innovation of new things to effect dynamic changes and good success in economy. It should create conditions for growth of the economy

Risk taking. Risk is a inbuilt element of any business. Entrepreneurship should be risk bearing to cater uncertainty of future

Skill Management. Entrepreneurship brings together various functions of the management – Planning, Organizing, Staffing directing, Controlling and Leading.

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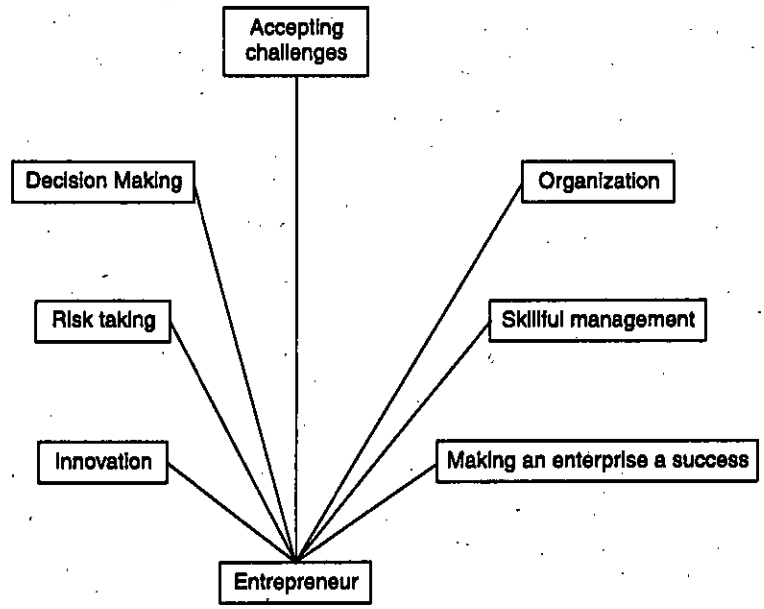

Figure 1. Characteristics of Entrepreneur.

1.12 EVOLUTION OF ENTREPRENEURSHIP

Entrepreneurship existed even in very early stages in different kinds. Its evolution is discussed below:

(*i*) **Early period:**

An early example of entrepreneurship is known to be the example of Marco Polo who tried to trade routes to the Far East. He used to sign a contract with a venture capitalist to sell his goods. The capitalist was the risk bearer, the merchant-adventurer took the role of trading, bearing all physical and other risks. After his successful selling of goods and completing his trip, the profits were shared by the capitalist and merchant.

(*ii*) **Middle ages:**

In the middle ages, the term entrepreneur was referred to a person who was managing large projects. He was not taking any risk but was managing the projects using the resources provided. Some examples are the cleric who used to be incharge of big architectural works like castles, cathedrals etc.

(*iii*) **17th Century:**

During 17th century, an amalgamation of risk with entrepreneurship had evolved. A person (entrepreneur) used to enter into a contractual agreement with government to perform a service or to supply some goods. This involved some risk since the contract price was fixed and the profit or loss was borne by the entrepreneur.

Cantillon, a noted author developed one of the early theories of the entrepreneurship during 17th Century. He viewed the entrepreneur as the risk taker, observing that merchants, formers, craftsmen, buy at a certain price and sell at an uncertain price, hence operating at risk.

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(*iv*) **18th and 19th Century**

As a result of industrialization during 18th century the person with capital (capitalist) is differentiated from the person who needs capital (entrepreneur). Many of the technical inventors did not have money to turn their inventions into products. Hence some capitalists had to finance them.

(*v*) **20th Century:**

During this, the entrepreneurs were not distinguished from managers and were viewed mostly from the view of economy. The entrepreneur organises and operates an enterprise for personal gains. He takes risk, contributes his own initiative, skills, he plans, organizes and leads his enterprise. He owns and bears the loss or gain. In the middle or 20th century, the notion of an entrepreneur as an innovator was established.

The ability to innovate could be seen throughout history from the Egyptians who had designed, planned and erected pyramids with very heavy stone blocks, to the space launching technology, to a cell phones to an artificial pace maker in human heart. Although the tools have changed with advances in science and technology, the ability to innovate and risk taking has been present in all generations.

1.13 DEVELOPMENT OF ENTREPRENEURSHIP

The development of entrepreneurship started in the olden days. Ancient people invented wheel, fire by rubbing stones, spears to hunt animals, new ways and means of cultivation etc. Then came the era of boats and ships opening the doors of trade at far places. The invention of steam engine revolutionized sea and land transportation. Eventually the industrial resolution during 19th century led to better and modern techniques of entrepreneurship.

The noteworthy pioneers of this era are Colt who invented fire power for weapons, and Morse's telegraph that changed the life of communication. During 20th century foundation of modern industry was laid. America became leading industrial country. American steel industry was founded by Andrew Corregie, Henry Ford started automobiles in a very big way. Though Henry Ford was not an inventor, he was a great entrepreneur.

The contemporary period of entrepreneurship began with innovators such as Mc Cormic, who revolutionized mechanical reaper in agriculture, Alexander Graham Bell who invented telephone, Thomas Alva Edison who invented Electric bulb, Gillet who invested safety razor etc.

In the Indian context, pioneers like Jamshedji Tata, Birla etc., though not inventors, were great entrepreneurs who contributed to the technical and economic growth of India.

All these entrepreneurs have been responsible for noteworthy innovators that charged the human life for better. IBM converted the mechanical type writer to a electrically operated one. Apple developed Personal Computers.

Today, we consider some companies as giants in innovations and entrepreneurial ventures. To name some, Microsoft for office software, Sony for electronic goods, Ford for cars, Intel for Micro electronics, Sun Micro systems for Electronic workstations etc.

In all above examples, starting from early period to today's entrepreneurs, there have been enthusiastic individuals who went out and extended their hands to create new ventures which created new avenues and satisfied needs of people.

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1.14 ENTERPRISE—THE CONCEPT

Enterprise simply means an economic organization or activity. It may also be called a place of business of an entrepreneur or an individual. Here it is considered as a business organization. Sometimes the term is taken as a base term to effectively explain the courage, conviction, commitment and creative ability of an entrepreneur, calling him as "Enterprising person" or "Enterpriser." This emphasizes the boldness and initiative of an entrepreneur who creates a business entity with innovative ideas. Therefore, "Enterprise" may be considered as "an organization engaged in a business activity."

Enterprise is the starting point of an entrepreneur. He decides through this entity as to where the business has to go and how it is to be positioned. He also determines the action plan in the form of **"Mission."** Ultimate objective of the entity will come out in the form of **"vision".**

Entrepreneur, after conceiving the idea of an enterprise, prepares a chart. This chart exhibits the levels of management, authority levels, work flow, operating regions, competition levels that may disturb the enterprise's activities, strategies to be adapted to overcome these disturbances, span of management at each level or in functional areas to have effective work flow and have highest efficiently level etc., Thus the chart provides a profile of an enterprise which gives a scientific direction to entrepreneur to work on his innovative business ideas. This is a road map which exhibits short-term and long-term plans of the organization and action plan to achieve them.

Thus enterprise is an integrated whole of values, orientation, vision of entrepreneur and his work force, mission, major objectives and strategic interest (commitment to win in the competitive environment) etc. Enterprise works to attain an economic objective.

In this global age, leaders in the business world can come from anywhere. Their best ideas will dominate, regardless of their national origins. It is in this competitive global regime that the best hopes and aspirations of India rest.

A well-run enterprise embraces and practices a sound Predictability-Sustainability-Profitability-De-risking (PSPD) model. A good forecasting system for sales based on data gathered ensures predictability.

Every enterprise must focus on high profitability in order to ensure the best returns for its shareholders. Indeed, profitability is crucial for the long-term success of a corporation.

The enterprise must have a good de-risking approach that recognizes, measures and mitigates risk along every dimension.

Enterprise governance is focused on maximising, shareholder value while ensuring fairness to all stakeholders. In these days of free flowing global capital, in order to attract capital, corporations have to adhere to the best global standards of enterprise governance.

The Foundation of enterprise governance philosophy is the belief that it is better loose a crores of rupees that to act in ways that make one lose a night's sleep.

It is a good practice to under-promise and over-deliver. It is best to deliver bad news to the stakeholders proactively. This creates goodwill, as they understand that ups and downs are inevitable in every business. What they value is honest and open managements.

Quick progress comes in an environment that respects competence, where there are competitions and where there are no prejudices.

"Infosycians have respect for our competitors and a sense of humility about what we have achieved. The success is, generally, ephemeral. We are only as good as the results we produce and we believe in a long-term approach; our strategies and policies reflect that"..... says **Narayan Murthy** of Infosys.

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The enterprise has an important duty to contribute to society. No enterprise can sustain its progress unless it makes a difference to its context.

The six Pillars of enterprise governance as outlined by **Infosys mentor Naryan Murthy** are:

- I want to emphasize the importance of being trustworthy in your dealings. It is on such foundations that great organizations are created.
- Fear is natural, but do not let yet your actions be totally governed by it. Just as fear may sometimes be the voice of your intuition, it might also be an invitation to explore yourself and the world.
- A Supportive family is the bedrock upon which lives and careers are built.
- Learn how to manage yourself, separating the merits and demerits of a decision from the accompanying feelings. Infosycians call this 'being transaction oriented'.
- Live your life and lead your career in a way that makes a difference to your society,
- Follow your bliss. All else will follow.

So, choose a worthy dream for yourself. Go after it confidently. But always, ensure that you are following your bliss.

1.15 STAGES IN ENTREPRENEURIAL PROCESS

The process of starting a new venture is the main theme of entrepreneurial process which involves more than just problem solving in any typical management position. An entrepreneur must find, evaluate and develop an opportunity by overcoming the problem that arise in developing something new. This process has five important stages:

(*i*) Identification of an opportunity

(*ii*) Evaluation of the opportunity

(*iii*) Preparation of the business plan

(iv) Determination and organizing the resources

(*v*) Management of the enterprise.

(*i*) **Identification of Opportunity**

The first step in the entrepreneurial process is the identification of opportunity. This may be from his own idea or from external sources like consumers and business associates, members of distribution system, independent technical organizations, consultants, etc. Consumers are the best source of ideas for a new venture who spells out the need of a product or service. The business associates also can give ideas of a product or service.

Due to the close contact with the end user, member of distribution system also see product needs one can identify new business opportunities through a discussion with a retailer, wholesalers or a trade representative.

Some individuals are highly technical oriented and are not interested in any entrepreneurship. Such people conceptualise new business opportunities that can be given to the interested. Some government organizations and R & D centers also provide new ideas.

(*ii*) Evaluation of the Opportunity

The opportunity identified by using either input from consumers, business associates, channel members or technical people, must be carefully screened and evaluated. This evaluation is perhaps the most critical element of the entrepreneurial process as it allows the entrepreneur to assess whether the specific product or service provides sufficient return on investment. The evaluation process involves looking at the length of opportunity, its real and perceived value, its risks and returns, its fit with personal skills and goals of the entrepreneur and its uniqueness or differential advantage in its competitive environment.

The length of opportunity and the market size and share are two main aspects for deciding the risk and gains or profits. SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is one of the useful analysis tools. Strength and weakness are internal factors and related to the organization and opportunities and threats are external and related to the environment and competition. The risks reflect the market, competition, technology and amount of capital involved. The capital invested forms the basis for returns and profits. The opportunity must finally fit the personal skills and goals of the entrepreneur. It is very important that the entrepreneur must be able to put forth the necessary time and effort needed to see the venture succeed. An overall opportunity assessment plan is prepared to evaluate the opportunity. Unlike a business plan, this is a short one, focuses only on the opportunity with risks and rewards and makes it clear whether or not to go with it.

This plan includes:

(*a*) Description of product or service

(*b*) Agreement of opportunity

(*c*) Assessment of the entrepreneur and his team

(*d*) Resources needed

(*e*) Amount and source of capital needed

(*f*) Rewards and profit expected.

(*iii*) Development of a Business Plan

To achieve the proposed business opportunity, a well defined business plan need to be developed. This is a tedious and time consuming activity of the entrepreneurial process. The business plan should contain the following in order.

(*a*) Title of project, table of contents and executive summary.

(*b*) Description of business and industry.

(*c*) Technology plan.

(*d*) Financial plan.

(*e*) Organization plan.

(*f*) Production and operation plan.

(*g*) Marketing and distribution plan.

(*h*) Summary of plan.

A good business plan is very essential to develop the opportunity and determine the resources received, pooling up the resources for successful managing of the proposed venture.

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(*iv*) **Determination and Organising the Resources**

This process begins with the assessment of present resources. Enough care must be taken not to underestimate the amount and nature of resources required. The risk involved with insufficient or incorrect resources should be calculated. Organizing the required resources at the appropriate time is another important aspect of entrepreneurial process. Alternative sources of supply, process of manufacture etc., are to be planned.

(*v*) **Management of Enterprise**

After resources are acquired, the entrepreneur must use them to implement the business plan. The operational problems of the growing enterprise must also be examined. This calls for a management with all functions like planning, organizing, staffing, directing, and controlling.

16 CONCEPT OF ENTREPRENEUR, ENTREPRENEURSHIP, ENTERPRISE

Entrepreneur: Entrepreneur a person or party who starts a venture risking his own ings and investment, or an individual developing or creating something unique.

Entrepreneurship: Entrepreneurship is the process or an action taken by the entreneur. Entrepreneurship is also the process of creating something new and assuming the ks and rewards.

Entrepreneurship is ubiquitous and is reflected in all the major dimensions of civiliza- viz. Social, political and economic. It involves creativity that is consistent with the healthy ge required to change the basis of competition. Entrepreneurship is a creative human act olving the mobilization of resources from one level of productive use to a higher level of . "it is the process by which the individual pursue opportunities without regard to reirces currently controlled." Entrepreneurship involves a willingness to take responsibility l ability to put mind to a task and see it through from inception to completion. Another redient of entrepreneurship is sensing opportunities, while others see chaos, contradiction, l confusion. Essence of entrepreneurship is going against time with maturity and serving a change agent.

Enterprise: An Enterprise is project or an undertaking or which can even be red as a business or a company.

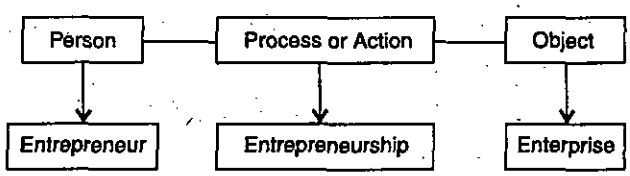

Figure 2. Relation between Entrepreneur, Entrepreneurship and Enterprise.

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1.17 DIFFERENCE BETWEEN AN ENTREPRENEUR AND A MANAGER

Table 2. Difference between Entrepreneur and Manager

Sl.No.	*Comparing Factor*	*Entrepreneur*	*Manager*
1.	Objective	The main objective of an entrepreneur is to set up a venture by setting up an enterprise. He understands the venture for his personal gratification	The main objective of a manager is to render his services in an enterprise already set up by someone else
2.	Status	An entrepreneur is the owner of the enterprise	A Manager is a servant in the enterprise owned by the entrepreneur
3.	Risk – bearing	An entrepreneur being the owner of the enterprise assumes all risks and uncertainty involved in setting up and running the enterprise	A manager being like a servant in the enterprise does not bear any risk involved in the enterprise
4.	Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing demands of the customers. Hence, he acts as an innovator also called 'change – agent'	Manager simply executes the plan and modus operandi prepared by the entrepreneur. Thus, the manager simply translates the entrepreneur's ideas into practice
5.	Rewards	The reward an entrepreneur gets for bearing risks involved in the enterprise is profit which is highly uncertain	A manager gets salary as reward for the services rendered by him in the enterprise
6.	Income	Income on the entrepreneur is very uncertain and varying	Income of the manager is fixed and certain at the end of every month
7.	Qualification	An entrepreneur needs to possess qualities and qualifications like a high achievement motive, originality in thinking, foresight, risk bearing ability	The manager needs to possess distinct qualification in terms of sound knowledge in management theory and practice.

1.18 RELATIONSHIP BETWEEN ENTREPRENEUR AND ENTREPRENEURSHIP

The term 'entrepreneurship' is often used synonymously with the 'entrepreneur Though they are two sides of the same coin, conceptually they are different. The entrepreneur is essentially a business leader and the functions by him is entrepreneurship. Th following table distinguishes the difference between entrepreneur and entrepreneurship.

Table 3. Relation between Entrepreneur and Entrepreneurship

Entrepreneur	*Entrepreneurship*
Person	Process
Organizer	Organization
Innovator	Innovation
Risk – bearer	Risk – bearing
Motivator	Motivation
Creator	Creation
Visualizer	Vision
Leader	Leadership
Imitator	Imitation
Technician	Technology
Administrator	Administration
Communicator	Communication
Programmer	Action
Decision Maker	Decision

1.19 FUNCTIONS OF AN ENTREPRENEUR

1. Assumption of Risk

The entrepreneur assumes all possible risks of business. A business risk is also involves the risk due to the possibility of changes in the tastes of consumers, techniques of production and new inventions. Such risks are not insurable. If they materialize, the entrepreneur has to bear the loss himself. Thus, risk bearing or 'uncertainty' bearing remains the most important function of an entrepreneur. He tries to reduce the uncertainties by his initiative, skill and good judgment.

2. Business Decision

He has to decide the nature and the type of goods to be produced. He enters the particular industry which offers him the best prospects and produces whatever commodities he think will pay him most and employs those methods of production which seem to him the most profitable. He effects suitable changes in the size of the business, it location, techniques of production and does everything that is needed for the development of his business.

3. Managerial Functions

He performs managerial functions through they are different for entrepreneur. He formulates production plans, arranges finance, purchases raw materials, provides production facilities, organizes sales and assumes the task of personnel management. In a large establishment, these management functions are delegated to the paid management personnel.

4. Function of Innovation

An important function of entrepreneur is 'innovation'. He conceives an idea for the improvement of the quality of production line. He considers the economic viability and technological feasibility in bringing out improved quality. The

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introduction of different kinds of electronic gadgets is an example of such an innovation of the new product. Innovation is an ongoing function rather than a once for all, or possibly intermittent activity.

5. Raising Necessary Funds

An Entrepreneur after having an explicit image of the idea, he needs to put this newly innovated idea into practice for which he requires funds. Depending on the uniqueness of his idea and probability of the product being launched successfully in the market there are number of financial institutions, which come to the aid of the entrepreneur to make his idea to materialize.

Some of the institutes like ICICI, IRBI, LIC, UTI, SFC, SIDC, SIDCI etc. These financial institutes are discussed in detail in the unit VII, Institutional Support.

6. Procuring Machine and Material

An Entrepreneur due to his innovative idea in the new method of manufacturing needs to procure the machine and material. The new machine and material may be different from the same component which is manufactured elsewhere. He may require new machine because in the conventionally used machines there could be some features which are redundant and useless and hence dead investment on those features on the machine. For example, a component is required to be simply drilled and if the conventional manufacturing uses a radial drilling machine then the entrepreneur due his innovative idea suggests a simple bench drilling machine and thus cuts down the cost of heavy investment on the radial drilling machine and adds this amount to his profit.

7. Recruitment of Men

The Entrepreneur after deciding the type of business to be set up or type of manufacturing unit to set up he needs to recruit human force ranging from lowly paid daily wagers like skilled labors to the salaried managers to carry out the business or the enterprise successfully.

Entrepreneurial functions can be performed by very different people under different economic systems. In principle, the entrepreneur could be a planner in a socialist economy, or even a priest or king in a traditional society. In practice, entrepreneurship is closely identified with private enterprise in a market economy. Entrepreneur performs useful functions. He undertakes a venture, assumes risk and earns profit. He is the man having strong motivation to achieve success. He is self confident in his entrepreneurial abilities. He exploits opportunities wherever and whenever they arise. The entrepreneur can identify opportunities to start a business either as a manufacturer or as a distributor, for entrepreneurship exists in every field of economic Endeavour. Manufacturing activities require high capital investment and greater degree of entrepreneurial abilities than distribution activities. Entrepreneurship has also been developed in trading sector.

1.20 TYPES OF ENTREPRENEUR

The different types of entrepreneurs are listed as following:

1. Innovating Entrepreneurs

An innovating entrepreneur is one who introduces new goods, inaugurates new method of production, discovers new market and reorganizes 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 characterized 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 under-developed regions for bringing a mushroom drive of imitation of new combinations of factors of production already available in developed regions.

3. Fabian Entrepreneurs

These types of entrepreneurs are characterized 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 characterized 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.

There are some more types of entrepreneurs listed by some of other behavioral scientists:

1. Solo Operators

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

2. Active Partners

These entrepreneurs start or 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. Challengers

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

4. Inventors

These are the type of entrepreneurs with their competence and indigenousness invent new products. Their basic interest lies in research and innovative activities.

5. 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.

6. Buyers

These entrepreneurs 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.

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1.21 CLASSIFICATION OF ENTREPRENEURS

1. **According to the Type of Business:**
   - (*a*) Business entrepreneur
   - (*b*) Trading entrepreneur
   - (*c*) Industrial entrepreneur (*i*) Large (*ii*) Medium (*iii*) Small and (*iv*) Tiny
   - (*d*) Corporate entrepreneur
   - (*e*) Agricultural entrepreneur (*i*) Placation (*ii*) Horticulture (*iii*) Dairy (*iv*) Forestry
   - (*f*) Retail entrepreneur
   - (*g*) Service entrepreneur
2. **According to the use of Technologies:**
   - (*a*) Non-technical entrepreneur
   - (*b*) Technical entrepreneur
   - (*c*) Profession entrepreneur
   - (*d*) High-tech entrepreneur
   - (*e*) Low-tech entrepreneur
3. **According to the Motivation:**
   - (*a*) Pure entrepreneur
   - (*b*) Induced entrepreneur
   - (*c*) Motivated entrepreneur
   - (*d*) Spontaneous entrepreneur
4. **According to the Growth:**
   - (*a*) Growth entrepreneur
   - (*b*) Super-growth entrepreneur
5. **According to the Stages of Development:**
   - (*a*) Pure entrepreneur
   - (*b*) Induced entrepreneur
   - (*c*) Motivated entrepreneur
6. **According to the Area:**
   - (*a*) Urban entrepreneur
   - (*b*) Rural entrepreneur
7. **According to the Gender and Age:**
   - (*a*) Men entrepreneurs
   - (*b*) Women entrepreneurs
   - (*i*) Young entrepreneurs
   - (*ii*) Old entrepreneurs
   - (*iii*) Middle-aged entrepreneur
8. **According to the Scale of Operation:**
   - (*a*) Small Scale entrepreneur
   - (*b*) Large Scale entrepreneur
9. **Others or Unclassified:**
   - (*a*) Professional entrepreneurs
   - (*b*) Non-professional entrepreneurs
   - (*c*) Modern entrepreneurs
   - (*d*) Traditional entrepreneurs
   - (*e*) Skilled entrepreneurs
   - (*f*) Non-skilled entrepreneurs
   - (*g*) Imitating entrepreneurs
   - (*h*) Inherited entrepreneurs
   - (*i*) Forced entrepreneurs
   - (*j*) National entrepreneurs
   - (*k*) Internal entrepreneurs
   - (*l*) Bureaucratic entrepreneurs
   - (*m*) Entrepreneur entrepreneurs
   - (*n*) Immigrant entrepreneurs

The above Classification of entrepreneurs is not exhaustive, for it aims at highlighting the broad range of entrepreneurs found in business and profession. We shall now discuss in brief, each type of entrepreneurs.

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. According to the Type of Business

Entrepreneurs are found in various types of business occupations of varying size. We may broadly classify them as follows:

(*a*) **Business Entrepreneurs:** Business entrepreneurs are individuals who conceive an idea for a product or service and then create a business to materialise their idea into reality. They tap both production and marketing resources in their search to develop a new business opportunity. They may set up a big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as printing press, textile processing house, advertising agency, ready-made garments, or confectionery. In a majority of cases, entrepreneurs are found in small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small.

(*b*) **Trading Entrepreneur:** Trading Entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade. Britain, due to geographical limitations, has demonstrated their ability in pushing many ideas ahead which promoted their business.

(*c*) **Industrial Entrepreneur:** Industrial Entrepreneur is essentially a manufacturer who identifies the potential needs of customers and tailors product or service to meet the marketing needs. He is product-oriented man who starts in an industrial unit because of the possibility of making some new product. The entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. He is found in any industrial unit such as the electronic industry, textile units, machine tools or video cassette type plant and the like.

(*d*) **Corporate Entrepreneur:** Corporate Entrepreneur is a person who demonstrates his innovative skill in organizing and managing a corporate undertaking. A corporate undertaking is a form of business organization, which is registered under some statute of Act, which gives it a separate legal entity. A trust registered under the Trust Act, or a company registered under the Companies Act is examples of corporate undertakings. A corporate Entrepreneur is thus an individual who plans, develops and manages a corporate body.

(*e*) **Agricultural Entrepreneur:** Agricultural Entrepreneurs are those entrepreneurs who undertake such agricultural activities as raising and marketing of crops, fertilizers and other inputs of agriculture. They are motivated to raise the productivity of agriculture through mechanization, irrigation and application of technologies for dry land agriculture. They cover a broad spectrum of the agricultural sector and include agriculture and allied occupations.

According to the Use of Technology

The application of new technology in various sectors of the national economy is essential for the future growth of business. We may broadly classify these entrepreneurs on basis of the use of technology as follows:

(*a*) **Technical Entrepreneur:** A technical entrepreneur is essentially an entrepr neur of "craftsman type." He develops new and improved quality of goods b cause of his craftsmanship. He concentrates more on production than mark ing. He does not care much to generate sales by applying various sales prom tional techniques. He demonstrates his innovative capabilities in matters of pr duction of goods and rendering services. The greatest strength, which the tec nical entrepreneur has, is his skill in production techniques.

(*b*) **Non-Technical Entrepreneur:** Non-technical entrepreneurs are those wh are not concerned with the technical aspects of the product in which they de They are concerned only with developing alternative marketing and distributi strategies to promote their business.

(*c*) **Professional Entrepreneur:** Professional entrepreneur is a person who is i terested in establishing a business but does not have interest in managing operating it once it is established. A professional entrepreneur sells out the ru ning business and starts another venture with the sales proceeds. Such an entr preneur is dynamic and he conceives new ideas to develop alternative projec

III. According to Motivation

Motivation is the force that influences the efforts of the entrepreneur to achieve h objectives. An entrepreneur is motivated to achieve or prove his excellence in job perfor ance. He is also motivated to influence others by demonstrating his power thus satisfying h ego.

(*a*) **Pure Entrepreneur:** A pure entrepreneur is an individual who is motivated b psychological and economic rewards. He undertakes an entrepreneurial activi for his personal satisfaction in work, ego or status.

(*b*) **Induced Entrepreneur:** Induced entrepreneur is one who is induced to tal up an entrepreneurial task due to the policy measures of the government th provides assistance, incentives, concessions and necessary overhead facilities start a venture. Most of the entrepreneurs are induced entrepreneurs who ent business due to financial, technical and several other facilities provided to the by the state agencies to promote entrepreneurship. A person with a sound proje is provided package assistance to his project. Today, import restrictions, a allocation of production quotas to small units have induced many people to sta a small-scale industry.

(*c*) **Motivated Entrepreneur:** New entrepreneurs are motivated by the desire f self-fulfilment. They come into being because of the possibility of making a marketing some new product for the use of consumers. If the product is deve oped to a saleable stage, the entrepreneur is further motivated by reward terms of profit.

(*d*) **Spontaneous Entrepreneur.** These entrepreneurs start their business out their natural talents. They are persons with initiative, boldness and confidence their ability which motivate them to undertake entrepreneurial activity. Such e trepreneurs have a strong conviction and confidence in their ability.

IV. According to Growth

The development of a new venture has a greater chance of success. The entrepr neur enters a new and open field of business. The customer approval to the new produ gives them psychological satisfaction and enormous-profit. The industrial units are identifie

as high growth, medium growth and low growth industries and as such we have "Growth Entrepreneur; and "Super Growth Entrepreneur."

(*a*) **Growth Entrepreneur:** Growth entrepreneurs are those who necessarily take up a high growth industry. These entrepreneurs choose an industry which has sustained growth prospects.

(*b*) **Super-Growth Entrepreneur:** Super-Growth entrepreneurs are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

V. According to Stage of Development

Entrepreneurs may also be classified as the first generation entrepreneur, modern entrepreneur and classical entrepreneur, depending upon the stage of development.

(*a*) **First-Generation Entrepreneur:** A first-generation entrepreneur is one who starts an industrial unit by means of an innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service.

(*b*) **Modern Entrepreneur:** A modern entrepreneur is one who undertakes those venture which go well along with the changing demand in the market. They undertake those ventures which suit the current marketing needs.

(*c*) **Classical Entrepreneur:** A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of self-supporting ventures. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.

1.22 CHARACTERISTICS OF AN ENTREPRENEUR

The characteristics of an entrepreneur that contribute to success are the result of his motivation. A successful entrepreneur must be a person with technical competence, initiative, good judgment, intelligence, leadership qualities, self-confidence, energy, attitude, creativeness, fairness, honesty, tactfulness and emotional stability.

1. **Mental Ability:** Mental ability consists of intelligence and creative thinking. An entrepreneur must be reasonably intelligent, and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them. The entrepreneur should anticipate changes and must be able to study the various situations under which decisions have to be made.
2. **Clear Objectives:** An entrepreneur should have a clear objective as to the exact nature of the business, the nature of the goods to be produced and subsidiary activities to be undertaken. A successful entrepreneur may have the objective to establish the product, to make profit or to render social service.
3. **Business Secrecy:** An entrepreneur must be able to guard business secrets. Leakage of business secrets to trade competitions is a serious matter which should be carefully guarded against by an entrepreneur. An entrepreneur should be able to make a proper selection of his assistants.
4. **Human Relation Ability:** The most important personality factors contributing to the success of an entrepreneur are emotional stability, personal relations, consideration and tactfulness. An entrepreneur must maintain good relation with his

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customers if he is to establish relations that will encourage them to continue to patronize his business. He must also maintain good relations with his employees if he has to motivate them to perform their jobs at a high level of efficiency. An entrepreneur who maintains good human relation with customers, employees, suppliers, creditors and the community is much more likely to succeed in his business than the individual who does not practice good human relations.

5. **Communication Ability:** Communication ability is the ability to communicate effectively. Good communication also means that both the sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not.
6. **Technical Knowledge:** An entrepreneur must have a reasonable level of technical knowledge. Technical knowledge is the one ability that most people are able to acquire if they try hard enough.

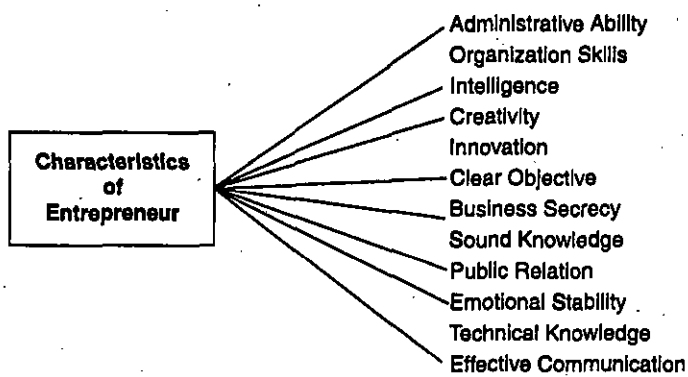

Figure 3. Characteristics of Entrepreneur.

Some key characteristics of successful entrepreneur are :

(*i*) **Motivator:** An entrepreneur must build a team, keep it motivated, and provide, an environment tor individual growth and career development.

(*ii*) **Self-Confidence:** Entrepreneurs must have belief in themselves and the ability to achieve their goals.

(*iii*) **Long-Term Involvement:** An entrepreneur must be committed to the project with a time horizon of five to seven years. No ninety-day wonders are allowed.

(*iv*) **High Energy Level:** Success of an entrepreneur demands the ability to work long hours for sustained periods of time.

(*v*) **Persistent Problem-Solver:** An entrepreneur must have an intense desire to complete a task or solve a problem. Creativity is an essential ingredient.

(*vi*) **Initiative:** An entrepreneur must have initiative, accepting personal responsibility for actions, and above all make good use of resources.

(*vii*) **Goal Setter:** An entrepreneur must be able to set challenging but realistic goals.

(*viii*) **Moderate Risk-Taker :** An entrepreneur must be a moderate risk-taker and learn from any failures.

These personal traits go a long way in making an entrepreneur a successful man/ woman. However, no entrepreneur possesses total strengths. In such cases, he acquires and/or associates and thus strengthens his enterprise.

A number of entrepreneurial managers have attempted to identify the true nature of entrepreneur, entrepreneurship in the post industrial revolution. The definition has, therefore, undergone changes with the changes in the socio-economic environment and will continue to undergo changes with the changing times. However, some basic concept of innovation, risk-taking, vision and organizing skill continue to be the four pillars on which the edifice of entrepreneurial concept has to be perceived from time to time.

An ideal entrepreneur is one who combines values in the market economy; that profits do not somehow preclude ethical behavior; that growth is possible even if political patronage is not used to bend rules and cut corners, and quite simply that pursuit of wealth can be grateful and mannerly one.

1.23 ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT

Entrepreneurship and economic development are intimately related. Schumpeter opines that entrepreneurial process is a major factor in economic development and the entrepreneur is the key to economic growth. Whatever be the form of economic and political set-up of the country, entrepreneurship is indispensable for economic development.

Entrepreneurship is an approach to management that can be applied in start-up situations as well as within more established businesses.

The growing interest, in the area of entrepreneurship has developed alongside interest in the changing role of small businesses. Small entrepreneurship has a fabulous potential in a developing country like India. Therefore, statistical data and its analyses of several countries show that small industries have grown faster than large industries over the last couple of decades.

Large industries first lost jobs while small industries created new workplaces. The focus is on small scale industries, which led to the main source of employment in the country. In economic development, too, the entrepreneur is to be seen as responding to the opportunities rather than creating them; as capturing profit opportunities rather than generating them. Without entrepreneurship, without alertness to the new possibility, the long term benefits may remain untapped.

The economic history of the presently developed countries for example, America, Russia and Japan tends to support the fact that the economy is an effect for which entrepreneurship is the cause. The crucial role played by the entrepreneurs in the development of the Western countries has made the people of the under-developed countries too much conscious of the significance of entrepreneurship for economic development. Now, people have begun to realize that for achieving the goal of the economic development it is necessary increase entrepreneurship both qualitatively and quantitatively in the country. It is only the active and enthusiastic entrepreneurs who fully explore the potentialities of the country's available resources – labor, technology and capital.

It is also sometimes opined that the development does not occur spontaneously as a natural consequence when economic conditions are in some sense 'right', a catalyst or an agent is needed, and this requires an entrepreneurial ability. It is this ability that he perceives opportunities, which others do not see or care about. Essentially, the entrepreneur searches for change, sees need and then brings together the manpower, material and capital required respond the opportunity what he sees. Akio Morita, the President of Sony who adopted

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the company's products to create Walkman Personal - Stereo and India's Gulshan kumar of T- Series who skimmed the audio-cassette starve vast Indian market are the clearest examples of such able entrepreneurs

The important role of entrepreneurship on the economic development can be put together as follows:

1. It encourages effective resource mobilization of capital and skill which might otherwise remain unutilized and idle
2. It helps reduce the concentration of economic power.
3. It provides immediate large-scale employment. Thus, it helps reduce the unemployment problem in the country, *i.e.,* the root of all socio-economic problems
4. Entrepreneurship promotes capital formation by mobilizing the idle saving of the public
5. It promotes balanced regional development
6. It stimulates the equitable redistribution of wealth, income and even political power in the interest of the country
7. It also induces backward and forward linkages which stimulate the process of economic development in the country.
8. It promotes country's export trade *i.e.,* an important ingredient to economic development

1.24 BENEFITS OF ENTREPRENEURSHIP

(*a*) Opportunity to Create your own Destiny
(*b*) Opportunity to make a Difference
(*c*) Opportunity to reach your Full Potential
(*d*) Opportunity to Reap Impressive Profits
(*e*) Opportunity to Contribute to Society and be recognized for your efforts
(*f*) Opportunity to do what you enjoy and have fun at it

1.25 IMPORTANCE OF AN ENTREPRENEUR

Entrepreneur is one of the most important inputs in the economic development of a country or of regions within the country. Entrepreneurial competence makes all the difference in the rate of economic growth. In India, state and private entrepreneurship co-exist. The small-scale industrial sector and business are left completely to private entrepreneurs. It is, therefore, in this context that an increasingly important role has been assigned to the identification and promotion of entrepreneurs for this sector.

The need for a broad-based entrepreneurial call in the India arises from the need to speed up the process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement in the standard of living of the weaker sections of the society and involvement of all sections of the society in the process of growth.

Several factors go into the making of an entrepreneur. Individuals who initiate, establish, maintain and expand new enterprises constitute the entrepreneurial class. The socio-

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political and economic conditions, the availability of industrial technology and know-how, state of art and culture of business and trading, existence of markets for products and service and the incentives and facilities available for starting an industry or business, all have a bearing on the growth of entrepreneurship. A conducive environment is created through the policies and interest of the government.

Whether it is a socialist or capitalist or mixed economy, entrepreneurs are an important source of economic development. It is, therefore, suggested that there must be a motivational training programme to develop entrepreneurs and measures to be taken to modify the environment to stimulate entrepreneurial behaviour among individuals. There are thinkers who believe that the "Schumpeterian entrepreneurs are needed in underdeveloped countries for rapid economic development." Entrepreneurs are to be innovators who must change the production function and bring rapid development. It is only through entrepreneurs that substantial development can be brought about.

Entrepreneurship has great importance in various economic systems. It is all the more important under capitalism and mixed economy where not only the responsibilities of entrepreneur in production and distribution are recognized but the objective of growth of business and profit maximization is also attained. Therefore, the importance of entrepreneurship stands beyond challenge in every economic system except under socialism where appears in a different form. Yes, entrepreneurship prevails in all economic systems in one form or the other.

The role played by an entrepreneur is significantly important in a mixed economy as permits the growth of both the public and the private sector. In the private sector, profit motive acts as an incentive to the entrepreneur and market mechanism plays its own role and this establishes the role of entrepreneur in the mixed economy.

.26 SKILLS OF ENTREPRENEUR

1. Technical Skills:

(*i*) Writing
(*ii*) Oral communication
(*iii*) Monitoring environment
(*iv*) Technical business management
(*v*) Technology
(*vi*) Interpersonal
(*vii*) Listening
(*viii*) Ability to organize
(*ix*) Network building
(*x*) Management Style
(*xi*) Coaching

2. Business Management Skills:

(*i*) Being a team player
(*ii*) Planning and goal setting
(*iii*) Decision-making
(*iv*) Human Relations
(*v*) Marketing
(*vi*) Finance
(*vii*) Accounting Management
(*viii*) Negotiation
(*ix*) Venture launch
(*x*) Managing growth

3. Personal Entrepreneur Skills:

(*i*) Inner control/disciplined
(*ii*) Risk taker
(*iii*) Innovative
(*iv*) Change oriented

(v) Persistent (vi) Visionary leader

(vii) Ability to manage change.

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1.27 ENTREPRENEURSHIP IN INDIA

India does not possess a good record of entrepreneurship. However its image is definitely improving. Concerted efforts at liberalization has made the countries of the world sit back and look at India develop its own brand of entrepreneurship. In the recent past India's status in the industrial world has grown. From humble surroundings India is now the tenth largest industrialized nation of the world.

However, India has essentially been an "adoptive" entrepreneur. It has now to prepare itself with an entrepreneurship of the different order – that of the "innovative "type. This will require the harnessing of India's true potential through tremendous advances of science and technology. It is essential that the Government and the people must have more mature and finer approach towards the concept of entrepreneurship. Then only would it be possible for this nation to match the level reached by the advanced countries. A good beginning in this direction has been made and one hopes the adage "well begun is half done" will hold good in the case of India's entrepreneurship.

In the past business community was involved in trade and commerce. This community is presently known to be Vaisyas or Banias. The following points are noteworthy with respect to the entrepreneurship in the past:

1. The trade activity was dependent on caste system
2. The skill of any enterprise was inherited from ancestors
3. All the members of the family were involved in the business from planning tc manufacture stage and finally selling them.
4. Manufacture and supply of a product was based on demand. The traders usec to book orders from the required people and get them from the producer.

But the present day entrepreneurship has a different scene. There is a tremendous growth of industries and services over last 40 – 50 years. Banking, automobiles, software development, petrochemical, cement, steel, communication etc., are some of the major modern entrepreneurship areas, where lot of innovations had taken place.

Some of the successful entrepreneurs of India are : Jamnalal Bajaj, Dhirubai Amban of Reliance, Karsanbhai Patel of Nirma, Aditya Birla, J.R.D. Tata, Vijay Mallya, Sunil Mittal Shehnaz Hussain and many more.

1.28 A CASE STUDY OF ENTREPRENEURSHIP IN INDIA

The maiden flight by India's first privately manufactured six-seated aircraft on 17 march, 1994 shown that the right king of economic policies and business environment wil produce Indian entrepreneurs who are willing to enter high-tech areas like aviation. Fron seamless metal tubes to aircraft market and risking money earner from other profitabl ventures in a new are with potential.

Taneja Aerospace and Aviation Lt. (TAAL), the Bangalore – base manufacturer o the Observer, as its first place is called, is a company promoted by Indian Metal Tubes Ltc

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A highly successful company with an annual turnover of Rs. 100 crores which has already diversified into steel, finance and leasing. But aircraft manufacture is altogether a different ball game. For corporate aircraft, there is no indigenous design available as yet, so TAAL has entered into collaboration with an Italian company, Partenavia, for licensed manufacture of three such planes, ranging in seat capacity from six to nine. The manufacture is currently from 'equipped assemblies' which takes just about 4 – 6 weeks to assemble. But the manufacture does involve establishing a sophisticated shop floor with specialized jigs and tooling. TAAL's initiative stems from its Chairman's personal interest in aircraft and flying. A similar personal interest lead J.R.D. Tata to start Air India. TAAL has gone one step further, into aircraft manufacture, without the big reputation and deep pockets the Tatas have. The aim of our economic reforms must be to channeled capital to entrepreneur with vision and guts. The success of the Taneja's is quite intrinsically, a success of policy which is encouraging entrepreneurship in India

1.29 BARRIERS OF ENTREPRENEURSHIP

The barriers are classified as into entry barriers and exit barriers.

Entry barriers are defined as those forces limiting access to identified business opportunities and capitalization on those opportunities. Survival barriers are defined as constraints on the conditions essential for the continuity of the small business entity.

Exit barriers are defined as those constraints limiting the termination of those small industrial ventures that have outlived their business viability or the growth of such ventures to a different size category.

Entry barriers include:

1. A cultural bias indentifying and managing the entrepreneurial development process.
2. Limited industry – specific data and insufficient market information.
3. Limited effectiveness of the infrastructural base.
4. Existence of visible and invisible obstacles to entry of a specific societal group (*e.g.,* women) into business.
5. Unorganized capital market and traditional feasibility assessment processes
6. Unsympathetic and cumbersome government attitude
7. Hostile environment
8. Limited access to technology

Exit barriers include:

1. He emotional commitment of the entrepreneur to his venture.
2. Specialized assets, sunk funds
3. The increasing demand for managerial skills
4. Fear of failure

1.30 INTRAPRENEUR

The new concept of Entrepreneur is emerging in the large industrial organization. They are called as **'intrapreneur'.** In big organizations, the top executives are encouraged to catch hold of new ideas and then convert these into products through research and devel-

opment activities within the framework of organization. The concept of intrapreneurship has become very popular in developed countries like America. It is found that an increasing an increasing number of intrapreneurs are leaving their jobs in big organization and are starting their own enterprises. Many of such intrapreneurs have become exceedingly successful in their ventures. They are causing more threat to the organization which they left.

1.31 COMPARISON BETWEEN ENTREPRENEURSHIP AND INTRAPRENEURSHIP

Table 4. Comparison between Entrepreneur and Intrapreneur

Sl. No.	*Comparing Factor*	*Entrepreneur*	*Intrapreneur*
1.	Risk	An entrepreneur bears the risk involved in the business	An intrapreneur does not fully bear the risk involved in the enterprise
2.	Raising of Funds	An entrepreneur himself raises the funds required for the enterprise	An intrapreneur does not raise the funds
3.	Operation	An entrepreneur operates from outside the circle of the organization	An intrapreneur operates from within the organization itself
4.	Dependency	An entrepreneur is independent in his operations	An intrapreneur is dependent on the entrepreneur, *i.e.* the owner

1.32 PROS AND CONS OF BEING AN ENTREPRENEUR

The advantages and disadvantages of being an entrepreneur are equally weighted. Being an entrepreneur one can create wealth for society and be satisfied. But running a business show on ones own capabilities if not that easy. Entrepreneur has to undergo several hardships. In this backdrop, Pros and Cons of being an entrepreneur are discussed in the following paragraphs.

Advantages (PROS)

Many a time people may ask for themselves as to the advantages they enjoy by owning ones own business. Although it is very difficult to give an insight to into this question, it may however be said that it all depends up on the extent of involvement of an individual in a business activity. For some people simply being their own boss is enough to keep them happy. Others would like to have their own business for an immense financial success. But rarely seen are the entrepreneurs who are happy, Still people take risk and enjoy being entrepreneurs. The advantages of being an entrepreneur are listed below.

1. **Bridge the Gap between Knowledge and Application:** People acquire knowledge through education. But all are not interested in applying their knowledge for the benefit of society. Entrepreneur can bridge the gap between knowledge and its applications. If the knowledge is new, that is not a market. The step towards commercialization is complicated. Entrepreneur can convert the knowledge into an economic activity and gain out of it. But he has to take risk. Knowledge conversion is a complicated issue. Still entrepreneur does it.

2. **Converting an Idea into Money:** Being an entrepreneur, one may push up ones innovative ideas into reality. A entrepreneur is dynamic, creative, skillful, and is ready to take calculative risk, he / she puts societal resources into societal use. At the same time, entrepreneur, besides enjoying economic gain, makes the society more enjoyable.
3. **Be your Own Boss:** Many people would like to enjoy their lives independently. They feel excited by doing so. They possess high capacity to take risk and — to have adventurous life. These personal traits of entrepreneur, provides an opportunity to the society to improve the standard of living.
4. **Originality Respected:** The creative and original business ideas of an individual can be used for societal benefit and with this the originator respected in the society. Originators feel that they can offer a new service / product that no one has offered before.
5. **Competition:** By adapting innovative ideas of entrepreneur the product / service can be produced at a low cost. This facilitates the organization to face competition in the market. Besides this, society can get quality product.
6. **Better Utilization of Skill and Knowledge:** Several people in a society will have entrepreneurs' skills. But most of them hesitate to use their skill and knowledge for the benefit of the society. The advantage of becoming an entrepreneur is that creative skill and knowledge of an individual can be used for the benefit of the society otherwise, which would go wasted.
7. **Alternative to Current Career:** Many people with entrepreneurial skills will be working for others for reasons known or unknown to them. They are called "Intrapreneurs". At times they get frustrated working with others and would like to change their position as employers. The advantage being that they not only get satisfaction of becoming entrepreneurs, but also their creative skill will be used for the benefit of the society. Persons having entrepreneural skills will be having alternative to their present career, if opportunity come in their way.
8. **Business Opportunity:** In any society business development process is a continuous activity. In such an atmosphere, very many business opportunities will be cropping up in different sizes and magnitudes. People with entrepreneural ability can seize such opportunities and have personal gain. This also facilities the society to tap the resources for improving the standard of living of the people.
9. Besides these, entrepreneurs will have the advantages (*a*) of managing their time for better living having flexible operations in their own business, (*b*) optimized earning for their full efforts, (*c*) enjoy independence, (*d*) work wherever they want, whenever they want, and however they want and (*e*) become role models for success. They are not being paid what they are worth and would rather work on their own and earn the money they should be earning for their efforts.

■sadvantages (CONS)

Entrepreneur has several risks. Being an entrepreneur, one has to undergo several ■ls. Particularly in small business activities, there are very many hurdles come in the way ■business development. Some of the key disturbing factors are analyzed in the following agraphs.

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1. **Remuneration:** Entrepreneur works on his own for economic gain. But he she is not assured of positive economic gain. It will work both ways. On the one hand, becoming an entrepreneur, one forgoes regular income. This means without taking to self - employment, had he/she worked as a paid employee he/she would have got regular monthly income. To become an entrepreneur, he/she may work on the principle of opportunity cost and decides to get into own business. But in this, his expected growth in terms of profits and assets may no happen. The reward for risk-bearing in entrepreneurship may be positive o negative. If he/she continuously suffers loss, there will be no alternative excep to close the business. Therefore, in entrepreneurship development, reward ma be positive or negative.
2. **Benefits:** Being an entrepreneur, a person may not gain much in initial stages The start-up problems being more, it takes considerable time to reap the benefi of being an entrepreneur. Even in long-run, benefits will not be extra-ordinary Most of the entrepreneurs will be enjoying normal profits and build up reasonable assets. They cannot enjoy monopoly power and make super-normal profits There will always be threat of competition and any extra profit expected to b earned will be eaten away be competitors. Except that they will be enjoyin independence in operating entrepreneurs are always exposed to various types o business risks. Considering the cost-benefit (cost includes both implicit and explicit) analysis, entrepreneur will be benefited with only normal profit or he ma be in break-even or might be incurring loss. Therefore, entrepreneur will nc enjoy benefits as expected.
3. **Time Management:** As entrepreneur will be taking more risk, time is ver precious for him. Time is money for him. One cannot enjoy time in self-employment as one enjoys in paid employment. He/she has to dedicate himself/herse to the business. Managing time becomes a critical factor. The work schedule c an entrepreneur is never predictable. An emergency can come up in a matter c a second and late hours will have to be put in. He will be on his toes all the tim to manage time effectively. He cannot have casual approach.
4. **Management:** Entrepreneur will be the boss of one's own business and dec sion-making will be again a critical factor. One should have sound decision sup port system to take good decisions on all the issues concerned with the busines Decision should not be post-poned. Good decision or bad decision is better tha indecision. Post-poning the decision means, post-poning the evil. Being the mon arch of the situation, entrepreneur should have better management of his affair has to take sound decision. But the greatest limitation is that entrepreneur bein the top person in the chain of command, may take decisions which may prov abortive for the business. Unknown risks are the one's which put the entrepreneur in trouble in managing the business.
5. **Experience:** Entrepreneurship feature is an inherent quality of an individual. most of the cases it will be in genes. Very few acquire the entrepreneurial skil when they enter into their own business. An unskilled person with an unskille staff will have a difficult time in running the business. Working with employee who "do not know the ropes" becomes a tough time for an entrepreneur.

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SUMMARY

- The Word Entrepreneur has it's root from the French language, it is not pronounced syllable by syllable as it is apparent in English. The first part of the word **'Entre'** is pronounced as **'Anthro'**, in the similar way to **Anthro**pologist, **Anthro**poids, and **'preneur'** is pronounced as an English word.
- Entrepreneur as an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future.
- A person who specialises in taking judgmental decisions about the coordination of scarce resources, discovers new ideas of business, and manages the entire operations to exploit a market opportunity.
- **Higgins** defined entrepreneurship as "the function of foreseeing investment and production opportunities, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials, finding site, introducing new technique, discovering new source of raw materials and selecting top managers for day-to-day operation".
- Decision making is a very vital characteristic of an entrepreneurship. Taking decisions at all levels and stages of entrepreneurship is a routine task.
- Entrepreneur a person or party who starts a venture risking his own savings and investment, or an individual developing or creating something unique.
- Entrepreneurship is the process or an action taken by the entrepreneur. Entrepreneurship is also the process of creating something new and assuming the risks and rewards.
- Entrepreneurship and economic development are intimately related. Schumpeter opines that entrepreneurial process is a major factor in economic development and the entrepreneur is the key to economic growth.

REVIEW QUESTIONS

1. Define Entrepreneur.
2. Explain the meaning of Entrepreneur as a Risk-Bearer.
3. Explain the meaning of Entrepreneur as an Organizer.
4. Explain the meaning of Entrepreneur as a Innovator.
5. Briefly explain the evolution of the concept Entrepreneur.
6. What are the inherent features of an Entrepreneur?
7. What is an Enterprise? Explain.
8. What are the various stages involved in the Entrepreneurial Process? Explain.
9. Explain the concept of Entrepreneur, Entrepreneurship and Enterprise.
10. Differentiate between Entrepreneur and Manager with the comparing factor.
11. What is the relationship between Entrepreneur and Entrepreneurship?
12. Explain the functions of Entrepreneurs.
13. What are the different types of Entrepreneurs?
14. Classify Entrepreneur exhaustively on their types.

15. List a few key characteristics of a successful entrepreneur.
16. Explain the role of Entrepreneurship in the economic development.
17. What are the benefits of Entrepreneurs?
18. What is the importance of an Entrepreneur? Explain.
19. What are the skills of an Entrepreneur?
20. Give a brief history of Entrepreneurship in India.
21. What are the barriers of Entrepreneurship?
22. Explain the concept of Intrapreneur.
23. Differentiate between Entrepreneurship and Intrapreneurship.
24. What are the advantages of an Entrepreneur?
25. What are the limitations of an Entrepreneur?

FURTHER READINGS

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UNIT II SMALL SCALE INDUSTRIES

NOTES

STRUCTURE

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2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- explain Definition of SSI
- discuss Characteristics of SSI
- explain Role of SSI in Economic Development
- describe Government policy towards SSI, Different Policies of SSI
- explain Government support on SSI during 5 year plans
- explain Impact of Liberalization, Privatization, Globalization on SSI
- explain Effect of WTO and GATT
- discuss Supporting Agencies of Government for SSI.

2.2 INTRODUCTION

In a way, small and large scale enterprises are two legs of industrialization process c a country. Hence, small scale enterprises are found in existence in every country. Sma scale enterprises have been given an important place in the framework of Indian plannin since beginning both economic and ideological reasons. Today, India operates the largest an oldest programmes for the development of small scale enterprises in any developing cou try. As a matter of fact, small sector has now emerged as a dynamic and vibrant sector fc the Indian economy in the recent years.

The small-scale industries have been experiencing major turn-around in the post lib eralization period with the growth rate hovering around 15 per cent, much higher than th large industries in past five years, despite constraints like infrastructure, finance, mark management and technology. With further improvement in these basic areas, small sca sector will definitely show much better results in this century.

2.3 CONCEPT OF SMALL SCALE INDUSTRIES

The definition of small enterprises varies from one country to another. In most of th countries of the world, the criterion for defining a small enterprise is related to the size c employment. For instance, in U.S.A, small business is one which has employment of le than 500 people. In U.K., it is less than 20 skilled workers, in Germany less than 300 wor ers, in Sweden and Italy less than 50 and 500 people respectively. In some countries, bot employment and investment are taken into account. In Japan, the investment in industri undertakings should not exceed 100 million employing not more than 300 employees. I South Korea, investment limit is 2 lakh dollars and development limit being 200 people.

The definition of small industry is an important aspect of government policy as, identifies the target groups. The first official criterion for small-scale industry dates back t the Second Five Year Plan when it was in terms of gross investments in land, building, pla and machinery and the strength of the labour force. Subsequently, on the recommendation c the Federation of Association of Small Industries of India (FASH), an apex level organiz tion of small-scale industry, set up under the aegis of the Ford Foundation team, only th investment in fixed assets in plant and machinery, whether held in ownership terms or b lease or by the status of a SSI unit. From time to time, there have been many changes in th ceiling limit of investment in plant and machinery. In the beginning, for a small-scale indust the investment level was ₹ 5 lakhs and employment limit of less than 50 persons when usin

ɔwer and less than 100 persons without using power.

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efinition of SSI

Use of "Small" as a designation, the industry differentiates one set of industries from hers. Comparatively small in operation, employment, products, capital, technology etc. hus, these small sector shares unique problems compared to others. In the case of manu-cturing units, small industries are to be expected to have a unique set of problems in lation to their 'smallness' that differentiates them from medium and large manufacturing nits. At the same time, the small sector has unique advantages. And, as such small is autiful, but also beneficial, efficient and reliable.

The term "small-scale industries" has been defined in three ways.

onventional Definition

The conventional definition includes cottage and handicraft industries which employ ditional labour-intensive methods to produce traditional products, largely in village house-lds. They employ none or almost a few hired hands. The handloom textile is an example. ough once famous, this sector has been steadily declining.

perational Definition

The operational definition for policy purposes includes all those undertakings having investment in fixed assets in plant and machinery, whether held on ownership terms or by ase or by hire purchase, not exceeding ₹ one crore. Ancillary units and tiny units also come der the umbrella of small-scale industries.

ational Income Accounting Definition

The third definition of small-scale industries relates to national income accounting. is includes all manufacturing and processing activities, including maintenance and repair rvices, undertaken by both household and non-household small-scale manufacturing units, hich are not registered under the Factories Act.

Accordingly, a small industry is presently defined as "A unit engaged in manufactur-g, servicing, repairing, processing and preservation of goods having investment in plant achinery, at an original cost not exceeding ₹ One crore." The government has accepted e recommendation of the Abid Hussian Committee regarding enhancement in investment iling and raised the same for small-scale sector.

The government raised the investment limit in plant and machinery for the small-scale ctor to ₹ 3 crore, from the prevailing ₹ 60 lakhs, with effect from February 7, 1997. The vestment limit for the ancillary sector and for export oriented units had been raised from 75 lakhs to 3. crore. The investment ceiling for tiny sector had also been increased fivefold ₹ 25 lakhs, from the prevailing ₹ 5 lakhs.

The decision to enhance the investment limits after a revision in 1991, was taken for ve reasons:

1. The erosion of the rupee's value due to inflation,
2. Devaluation,
3. The effect of foreign exchange fluctuation,
4. The need to upgrade and modernize the technology base to keep competitive.

For non-SSI units opting to manufacture items reserved for the small-sector, the port obligation has been reduced from 75% to 50%. Thus, non-SSI export units who were rlier allowed to sell only 25% of their produce in the Domestic Tariff Area (DTA), will

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now be able to sell 50% their produce. The measure is expected to help the small-scale uni expand, diversify, undertake technology upgradation and modernization to remain compet tive while enabling them to avail special benefits. The sector could now grow vertically a compete successfully in the market with large units.

However, those who are opposed to increase investment limits argue that by increa ing the limit to ₹ 3 crore, the government is allowing back-door entry to large and mediu scale companies in sectors reserved for small units.

To ensure that large units don't corner the available bank finance, it has been decid that out of funds formally available to the SS1 sector, 40% will be reserved for units wi investment in plant and machinery upto ₹ 5 lakh, 20% for units with investment between ₹ lakhs and ₹ 25 lakhs and the remaining 40% for other SSI Units.

In fact, the restrictions on investment were proving as disincentive for growing uni The recommendations of the committee may enable to create a better environment for sm sector to face the challenges with confidence and avail of new opportunities coming in th way.

An overview of the definitions of SSI over the years

Table 1. Investment Criterion for SSI.

SL.NO.	*Year*	*Investment Criterion*
1.	Upto 1958	Fixed capital investment upto ₹ 5 lakhs
2.	1959	The value of machine was taken as the original price paid irrespective of new or old machinery
3.	1960	Gross value of fixed asset upto ₹ 5 lakh
4.	1966	Value of the plant and machinery was fixed to 7.5 lakh
5.	1975	Value of the plant and machinery was fixed to 10 lakh
6.	1980	Value of the plant and machinery was fixed to 20 lakh
7.	1985	Value of the plant and machinery was fixed to 35 lakh
8.	1991	Value of the plant and machinery was fixed to 60 lakh
9.	1997	Value of the plant and machinery was fixed to 3.0 crore

Comprehensive Definition of SSI

SSI is defined as *An industrial undertaking in which the investment in fix assets in plant and machinery, whether held on ownership terms or on lease or by h purchase, does not exceed ₹ 100 lakh as on March 31, 2001, is to be treated as sm scale industries.*

2.4 CHARACTERISTICS OF SSIs

1. Small industries are fairly labour intensive with comparatively smaller capi investment than the larger units. Let the facts speak. According to P. Mahalnobis, small scale units require very little capital. About six or seven hu dred rupees would get an artisan family started. With any given investme employment possibilities would be ten or fifteen or even twenty times greater comparison with corresponding factory system.

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2. Compared to large units, a small-scale industrial unit has a lesser gestation period, *i.e.*, the period after which the return on investment starts.
3. A small scale unit is generally a one-man show. Even the small units which run by a partnership firm or company, the activities are mainly carried out by one of the partners or directors. In practice, the others are simply as sleeping partners or directors who mainly assist in providing funds.
4. In case of small-scale industries, the owner himself /herself is a manager also. Thus, these units are managed in a personalized fashion. The owner has firsthand knowledge of what is actually going on in the business. He takes effective participation in all matters of business decision taking.
5. The scope of operation of small industrial undertakings is generally localised catering to the local and regional demands.
6. Small units use indigenous resources and, therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
7. Using local resources, small units are decentralized and dispersed to rural areas. Thus, the development of small scale industries in rural areas promotes more balanced regional development, on the one hand, and prevents the influx of job seekers from the rural areas to cities and urbanizing centers, on the other.
8. Generally found in urban or semi urban area.
9. Few of them grow as medium scale industries.
10. Incidents of early closure are of highest order.
11. Profit margins are less due to competition .
12. Technology may become obsolete resulting in closure of SSIs.

2.5 SCOPE OF SMALL INDUSTRY

The scope of small-scale enterprises is a global, phenomenon encompassing both the developing and developed countries. Normal McRae (1979) predicts that the age of mammoth corporation was over and the future lay with small, dynamic, efficient production groups that could respond quickly to customer needs. Globally, the emphasis is on the small enterprises holding the key to growth with equity and proficiency.

In India, small industry refers to the manufacturing activity. Recently, it has also come to 'include servicing activities such as financial, health care, educational, personal care, tele-communication, transport, tourism, hospitality (Hotels) services.

Table 2. Scope of Small Industry in Various Countries

Country	*Terminology*	*Scope*
Japan	Small Enterprise	Manufacturing, mining, services, trading (wholesale and retail)
India	Small Scale Industry (SSI)	Manufacturing, repair and maintenance
Korea	Small Enterprise	Manufacturing, mining, construction, commerce
USA/Canada	Small Business	Manufacturing, services, trading limited)
UK	Small firms	Manufacturing, commerce (both retail and wholesale.), mining, construction, transport
Indonesia	Small Industry	Manufacturing services

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As is clear from the above table, the scope of small industry in India is rather narrow as compared to other countries like Japan, UK and USA. The question is whether the scope of activities is in right perspective.

The following are some more areas of scope of SSIs:

1. Manufacturing services
2. Public utilities
3. Financial activities
4. Construction services
5. Whole sale business
6. Servicing activities.

2.6 IMPORTANCE OF SMALL INDUSTRIES

In a labour-abundant and capital-scarce country like India, small-scale industries have come to occupy a significant position in the planned industrialisation of the economy. Most small-scale industries have a low capital intensity and high potential for employment generation. Besides, they possess location flexibility which serves as an effective instrument for achieving a wide dispersal of industries. Small-scale Industrial units also serve as an instrument in achieving a wide dispersal of industries. Further, small-scale units serve as a means of bringing forth indigenous entrepreneurship and savings lying dormant, particularly in semi-urban and rural areas.

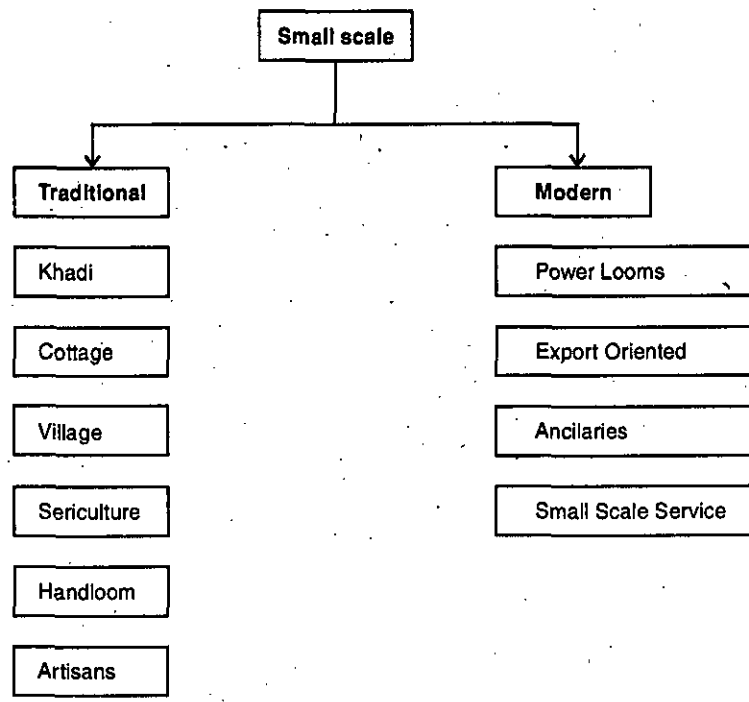

Figure 1. Classification of SSI.

The small-scale sector has a high potential for employment, dispersal of industries, promoting entrepreneurship and earning foreign exchange to the country. The following points further demonstrate the importance of small-scale industries:

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1. **Small is Beautiful:** "Small is beautiful", said E.F Schumacher. He maintains that man's current pursuit of profit and progress, which promotes giant organizations and increased specialisation, has in fact resulted in gross inefficiency, environmental pollution and inhuman working conditions. Schumacher emphasises on small working units, communal ownership and regional work places utilising local labour and resources. For him, emphasis should be on person and not on product.
2. **Innovative and Productive:** It is the small units which are highly innovative though they do not maintain their own research and development wings, "...a disproportionate share of innovation success in business seems to come from 'skunk works,' tiny groups that tend to out-perform the much larger labs that often have a cast of hundreds."
3. **Individual Tastes, Fashions and Personalised Service:** Small firms are quick in studying changes in tastes and fashions of consumers and in adjusting the production process and production accordingly.

   Small firms seem to have an edge in industries that call for personalized service, attention to detail and the flexibility to adapt quickly to changes in the business or technological environment For instance, in the garments and electronic fields, the small units have ruled the roost, a chorus of garment and TV industry voices says that big companies delegate responsibility down the line and cannot swiftly change the trace when necessary.
4. **Symbols of National Identity:** Small enterprises are almost always locally owned and controlled, and they can strengthen rather than destroy the extended family and other social systems and cultural traditions that are perceived as valuable in their own right as well as symbols of national identity.
5. **Happier in Work:** People who work in small enterprises are happier in their work than those who work in large ones in spite of lower wages and poor standards of safety, comfort and welfare facilities.
6. **Always Winners of the Game:** Small enterprises and new entrepreneurs were at the forefront of practically every business boom of the last decade, whether it was computers, television sets, consumer electronics, garments, diamond exports or advertising. And they frequently put the established large industrial houses in the shade with the quality of their performance, their ability to seize business opportunities and their aggressive feeding of burgeoning markets.
7. **Dispersal Over Wide Areas:** It is only small-scale units which have a tendency to disperse over wider areas. According to the second All-India Census of small-scale units, 62.19 per cent of the units are located in backward areas.

Small-scale industries play a key role in the industrialisation of a developing country. This is because they provide immediate large-scale employment and have a comparatively higher labour-capital ratio; they need a shorter gestation period and relatively smaller markets to be economic; they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.

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2.7 OBJECTIVES OF SSI

The main objectives of the development of SSIs are:

(*a*) To create more employment opportunities for the people

(*b*) To effect decentralisation of industries by creating Industrial estates

(*c*) To effect a redistribution of economic power as well as income

(*d*) To raise the standard of living of the people

(*e*) To mobilize regional resources of capital

(*f*) To reduce regional imbalances

(*g*) To facilitate import substitution

(*h*) Improvement of output, income and better standard of living

(*i*) To generate immediate and large scale employment opportunities with relatively low investment

(*j*) To eradicate unemployment problem in the country

(*k*) To bring backward area too in the mainstream of national development.

2.8 RATIONALE OF SSI

The rationale of SSI can be broadly classified into four arguments viz.

1. Employment argument
2. Equality argument
3. Decentralisation argument
4. Latent resources argument.

1. **Employment Argument:** In view of India's scarce capital resources and abundant labour, the most important argument advanced in favour of the SSIs that they have a potential to create immediate large-scale employment opportunities. The increasing emphasis on SSIs in developing countries like India stems largely from the widespread concern over unemployment hovering in the country. There are many research findings available which well establish that small scale units are more labour intensive than large units. In other words, small units use more of labour per unit of output than investment.

2. **Equality Argument:** One of the main arguments put forward in favour of the small scale industries is that they ensure a more equitable distribution of national income and wealth. This is accomplished because of the two major consideration:

   Compared to the ownership of large scale units, the ownership pattern in SSI is more widespread.

   Their more labour intensive nature, on the one hand, and their decentralisation and dispersal to rural and backward areas, on the other, provide employment opportunities to the unemployed. This results in more equitable distribution of the produce of the small scale units. It is also held that as most of the small enterprises are either proprietary or partnership concerns, the relations between the workers and the employers are more harmonious in small enterprises than I the large enterprises.

3. **Decentralisation Argument:** Decentralisation argument impresses the necessity of regional dispersal of industries to promote balanced regional development

in the country. Big industries are concentrated everywhere in urban areas. But, small industries can be located in rural and semi urban areas to use local resources and to cater to the local demands. Admittedly, it will not be possible to start small enterprises in very village, but it is quite possible to start small enterprises in group of villages.

Decentralisation of industrial enterprises will help tap local resources such as raw materials, idle savings, local talents and ultimately improves the standard of living even in erstwhile backward areas.

4. **Latent Resources Argument:** This argument suggests that small enterprises are capable of mopping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability, etc. The real force of latent resources argument lies in the existence of entrepreneurial skills.

The emergence of entrepreneurial class requires a conducive environment. The fact remains that small enterprises provide such environment in which the latent talents of entrepreneurs find self expression.

The rationale of SSIs so established can be broadly classified as :

1. **Backbone of Nation:**

   Small-scale industries are generally locally owned and well controlled. This leads to strengthening of a family and other social systems and thus strengthening of nation.

2. **Small in Operation:**

   SSIs utilize local labour, small in operation and leads to satisfaction of the entrepreneur.

3. **Innovative:**

   Small units are generally highly innovative. In SSIs, there will not be enough facilities, machines or resources. To get the jobs done with the limited available facilities, innovation arises.

4. **Self Satisfaction:**

   It gives lot of self-satisfaction to workers for having done a good job with limited facilities.

5. **Caters to Individual Taste and Styles:**

   SSIs can change or alter the process and production according to the changes in taste and fashions of the customers.

6. **Spread Over Wide Areas:**

   Unlike large-scale industries that are concentrated at one or two places, SSIs can spread over the entire nation leading to uniform development of country. Government is supporting to starts SSIs in backward areas with an aim to improve the nation.

   Thus SSIs plays vital role in the industrialization of a developing country.

   SSIs need smaller investment, offer a means of equal distribution of national income, better utilization of local skills and resources. They create the growth of industrial entrepreneurship and promote a wide spread ownership location.

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2.9 NEED OF SSIs

1. To generate better employment opportunities
2. To raise incomes
3. To raise standards of living
4. To bring about the growth of a more balanced and integrated rural economy
5. To increase in the supply of manufactured goods
6. Promotion of capital formation
7. Development of indigenous enterprise and skills
8. Creation of employment opportunities
9. Regional imbalances reduction within the country
10. Wide distribution of socio-economic and political power
11. Creation of opportunities for people with initiative to rise by their own ability and hard work
12. Improve the techniques of production and management
13. Provide credit facilities (for investment and as well as for working capital).

2.10 ADVANTAGES OF SMALL-SCALE INDUSTRIES

Small enterprise have distinct advantages both economic and social. Some of these are:

(*a*) Some small-scale industries do not require a high level of technology.

(*b*) Small-scale industries are generally labour-intensive and do not require a large amount of capital. The energy of unemployed and under-employed people may be used for productive proposes in an economy in which capital is scarce.

(*c*) Small-scale industries projects can be undertaken in a short period and hence can increase production both in the short and the long run.

(*d*) Most developing countries are rich in certain agricultural, forest and mineral resources; small-scale enterprises can be based on the processing of locally-produced raw materials.

(*e*) It is possible both to save and to earn foreign exchange by producing and exporting goods produced from local resources.

(*f*) Small-scale industrial enterprises are the training ground for local entrepreneurs on decision-making. From small-scale industrial enterprises knowledge and skill can be transferred to other enterprises, and small enterprises may grow into medium-sized enterprises.

(*g*) By creating opportunities for the small business, small industrial enterprises can bring about a more equitable distribution of income which is socially necessary and desirable.

(*h*) Small-scale enterprises in developing countries help to create economic stability in society by diffusing prosperity and by checking the expansion of monopolies.

(*i*) The development of small-scale enterprises will create jobs in rural areas of the developing countries where unemployment and underemployment are high. This will help in reducing the exodus of workers from the rural to the urban areas in search of jobs.

(*j*) Apart from the linkages between agriculture of rural development and small-scale industrial enterprises, there is an essential linkage between large-scale enterprises and small-scale enterprises in the sense that the former creates opportunities or facilities for the growth of the latter. For instance, the growth of the large motor industry creates opportunities for the setting up of small service and repair stations which are spread over the country. Certain large-scale industries also sub-contract work to small producers.

(*k*) Small-scale enterprises have their own place in a country's economy. Imperfect competition protects the small firms' markets and enables them to exist even where they are not efficient in terms of cost.

(*l*) The development of small-scale enterprises can be a part of integrated rural development programmes on which a good deal of emphasis has been recently placed in the developing countries of Asia. Due attention needs to be given to the industrial and non-agricultural components or activities in the context of rural development programmes.

This apart, the small enterprises have the following advantages too:

1. Small Enterprises (SE) create immediate and permanent employment at a relatively small capital cost.
2. They meet a substantial part of increased demand for consumer goods including mass consumption goods.
3. They facilitate mobilization of resources of capital and skills which often would remain inadequately utilized.
4. They bring integration with rural economy on the one hand and large-scale enterprise on the other.
5. They offer a method of ensuring equitable distribution of national income.
6. They involve a short gestation period.
7. They do not require heavy and costly infrastructure as larger enterprises.
8. They have a favorable capital output ratio.
9. The products of these enterprises earn a substantial exchange.
10. They assist in dispersal and avoid problems which unplanned urbanization tends to create.

2.11 ROLE OF SSIs IN ECONOMIC DEVELOPMENT

Due to all these above advantages, the development of small enterprises has been assigned a crucial role in India's five year-plans. With a view to protect, support and promote small enterprises to become self-supporting and to facilitate balanced growth of small and large sector, a number of policy and promotional measures have been taken by the Government. The policy measures include reservation of certain items for exclusive production in the small-scale sector, and exclusive purchase under the stores purchase policy and differential excise duty. Promotional measures have included development of entrepreneurship backed by a package of consultancy services, improvement in techniques, institutional sup-

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port in respect of supply of credit and raw materials, factory accommodation in industrial estates, capital subsidy, and rebates on sales of certain products.

The small-scale sector has stimulated economic activity of a far-reaching magnitude and has played a significant role in attaining the following major objectives:

(*a*) Elimination of economic backwardness of rural and underdeveloped regions in the country.

(*b*) Attainment of self-reliance.

(*c*) Reduction of regional imbalances.

(*d*) Reduction of disparities in income, wealth and consumption.

(*e*) Mobilisation of resources of capital and skills and their optimum utilisation.

(*f*) Creation of greater employment opportunities and increased output, income and standards of living.

(*g*) Meeting a substantial part of the economy's requirements for consumer goods and simple producer goods.

(*h*) Provides employment and a steady source of income to the low income groups living in rural and urban areas of the country.

(*i*) Provides substitutes for various industrial products now being imported into the country.

(*j*) Improves the quality of industrial products manufactured in the cottage industry sector and to enhance both production and exports.

The development of these industries would be beneficial to the developing countries and assist them in improving their economic and social well-being. This would create greater employment opportunities, assist in entrepreneurship and skills development, and ensure better use of the scarce financial resources and appropriate technology.

2.12 VISION OF SMALL INDUSTRIES

Vision formulation for small industries is a must:

(*a*) If a small industry wants to run a marathon, it requires a value system. A value system is what separates the men from the boys. It provides you energy and enthusiasm in moments of your tribulation.

(*b*) Adhere to the value system and culture of the enterprise.

(*c*) It is possible for professionals to stay back in this country and create wealth leveraging sweat equity,

(*d*) It is possible to conduct business honestly.

(*e*) Sharing wealth with employees only increases your own wealth.

(*f*) Investors reward you if you adhere to the best principles of enterprise governance and level with the investors at all points of time.

(*g*) It is also possible to benchmark against global standards from India.

(*h*) You create incentive for innovation within an enterprise by rendering your own innovation obsolete.

(*i*) It is possible for two fiercely competing organizations to maintain an open, harmonious and even information sharing relationship.

(*j*) Imbibe and inculcate skills and discipline on an ongoing basis.

(*k*) Strive to innovate and update technology on and on.

(*l*) Putting maximum public good ahead of private good in every decision you make, in fact, will result in enriching the private good. This is what differentiates the developed world from the developing world.

(*m*) Do set benchmarks and base incentives around milestones.

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(*n*) Forge alliance with your team members and strengthen it.

(*o*) It is possible to inspire a multitude of entrepreneurs to take a plunge in building a new economy in the new millennium.

(*p*) The importance of maintaining high ethical standards in business and focusing on the social responsibilities of an enterprise will become important in this millennium.

(*q*) Constant innovation and the ability to use technology to enhance the customer, interface in terms of better, cheaper and more products and services. In a business environment that is complex and ever-changing, effective managers could well emerge as the differentiating variable for the successful organization. Not surprisingly, their predictions cover on more than one certainty; Intellectual capital, not physical assets, will drive the new economy.

.13 PROBLEMS FACED BY SSI

Some of the problems faced by the SSE's are as stated below:

(*a*) Inefficient human factor
(*b*) Lack of credit facilities
(*c*) Absence of organised marketing
(*d*) Problems of raw materials
(*e*) Lack of machinery and equipment
(*f*) Power shortage and frequent power cuts
(*g*) Problem of late payment of bills
(*h*) Problem of finance
(*i*) Problem of marketing
(*j*) Problem of under utilization of capacity.

(*a*) **Inefficient Human Factor:** Owing to illiteracy, ignorance, and the outdated methods of the cottage workers, there is an inefficient human factor. The entrepreneurial abilities of the promoters of cottage industries and SSIs are handicapped by the lack of technical knowhow in the areas of production, finance, accounting and marketing management.

(*b*) **Lack of Credit Facilities:** The small industrialists are generally poor and there are no facilities for cheap credit. They fall into the clutches of the money lender who charges very high rates of interest, or else they borrow from the dealers of their goods, who exploit them by compelling them to sell their products at very low prices. After the nationalisation of 14 major Indian Banks in July 1969, the commercial banks were providing only a small proportion of SSIs financial requirements. The position has somewhat improved since then, but if is far from satisfactory yet. Credit to the SSI sector continues to be non-commensurate with its contribution to the total Industrial output. As against the share of the village and SSI sector at 40% in the industrial output, its share in total credit to the industrial sector is only about 30%.

(*c*) **Absence of Organised Marketing:** As marketing is not properly organised, the helpless artisans are completely at the mercy of middlemen. The potential

demand for their goods remains underdeveloped. The SSUs (Small Scale Units) have to face the competition from large scale units in marketing their products. It causes damage to the growth and stability of SSIs. SSIs cannot afford to spend lavishly for advertisement to promote their sales. Further, SSIs produce such products which cannot satisfy modern tastes. They cannot afford to have services of specialists to prepare marketing plans for penetration info domestic and foreign markets.

(*d*) **Problem of Raw Materials:** The quantity, quality and regularity of the supply of raw materials are not satisfactory. There are no quantity discounts, since they are purchased in small quantities and hence charged, higher prices by suppliers. Difficulty is also experienced in procuring semi-manufactured materials. Many bogus small scale units exist only to procure raw materials at lower cost and sel the raw materials in the black market.

(*e*) **Lack of Machinery and Equipment:** Exclusive machines and equipment suitable for SSIs are not available. This is another serious handicap. Very little attention is paid to manufacturing such machinery. Hence the problem of Small Scale Units (SSUs) is the lack of availability of suitable machines and the obsolescence of the machines in use.

(*f*) **Power Shortage and Frequent Power Cuts:** In the recent years, power shortage and frequent power cuts have played havoc with the SSUs.

(*g*) **Problem of Late Payment of Bills:** SSUs face serious financial difficulty in a much as more than half of the total SSUs catering to medium and large industries face the problem of late payments of their bills by the latter. This was as pe the report by RBI committee.

(*h*) **Problem of Finance:** An important problem faced by SSI in the country is tha of finance. The problem of finance in small sector is mainly due to two reasons Firstly, it is partly due to scarcity of capital in the country as a whole. Secondly it partly due to weak creditworthiness of small units in the country. Due to thei weak economic base, they find it difficult to take financial assistance from th commercial banks and financial institutions. As such, they are bound to obtai credit from the moneylenders of a very high rate of interest and, thus, exploita tive n character.

(*i*) **Problem of Marketing:** One of the main problem faced by the SSIs is in th field of marketing. These small units often do not possess any marketing organ zation. In consequence, their products compare unfavorable with the quality c the products of the large scale industries. Therefore, they suffer from compara tive disadvantages vis-à-vis large scale units.

(*j*) **Problem of Under Utilization of Capacity:** There are studies the clearl bring out the gross under utilization of installed capacities in small scale indus tries. According to the All India Census of Small Scale Industries, 1972, th percentage utilization of capacity was only 47 in mechanical engineering indus tries, 50 in electrical equipment, 58 in automobile ancillary industry, 55 in leathe products and only 29 in plastic products. On an average, we can safely say tha 50 to 40 percent of capacity is not utilized in SSIs.

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4 STEPS TAKEN TO SOLVE THE PROBLEMS

Suitable steps are to be taken to remedy the existing defects and to remove the main culties of such industries. These measures include:

1. **Surveys:** Detailed surveys of the existing industries should be conducted and production programmes of the SSIs are to be drawn up.
2. **Proper Education and Training of Workers:** Large number of Industrial Technical Institutes and Polytechnics for different crafts should be established for imparting training to the craftsmen.
3. **Improvement in Techniques:** The artisan should be familiarized with new and more economical methods of production. Following are to be provided:
   (*a*) Modern tools popularised on the hire-purchase system
   (*b*) Technical guidance and advice
   (*c*) A system of training-cum-production centers and pilot workshops
4. **Supply of Inputs:** Good raw materials, equipment and imported accessories may be ensured by suitable measures. These should be regular, of good quality and of reasonable costs.
5. **Supply of Capital or Credit:** Cooperative Societies or State Financial Corporations are a good source for capital or credit, Commercial banks should also take an active role in this.

   However, in view of the red-tapism and the rigidity in their working, SSI entrepreneurs may face problems.
6. **Effective Marketing Organization:**
   (*a*) Sales depots may be started in all big towns
   (*b*) Exhibitions of SSI products may be organized
7. **Provision of Cheap Electricity:** In Japan and Switzerland, success of SSIs has been achieved due to the availability of cheap power. This should happen in India.
8. **Integration with Large-Scale Industries:** SSI should be complementary to the large scale ones. The raw materials can be semi-processed in rules areas in small and medium sized units and then brought in a semi-finished state to the big urban industrial units. The large organised sector can provide.
   (*a*) Technical Guidance
   (*b*) Market Information
   (*c*) Result of its own (R&D) activities in respect of quality and packing methods.

5 ADVANTAGES OF SSI's COMPARED TO LARGE INDUSTRY

(*a*) Low investment
(*b*) Easily controllable and manageable
(*c*) Importance to the National Economy

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(*d*) More employment opportunities

(*e*) Dispersion of Industries to rural areas

(*f*) Entrepreneurial talent well utilised

(*g*) Cost effectiveness

(*h*) Complementarity characteristics to large industry.

2.16 STEPS TO START A SSI

The formalities for setting up an SSI are as follows:

(*a*) Selection of Industry

(*b*) Arrange for know-how/technology

(*c*) Study of resource requirement

(*d*) Selection of land and premises

(*e*) Study of investment requirement

(*f*) Study of requirement of plant and equipment

(*g*) Study of requirement of raw material and sources of supply

Study of economic viability like marketing and pricing stratergy, financin staffing, SWOT analysis, break even analysis, return on investment etc.

(*h*) Preparation of project report

(*i*) Application of financial institutions for loan for fixed assets and working capit

(*j*) Application to Directorate of Industries for No Objection Certificate (NOC Registration as SSI, Power and permission

(*k*) Get NOC and permission from local body (Municipality/Village Panchayat/C poration)

(*l*) Apply for power connection

(*m*) Recruit staff and workers

(*n*) Order for plant and machinery

(*o*) Order for raw materials

(*p*) Install the machinery

(*q*) Trial runs

(*r*) Production and sales

(*s*) Profits and pay creditors.

2.17 PROCEDURE FOR REGISTRATION OF SMALL SCALE INDUSTRY

The under mentioned procedures are adopted for the registration of small sc industry :

1. The entrepreneur must select the name of the industry in whcih he wants to st his business as the name itself play a very important role for any industry. The fore, the name must be selected which can give the overall view about the ty of industry.

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2. The prescribed form is to be filled up for the registration of firm in whatever the name. The entrepreneur can register his firm at the office of the Registrar of firms.
3. The entrepreneur has to decide whether he would like to start.
   (*a*) Individual ownership/Proprietorship firm.
   (*b*) Partnership firm
   (*c*) Private Ltd. Company
   (*d*) Public Ltd. Company.
4. The prescribed form for the registration of small scale industry can be submitted in the office of the Director of Industries in various states for example at Delhi, the application of registration of the small scale industry can be submitted in office of the Director of Industries at Kashmiri Gate, New Delhi.
5. The prescribed form is to be filled up in which the complete details of the entrepreneur is to be submitted along with the project report of the industry to be started.
6. Inspection by the Inspector of the office of the Director of Industries is required thereafter.

As per point number one the entrepreneur must decide the name of the industry by ing through several factors. The naem must give the overall idea of the product to be nufactured. The decision is to be taken after consultation with the family members.

As per the point number two, the prescriebd form of the Director of Industries is tobe d up by giving the address of the residential and office premises along with the details of prietor in case of firm. The details of the partners, in case of partnership firm, the details the Directors, in case of private limited company and the details of the Directors in case public limited company must be mentioned. The details of the type of organization is given Chapter-5 (Managerial Aspects of Small Business). The prescribed form is to be submitalong with the project report.

As per the point number three, the entrepreneur can start any kind of business either a proprietor/partner/Director etc. *If he is willing to start a business of his own without* ving any partner the firm is clled as proprietorship. This is applicable when the entrepreir is willing to start a small business and is having good financial capability to run business a single person. Secondly, in case he is willing to start a business in which more funds are uired he can have more than two partners, maximum up to 5 or 6. By the contribtuion of the partners, the more finance can be raised to be invested in the particular project and profit whatever comes out of the investment can be divided into all the partners. For this, partnership deed is to be made in which the complete details of the partners and their ares are to be given. It is the essential requirement for any kind of business as in acse of y kind of disputes or if a person is not willing to join or is willing to leave the industry he can so by taking his own share.

As per the point nubmer six, after submitting the prescribed application form to the rector of Industries, the inspectors of the office of the Director of Industries visit the mises of the entrepreneur to find out the viability of the project by going through several tors essential to set up a small scale industry. He submits his report to the Director of lustries for giving registration in small scale industry. This registration helps the entrepreir to appear in any Government tender without submitting the earnest money requried for

obtaining any tender. The entrepreneur gets exemption to appear in the tender and with th certification different kinds of connections can be obtained by the entrepreneur for hsi ow industrial benefit. This is also an essential requirement for obtaining loan from any comme cial bank as while applying for laon in any bank the entrepreneur has to submit the copies the registration of the firm. After the registration with the Director of Indutries project repc along with the security deposits is forwarded for the sanction of loan in his favour. The ban finance 90 per cent of the amount and the balance of 10 per cent is to be paid by t entrepreneur as a security. All these loans are provided against the hypothecation of stoc land and building, plant and machinery etc.

2.18 GOVERNMENT POLICY TOWARDS SSI

Small-scale industries have been given importance in five years plans by Governme of India. Government of India has started various programmes for the development of sma scale industries in India. Government has announced several objectives and intentions t wards SSI through Industrial Policy Resolutions (IPRs). Since independence Governme has announced several IPRs.

DIFFERENT POLICIES OF SSI

IPR 1948

Importance of SSIs in the overall industrial development of the country was accept for first time in IPR 1948. It was well recognized that SSIs are particularly suited for usi the local resources and to create employment for rural. Initially SSIs faced lot of proble like shortage of raw materials and capital, non availability of skilled labor, marketing etc. T main thrust of IPR 1948 was to provide protection to SSI's.

IPR 1956

IPR 1956 provided continuing policy support to the small sector and aimed to ensu that decentralized sector gained enough self support. About 128 items were reserved exclusive production in small sector. In addition, Small Scale Industries Board (SSIB) con tuted a working group in 1959 for the purpose of examining and formulating a developm plan for SSIs. During Third Five Year Plan period (1961-66), specific developmental proje like "Rural Industries Projects" and "Industrial Estate Projects" were started to strengt the SSIs. IPR-1956 for SSIs aimed at "Protection and Development" and initiated the n dem SSI in India.

IPR 1977

The main thrust on of IPR 1977 was on effective promotion of cottage and sm scale industries widely spread in rural and urban areas. IPR 1977 classified small sector i three categories.

(*i*) **Cottage and Household Industries:**

This provides self-employment on a large-scale.

(*ii*) **Tiny Sector:**

Tiny sector is one with investment in industrial units in plant and machinery u ₹ 1 lakh and situated in towns with a population of less than 50,000 according 1971 census.

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(iii) Small Scale Industries:

SSIs comprising of industrial units with an investment of upto ₹ 10 lakhs and in case of ancillary units with an investment upto ₹ 15 lakhs.

The measures suggested for promoting SSIs are reservation of 504 items for exclusive production in Small Scale Industries and proposal to set up an agency called "District Industry Centre" (DIC) in each district to serve as a focal point for the development of SSIs.

R 1980

Government of India adopted a new Industrial Policy Resolution (IPR) on July 23, 80. The main objective of IPR 1980 was defined as facilitating an increase in industrial oduction through optimum utilization of installed capacity and expansion of industries. It ped the small sector by increasing the ceiling from ₹ 1 lakh to ₹ 2 lakhs for tiny industries, m ₹ 10 lakhs to 20 lakhs in case of small scale units and from ₹ 15 lakhs to ₹ 25 lakhs for illaries. District Industry Centres (DICs) are replaced with the concept of "Nucleus nts" in each industrially backward district with an idea to promote the growth of small-le industries in backward areas. It also emphasized the promotion of village and rural lustries to generate economy in the villages. Similar to IPR 1956, IPR 1980 regenerated spirit and encouragement of setting up SSIs.

R 1990

It came into existence in June 1990. It also gave lot of scope and importance for SSIs generate wage and self-employment based opportunities in the country. Some of the ient points to increase the development of SSI are:

1. Investment ceiling in plant and machinery for tiny units is increased from ₹ 5 lakhs from ₹ 2 lakhs, provided the unit is located in an area having population of less than 50,000 as per 1981 Census.
2. Investment ceiling in plant and machinery for SSIs is raised to ₹ 60 lakhs from ₹ 35 lakhs.
3. Investment ceiling in plant and machinery for ancillary units is raised to ₹ 75 lakhs from ₹ 45 lakhs.
4. Implemented a new scheme of central investment subsidy exclusively for SSIs in rural and backward areas that are generating employment at lower capital investment.
5. To improve the competitiveness of the products manufactured in SSIs, technology upgradation programs are implemented under Technology Development Centre in Small Industries Development Organization (SIDO).
6. Small Industries Development Bank of India (SIDBI) was established in 1990 with an idea to ensure timely and adequate flow of credit facilities to SSIs.
7. About 836 items have been reserved by Government for the exclusive manufacture in SSIs.
8. Implementation of delicensing 100% Export Oriented Units (EOUs) set up in Export Processing Zones (EPZs) upto an investment of ₹ 75 lakhs. Also delicensing of all new units with investment upto ₹ 25 lakhs in fixed assets in non-backward areas and ₹ 75 lakhs in notified backward areas.
9. Emphasis to establish special cell in SIDO for developing and training women entrepreneurs.

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NEW SMALL ENTERPRISE POLICY 1991

During August 1991, the Government of India issued a new policy for small scale enterprises titled "Policy measures for promoting and strengthening and supplementing small tiny and village enterprises". The main idea of this new policy is to improve. The growth rate of sector which in turn contributes the growth of economy of country in terms of increased output, employment and exports. The salient features of this "New Small Enterprise Policy 1991" are:

1. Introduction of services to help the problems of delayed payments to small sector.
2. Industry related services and business enterprises are included as SSIs irrespective of their location.
3. Increase in the investment to ₹ 5 lakhs from ₹ 2 lakhs in tiny enterprises, irrespective of the location of the enterprise.
4. Market promotion of small-scale industries products through cooperate/public sector institutions other specialized professional/marketing agencies and the consortium approach.
5. To widen the scope of the National Equity Fund (NEF) to enlarge the single window scheme and also to associate commercial banks with provision for corporate loans.
6. Introduction of limited partnership act.
7. To give priority to small and tiny sector in the allocation of indigenous raw material.
8. To set up Technology Development Cell in the Small Industry Developmer Organization (SIDO)
9. Set up of Export Development Centre (EDC) in the SIDO.
10. To introduce the scheme of Integrated Infrastructural Development (IID) wit technology backup services to SSIs.

Important Observations of New Small Enterprise Policy 1991:

1. The New Small Enterprise Policy 1991 is prepared on thorough understanding c the basic problems of SSI and proposed remedial measures to over come th problems faced.
2. Introduction of limited or restricted partnership to facilitate investment of equit capital by relations and friends who were otherwise hesitating to invest thei capital.
3. Equity participation upto 24% by another undertaking in a small-scale unit. Thi allows big industries to start or invest in small-scale industries.
4. Removal of change of location of tiny industries and area with less than 50,00 populations has encouraged development of tiny industries in towns also. Th raise of ceiling from ₹ 2 lakhs to ₹ 5 lakhs in tiny industries also help setting up c tiny industries.
5. Made provisions for continuous support to the tiny sectors, like easy access th institutional finance, preference in Government purchase and relaxation of cer tain labour laws.

IPR 2000

Industrial policy 2000 was actually a comprehensive policy package for SSIs and tiny sectors. Main focus of this policy is as follows:

(*i*) The exemption for excise duty limit raised from 50 lakhs to ₹ I crore to improve the competitiveness.

(*ii*) Credit linked capital subsidy of 12% against loans for technology upgradation was provided in specified industries.

(*iii*) The third census of small scale industries by the ministry of SSI was conducted, which also covered sickness and its causes in SSIs.

(*iv*) The limit of investment was increased in industry related service and business enterprises from ₹ 5 lakhs to ₹ 10 lakhs.

(*v*) The scheme of granting ₹ 75000 to each small scale enterprise for obtaining ISO 9000 certification was continued till the end of 10^{th} plan.

(*vi*) SSI associations were motivated to develop and operate testing laboratories. One time capital grant of 50% was given on reimbursement basis to each association.

(*vii*) The limit of composite loan was increased from ₹ 10 lakhs to ₹ 25lakhs.

(*viii*) A group was constituted for streamlining of inspection and repeal of redundant laws and regulations.

(*ix*) The coverage of ongoing Integrated Infrastructure Development (IID) was enhanced to cover all areas in the country with 50% reservation for rural areas and 50% earmarking of plots for tiny sector.

(*x*) The family income eligibility limit of ₹ 24000 was enhanced to ₹ 40000 per annum under the Prime Minister Rozgar Yozna (PMRY).

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IPR 2001-02

This policy emphasizes the following:

1. The investment limit was enhanced from ₹ 1 crore to ₹ 5 crore for units in hosiery and handloom sectors.
2. The corpus fund set up under the Credit Guarantee Fund Scheme was increased from 125 crore to 200 crore.
3. Credit Guarantee cover was provided against an aggregate Credit of ₹ 23 crore till December 2001.
4. 14 items were de-reserved during June 2001 related to leather goods, shoes and toys.
5. Market Development Assistance Scheme was launched exclusively for SSI sector.

IPR 2003-04

The following are the highlights of this policy:

1. 73 items reserved for exclusive manufacture in the SSI sector were de-reserved in June 2003. These consist of chemical and chemical products, leather and leather products, laboratory reagents etc.
2. Selective enhancement of investment in plant and machinery was from ₹ 1 crore to ₹ 5 crore.
3. Banks were directed to provide credit to SSI sector within an interest rate band of 2 percent above and below their Prime Lending Rates (PLR).
4. The composite loan limit for SSI was raised from ₹ 25 lakhs to ₹ 50 lakhs.

5. The limit of dispensation of collateral requirement was raised from ₹ 15 lakhs to ₹ 25 lakhs on the basis of good track record and financial position of the unit.
6. The lower limit of ₹ 5 lakhs on loans covered under the Credit Guarantee Scheme was removed. All loans up to ₹ 25 lakhs were made eligible for guarantee cover under the Credit Guarantee Scheme.
7. Specialized bank branches were made operational for SSIs.
8. Small and Medium Enterprise (SME) fund of ₹ 10000 crore was set up under SIDBI to solve the problem of inadequate finance for SSIs.
9. Laghu Udyami Credit Card Scheme was liberalized. Under this scheme. The credit limit was increased to ₹ 10 lakhs from ₹ 2 lakhs. But it was only for borrowers with satisfactory track record.

IPR 2004-05

Main features of this policy are as follows:

(*a*) The National Commission on Enterprises in the unorganized informal Sector was set up in September 2004. It suggested measures considered necessary for improvement in the productivity of these enterprises, generation of large scale employment opportunities, linkage of the sector to institutional frame work in areas like credit, raw material supply, Infrastructure, technology upgradation, marketing facilities and skill development by training.

(*b*) 85 items were de-reserved in October 2004.

(*c*) The investment limit in plant and machinery was raised from ₹ 1 crore to ₹ 5 crore in October 2004, in respect of seven items of sports goods to help to upgrade the technology and enhance competitiveness.

(*d*) The Small and Medium Enterprise (SME) fund of ₹ 10000 crore was started by SIDBI since April 2004 with 80% of the lending for SSI units. The interest rate was 2% below the prevailing Prime Lending Rate (PLR) of the SIDBI.

(*e*) The Reserve Bank of India raised the composite loan limit from ₹ 50 lakhs to ₹ 1 crore.

(*f*) Promotional Package for small enterprises was initiated.

IPR 2005-06.

Industrial policy resolution 2005-06 offered following package for SSIs:

(*a*) The Ministry of Small Scale Industries has identified 180 items for dereservation.

(*b*) Small and Medium Enterprises were recognized in the services sector and were treated on par with SSIs in the manufacturing sector.

Government is aware of the challenges faced by SSIs and has been trying to improve their competitiveness through various measures. These consist of the following:

(*a*) Tax concessions have been provided to SSIs to promote investment in this sector and also to grant relief to small entrepreneurs.

(*b*) Technological facilities have been increased.

(*c*) In order to facilitate adequate flow of credit, efforts have been made.

(*d*) Measures have also been taken to improve infrastructure facilities

(*e*) Promote marketing of products.

(*f*) To improve access to latest information, automation of the Ministry of SSI Office of DC (SSI), Directorate of Industries and District Industries Centers have been set up.

(*g*) Other initiatives, such as, Advisory and Monitoring Services, Technology.Business Incubators, Suppliers Rating Accreditation Services have been taken up.

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2.19 GOVERNMENT SUPPORT TO SSIs DURING 5 YEAR PLANS

Government has given a lot of importance to the development of SSIs in its five year-plans. The expenditure on small sector has been continuously increasing. The details are given below:

(*a*) **First Five-Year Plan (1951-56)**

In the first five year plan, ₹ 48 crore was spent in SSIs (about 48% of total plan expenditure of industry) covering the entire field of small scale and cottage industries, six boards were formulated by the end of first five-year plans. They are: All India Handloom Board, All India Handicrafts Board, All India and Village Industries Board, Small Scale Industries Board, Coir Board and Central Silk Board.

(*b*) **Second Five-Year Plan (1956-61)**

The second five-year plan focused on dispersal of industries with an out lay of ₹ 187 crore. As may as 60 industrial estates were established for providing basic facilities• like power, water, transport etc., under one roof.

(*c*) **Third Five-Year Plan (1961-66)**

Third five-year plan outlayed ₹ 264 crore for the development of SSI and cottage industries. It has put lot of stress on the extension of the coverage of SSIs. Establishment of SSI underwent a slight recession during this plan.

(*d*) **Fourth Five-Year Plan (1969-73)**

Fourth five-year plan also adopted and encouraged the development of SSIs like the earlier three plans. SSI has seen remarkable diversification and expansion owing to the various developments programming during fourth five-year plan period. The planned out layout for fourth five-year plan is ₹ 293 crore. During fourth five plans about 346 industrial estates were completed providing employment to about 80,000 people.

(*e*) **Fifth Five-Year Plan (1974-78)**

The main thrust of fifth year-plan was to develop SSIs to help reducing poverty and in equating prevailing in society. Government had initiated wide development programmes leading to the development of SSIs. The planned out lay of fifth five-year plan was ₹ 611 crore.

(*f*) **Sixth Five-Year Plan (1980-85)**

The planned out lay of sixth five-year plan was ₹ 1945 crore. The sixth plan included many programs like: Reservation of 409 items for purchase from production in small scale industries, established Council for Advancement of Rural

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Technology (CART) in 1982, with an idea to provide technical inputs to the rural industries and providing consultancy services in technical, managerial and marketing through SIDO.

(g) Seventh Five-Year Plan (1985-90)

The planned outlay of seventh five-year plan was ₹ 2752 crore. The main thrust of seventh plan was upgradation of technology to increase competitiveness of SSIs. Owing to various development programmes, the small sector witnessed significant development in all directions. The number of small-scale industries had gone up, the employment also increased considerably from 96 lakhs to about 120 lakh persons.

(h) Eighth Five-Year Plan (1992-97)

Eighth plan has a plan outlay of ₹ 6334 crore. It started with a main focus of employment generation. In order to upgrade the technology, the eighth plan proposed to establish appropriate tool rooms and training institutes. Similar to growth centers, the eighth plan proposed to set up integrated infrastructure development centers. The eighth plan ensured timely and adequate availability of credit by the establishment of SIDBI, introduced new initiatives like sanction of composite loans under single window concept and concessional loans to state corporations for infrastructure development.

2.20 IMPACT OF LIBERALIZATION, PRIVATIZATION AND GLOBALISATION ON SSIs

Liberalisation, Privatisation and Globalisation (LPG) process started in India in July 1991 that had changed the face of industry. It has attracted new areas of development, foreign direct investments and new business areas which were unheard before 80's. This made Indian economy to grow to new heights. Past 3 decades Indian economy is growing at an average steady rate of 5% of per-capita income, The exports have increased.

Liberalisation had made import of scarce and non-available raw materials easy. This had led to many new openings. New entrepreneurs have started many SSIs which otherwise was not possible due to non-availability of certain raw materials and resources, liberalization helped getting them from abroad and use them. The best example for effect of liberalization is electronic and computer industries that have seen tremendous growth in past-two decades.

Privatisation also helped the growth of SSIs in a big way. Earlier, certain products/services were produced only by Government organizations and no competition existed. With privatization, it threw open to many challenging entrepreneurs to produce similar goods and service at much competitive price and of better quality. One example of privatization was the production of telephones. Hither to, Bangalore based Indian Telephone Industries (ITI) was producing the telephones. With the privatization, many players had entered the arena producing better, good looking phones with additional facilities. The other important development due to privatization is life insurance sector which was earlier monopolized by LIC. Now there are many private agencies offering Life Insurance, Health Insurance and others.

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Globalisation has helped in setting many small scale industries. It made possible the export of goods produced in SS1. Industries and service providers are going global from India. Indian entrepreneurs in Pharma Sector, I. T. Sector, Steel Sector have gone to many countries to start new ventures. Indian entrepreneurs have used the globalisation for the growth of service sectors. Accordingly investments and quality levels in service sectors have increased. The spectacular growth is observed in Business Process Outsourcing (BPO), transport, repair services, entertainment and hospitality sectors.

There has been a big growth of entrepreneurial activities in rural India in the areas like food processing, ready-to-eat and parked food, export of food products like fish, meat, prawns etc., due to LPG.

2.21 GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

General Agreement on Tariffs and Trade (GATT) was a treaty signed by a group of 123 nations agreeing in principle to promote trade among members in 1947. GATT was a multilateral global initiative. It was an important mile stone in global trade. After World War II the forward looking thinkers in trade and industry felt that political disputes and problems could be solved by coming together and singing agreements similar idea is extended to business, commerce and industry. With British and USA initiatives and discussions GATT was made possible.

In its existence of more than five decades GATT had many challenges.

They are:

(*i*) High tariffs by some countries

(*ii*) E–commerce

(*iii*) Agriculture commodities

(*iv*) Narcotics, nuclear and dangerous materials

(*v*) Development of backward regions

(*vi*) Subsidies

(*vii*) Trade restrictive practices

(*viii*) Trade disputes in international business

(*ix*) Regional trade blocks

(*x*) Bilateral trade agreements and monopolies

(*xi*) Barter deals

(*xii*) Trade information.

GATT had no enforcement powers. The losing party could ignore the ruling given by GATT. The various causes like language, legal issues, distances, and communications delayed settlement of disputes for years. Even then GATT could handle hundred of large trade disputes and concluded to satisfaction of parties involved. It gave a new direction of settlement by discussions, mediation, taking opinions of experts and negotiations. It highlighted problems of different trade practices and contract issues. It advocated free trade and open trade policies for commerce in industry and stages across the globe.

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2.22 WORLD TRADE ORGANIZATION (WTO)

World Trade Organization was establish in January 1st, 1995 as a successor to the General Agreement on Tariffs and Trade (GATT), serves as the legal and institutional foundation of the multilateral trading system. The Uruguay Round Table Agreement that created WTO also eliminated tariffs for some manufactures' goods, reduced barriers to trade in agriculture, expanded protection for copyrights, patents and other intellectual property, provided some reduction in barriers to services and foreign investment. It also reformed the multilateral trade process and included a strong dispute settlement mechanism. WTO has 123 members, another 31 countries have applied for the membership. Make Optimum utilization of world's resources for improving the incomes and standard of living, promoting employment and expanding production and trade activities among varies countries.

Encourage sustainable development and ensure that environment care and developmental activities together.

Efforts should be made that poor countries as well as developing countries get an opportunity to have a share in the growth in the world trade.

2.23 FUNCTIONS OF WTO

(*i*) It covers all the commodities that are internationally traded and have formulated rules and procedures for each category as a guideline to member countries.

(*ii*) Though WTO does not interfere in economic and political issues of the member countries, it does involve in case of policies regarding international trade.

(*iii*) WTO has various expert committees and subcommittees for different categories to review various subjects and also to work as consultants.

(*iv*) It arranges visits of its expert committees to various countries for training and development activities.

(*v*) WTO acts as an arbitrator to sort out disputes between various countries in the international trade.

(*vi*) It reviews and advises trade policies of various countries so that such policies are conducive for international trade.

(*vii*) Implementation and monitoring of multilateral and bilateral trade agreements which are essence of the WTO.

(*viii*) To keep a track of trade related activities, member countries will inform WTO about various trade activities they have been doing in the global market.

(*ix*) Evaluation of international trade and seek explanation wherever abnormal variations in terms of over dominance or very poor performance are observed.

Indian Issues in WTO

India is a member of GATT and WTO since its inception. India is closely working on the progress and development of the activities in WTO on its own as a member for developing business from India. In addition, India is also representing the group of G-21 developing nations in WTO, who jointly look after the interests of the developing world. The developing

world would like to have their fair share of the global markets without any influence or twisting tactics of the rich nations.

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Advantages of WTO

(*i*) Safeguards from unilateral actions of the developed nations.

(*ii*) Increased access to export markets.

(*iii*) Increased R&D efforts in the country.

(*iv*) Access to advanced technology to the existing and new industries.

(*v*) Increased opportunity to subcontracting and job work for SSI.

(*vi*) Increased global competition resulting higher efficiency and improved quality.

Business boost will take place in specified fields:

(*i*) Textiles and clothing.

(*ii*) Agriculture and food products.

(*iii*) Chemicals.

(*iv*) Software industry.

(*v*) Export subsidies not prohibited till a country's per capita income is plus 1000 US Dollars.

(*vi*) Services.

Disadvantages of WTO

(*a*) Developed countries are becoming protectionists themselves. The global trading system has been unfair to 'third world' Asia, and Latin America for over 2 centuries.

(*b*) 8 years of bargaining developing countries gained little or nil.

(*c*) Developed countries raising political and social barriers.

(*d*) India may gain about only 2 billion per year more exports which is too small.

(*e*) Pharmaceutical intellectual property right issue. Multinationals use exclusive market rights and increase price of drugs.

(*f*) SSI will be hit due to competition.

.24 SUPPORTING AGENCIES OF GOVERNMENT FOR SSI

Starting a new venture requires various resources and facilities. Small scale enterrises generally find it difficult to have these resources and facilities on their own. Adequate nance is life blood to start and run an enterprise as it facilitates an entrepreneur to have nough funds to procure land, labor, materials plant and machinery and so on. Recognizing it, overnment has come forward to help small entrepreneurs by providing them funds and ther needed facilities and supports. Government has recognized the important role of entreeneurs in the industrial development of the country, especially through the small-scale idustries (SSIs). The Government of India and State Governments provide a number of ecial facilities and incentives to small-scale industries. The incentives not only motivate ntrepreneurs to set up industries in the small-scale sector, but also strengthen the entrepreurial base in the economy. The government offers a package of services through its

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specialized institutions and motivates entrepreneurs to take advantage of the various facilities and establish enterprises and flourish. It is hoped that institutional incentives would play a key role in the promotion of small enterprises and ensure their self-sustained growth. The institutions providing assistance to small scale industries are broadly classified into three categories namely:

(*a*) All India Institutions
(*b*) State Level Institutions
(*c*) Fund-Based Institutions.

2.25 ALL INDIA INSTITUTIONS

All India institutions supporting entrepreneurs are as below:

(*i*) Small Scale Industries Board (SSIB)
(*ii*) National Small Industries Corporation (NSIC)
(*iii*) The Khadi and Village Industries Commission (KVIC)
(*iv*) Small Industry Development Organization (SIDO)
(*v*) Training Institutes.

(*i*) Small Scale Industries Board (SSIB)

SSI Board is the apex non-statutory advisory body constituted by the Government of India to render advice on all issues pertaining to the SSI sector. It provides a forum to its members for interaction to facilitate cooperation and inter-institutional linkages and to render advice to the Government on various policy matters, for the development of the small-scale industries. The Board was first constituted in 1954. Its term is for two years. The Board was last constituted on 18th January 2003, with 10 I members and held its 48th meeting on 17 January 2004. The Industrial Minister of the Government of India is the chairman of the SSIB. Its key members are State Industry Minister, some Members of Parliament, secretaries of various departments of Government of India, financial institutions, public sector undertakings, industry associations, eminent experts in the field etc.

(*ii*) National Small Industries Corporation (NSIC) Limited

The National Small Industries Corporation Ltd (NSIC) was set up in 1955 with, a view to promoting, aiding and fostering the growth of small scale industries in the country with focus on commercial aspects of these functions. NSIC continues to implement its various programs and projects throughout the country to assist the SSI units. The Corporation has been assisting the sector through several schemes and activities.

(*iii*) The Khadi and Village Industries Commission (KVIC)

The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament in April 1957. The KVIC is supposed to do the planning, promotion, organization and implementation of programs for the development of khadi and other village Industries in the rural areas in coordination with other agencies engaged in rural development wherever necessary.

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(iv) Small Industry Development Organization (SIDO)

The Office of the Development Commissioner (Small Scale Industries) is also known as the Small Industry Development Organization (SIDO). It is an apex body, established in 1954, for assisting the Ministry in formulating, coordinating, implementing and monitoring policies and programs for the promotion and development of small-scale industries. It has over 60 offices and 21 autonomous bodies under its management, including Tool Rooms, Training Institutions and Project-cum-Process Development Centers etc.

(v) Training Institutes

There are three National Level Training Institutes. These are:

(a) National Institute of Small Industry Extension Training (NISIET), Hyderabad, which undertakes operations ranging from training, consultancy, research and education, to extension and information services.

(b) National Institute for Entrepreneurship and Small Business Development (NIESBD), New Delhi, which conducts national and international level training programs in different fields and disciplines.

(c) Indian Institute of Entrepreneurship (IIE), Guwahati was established to act as a channel for entrepreneurship development with its focus on the SSIs.

26 STATE LEVEL INSTITUTIONS

State level institutions supporting entrepreneurs are as below:

(a) State Small Industrial Development Corporations (SSIDC)

(b) State Directorate of Industries (SDIs)

(c) District Industries Centers (DICs)

These are discussed in unit 7 in detail.

JND BASED INSTITUTIONS

The fund based institution supporting entrepreneurs are as follows:

(i) Small Industries Development Bank of India (SIDBI)

(ii) Commercial Banks

(iii) State Financial Corporations (SFCs).

(i) Small Industries Development Bank of India (SIDBI)

The SIDBI was established in 1990 as the apex refinance bank. The SIDBI is operating different programs and schemes through 5 Regional Offices and 33 Branch Offices. The financial assistance of SIDBI to the small-scale sector is channelized through the two routes: direct and indirect

(ii) Commercial Banks

Credit requirement of SSIs is basically of two types - long term loans and working capital. Commercial Banks with their extensive network of branches operating nationwide are primary channel for working capital requirement. Banks are required to compulsory ensure that defined percentage (currently 40%) of their overall lending is made to priority sectors as classified by RBI. These sectors include agriculture, small industries, export etc. The inclusion of small industries

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in this list makes them eligible for this earmarked credit. With the liberalization o the Indian economy, greater emphasis was placed on meeting the credit needs o SSIs. This was manifest through the following initiatives taken by RBI.

(*a*) Credit for tiny sector has been earmarked within overall lending to sma industries. In order to ensure that credit is available to all segments of S sector, RBI has issued instructions that out of the funds normally availab to SSI sector, 40% be given to units with investment in plant and machine up to ₹ 5 lakhs, 20% for units with investment between ₹ 5 lakhs to ₹ 2 lakhs and remaining 40% for other units.

(*b*) Public sector banks have been advised to operationalize more specialize SSI branches at centers where there is a potential for financing many S borrowers. As on March 2002, 391 specialized SSI branches are working the country.

(*c*) Single window scheme was extended to all districts to meet the financi requirements (both term loan and working capital) of SSIs.

(*d*) Laghu Udyami Credit Card (LUCC) Scheme was launched by public se tor banks for providing simplified and borrowed friendly credit facilities SSI, tiny enterprises, retail traders and artisans.

(*e*) Composite loan limit was enhanced to ₹ 50 lakhs from ₹ 25 lakhs. Limit c collateral free loans was increases to ₹ 25 lakhs in deserving cases.

(*iii*) State Financial Corporations (SFCs)

The Industrial Financial Corporation of India (IFCI) set up in 1948 used to pr vide financial assistance to only large-sized industrial undertakings. In order cater the financial requirements of a large number of small-scale units, the Sta Financial Corporation Act was passed. State Financial Corporation Act 19 was brought into force to enable all the State Governments to set up State Fina cial Corporations as regional development banks. The first SFC was set up Punjab in 1953. Today there are 18 SFCs in the country, which exist almost every state. A SFC has a board of directors, a managing director and an exec tive committee. A SFC can open its office at different places within the stat Presently following assistance is provided to small scale and medium scale u dertakings.

1. Providing long-term finance to industrial enterprises having sole proprieta partnership, company and cooperative society form of business organiz tion.
2. Subscribing equity and debentures of industrial enterprises.
3. Providing financial assistance to small and medium enterprises engaged service sector.
4. Provide working capital loans and meeting various short-term needs of the clients.

More of these are discussed in the unit 7 Institutional Support

2.27 ANCILLARY INDUSTRIES

Definition

The following requirements are to be complied with by an industrial undertaking f being regarded as ancillary industrial undertaking:

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An industrial undertaking which is engaged or is proposed to be engaged in the manufacturing or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and undertaking supplies 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 less or on hire-purchase, does not exceed ₹ 10 million.

Meaning

An ancillary industry is a subsidiary industry or supplementary industry to a main industry. For example, if food production is a main industry, then supply of plastic cups and plates to the food industry will become an ancillary industry. A food producer cannot afford to manufacture plastic cups and plates. Hence, it is wise to get it done from others. An ancillary industry plays an important role in supplementing a main industry.

28 TINY INDUSTRIES

Definition

A tiny industrial unit is one with an investment limit of ₹ 2.5 million in plant and machinery irrespective of location of the unit.

Meaning

In Indian scenario, tiny industries are playing a major role particularly in the rural and semi-urban areas. Setting up tiny enterprises like paan shop, hair dressing salon, grocery shops, production of small agricultural equipments etc in the villages does not require huge capital. These kinds of business enterprises can conveniently be categorized as tiny industries, These tiny industries are generally run by a single person or by his/her own family members. Recent development in rural economic scenario in the form of Self Help Groups (SHG's) can also be considered as a tiny enterprise.

A separate package for the promotion of Tiny Enterprises is now being introduced. While the small scale sector (other than Tiny Enterprises') would be mainly entitled to one-time benefits (like preference in land allocation/power connection, access to facilities for skill/technology upgradation), the Tiny enterprises would also be eligible for additional support on a continuing basis, including easier access to institutional finance, priority in the Government Purchase Programme and relaxation from certain provisions of labour laws. This constitutes the main thrust of Government's new policy.

29 COTTAGE INDUSTRIES

Cottage industries are of a traditional nature, catering mainly to the local populations and dependent upon local raw materials. They are located usually at the homes of the producers, hence the name cottage industries. It is estimated that about 50 million people are employed in cottage industries generating revenue to the tune of ₹ 6000 Crores annually. Cottage industries include carpet weaving, folk paintings like paintings on wood, silk, etc., carving of panels, caskets, tray boxes, furniture ivory items etc. Khadi and village industries, handlooms, handicrafts, sericulture and coir industry. Both the segments have their own special characteristics in terms of capital/labour intensity, location orientation, manufacturing process and skill requirements.

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SUMMARY

- Use of "Small" as a designation, the industry differentiates one set of industr from others. Comparatively small in operation, employment, products, capital, te nology etc. Thus, these small sector shares unique problems compared to othe
- The operational definition for policy purposes includes all those undertakings ha ing an investment in fixed assets in plant and machinery, whether held on own ship terms or by lease or by hire purchase, not exceeding ₹ one crore.
- Small-scale industries have been given importance in five years plans by Gove ment of India. Government of India has started various programmes for the dev opment of small-scale industries in India.
- IPR 1956 provided continuing policy support to the small sector and aimed ensure that decentralized sector gained enough self support.
- Policy measures for promoting and strengthening and supplementing small, ti and village enterprises.
- Liberalisation, Privatisation and Globalisation (LPG) process started in India July 1991 that had changed the face of industry.
- General Agreement on Tariffs and Trade (GATT) was a treaty signed by a gro of 123 nations agreeing in principle to promote trade among members in 1947.
- World Trade Organization was establish in January 1st, 1995 as a successor to t General Agreement on Tariffs and Trade (GATT), serves as the legal and insti tional foundation of the multilateral trading system.
- A tiny industrial unit is one with an investment limit of ₹ 2.5 million in plant a machinery irrespective of location of the unit.
- General Agreement on Tariffs and Trade (GATT) was a treaty signed by a gro of 123 nations agreeing in principle to promote trade among members in 1947.

REVIEW QUESTIONS

1. Briefly explain the concept of Small Scale Industries (SSI).
2. Define an SSI.
3. What are the characteristics of an SSI?
4. What is the scope of SSI? Explain.
5. What is the importance of SSI?
6. Classify SSI.
7. What are the objectives of SSI?
8. Explain the rationale of SSI.
9. What is the need for an SSI?
10. What are the advantages of SSI?
11. What are the limitations of SSI?
12. What is the role of an SSI in the economic development of the country?
13. What are the problems faced by SSI?
14. What are the steps taken to solve the problems of an SSI?
15. What are the steps involved in setting up an SSI?

16. Define Sickness.
17. What are the causes of Industrial Sickness?
18. What are the symptoms of industrial sickness?
19. What are the government policies towards SSI?
20. What is the impact of liberalization on SSI?
21. What is the effect of Privatization on SSI?
22. What is the effect of Globalization on SSI?
23. Briefly explain GATT.
24. Briefly explain about WTO.
25. What are the functions of SSI?
26. What are the government agencies supporting SSI?
27. What are ancillary industries?
28. What are cottage industries?
29. What are tiny industries?

NOTES

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NOTES

UNIT III FINANCIAL ASSISTANCE

STRUCTURE

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- explain the Need for Institutional Support
- explain the Types of Financing Institutes for SSI
- discuss TECSOK, KIADB, KSSIDC and KSIMC
- define DIC/Single Window
- describe SISI, NSIC and SIDBI.

3.2 INTRODUCTION

Finance is one of the essential requirements of any enterprise. Before actually setti up their units, small entrepreneurs need to know very clearly about the type and extent of th financial requirements. Integral to the financial requirements is to know about the possib alternative sources from which finance can be availed of. Given the shortage or lack of ente prise's own funds/resources, the Government of India as a part of its policy of promotion small-scale sector in the country has set up a host of institutions to meet the financial requir ments of small entrepreneurs. This chapter is therefore, devoted to discuss the financial assi ance given by various institutions to small entrepreneurs to set up their enterprises.

3.3 NEED FOR INSTITUTIONAL SUPPORT

The success of small-scale industries depends solely on the well-established institution set-up. In order to meet the requirements of the rapidly expanding small-scale industri sector in the country, the Government gave adequate institutional support; and it may w claim to have achieved success in this sphere. The role of various institutions set-up special to promote the growth of small-scale industries is quite unique.

Starting a business or industrial unit requires various resources and facilities. Finance ɔeen an important resource to start and run an enterprise since it facilitates the entrepre- to procure land, engage labour, procure plant and machinery, raw materials and others. ·ncial assistance and concessions could not over come the difficulties of infrastructure, in ıg up an enterprise. Creation of infrastructure facilities like communication, transport, ·r, power, raw material etc., involve large amount of funds which are not available in the ls of small entrepreneurs. In view of this, various Central and State Government institu- s have come forward to help small entrepreneur by providing various facilities. Institu- al support helps make the economic environment more conducive to the business or rprise.

INSTITUTIONAL SUPPORT

The institutions aiding small scale industries may be broadly classified into three cat- ies viz.

1. Advisory bodies
2. Government institutions
3. Corporate institutions.

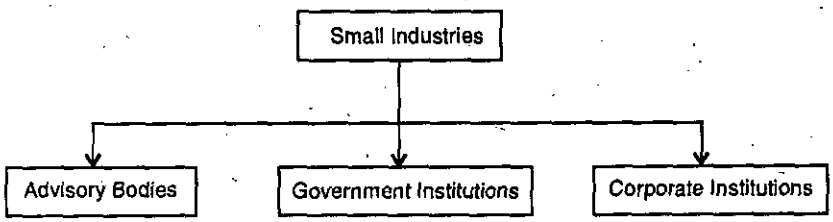

Figure 1. Institutions aiding SSI.

In the first category, we have the:

(*a*) Development Commissioner for Small-scale Industries
(*b*) The State Small Industries board
(*c*) Directorate of Industries
(*d*) Export Promotion Council
(*e*) Small Scale Industries Association etc.

Under the Government Institutions we have:

(*a*) National Small Industries Corporation
(*b*) Commodity Boards
(*c*) Small Industries Service Institutes etc.

Under the Corporate Institutions we have:

(*a*) State Trading Corporation
(*b*) The MMTC
(*c*) The ISI
(*d*) The Central Institute of Tool Design
(*e*) IDBI.

The Institutions fostering the development of the SSI can be classified into:

I. Promotional

1. State Small Industries Corporations (SSIC)
2. Directorate of Industries of the State Government (DISG)

3. The Small Industries Development Organization (SIDO)
4. State Industrial and Investment Corporations (SIICO)
5. Udyog Mitra
6. Indian Bureau of Standards (BIS)
7. State Industrial Development Corporations (SIDC)
8. Electronic Corporation
9. Industrial Development Corporations (IDC)
10. The National Industrial Development Corporation (NIDC)
11. State Electricity Board (SEB).

II. Financial

1. Mutual Funds
2. Small Industries Development Bank of India (SIDBI)
3. Industrial Development Bank of India (IDBI)
4. Life Insurance Corporation (LIC)
5. State Financial Corporation (SFC)
6. Industrial Finance Corporation of India (IFCI)
7. Industrial Credit and Investment Corporation of India (ICICI)
8. Industrial Reconstruction Bank of India (IRBI)
9. The World Bank
10. The Shipping Credit and Investment Company of India (SCICI)
11. National Bank for Agriculture and Rural Development (NABARD)
12. Unit Trust of India.

III. Technical

1. Industrial and Technical Consultancy Organization
2. Pollution Control Boards
3. Central Institute of Tool Design
4. The Institute for Design for Electrical Measuring Instruments
5. Technology Development and Information Company of India Ltd.
6. Technical Consultancy Organization
7. National Institute of Design
8. Controller of General Patents, Designs and Trade Marks.

IV. Marketing

1. Export Promotion Councils
2. Export–Import Bank of India
3. Jute Corporation of India
4. Indian Investments Center
5. The Minerals and Metals Trading Corporation of India
6. Export Inspection Council
7. Export Houses
8. Commodity Boards
9. Indian Institute of Packing
10. The State Trading Corporation of India.

V. Training

1. Entrepreneurship Development Institute of India
2. Centre for Entrepreneurship Development
3. Management Development Institute
4. Institutes of Management
5. Institutes of Entrepreneurship Development
6. National Institute for Entrepreneurship and Small Business Development
7. Science and Technology Entrepeneurship
8. Industrial Training Institures
9. Polytechnics
10. Parks National Institute of Small Industry Extension Training.

VI. Others

1. Bureau of Industrial Costs and Prices
2. Indian Council of Arbitration
3. The credit Rating Information Services of India Ltd.

VII. Associations

1. National Alliance of Young Entrepreneurs
2. Association of Women Entrepreneurs of Karnataka
3. Industrial Associations
4. Merchant Chambers
5. Industry and Trade Associations.

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.5 TYPES OF FINANCING INSTITUTIONS FOR SSI

A. State Level Institutions:

(*a*) Small Scale Industries Development Corporation (SSIDC)
(*b*) Technical Consultancy Organization (TCO)
(*c*) State Directorate of Industries
(*d*) District Industries Centre (DIC)
(*e*) State Industrial Area Development Board (SIADB)
(*f*) State Financial Corporations
(g) Karnataka Industrial Areas Development Board (KIADB).

B. Central Government Institutions:

(*a*) Small Scale Industries Board (SSIB)
(*b*) Department of Small Scale Industries (DSSI)
(*c*) Industrial Finance Corporation of India (IFCI)
(*d*) Industrial Credit and Investment Corporation of India (ICICI)
(*e*) National Small Industries Corporation (NSIC)
(*f*) Small Industries Development Organization (SIDO)
(*g*) General Insurance Corporation (GIC).

ypes of Finance Provided By Different Institutions

A. GOVERNMENT:

(*a*) Policy
(*b*) Programmes
(*c*) Subsidy
(*d*) State Aid.

B. RBI:

(*a*) Guidelines (*b*) Supervision.

C. SIDBI, NABARD, (EXIM):

(*a*) Refinance (*b*) Direct Assistance

(*c*) Training (*d*) Development.

D. SIDO:

(*a*) Supervision (*b*) Technical Know How

(*c*) Training (*d*) Policy Implementation.

E. NSIC, SSIDC:

(*a*) Machinery (*b*) Raw Materials

(*c*) Marketing (*d*) Training.

F. COMMERCIAL BANKS, CO-OPERATIVES, RRB'S:

(*a*) Equity (*b*) Working Capital

(*c*) Term Loans (*d*) Training.

G. IDBI, IFCI, ICICI, IRBI, SFC, SIDC:

(*a*) Venture Capital (*b*) Term Loans

(*c*) Lease (*d*) Guarantee

(*e*) Training.

The institutions providing assistance to SSI's are classified as below:

A. Financial Assistance: These institutes provide assistance monetarily like financing or refinancing.

B. Non Financial Assistance: These institutes provide assistance non financially, *i.e.*, they assist the small enterprise not by funding but by providing Training, Technical Know How etc.

3.6 FINANCIAL ASSISTANCE INSTITUTES

The following institutions provide the financial assistance to SSI's:

I. Small Industries Development Bank of India (SIDBI)

SIDBI was set up as a subsidiary of the IDBI by a special Act, 1989 to function as the principal financial institution for the promotion, development and financing of industry in the small scale sector, and for co-coordinating the functions of the institutions engaged in similar activities. It has taken over the responsibility of administering Small Industries Development Fund and National Equity Fund, which were earlier under the control of IDBI. However, it started functioning from April 2, 1990. The initial authorized capital of SIDBI is ₹ 250 crores which can be increased by IDBI up to ₹ 1000 crores.

The activities of SIDBI include the following:

(*a*) Technological Upgradation.

(*b*) Extending the channels for marketing the products in SSI sector.

(*c*) Promotion of employment oriented industries especially in semi-urban areas.

(*d*) Refinancing of loans and advances extended by primary lending institutions.

(*e*) Discounting and rediscounting of bills.

(*f*) Extension of seed capital/soft loan assistance, under valuation equity fund, Seed capital under Mahila Udyam Nidhi Scheme.

(*g*) Grading direct assistance and refinance for financing exports of SSI sector

(*h*) Extending financial support to SSIDC

(*i*) Extending financial support to NSIC

(*j*) Providing leasing services.

SIDBI is catering to the needs of a large number of small scale units (several Lakhs) in our country. The problems of SSI entrepreneurs are multifarious in nature. This exclusive development bank for SSI units has minimized the problems of Small and Medium Enterprises (SMEs). Government hopes to minimize the sickness of the SSI with the help of maximum services of SIDBI to the small entrepreneurship.

SIDBI has opened up schemes of assistance for marketing support to the small sector. For the first time, the concept of marketing entrepreneurship as against manufacturing entrepreneur has been recognized.

SIDBI plans to assist service organizations oriented towards marketing. Schemes such, as 'Factoring' introduced by SIDBI are helpful to some extent The SIDBI is also offering bill discounting facility to SSIs. It also makes finance available to large industry for the specific purpose of timely payment to SSIs for their supplies.

II. Karnataka State Small Industries Development Corporation (KSSIDC)

The principal objective of KSSIDC is the promotion and development of SSIs in the state. Construction and utilization of infrastructure, especially in backward areas, procurement and marketing raw materials, technical support and assistance are the means to 'reach the goals'. A concern for results, emphasis on quality and timely work and willingness to understand the problems of entrepreneurs are the staff creed. An industrially prosperous Karnataka is their vision.

Karnataka Industrial Area Development Board (KIADB), a part of KSSIDC, acquires land for industrial purpose, develops and allots developed places to entrepreneurs under deferred payment facilities.

KSSIDC is an agency promoted by the Government of Karnataka for promotion and development of small scale industries in the state. KSSIDC has established 98 industrial estates in all the districts and major talukas. KSSIDC industrial estate have other infrastructure like roads, drainage, street lighting, water supply and common service buildings like bank, post office, canteen etc. It has provided ready built sheds and small plots and has made them available for allotment to entrepreneurs. KSSIDC has also opened raw material depots in all the districts of the state. Entrepreneurs shall contact the agency for allotment of shed and raw materials. KSSIDC has regional offices at Bangalore, Mysore, Gulbarga and branch offices at Hubli, Belgaum, Shimoga, Tumkur, and Mangalore.

The main functions of KSSIDC are as follows:

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(a) Procurement and distribution of scarce raw materials.

(b) Supply of machinery of hire-purchase basis.

(c) Providing assistance for marketing of the products of small scale units.

(d) Construction of industrial estates/sheds, providing allied infrastructure facilities and their maintenance.

(e) Extending seed capital assistance on behalf of the State Government.

(f) Providing management assistance to production units.

III. Karnataka State Finance Corporation (KSFC)

The State Finance Corporation (SFC) in Karnataka is called as KSFC.

The first SFC was set up in Punjab in 1953. Today there are in all 18 SFCs in the country which exist almost in every State and Union Territory of the country.

Initially during 1948 SFCs were set up to provide financial assistance to medium and large-scale industries. Later in 1951 the role was extended for assistance to small-scale units also. Each SFC has its own Managing Director, Executive Director, Board of Directors and Management team to take care of the activities independently.

Activities of SFCs

(a) To promote self-employment for professionally qualified men and women entrepreneurs interested in starting their own projects.

(b) Financial assistance for expansion, modernization and mechanization in the existing setup.

(c) Financial assistance for rehabilitation of sick units.

(d) To provide term loans for purchase of land, buildings, machinery and other facilities.

(e) To provide financial assistance for transport vehicles and tourism related activities.

(f) To arrange entrepreneurial development progarmmes and seminars for upcoming young industrialists.

(g) To provide financial assistance for quality improvement and environmental control needs.

Problems of SFCs

(a) In the state offices problems of corruption and other malpractices continue to bother the applicants.

(b) Since SFCs are started by respective State Governments the usual problems of State bureaucracy of procedures, delays, castism and favoritism do occur.

(c) In case of repayments very strict procedure are followed and units are sealed.

IV. Karnataka Industrial Areas Development Board (KIADB)

Karnataka Industrial Areas Development Board (KIADB) is a wholly owned infrastructure agency of Government of Karnataka, set up under Karnataka Industrial Areas Development Act of 1966.

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This Board functions as per statutory provisions, rules and regulations enacted there under. The Board comprises of senior government officers in their ex-officio capacities. The Board of members meet regularly to take decisions and monitor the functions. KIADB holds pride in being the first government organization in Karnataka to obtain ISO 9001 certification in the year 1997.

Now the KIADB is following ISO 9001:2000 module covering its functions of Land Acquisition, Development and Allotment functions in Bangalore Urban and Rural districts.

Aims and Objectives:

1. Promote rapid and orderly development of industries in the state.
2. Assist in implementation of policies of government within the purview of KIAD Act.
3. Facilitate for establishing infrastructure projects.
4. Function on corporate lines, with "No Profit – No Loss" policy.

Functions:

1. Acquire land and form industrial areas.
2. Provide all infrastructure to such industrial areas.
3. Acquire land for Single Unit Complexes.
4. Acquire land for Government agencies for their schemes and infrastructure projects.

Few prominent industrial areas:

1. Peenya, Electronic City, Export Promotion Industrial Park (EPIP) in Bangalore.
2. Hebbal in Mysore.
3. Baikampady in Mangalore.
4. Tarihal in Dharwar.
5. Kakati in Belgaum.
6. Auto Complex in Shimoga.

World's leading Companies have rose up in glory on the infrastructure set by KIADB. This apart, KIADB has envisaged several innovative projects up its sleeve like Agro-Tech Parks, Apparel Park, Auto Parks, Hardware Park, Bio-Tech Park, EPIPs, Special Economic Zones etc.

Some of the projects of KIADB executed with high degree of professionalism:

1. Acquisition of about 4316.25 acres of lands for Bangalore International Airport Ltd .
2. Acquisition of about 1850 acres of lands for Harbour at Tadri in Uttara Kannada Dist.
3. Acquisition of about 1958 acres of lands for M/s MRPL at Mangalore and rehabilitation of about 610 displaced families with modern infrastructure.
4. Acquiring and Developing of about 430 acres of land for M/s Toyota in Bidadi at Bangalore Dist.

Other industrial areas are also supported with secondary infrastructures from both State owned and private agencies, such as:

1. Public transport facilities and Medical facilities.
2. Telephones Posts and Telegraphs.
3. Cafeterias / Restaurants.

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4. Schools and Industrial Training Facilities.
5. Banks / Financial Institutions.
6. Police Stations / Outposts and Fire Stations.
7. In some place even Health Clubs and Cinema Theatres.

KIADB has so far developed 95 industrial areas spread all over in 24 districts of the State.

3.7 NON-FINANCIAL ASSISTANCE INSTITUTES

I. Small Industries Service Institute (SISI)

SISI was set up by Ministry of Industry, Government of India. It is under the control of Development Commissioner Small Scale Industries (DCSSI). It has a branch office at Bangalore and also at Mangalore, Mysore, Hubli, Gulbarga, SISI also offers service To entrepreneurs which include preparation of feasibility studies and conducting practical training programmes on various trades. The other services offered by SISI include.

(*a*) Conducting practical training programmes on various trades.

(*b*) Dissemination of information on project ideas and selection of investment opportunities.

(*c*) Bringing about project profiles on various types of products to the new entrepreneurs and providing guidelines.

(*d*) Conducting techno-economic surveys in districts and publishing reports/study reports.

(*e*) Arranging displays of various items of big industries to assist SSIs to take manufacture of the same and for supplying the same to the industries.

(*f*) Participating in plant level committee meetings as an important member.

(*g*) Coordinating the activities of ancillary industries in the state.

(*h*) To serve as an interface between Central and State Government.

(*i*) To conduct Entrepreneurship Development Programmes.

II. National Small Industries Corporation (NSIC)

NSIC was started by the Central Government in 1955 with the objective for promoting and developing SSI units throughout the country. It started with multiple objectives of helping SSI units for :

(*a*) Assisting, marketing and exports

(*b*) Providing machinery on hire purchase

(*c*) Enlisting SSI units for tender participation in Government purchases

(*d*) Training of personnel

(*e*) Assistance in modernization of the units

The important functions of NSIC are as under:

(*a*) Financial assistance by way of hire purchase scheme for purchase of local and imported machinery

(*b*) Provision of various equipments on lease basis

(*c*) Assistance for marketing the products in the country and also to help in exporting the products of SSI units

(*d*) Enlisting quality conscious good SSI units for sending enquires of Government stores and purchase departments

(*e*) Training of workers in various trades required for SSI units

(*f*) To develop industrial estates and testing facilities in the industrial areas

(*g*) Assistance in upgradation of technology, processes and modernization of plant and machinery.

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NSIC has got offices in various industrial cities and towns and is having socioeconomic approach in industrialization of non-industry areas. It aims to create an industrial atmosphere with facilities and management support, so that small entrepreneurs take up new projects. As a nodal agency in playing supportive role to small industries, it has helped to reduce the control of private traders who were exploiting the small industries in many ways. Its other objective of developing backward areas is still to prove successful in view of the various problems of business activities and demoralization set in due to failures of industries started in backward areas.

III. Technical Consultancy Services Organization of Karnataka (TECSOK)

These organizations are highly useful to entrepreneurs in providing many services and are found in almost all the states. The services rendered by Technical Consultancy Organization (TCO) in Karnataka are called TECSOK. Similar services are rendered by other TOC's in other states.

TECSOK is a Government of Karnataka Organization specialized in providing following range of services to the entrepreneurs:

(*a*) Identification of project ideas and selection of investment opportunities

(*b*) Selection of suitable locations for setting up industrial units

(*c*) Conducting market surveys, industrial potential surveys

(*d*) Preparation of detailed techno-economic feasibility report/detailed project reports

(*e*) Energy audit and conservation

(*f*) Modernization studies

(*g*) Dissemination of information on industrial policies and procedures of Central as well as Sate Governments

(*h*) Assistance to Government in providing information about new policies, programmes and schemes

(*i*) Assistance in obtaining necessary licenses and clearances.

TECSOK provides ideas of viable projects to suit the entrepreneurs' background. It selects the right product, location for entrepreneur. Its office is situated in Nrpatunga Road, Bangalore. It is a wing of the Department of Industries and Commerce promoted during 1976. It assists the entrepreneurs in the preparation of feasibility reports at a subsidized cost.

TECSOK has also established a separate women's cell to assist women entrepreneurs. The main object of women's cell is to formulate the projects which are oriented towards progress and development of women. Women's cell of TECSOK has spread its area of operations to districts.

It has been observed that small and medium industries are not taking full advantages of TCOs due to disinterest or inability to pay the consultancy fees. Hence the consultancy and development programmes sponsored by the World Bank,

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Central Government or the State Government are mainly implemented for the benefit of various small and medium industries.

IV. District Industries Centres (DICs)/ Single Window Concept

The DICs were established in May 1978 in order to cater to the needs of small units.

The main functions of District Industries Centres (DICs) is to act as a chief coordinator or multifunctional agencies in respect of various government departments and other agencies. The prospective small entrepreneur will obtain all assistance from this organization for setting up and running industry in rural areas. The other functions of the DICs are as follows:

1. **Identification of Entrepreneurs**
   - ➢ Develops new entrepreneurs by conducting entrepreneurial motivation programs throughout the district.
2. **Projects Selection**
   - ➢ Offers technical advice to new entrepreneurs for the selection of projects .
3. **Provisional Registration of Units**
   - ➢ Once the projects are selected, entrepreneurs are given provisional SSI registration. This would enable them to obtain assistance form FIs (Financial Institutions).
4. **Fixed Assets Purchase**
   - ➢ Sponsors the loan applications to State Industrial Investment Development Corporation, SIDCO and Banks for the purchase of land and buildings.
   - ➢ Sanctions margin money under Rural Industries project loan scheme payable to other financial agencies regarding the purchase of plant and machinery.
5. **Clearances from Connected Departments**
   - ➢ Takes the initiative for the above.
   - ➢ Takes follow up measure to get speedy power connection.
6. **Raw Material Supplies Assistance**
   - ➢ Makes necessary recommendations to the raw material suppliers.
   - ➢ Issues the certificates for important of raw materials and machinery required.
7. **Interest Free Sales Tax Loan**
   - ➢ SSIs rural areas get Interest free sales tax loan, upto 8 % of the total fixed assets (max) form SIDCO sanction order issued from DIC.
8. **Assistance to Village Artisans and Handicrafts**
   - ➢ Arranges for the financial assistance with the lead banks of nationalized banks in the respective areas.
9. **Training Programmes**
   - ➢ Arranges training to rural entrepreneurs.
   - ➢ Assists other units to give training to SSI entrepreneurs.
10. **Self Employment for Unemployed Educated Youth**
    - ➢ Scheme introduced in 1983 – 84 for youth between 18 – 25 years (SSLC technocrats and woman as preference.

The organizational structure of DICs consists of on General Manager, four Functional Managers and three Project Managers to provide technical service in the area relevant to needs of district concerned. Management of the DICs is done by the State Governments.

About 430 DICs have been set up covering major districts of the country leaving out metropolitan cities and some new districts.

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SUMMARY

- SIDBI is catering to the needs of a large number of small scale units (several Lakhs) in our country.
- KSSIDC is an agency promoted by the Government of Karnataka for promotion and development of small scale industries in the state. KSSIDC has established 98 industrial estates in all the districts and major talukas. KSSIDC industrial estate have other infrastructure like roads, drainage, street lighting, water supply and common service buildings like bank, post office, canteen etc.
- Karnataka Industrial Areas Development Board (KIADB) is a wholly owned infrastructure agency of Government of Karnataka, set up under Karnataka Industrial Areas Development Act of 1966.
- SISI was set up by Ministry of Industry, Government of India. It is under the control of Development Commissioner Small Scale Industries (DCSSI).
- NSIC has got offices in various industrial cities and towns and is having socioeconomic approach in industrialization of non-industry areas.

REVIEW QUESTIONS

1. What is the need for the institutional support for the SSI?
2. Classify various bodies providing institutional support for SSI.
3. Briefly discuss the institutions that are providing the financial support for SSI's.
4. Briefly discuss the institutions that are providing technical support for SSI's.
5. Briefly discuss the institutions that are providing marketing support for SSI's.
6. What are the institutions at the state level that are providing support for SSI's ?
7. What are the institutions at the central or national level that are providing support for SSI's?
8. Briefly discuss about SIDBI.
9. Briefly discuss about KSSIDC.
10. Briefly discuss about KSFC.
11. Briefly discuss about KIADB.
12. Briefly discuss about SISI.
13. Briefly discuss about NSIC.
14. Briefly discuss about TECSOK.
15. Briefly discuss about DIC's.

NOTES

FURTHER READINGS

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UNIT IV PREPARATION OF PROJECT

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STRUCTURE

.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- explain Meaning of Project
- discuss Project Identification
- discuss Project Selection and Project Report
- discuss Formulation of Project Report
- explain Guidelines by Planning Commission for Project Report
- explain Network Analysis
- discuss Errors of Project Report
- define Identification of Business Opportunities
- describe Technical Feasibility Study and Financial Feasibility Study.

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4.2 INTRODUCTION

Entrepreneur, entrepreneurship, and enterprise go hand in hand. By now, you have learnt who is an entrepreneur and what is entrepreneurship. Thus, you have learnt what do entrepreneur do but relatively little how do they do it. In practice, an entrepreneur takes numerous decisions to convert his business idea into a running concern. In setting up is/ her enterprise, his/her decision making process starts with project/product selection. In fact, project selection is the first corner stone to be laid down in setting up an enterprise. The selection of a right project goes to validate the trite proposition: "Well begun is half done".

4.3 MEANING OF PROJECT

It is very much apparent that the very foundation of an enterprise is the project. Hence, the success or failure of an enterprise largely depends upon the project. In simple words, a project is an idea or plan that is intended to be carried out. The dictionary meaning of project is that it is a scheme, design, a proposal of something intended or devised to be achieved.

The few definitions of the projects are defined as follows:

1. **Newman et.al.,** defines that *a project typically has a distinct mission that it is designed to achieve and a clear termination point, the achievement of the mission.*
2. **Gillinger defines project** *as the whole complex of activities involved in using resources to gain benefits.*
3. According to **Encyclopaedia of Management,** *a project is an organised unit dedicated to the attainment of a goal-the successful completion of a development project on time, within budget, in conformance with pre-determined programme specifications.*

Now, a project can be defined "as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time".

Here, it is also important to mention that while projects can differ in their size, nature, objectives, time duration and complexity, yet they partake of the following three basic attributes:

(*a*) A Course of Action
(*b*) Specific Objectives, and
(*c*) Definite Time Perspective.

Every project has a starting point, an end point with specific objectives.

4.4 PROJECT CLASSIFICATION

Project classification is a natural corollary to the study of project idea.

Different authorities have classified projects differently. Following are the major classifications of projects:

I. QUANTIFIABLE AND NON-QUANTIFIABLE PROJECTS

Projects for which a plausible quantitative assessment of benefits can be made are called 'quantifiable projects.' Projects concerned with industrial development, power generation, mineral development fall in this category. On the contrary non-quantifiable projects are those in which a plausible quantitative assessment

cannot be made. Projects involving health education and defense are the examples of non-quantifiable projects.

II. SECTORAL PROJECTS

According to this classification, a project may fall in anyone of the following sectors:

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(*a*) Agriculture and Allied Sector

(*b*) Irrigation and Power Sector

(*c*) Industry and Mining Sector

(*d*) Transport and Communication

(*e*) Sector Social Services Sector

(*f*) Miscellaneous Sector.

The project classification based on economic sectors is found useful in resource allocation more especially at macro levels.

III. TECHNO-ECONOMIC PROJECTS

Projects classification based on techno-economic characteristics fall in this category.

This type of classification includes factors intensity-oriented classification, causation oriented classification and magnitude-oriented classification. These are discussed as follows:

(*a*) **Factor Intensity-Oriented Classification:** Based on factor intensity classification, projects may be classified as capital intensive or labour intensive. If large investment is made in plant and machinery, the projects will be termed as 'capital intensive'. On the contrary, projects involving large number of human resources will be termed as 'labour intensive'.

(*b*) **Causation-Oriented Classification:** Where causation is used as a basis of classification, projects may be classified as demand based or raw material based projects. The very existence of demand for certain goods or services makes the project demand-based and the availability of certain raw materials, skills or other inputs makes the project raw material-based.

(*c*) **Magnitude-Oriented Classification:** In case of magnitude-oriented classification, based on the size of investment involved in the projects, the projects are classified into large scale, medium-scale or small-scale projects.

4.5 PROJECT IDENTIFICATION

If you ask anyone intending entrepreneur what project he/she will select, the obvious answer would be "*a project having a good market*". But, the question is how without knowing the product could one determine the market? Whose market will one find out without knowing the item, *i.e.,* product? Idea generation about a few projects provides a way out of above tangle.

Idea Generation

Project selection process starts with the generation of a product idea. In order to select the most promising project, the entrepreneur needs to generate a few ideas about the possible projects he/she can undertake. The project ideas can be discovered from various internal and external sources. These may include:

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(a) A new product introduced by the competitor.

(b) Going through certain professional magazines catering to specific interests like electronics, computers etc.,

(c) Knowledge of potential customer needs,

(d) Watching emerging trends in demands for certain products,

(e) Scope for producing substitute product,

(f) Success stories of known entrepreneurs or friends or relatives,

(g) Making visits to trade fairs and exhibitions displaying new products and services,

(h) Meeting with the Government agencies,

(i) Ideas given by the knowledgeable persons,

(j) Knowledge about the Government policy, concessions and incentives, list of items reserved for exclusive manufacture in small-scale sector, and

All of these sources putting together may give a few ideas about the possible projects to be examined as the final project. This is also described as '*opportunity scanning and identification*'.

After going through the above process, imagine that you have been able to get five project ideas as a result of above analysis. These five projects ideas are:

1. Nut and bolt manufacturing (industry)
2. Lakhani Shoes (industry)
3. Photocopying unit (Service based industry)
4. Electro-type writer servicing (Service based industry)
5. Polythene bags for textile industry (ancillary industry).

From above list, now one project idea will be finally selected going through the following selection process.

4.6 PROJECT SELECTION

Project selection starts from where project identification ends. After having some project ideas, these are analysed in the light of existing economic conditions, the government policy and so on. A tool generally used for this purpose is, what is called in the managerial jargon, SWOT analysis. The intending entrepreneur analyses his/her strengths and weaknesses as well as opportunities/competitive advantages and threats/challenges offered by each of the project ideas. On the basis of this analysis, the most suitable idea is finally selected to convert it into an enterprise. The process involved in selecting a project out of some projects is also described as the "*zeroing in process*".

What follows from above analysis is that there is a time interval involved in between project identification and project selection. But, in some cases, there may be almost no time gap between the two. An imaginary case can illustrate it.

Two friends Nikhil and Chinmoy were travelling' from Guwahati to Delhi by North East Express. Their train stopped at Allahabad. Some teenagers with guava baskets crowded the compartment. Almost every passenger purchased guava. So did Nikhil and Chinmoy also. They started eating guava. Chinmoy told to Nikhil: "The guavas are really delicious". Nikhil nodded. They reached Delhi by evening and parted company. While Chinmoy went to his home, Nikhil took Bramputra Mail to Allahabad. He contacted shopkeepers in Allahabad

.io were selling guavas. He finalised a business deal for them to send a packet of 1000 kgs -f guavas daily to Delhi. Thus, Nikhil's business started from the third day when he was elling guavas in Delhi.

Here, one pertinent question for us is how did this idea make its headway into a usiness opportunity for Nikhil? In its answer, what can we mention is that Nikhil must have urned questions in his mind like:

(*i*) Who will buy his guavas?

(*ii*) What will be the size of the packet and what will be its price?

(*iii*) How much will be the cost of per kg. of guava?

Project identification and selection is half done in the process of establishing an enterise. The entrepreneur needs to analyse other related aspects also like raw material, potenal market, labour, capital, location, forms of ownership etc. It is necessary to mention that ch of these aspects has to be evaluated independently and in relation to each other.

The other points to be considered in selection of a project are as follows:

(*a*) Technology

(*b*) Equipment

(*c*) Investment size

(*d*) Location

(*e*) Marketing.

-eaning of Project Report

Webster New 20th Century Dictionary defines a project as a scheme, design, a pro-sal of something intended or devised. In simple words, project report or business plan is a itten statement of what an entrepreneur proposes to take up. It is a kind of guide frost or urse of action what the entrepreneur hopes to achieve in his business and how is he going achieve it. In other words, project report serves like a kind of big road map to reach the stination determined by the entrepreneur. Thus, a project report can best be defined as a ll evolved course of action devised to achieve the specified objective within a specified iod of time. So to say, it is an operating document.

7 SIGNIFICANCE OF PROJECT REPORT

An objective without a plan is a dream. The preparation of a project report is of great nificance for an entrepreneur.

The project report serves the two essential functions:

1. First and most important, the project report 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.
2. The second function of the project report is to attract lenders and investors. Although, it is not mandatory for the small enterprises to prepare project reports, yet it is useful and beneficial for them to prepare the project reports for various

reasons. The preparation of project report is beneficial for those small ent prises which apply for financial assistance from the financial institutions and t commercial banks. It is on the basis of project report that the financial insti tions make appraisal if the enterprise requires financial assistance or not. If y how much. Similarly, other organizations which provide various assistance su as work shed, raw material, seed/margin money, etc. are equally interested knowing the economic soundness of the proposal. In most cases, the quality the firm's project report weighs heavily in the decision to lend or invest fund

4.8 CONTENTS OF A PROJECT REPORT

Having gone through the significance of project report, it is now clear that there is substitute for a well-prepared business plan or project report and also there are no shortc to preparing it. The more concrete and complete the business plan, the more likely it is earn the respect of outsiders and their support in making and running an enterprise. The fore, the project report needs to be prepared with great care and consideration. A go project report should contain the following contents:

(*a*) **General Information:** Information on product profile and product details.

(*b*) **Promoter:** His/her educational qualification, work experience, project rela experience.

(*c*) **Location:** Exact location of the project, lease or freehold, locational adv tages.

(*d*) **Land and Building:** Land area, construction area, type of construction, cost construction, detailed plan and estimate along with plant layout.

(*e*) **Plant and Machinery:** Details of machinery required, capacity, suppliers, cc various alternatives available, cost of miscellaneous assets.

(*f*) **Production Process:** Description of production process, process chart, tech cal know- how, technology alternatives available, production programme.

(*g*) **Utilities:** Water, power, steam, compressed air requirements, cost estimat sources and other utilities.

(*h*) **Transport and Communication:** Mode, possibility of getting, costs.

(*i*) **Raw Material:** List of raw material required by quality and quantity, sources procurement, cost of raw material, tie-up arrangements, if any, for procurem of raw material, alternative raw material, if any.

(*j*) **Manpower:** Manpower requirement by skilled and semi-skilled, sources manpower supply, cost of procurement, requirement for training and its cost.

(*k*) **Products:** Product mix, estimated sales, distribution channels, competitions a their capacities, product standard, input-output ratio, product substitute.

(*l*) **Market:** End-users of product, distribution of market as local, national, inter tional, trade practices, sales promotion devices, proposed market research.

(*m*) **Requirement of Working Capital:** Working capital required, sources of worki capital, need for collateral security, nature and extent of credit facilities offer and available.

(*n*) **Requirement of Funds:** Break-up of project cost in terms of costs of lar building, machinery, miscellaneous assets, preliminary expenses, contingenc

and margin money for working capital, arrangements for meeting the cost of setting up of the project.

(*o*) **Cost of Production and Profitability of first ten years.**

(*p*) **Break-Even Analysis**

(*q*) **Schedule of Implementation.**

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4.9 FORMULATION OF A PROJECT REPORT

Normally, small-scale enterprises do not include sophisticated technique which is used for preparing project reports of large-scale enterprises. Within the small-scale enterprises too, all the information may not be homogeneous for all units. In fact, what and how much information will be given in the project report depends upon the size of the unit as well as nature of the production.

Project formulation divides the process of project development into eight distinct and sequential stages. These stages are:

1. General Information.
2. Project Description.
3. Market Potential.
4. Capital Costs and Sources of Finance.
5. Assessment of Working Capital Requirements
6. Other Financial Aspects.
7. Economic and Social Variables.
8. Project Implementation.

1. GENERAL INFORMATION

The information of general nature given in the project report include the following:

(*a*) **Bio-data of Promoter:** Name and address of entrepreneur; the qualifications, experience and other capabilities of the entrepreneur; if these are partners, state these characteristics of all the partners individually.

(*b*) **Industry Profile:** A reference of analysis of industry to which the project belongs, *e.g.*, past performance; present status, its organization, its problems etc.

(*c*) **Constitution and Organization:** The constitution and organizational structure of the enterprise; in case of partnership firm, its registration with the Registrar of Firms; application for getting Registration Certificate from the Directorate of Industries/District Industry Centre.

(*d*) **Product Details:** Product utility, product range; product design; advantages to be offered by the product over its substitutes, if any.

2. PROJECT DESCRIPTION

A brief description of the project covering the following aspects is given in the project report.

(*a*) **Site**—Location of enterprise; owned or leasehold land; industrial area; No Objection Certificate from the Municipal Authorities if the enterprise location falls in the residential area.

Physical Infrastructure: Availability of the following items of infrastructure should be mentioned in the project report:

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(*i*) **Raw Material:** Requirement of raw material, whether inland or imported, sources of raw material supply.

(*ii*) **Skilled Labour:** Availability of skilled labour in the area, arrangements for training labourers in various skills.

Utilities: These include:

(*i*) **Power:** Requirement for power, load sanctioned, availability of power.

(*ii*) **Fuel:** Requirement for fuel items such as coal, coke, oil or gas, state of their availability.

(*iii*) **Water:** The sources and quality of water should be clearly stated in the project report.

(*b*) **Pollution Control**—The aspects like scope of dumps, sewage system and sewage treatment plant should be clearly stated in case of industries producing emissions.

(*c*) **Communication System**—Availability of communication facilities, *e.g.*, telephone, telex etc. should be stated in the project report.

(*d*) **Transport Facilities**—Requirements for transport, mode of transport, potential means of transport, distances to be covered, bottlenecks etc., should be stated in the business plan.

(*e*) **Other Common Facilities**—Availability of common facilities like machine shops, welding shops and electrical repair shops etc. should be stated in the report.

(*f*) **Production Process**—A mention should be made for process involved in production and period of conversion from raw material into finished goods.

(*g*) **Machinery and Equipment**—A complete list of items of machinery and equipments required indicating their size, type, cost and sources of their supply should be enclosed with the project report.

(*h*) **Capacity of the Plant**—The installed licensed capacity of the plant along with the shifts should also be mentioned in the project report.

(*i*) **Technology Selected**—The selection of technology, arrangements made for acquiring it should be mentioned in the business plan.

(*j*) **Research and Development**—A mention should be made in the project report regarding proposed research and development activities to be undertaken in future.

3. MARKET POTENTIAL

While preparing a project report, the following aspects relating to market potential of the product should be stated in the report-

(*a*) **Demand and Supply Position**—State the total expected demand for the product and present supply position. This should also be mentioned how much of the gap will be filled up by the proposed unit.

(*b*) **Expected Price**—An expected price of the product to be realised should be mentioned in the project report.

(*c*) **Marketing Strategy**—Arrangements made for selling the product should be clearly stated in the project report.

(*d*) **After-Sales Service**—Depending upon the nature of the product, provisions made for after-sales service should normally be stated in the project report.

(*e*) **Transportation**—Requirement for transportation means indicating whether public transport or entrepreneur's own transport should be mentioned in the project report.

4. CAPITAL COSTS AND SOURCES OF FINANCE

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An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin for working capital should be given in the project report. The present probable sources of finance should also be stated in the project report. The sources should indicate the owner's funds together with funds raised from financial institutions and banks.

5. ASSESSMENT OF WORKING CAPITAL REQUIREMENTS

The requirement for working capital and its sources of supply should be carefully and clearly mentioned in the project report. It is always better to prepare working capital requirements in the prescribed formats designed by limits of requirement. It will minimise objections from the banker's side.

6. OTHER FINANCIAL ASPECTS

In order to adjudge the profitability of the project to be set up, a projected Profit and Loss Account indicating likely sales revenue, cost of production, allied cost and profit should be prepared. A projected Balance Sheet and Cash Flow Statement should also be prepared to indicate the financial position and requirements at various stages of the project.

In addition to above, the Break-Even Analysis should also be presented in the project report. Break-even point is the level of production/sales where the industrial enterprise shall earn neither profit nor incur loss. In fact, it will just break even. Break-even level indicates the gestation period and the likely moratorium required for repayment of loans. Break-even point (BEP) is calculated as follows:

$$BEP = \frac{F}{S - V} \times 100$$

where, F Fixed Cost

S Sales Projected

V Variable Costs.

Thus, the break-even point so calculated will indicate at what percentage of sales, the enterprise will break even.

7. ECONOMIC AND SOCIAL VARIABLES

In view of the social responsibility of business, the abatement costs, *i.e.,* the costs for controlling the environmental damage should be stated in the project. Arrangement made for treating the effluents and emissions should also be mentioned in the report.

Besides, the socio-economic benefits expected to accrue from the project should also be stated in the report itself. Following are the examples of socio-economic benefits

(*a*) Employment Generation.

(*b*) Import Substitution.

(*c*) Ancillarisation.

(*d*) Exports.

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(e) Local Resource Utilization.

(f) Development of the Area.

8. PROJECT IMPLEMENTATION

Finally every entrepreneur should draw an implementation scheme or a tim table for his project to ensure the timely completion of all activities involved setting up an enterprise.

Table 1. Project Implementation Chart

Tasks\Months	1	2	3	4	5	6	7	8	9	10	11	12	13	1
1. Formulation of the Project Report														
2. Application for Term-Loan														
3. Term-Loan Sanction														
4. Possession of Land														
5. Construction of Building														
6. Getting Power and Water														
7. Placing Order for Machinery														
8. Receipt and Installation of Machinery														
9. Manpower Recruitment														
10. Trail Production														
11. Commencement of Commercial Project														

Timely implementation is important because if there is a delay, it causes, among other thi a project cost overrun. In India, delays in project implementations has become a comm feature. Delay in project implementation jeopardizes the financial viability of the project, the one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on other. Hence, there is a need to draw up an implementation schedule for the project and th to adhere to it.

4.10 PLANNING COMMISSION'S GUIDELINES FOR FORMULATING A PROJECT REPORT

In order to process investment proposals and arrive at investment decisions, the Pl ning Commission of India has also issued some guidelines for preparing/ formulating reali

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dustrial projects. So far as feasibility report is concerned, it lies in between the project rmulating stage and the appraisal and sanction stage. The project formulation stage in- lves the identification of investment options by the enterprise and in consultation with the -lministrative Ministry, the Planning Commission and other concerned authorities.

The guidelines are presented as follows:

1. **General Information :** The feasibility report should include an analysis of the industry to which the project belongs. It should deal with the past performance of the industry. The description of the type of industry should also be given, *i.e.,* the priority of the industry, increase in production, role of the public sector, allocation of investment of funds, choice of technique, etc. This should also contain information about the enterprise submitting the feasibility report.
2. **Preliminary Analysis of Alternatives:** This should contain present data on the gap between demand and supply for the outputs which are to be produced, data on the capacity that would be available from the projects that are in production or under implementation at the time the report is prepared, a complete list of all existing plants in the industry, giving their capacity and level of production actually attained, a list of all projects for which letters of intents/licenses have been issued and a list of proposed projects. All options that are technically feasible should be considered at this preliminary stage. The location of the project as well as its implications should also be looked into. An account of the foreign exchange requirement should also be taken. The profitability of different options should also be given. The rate of return on investment should be calculated and presented in the report. Alternative cost calculations vis-à-vis return should be presented.
3. **Project Description:** The feasibility should provide a brief description of the technology /process chosen for the project. Information relevant to determining optimality of the locations chosen should also be included. To assist in the assessment of the environmental effects of a project, every feasibility report must present the information on specific points, *i.e.,* population, water, air, land, flora and fauna, effects arising out of project's pollution, other environmental discretions etc. The report should contain a list of the operational requirements of the plant, requirements of water and power, requirements of personnel, organizational structure envisaged, transport costs, activity-wise phasing of construction and factors affecting it.
4. **Marketing Plan:** It should contain the following items:
   (*a*) Data on the marketing plan .
   (*b*) Demand and prospective supply in each of the areas to be served.

   The method and data used for main estimates of domestic supply and selection of the market areas should be presented. Estimates of the degree of price sensitivity should be presented. It should contain an analysis of past trends in prices.
5. **Capital Requirements and Costs:** The estimates should be reasonably complete and properly estimated. Information on all items of costs should be carefully collected and presented.
6. **Operating Requirements and Costs:** Operating costs are essentially those costs which are incurred after the commencement of commercial production. Information about all the items of operating cost should be collected; operating

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costs relate to the cost of raw materials and intermediates, fuel, utilities, labour, repair and maintenance, selling expenses and other expenses.

7. **Financial Analysis:** The purpose of this analysis is to present some measures to assess the financial viability of the project. A proforma Balance Sheet for the project data should be presented. Depreciation should be allowed for on the basis of specified by the Bureau of Public Enterprises. Foreign exchange requirements should be cleared by the Department of Economic Affairs. The feasibility report should take into account income-tax rebates for priority industries, incentives for backward areas, accelerated depreciation, etc. The sensitivity analysis should also be presented. The report must analyse the sensitivity all the rate of return of change in the level and pattern of product prices.
8. **Economic Analysis:** Social profitability analysis needs some adjustment in the data relating to the costs and returns to the enterprise. One important type of investment involves a correction in input and costs, to reflect the true value of foreign exchange, labor! and capital. The enterprise should try to assess the impact of its operations on foreign trade; Indirect costs and benefits should also be included in the report. If they cannot be quantified, they should be analysed and their importance emphasized.
9. **Miscellaneous Aspects:** The preceding three areas are deemed appropriate to almost every new small enterprise. Not withstanding, depending upon the size of the operation and peculiarities of a particular project, other items may be considered important to be applied out in the project report. To mention, probable use of minicomputers or other electronic data processing services, cash flow statements, method of accounting etc., may be of great use in some small enterprises.

4.11 SPECIMEN OF A PROJECT REPORT

A. PRODUCT DESCRIPTION

B. PRODUCTION AND GENERAL EVALUATION OF PROSPECTS

C. MARKETS ASPECTS:

1. Users
2. Sales Channels and Methods
3. Geographical Extent of Market
4. Competitive Situation:
   (*a*) Domestic Market
   (*b*) Export Market
5. Market needed for plant described

D. PRODUCTION REQUIREMENTS

Salient Features:

1. Annual Capacity(One/Two/Three-Shift Operation)
2. Capital Requirements:
   (*a*) Land and Buildings on rent (Mention value, if owned)
   (*b*) Equipment, furniture and fittings
   (*c*) Working capital

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3. Total capital which the entrepreneur would need for the whole project, provided he uses agencies planned by the Government or financial accommodation
   (*a*) Own
   (*b*) Borrowings
4. Expected net profit per annum

E. CAPITAL REQUIREMENTS

I. Fixed Assets and Working Capital

(*a*) Land(.....sq. mts) and
Building(.....sq. mts) on rent at Rs. ...per annum

(*b*) Equipments:
   (*i*) Production Equipment (List down in an appendix, giving values etc., of each machine separately)
   (*ii*) Other tools and Equipments
   (*iii*) Furniture and Fittings

(*c*) Working Capital

II. Raw Material and Allied Supplies (Annual)

Description	Qty	Rate	Annual Requirements
1. Material – 1			
2. Material – 2			
3. Material – 3			
4. Power, Fuel and Water			
5. Maintenance and Spares			
6. Other Supplies			
			Total

III. Manpower (Annual)

Description	No.	Rate per Month (₹)	Annual Cost (₹)
1. Manager			
2. Foreman			
3. Supervisor			
4. Skilled Workers			
5. Semi-Skilled Workers			
6. Unskilled Workers			
7. Office Staff			
8. Others			
			Total

IV. Other Costs (Annual)

(*a*) Depreciation on equipment, furniture and fittings/Annum

(*b*) Interest on capital (fixed and working) per annum

(c) Administrative Costs
(d) Sales cost (Including Sales Commission, Advertisement, etc.)
(e) Provision for discount, bad debts and miscellaneous contingencies
(f) Training costs

F. Total Annual Costs, Sales Revenue and Net Profits

(a) Annual Costs:
(i) Rent for Land and Buildings
(ii) Raw Materials and Allied Supplies
(iii) Manpower
(iv) Other Costs
(b) Annual Sales Revenue
(c) Expected Annual Net Profit
(d) % Profit on Own Capital
(e) % Profit on Total Annual Sales Turnover
(f) % Total Investment

G. REMARKS

Signature
Date:

4.12 NETWORK ANALYSIS

What is a network? A network is a set of symbols connected with each other with a sequential relationship with each step making the completion of a project/event. As discussed earlier, a business plan or project involves various activities to be undertaken to convert it into an enterprise. Delays in the completion of activities cause, among other things, cost overruns. Hence, there is a need for deciding the sequential order of all activities of the project so as to accomplish the project economically in the minimum available time with the limited resources. This is also called "*project scheduling*". A number of network techniques have been developed for project scheduling. Some of them are:

1. Programme Evaluation and Review Technique (PERT)
2. Critical Path Method (CPM)
3. Graphical Evaluation and Review Technique (GERT)
4. Workshop Analysis Scheduling Programme (WASP)
5. Line of Balance (LOB).

However, PERT and CPM are the two techniques the most commonly used in project management. These are, therefore, discussed in detail.

Importance of Network Analysis

The network analysis helps in identifying the hidden stages involved in project estimates. By identifying them the management can improve on the ongoing project estimates

and learn for future use. The following are some of the points that speak about the importance of network analysis:

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1. The whole project has to be considered with reference to the sequence of activities and events. Sequence means activities that are to follow on after another leading to an event.
2. The events should be considered as different branches of operations
3. The different segments of the project are treated as separate network which are finally integrated to the overall network. The entire project may be put on one network
4. Cost estimates would depend on the project time estimates and the charge of prices of different factors of production
5. The time estimates may be done based on either previous experience of similar types of operations or may be based on probabilities for the ones where previous experience does not exist
6. The physical progress of the project, nature of events, jobs formed and snags in different areas of project work would call for corrective action at appropriate time. The concept of crashing would be helpful to reduce penalties.

.13 PROGRAMME EVALUATION AND REVIEW TECHNIQUE (PERT)

PERT was first developed as a Management Aid for completing Polaris Ballistic ■issile Project in USA in October 1958. It worked well in expediting the completion of the oject from 7 years to 5 years. Since then, PERT has become very popular technique used =r project planning and control. In nutshell, it schedules the sequence of activities to be =mpleted in order to accomplish the project within a short period of time. It helps reduce)th the time and cost of the project.

Steps Involved in PERT: The following steps are involved in PERT technique:

1. The activities involved in the project are drawn up in a sequential relationship to show what activity follows what.
2. The time required for completing each activity of the project is estimated and noted on network.
3. The critical activities of the project are determined.
4. The variability of the project duration and probability of the project completion in a given time period are calculated.

The above steps can be illustrated with the help of the following example.

The Managing Director of XYZ Ltd. is interested in getting his Operating Budget. =e Managing Director of XYZ Ltd. is interested in getting his Operating Budget prepared. ɜ project is decomposed into the following activities:

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Table 2. Job Description for PERT

Job Identification	*Job Description*	*Activity*	*Time Required*
A	Forecasting of Sales	1-2	10 Days
B	Sales Pricing	2-4	8 Days
C	Production Scheduling	2-3	9 Days
D	Cost Determination	3-4	7 Days
E	Preparation of Budget	4-5	12 Days
	Total		46 Days

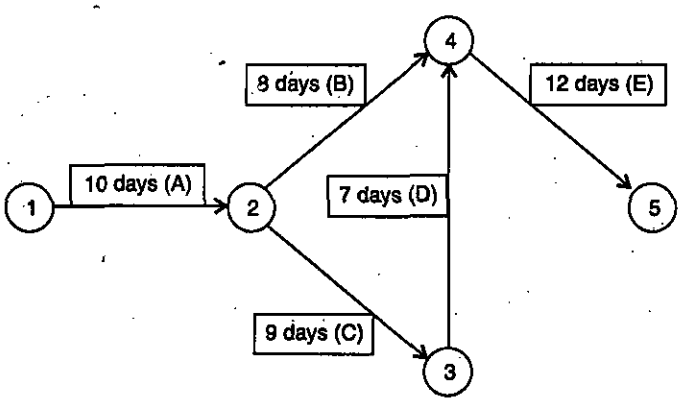

Figure 1. PERT Network Analysis.

Advantages of PERT

1. It determines the expected time required for completing each activity.
2. It helps complete the project within a given period of time.
3. It helps management handle uncertainties involved in the project and thus, r duce the risk element in the project
4. It enables management to make optimum allocation of limited resources.
5. It presses for the right action, at the right point and at the right time in th organization

Limitations of PERT

1. PERT network is mainly based on time estimates required for each activity. C account of wrong time estimates, the network is bound to become highly unrea istic.
2. This technique also does not consider the resources required at different stag of the project.
3. For effective control of a project by using PERT technique requires freque updating and revising the PERT calculations. But, this proves quite a costly a fair for the organization.

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4.14 CRITICAL PATH METHOD (CPM)

The Critical Path Method (CPM) was first developed in USA by the E.I. DuPont Nemours & Co. in 1956 for doing periodic overhauling and maintenance of a chemical plant. It resulted in reducing the shut-down period from 130 hours to 90 hours and saving the company $ 1 million. The CPM differentiates between planning and scheduling of the project. While planning refers to determination of activities to be accomplished, scheduling refers to the introduction of time schedule for each activity of the project. The duration of different activities in CPM are deterministic. There is a precise known time that each activity in the project will take.

Let us illustrate the CPM technique with an example of a research project. The following activities are identified in the project:

Table 3. Job Description for CPM

Job Identification	*Job Description*	*Activity*	*Time Required*
A.	Preparation of Dealer Questionnaire	1-2	10 Days
B.	Preparation of Consumer Questionnaire	1-4	10 Days
C.	Dealer Survey	2-3	20 Days
D.	Consumer Survey	4-5	60 Days
E	Processing and Interpretation of Dealer data	3-6	10 Days
F.	Processing and Interpretation of Consumer Survey Data	5-6	30 Days

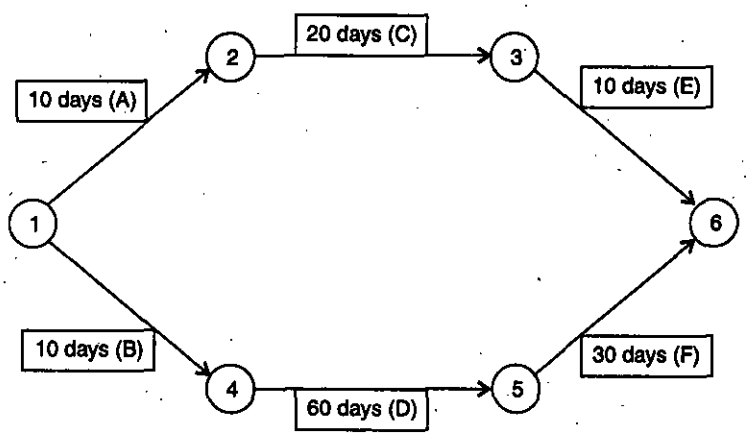

Figure 2. CPM Network Analysis.

With the data given in the tabular column the above diagram is drawn.

Advantages of CPM

1. It helps in ascertaining the time schedule of activities having sequential relationship.
2. It makes. control easier for the management.
3. It identifies the most critical elements in the project. Thus, the management is kept alert and prepared to pay due attention to the critical activities of the project.
4. It makes better and detailed planning possible.

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Limitations of CPM

1. CPM operates on the assumption that there is a precise known time that each activity in the project will take. But, it may not be true in real practice.
2. CPM time estimates are not based on statistical analysis.
3. It cannot be used as a controlling device for the simple reason that any change introduced will change the entire structure of network. In other words, CPM cannot be used as a dynamic controlling device.

Difference between PERT and CPM

PERT	*CPM*
1. Its origin is military.	Its origin is industry.
2. It is an event-oriented approach.	It is an activity oriented approach.
3. It allows uncertainty.	It does not allow uncertainty.
4. It is a probabilistic model.	It is a deterministic model.
5. It is time-based.	It is cost-based.
6. It does not demarcate between critical and non-critical activities.	It marks critical activities.
7. It averages time.	It does not average time.
8. It is suitable when high precision is required in time estimates, *e.g.*, defence projects.	It is suitable when reasonable precision is required, *e.g.*, civil construction projects, industrial expansion schemes, etc.

4.15 COMMON ERRORS IN PROJECT FORMULATION

Project formulation is as important is not so easy. However, the entrepreneurs often make errors while formulating project reports and business plans. Here, we are highlighting the errors widely noticed in project formulation:

1. **Product Selection:** It is noticed that some entrepreneurs commit mistakes by selecting a wrong product for their enterprises. They select the product without giving due attention to product related other aspects such as size of the product markets, its future demand, competitive position, lifecycle, availability of required labour, raw material and technology. Hence, when you are selecting a product, take a comprehensive view.
2. **Capacity Utilization Estimates:** The entrepreneurs usually make over-optimistic estimates of capacity utilization. Their estimates are based on a completely false premises. The estimates are made in complete disregard of present-enterprise performance, prevailing market conditions, competitive atmosphere, the technical snags, etc. A business plan formulated as such falls prey to financial jugglery. Hence, avoid such temptations while estimating capacity utilization for your enterprise.
3. **Market Study:** Product production is ultimately meant for eventual sale. Hence, market study of the product assumes importance. Market study continues to be

a grey area. But, there are some entrepreneurs who pass by this component of their business plan completely. Based on their nebulous ideas and scanty and scattered information on demand and supply of their proposed product, they conclude that market is just there waiting to be tapped. This is a wrong attitudinal block. Avoid it.

4. **Technology Selection:** The requirement for technology differs from product to product depending upon the nature of products. Swayed by the reported profit margins, the entrepreneurs sometimes plan for a technology not possible to set up within limited financial resources. Thus, in the absence of technological feasibility, enterprise is foredoomed to failure. Hence, make sure your technological feasibility.
5. **Location Selection:** The entrepreneur often makes two types of errors while selecting location for their enterprises. First, they are completely swayed by the Government offer of financial incentives and concessions to establish industries in a particular location. This becomes their sole and overriding concern completely disregarding other factors like market proximity, availability of raw materials, manpower and infrastructural facilities. *Second,* the entrepreneurs select a location for their enterprises merely because it is their home town or they own ancestral land there which is, however, not an appropriate location. Make sure you do not fall prey to such temptations.
6. **Selection of Ownership Form:** Many enterprises fail merely because the ownership form of enterprises is not suitable. Hence, select a suitable form of ownership taking a comprehensive view of the factors affecting the selection of a form of ownership.

4.16 CONCEPT OF PROJECT APPRAISAL

Simply speaking, project appraisal means the assessment of a project. Project appraisal is made for both proposed and executed projects. In case of former, project appraisal is called **'ex-ante analysis'** and in case of latter **'post-ante analysis'** Here, project appraisal relates to a proposed project.

Project appraisal is a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its Viability. A project involves employment of scarce resources. An entrepreneur needs to appraise various alternative projects before allocating the scarce resources for the best project. Thus, project appraisal helps select the best project among available alternative projects. For appraising a project, its economic, financial, technical, market, managerial and social aspects are analysed. Financial institutions do project appraisal to assess its credit-worthiness before extending finance to a project. For a financial institution, project appraisal is a process whereby a leading financial institution makes an independent and objective assessment of the various aspects of an investment proposition for arriving at a financial decision and is aimed at determining the viability of a project.

Method of Project Appraisal

Appraisal of a proposed project includes the following analysis:

1. Economic Analysis
2. Financial Analysis

3. Market Analysis
4. Technical Analysis
5. Managerial Analysis.

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Economic Analysis

Under economic analysis, the aspects highlighted include requirements for raw material, level of capacity utilization, anticipated sales, anticipated expenses and the probable profits. It is said that a business should have always a volume of profit clearly in view which will govern other economic variables like sales, purchases, expenses and alike. It will have to be calculated how much sales would be necessary to earn the targeted profit. Undoubtedly, demand for the product will be estimated for anticipating sales volume. Therefore, demand for the product needs to be carefully spelled out as it is, to a great extent, deciding factor of feasibility of the project concern.

In addition to above, the location of the enterprise decided after considering a gamut of points also needs to be mentioned in the project. The Government policies in this regard should be taken into consideration. The Government offers specific incentives and concessions for setting up industries in notified backward areas. Therefore, it has to be ascertained whether the proposed enterprise comes under this category or not and whether the Government has already decided any specific location for this kind of enterprise.

Financial Analysis

Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods. In order to adjudge the financial viability of the project, the following aspects need to be carefully analysed:

Assessment of the financial requirements both-fixed capital and working capital need to be properly made. You might be knowing that fixed capital normally called 'fixed assets' are those tangible and material facilities which purchased once are used again and again. Land and buildings, plants and machinery are the familiar examples of fixed assets/ capital. The requirement for fixed assets / capital will vary from enterprise to enterprise depending upon the type of operation, scale of operation and time when the investment is made. But, while assessing the fixed capital requirements, all items relating to the asset like the cost of the asset, architect and engineer's fees, electrification and installation charges (which normally come to 10 per cent of the value of machinery), depreciation, pre-operation expenses of trial runs, etc., should be duly taken into consideration. Similarly, if any expense is to be incurred in remodeling, repair and additions of buildings should also be highlighted in the project report.

Market Analysis

Before the production actually starts, the entrepreneur needs to anticipate the possible market for the product. He/she has to anticipate who will be the possible customers for his product and where and when his product will be sold. This is because production has no value for the producer unless it is sold. It is said that if the proof of pudding lies in eating, the proof of all production lies in marketing/ consumption. In fact, the potential of the market constitutes the determinant of probable rewards from entrepreneurial career.

Thus, knowing the anticipated market for the product to be produced becomes an important element in every business plan. The various methods used to anticipate the potential

market, what is named in 'Management Economics' as 'demand forecasting', range from the naive to sophisticated ones. The commonly used methods to estimate the demand for a product are as follows:

1. **Opinion Polling Method:** In this method, the opinions of the ultimate users, *i.e.*, customers of the product is estimated. This may be attempted with the help of either a complete survey of all customers (called, complete enumeration) or by selecting a few consuming units out of the relevant population (called, sample survey). Let us discuss these in some details.

   (*a*) **Complete Enumeration Survey:** In this survey, all the probable customers of the product are approached and their probable demands for the product are estimated and then summed. Estimating sales under this method is very simple. It is obtained by simply adding the probable demands of all customers. An example should make it clear.

   Suppose, there are total N customers of X product and everybody will demand for D numbers of it. Then, the total anticipated demand will be:

$$\sum_{i=1}^{N} D_i$$

   Though the principle merit of this method is that it obtains the first-hand and unbiased information, yet it is beset with some disadvantages also. For example, to approach a large number of customers scattered all over market becomes tedious, costly and cumbersome. Added to this, the consumers themselves may not divulge their purchase plans due to the reasons like their personal as well commercial/business privacies.

   (*b*) **Sample Survey:** Under this method, only some number of consumers out of their total population is approached and data on their probable demands for the product during the forecast period are collected and summed. The total demand of sample customers is finally blown up to generate the total demand for the product. Let we explain it with an example.

   Imagine, there are 1000 customers of a product spread over the market. Out of these, 50 are selected for survey using stratified method. Now, if the estimated demand of these sample customers is D*i*, *i.e.*, it refers to 1, 2, 3, 4 .....50, the total demand for the entire group of customers will be

$$\sum_{i=1}^{n} ni * Di = n1D1 + n2D2 + n3D3 \ldots\ldots n50D50$$

   Where n_i is the number of customers in group *i*, and $n_1 + n_2 + n_3 \ldots\ldots n_{50} = 1000$.

   But, if all the 1000 customers of the group are alike, then the selection may be done on a random basis and total demand for the group will be:

$$(D_1 + D_2 + D_3 + D_4 \ldots\ldots D_{50}) \frac{1000}{50}$$

   (*c*) **Sales Experience Method:** Under this method, a sample market is surveyed before the new product is offered for sale. The results of the market surveyed are then projected to the universe in order to anticipate the total demand for the product.

In principle, the survey market should be the true representative of the national market which is not always true. Suppose, if Bombay is selected as a sample market, it may not be a true representative of a small place, say Kolar simply because the characteristic features of Bombay are altogether different from those of a small town like Kolar. Again, if we select Agra as a sample market, sales in Agra would be influenced by the size of the floating tourists population throughout the year.

(*d*) **Vicarious Method:** Under the vicarious method, the consumers of the product are not approached directly but indirectly through some dealers who have a feel of their customers. The dealers' opinions about the customers' opinion are elicited. Being based on dealers' opinions, the method is bound to suffer from the bias on the part of the dealers. Then, the results derived are likely to be unrealistic. However, these hang-ups are not avoidable.

2. **Life Cycle Segmentation Analysis:** It is well established that like a man, every product has its own life span. In practice, a product sells slowly in the beginning. Backed by sales promotion strategies over period, its sales pick up. In the due Course of time, the peak sale is reached. After that point, the sales begins to decline. After some time, the product loses its demand and dies. This is natural death of a product. Thus, every product passes through its **'life cycle'.** This is precisely the reason why firms go for new products one after another to keep the firm alive.

   Based on above, the product life cycle has been divided into the following five stages:

   1. Introduction
   2. Growth
   3. Maturity
   4. Saturation
   5. Decline.

   The sales of the product varies from stage to stage and follows S-shaped curve as shown in the figure below :

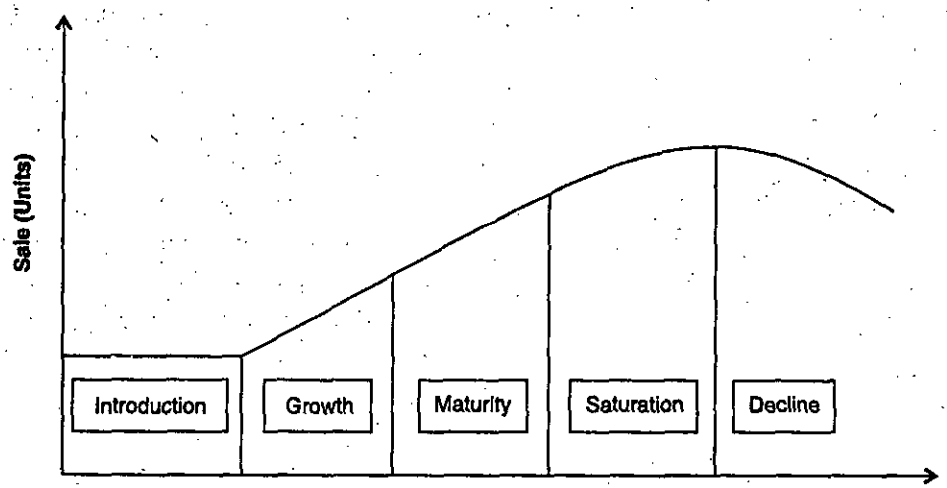

Figure 3. Product Life Cycle.

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4.17 TECHNICAL FEASIBILITY

While making project appraisal, the technical feasibility of the project also needs to be taken into consideration. In the simplest sense, technical feasibility implies to mean the adequacy of the proposed plant and equipment to produce the product within the prescribed norms. As regards know-how, it denotes the availability or otherwise of a fund of knowledge to man the proposed plants and machinery. It should be ensured whether that know-how is available with the entrepreneur or is to be procured from elsewhere. In the latter case, arrangement made to procure it should be clearly checked up. If project requires any collaboration, then, the terms and conditions of the collaboration should also be spelt out comprehensively and carefully. In case of foreign technical collaboration, one needs to be aware of the legal provisions in force from time to time specifying the list of products for which only such collaboration is allowed under specific terms and conditions. The entrepreneur, therefore, contemplating for foreign collaboration should check these legal provisions with reference to their projects.

While assessing the technical feasibility of the project, the following inputs covered in the project should also be taken into consideration:

1. Availability of land and site.
2. Availability of other inputs like water, power, transport, communication facilities.
3. Availability of servicing facilities like machine shops, electric repair shop, etc.
4. Coping with anti-pollution law.
5. Availability of work force as per required skill and arrangements proposed for training-in-plant and outside.
6. Availability of required raw material as per quantity and quality.

4.18 MANAGEMENT COMPETENCE

Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail. On the contrary, even a poor project may become a successful one with good managerial ability. Hence, while doing project appraisal, the managerial competence or talent of the promoter should be taken into consideration. Research studies report that most of the enterprises fall sick because of lack of managerial competence or mismanagement. This is more, so in case of small-scale enterprises where the proprietor is all in all, *i.e.*, owner and manager. Due to his one-man show, he may be jack of all but master of none.

4.19 IDENTIFICATION OF BUSINESS OPPORTUNITIES

Business opportunities can be obtained from various magazines, trade journals, financial institutions, government, commercial organizations, friends, relatives, competitors etc. Choosing of best business opportunity from the information collected requires ingenuity, skill and foresight of entrepreneur. As entrepreneur has to identify and select the most rewarding opportunity from the available ones. For this one he has to evaluate the following areas and understand the gap between demand and supply:

1. Technical feasibility study
2. Social feasibility study
3. Market feasibility study
4. Study of government rules and regulations regarding the different business opportunities
5. Extensive and in-depth study of promising investment opportunity
6. SWOT analysis of the business opportunities
7. Financial feasibility study.

4.20 MARKET FEASIBILITY STUDY

Feasibility study is a detailed work of collection of data analysis and conclude the feasibility of that operation. Market feasibility study involves the study and analysis of the following aspects.

Market feasibility study will assess whether the product has a good market. This needs to study the following:

1. **Cost of Production.** It is essential to study and control cost of production. Cost of production decides the selling price.
2. **Selling Price and Profit.** Selling price plays a important role in the profit. In price sensitive goods like cosmetics, one should be careful in fixing the price
3. **Nature of Market.** The nature of market in terms of monopolistic or perfect competition is to be studied.
4. **Demand.** Present demand and demand forecast are prepared and studied. This will decide the facility planning.
5. **Market Share.** Estimated market share is to be made. Comparison is made with share of similar products.
6. **Target Market.** Study is made with regard to the target market and market segmentation.

4.21 TECHNICAL FEASIBILITY STUDY

In technical feasibility the following areas require a detailed study:

1. **Selection of Machinery.** The selection of machinery required to produced the intended product is to be carried out. The specifications are capacity, cost, sources of supply, technology evaluation of various makes of the machine, their good and bad etc., are studied.
2. **Availability of Raw Materials.** The study of availability of raw materials, sources of supply, alternate sources, its quality and specifications cost etc., are to be dealt carefully.
3. **Construction of Factory, Building and its Size.** The construction details, the nature/type of building and its size for the project are to be analysed.
4. **Location of the Project.** The data regarding the location of project is very important. It may be located near the rural, urban or semi-urban areas.
5. **Staff Requirements.** Study and analysis of requirement of workers, technical staff and officers etc. is to be made.

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6. **Technical Viability.** The technical viability of the opportunity is to be studied.
7. **Utilities.** The detailed study about availability like water, gas, electricity, petrol, diesel etc. are to be studied.
8. **Production Capacity.** Establishment off production capacity and utilization of production capacity are analysed.

4.22 FINANCIAL FEASIBILITY STUDY

Financial feasibility is the most important aspect of a business opportunity. Some of the aspects involved in the financial study are as follows:

1. **Sources of Capital.** The study of main sources of capital is to be made. If capital is borrowed, interest burden is to be studied in detail.
2. **Financing for Future Development of Business.** Finance requirement for future development of business are to be studied. Working capital requirement for at least three months running of enterprise are to be estimated.
3. **Total Capital Cost of Project.** It is very essential to study the total cost of project. This includes fixed capital, working capital and interest factor.
4. **Subsidiary Sources for Additional Finance.** After the study of main sources of capital, subsidiary sources of capital are to be identified and studied.
5. **Break even Analysis (BEA).** BEA is to be carried out to see at what level of production/sales will make the organization no loss/no profit situation. BEA is very useful to identify the level of production that makes profit.
6. **Return on Investment (ROI).** ROI is to calculated to see the amount of return on investment for the investors/share holders and how much they get.
7. **Proposed Balance Sheet.** Proposed balance sheet is made showing liabilities and assets, depreciation, interest burden, profits expected etc.
8. **Cost of Labour and Technology.** The cost of employees (salaries etc) is to estimated and studied. If technology is not available then it has to be purchased from any R & X institution or by way of foreign collaboration.

.23 SOCIAL FEASIBILITY STUDY

Social feasibility study is important in the social environment.

1. **Pollution.** There should not have any sort of noise or other pollution objectionable to the society. Suitable measures are to be taken for controlling pollution
2. **Social problem.** The enterprise should not create any nuisance to the public
3. **Locations.** The location is in such a place that is should not have objection from the neighbors
4. **Other problems.** Any other problems related to the society and people are to be studied

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4.24 PROJECT REPORT

MOHAN CLAY WORKS, P. O. ALANGAD PROJECT REPORT

Introduction

This unit is proposed as proprietary concern bearing S.S.I. Registration No. **MU/07/02468/90/SSI/PROV/TINY** and the location of the project is at Alanged, Aluva Ernakulam district. Main object pursued by the project is the manufacture and sale of country bricks. The project is promoted by Sri M. K. Mohan, Maniath House, Alangad. He is the brain and driving force behind this project. He has more than 15 years experience in this field and has thorough knowledge about the business.

Market Potential and Scope

The growing demand for country bricks as an Important building materials paved the way for setting up such a unit in small-scale sector. The demand for country bricks from Kochi city and its suburbs is very high. This industry is purely of a seasonal business and even though' there are a few units in existence, they are not able to meet the growing demand fully. A large volume of bricks are required very year. The raw materials required for this industry are available in plenty from the local areas. The proposed project is at Alangad, Aluva where there are easy accessibility to important towns and business places. The demand is infinite. There are a network of roads from this place connecting important places where the demand is very high.

Project Particulars

The unit is established in a self owned land at Alangad. No machineries are required in the manufacturing process except some moulds made out of wood. Trial runs were done and resultant products confirmed to high standards. Testing methods are also involved for testing the quality of the product.

Manufacturing Process

Clay is shaped in the form of raw bricks with the help of wooden moulds, These raw bricks are kept in an open space for drying for three to four days. Dried bricks are kept in kiln for nearly 6 days and is burnt with firewood. Now the process is complete and it is ready for sale.

Machinery and Equipments

No machineries are involved in the manufacturing process

Land required for mining clay is self owned. Details of Furniture, Tools and Equipments are given below:

Wooden Moulds, Frames and Equipments	₹ 15,000.00
Tarpaulins and other accessories	₹ 12,000.00
Furniture	₹ 5,000.00
	₹ 32,000.00

Raw Materials

The important raw material that go into the production is clay. It is available in plenty in the land owned by the proprietor. Firewood required for heating is available locally in 'plenty and is not of a scarce nature in relation to its use. There are several agencies for supplying firewood.

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COST OF THE PROJECT

Land	₹	4,00,000 .00
Shed	₹	15,000.00
Wells	₹	10 ,000.00
Furniture and Equipments	₹	32,000.00
Working Capital	₹	2,10,000.00
	₹	6,67,000.00

Source or Finance

Own Investments	₹	4,67,000.00
Bank Finance expected	₹	2,00,000.00
	₹	6,67,000.00

Working Capital Requirements

11/2 Months Materials in Stock	₹	30,000.00
1 Month Working Expenses	₹	65,000.00
15 days Finished Goods in Stock	₹	1,05,000.00
Sundry Debtors	₹	10,000.00
	₹	2,10,000.00

Man Power Requirements

Managerial 1 No.	₹	9,000.00
Skilled Workers 5 Nos.	₹	67,500.00
Semi Skilled 5 Nos.	₹	56,250.00
Unskilled 3 Nos.	₹	23,625.00
	₹	1,56,375.00

Annual Requirements of Materials for the First Three Years

	I Year	II Year	III Year
Clay	60,000	70,000	80,000
Firewood	1,25,000	1,50,000	1,75,000
Sand	10,000	12,500	15,000
Other Materials	8,000	10,000	12,000
	2,03,000	2,42,500	2,82,000

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Cost of Production and Financial Viability

	I Year	II Year	III Year
Materials	2,03,000	2,42,500	2,82,000
Wages and Salary	3,60,000	3,85,000	4,10,000
Loading and Unloading	32,000	36,500	40,000
Brokerage and Commission	20,000	23,000	25,000
Printing and Stationery	3,000	4.000	5,000
Postage and Phone	4,000	5,000	6,000
Travelling Expenses	8,000	8,500	9,000
Interest paid	36,000	25,000	15,000
Miscellaneous Expenses	5,000	7,500	10,000
Depreciation of Land	20,000	20,000	20,000
	6,91,000	7,57,000	8,22,000

Profitability

	I Year	II Year	III Year
Sales Revenue	9,00,000	9,90,000	10,89,000
Cost of Sales	6,91,000	7,57,000	8,21,000
Gross Profit	2,09,000	2,33,000	2,68,000
Reserve for Taxes -@ 25%	52,250	58,250	67,000
Net Profit	1,56,750	1,74,750	2,01,000
Depreciation	20,000	20,000	20,000
Annual Accrual and Cash Flow	1,76,750	1,94,750	2,21,000

ANNUAL SALES REVENUE

Country Bricks	9,00,000	9,90,000	10,89,000

SUMMARY

- A project typically has a distinct mission that it is designed to achieve and a cle termination point, the achievement of the mission.
- A project is an organised unit dedicated to the attainment of a goal-the successf completion of a development project on time, within budget, in conformance wi pre-determined programme specifications.
- Project selection starts from where project identification ends. After having son project ideas, these are analysed in the light of existing economic conditions, t government policy and so on.
- A network is a set of symbols connected with each other with a sequential rel tionship with each step making the completion of a project/event. As discusse earlier, a business plan or project involves various activities to be undertaken convert it into an enterprise.

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- PERT was first developed as a Management Aid for completing Polaris Ballistic Missile Project in USA in October 1958.
- The Critical Path Method (CPM) was first developed in USA by the E.I. DuPont Nemours & Co. in 1956 for doing periodic overhauling and maintenance of a chemical plant.
- Project appraisal is a costs and benefits analysis of different aspects of proposed project with an objective to adjudge its Viability.
- Finance is one of the most important pre-requisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour of one, machine of another and raw material of yet another to combine them to produce goods.
- Management ability or competence plays an important role in making an enterprise a success or otherwise. Strictly speaking, in the absence of managerial competence, the projects which are otherwise feasible may fail.
- Business opportunities can be obtained from various magazines, trade journals, financial institutions, government, commercial organizations, friends, relatives, competitors etc.
- Feasibility study is a detailed work of collection of data analysis and conclude the feasibility of that operation.

REVIEW QUESTIONS

1. Briefly explain the meaning of the Project.
2. Classify Projects.
3. Discuss briefly about project identification.
4. Discuss briefly about project selection.
5. Discuss briefly about project report.
6. What is the significance of the project report?
7. What are the contents of the project report?
8. What are the steps involved in the formulation of the project report? Explain.
9. What are the planning commission's guidelines for formulating a project report?
10. Give the specimen of a project report.
11. Briefly discuss about network analysis.
12. What is the importance of network analysis?
13. What is PERT? Explain.
14. Explain the concept of PERT with an illustration.
15. What are the advantages of PERT?
16. What are the limitations of PERT?
17. What is CPM? Explain.
18. Explain the concept of CPM with an illustration.
19. What are the advantages and disadvantages of CPM?
20. What is the difference between PERT and CPM?
21. What are the common errors in project formulation?
22. Explain the concept of project appraisal.

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23. What are the different methods of project appraisal?
24. What is Economic Analysis?
25. What is Financial analysis?
26. What is Technical Analysis?
27. What is Market Analysis?
28. What is Managerial Analysis?
29. Explain briefly about identification of business opportunities.
30. What is Market Feasibility Study?
31. What is Technical Feasibility Study?
32. What is Financial Feasibility Study?
33. What is Social Feasibility Study?
34. Prepare a typical project report.

FURTHER READINGS

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UNIT V SICKNESS IN SMALL SCALE INDUSTRIES

STRUCTURE

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to :

- define industrial sickness
- explain about causes of sickness
- discuss about symptoms of industrial sickness
- explain remedies for sickness of small scale industries.

5.2 INTRODUCTION

Rapid industrial growth has brought in its wake incidence of sickness in the industrial ctor including small-scale industries.

Sickness in industrial units is a gradual process and does not develop suddenly. In the itial stages, it gets reflected in the form of defects and mistakes in the unit's functional eas like production, finance and management. Later it is observed in the form of symp- ms 'like irregular or unsatisfactory turnover in the account, slow and unsatisfactory move- ent of stocks, decline in production, sales and profitability, frequent violation of terms and ndition and asking for additional grants.

efinition

The term **Industrial Sickness** has been defined in a number of ways and its concept cks uniformity. A sick industrial unit may be defined as " one when it fails to generate rplus on a continuous basis and depends on frequent infusion of external funds for its rvival".

According to the Reserve Bank of India (RBI) a sick unit should be considered so if has *incurred cash loss in the previous accounting year and is likely to continue to cur cash loss in the current accounting year, and has an erosion on account of*

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cumulative cash losses to the extent of 50 percent of those of its net worth A unit likely to continue to incur cash losses for the current year as well as the following year an which has imbalance in its financial structure such as current ratio of less than 1:1 an worsening debt-equity ratio.

According to ICICI *a sick industry is one whose financial viability is threaten by adverse factors present and continuing. The adverse factor might relate to ma agement, market fiscal burden; labors relations or any other. When the impact of fa tors reaches a point where a company begins to incur cash losses leading to erosion its funds, there is threat to its financial stability.* The Sick Industrial Companies (spec provision) Act 1985 identifies sickness in terms of cash losses for two consecutive financ years and accumulated losses equaling or exceeding the net worth of the the company at t end of the second financial year.

Later the definition of sick SSI units has been modified as under *A small scale indu trial unit should be considered as sick if it has. at the end of any accounting ye accumulated losses equal to or exceeding 50 percent of its peak net worth in t immediately preceding five accounting years* (Bihar Chambers of Commerce. Sep. 198

The latest definition of Sickness given by the Working Group on Rehabilitation of Si Units set up by the RBI (Kohli Committee) is given below:

A small scale industrial unit is considered as sick when

(*a*) if any of the borrowal accounts of the unit remains substandard for more than months, *i.e.,* principal or interest, in respect of any of its borrowal accounts h remained overdue for a period exceeding one year will remain unchanged ev if the present period for classification of an account as substandard is reduced due course;

OR

(*b*) There is erosion in the net worth due to accumulated losses to the extent to percent of its net worth during the previous accounting year and

(*c*) The unit has been in commercial production for atleast two years.

An analysis of all the definitions given above indicates that sickness, more or less, h a perfect positive correlation with profitability. Profitability alone can generate cash s pluses for an industrial unit to meet its various obligations to the creditors like financ institutions, the government and others.

5.3 CAUSES OF SICKNESS

The sickness of the SSI's are broadly classified as follows:

1. Internal Causes
2. External Causes.

A. Internal Causes

1. *Planning*

(*a*) Technical Feasibility:

(*i*) Inadequate technical know-how

(*ii*) Locational disadvantage

(*iii*) Outdated production process.

(*b*) Economic Viability:

(*i*) High cost of inputs

(*ii*) Break-even point too high

(*iii*) Uneconomic size of project

(*iv*) Under-estimation of financial requirements

(*v*) Unduly large investment in fixed assets

(*vi*) Over-estimation of demand.

2. Implementation:

(*i*) Cost overruns resulting from delays in getting licenses and sanctions etc.

(*ii*) Inadequate mobilization of finance.

3. Production:

(*a*) Productions Management

(*i*) Inappropriate product-mix

(*ii*) Poor quality control

(*iii*) Poor capacity utilization

(*iv*) High cost of production

(*v*) Poor inventory management

(*vi*) Inadequate maintenance and replacement

(*vii*) Lack of timely and adequate modernization etc,

(*viii*) High wastage.

(*b*) Labour Management:

(*i*) Excessively high wage structure.

(*ii*) Inefficient handling of labour problems

(*iii*) Excessive manpower

(*iv*) Poor labour productivity

(*v*) Lack of trained skilled labour or technically competent personnel.

(*c*) Marketing Management:

(*i*) Dependence on a single customer or a limited number of customers/single or a limited number of products,

(*ii*) Poor sales realization

(*iii*) Defective pricing policy

(*iv*) Booking of large orders at fixed price in an inflationary market

(*v*) Weak market organization

(*vi*) Lack of market feedback and market research

(*vii*) Lack of knowledge of marketing techniques

(*viii*) Unscrupulous sales/purchase practices.

(*d*) Financial Management:

(*i*) Poor resources management and financial planning

(*ii*) Faulty costing

(*iii*) Liberal dividend policy

(*iv*) General financial indiscipline and application of funds for unauthorized purposes

(*v*) Deficiency funds

(*vi*) Over-trading

(*vii*) Unfavorable gearing or keeping adverse debt-equity ratio.

(*viii*) Inadequate working capital

(*ix*) Absence of cost consciousness

(*x*) Lack of effective collection machinery.

(*e*) Administrative Management:

(*i*) Over centralization

(*ii*) Lack of professionalism

(*iii*) Lack of feed-back to management (Management Information System)

(*iv*) Lack of controls

(*v*) Lack of timely diversification

(*vi*) Excessive expenditure on R & D

(*vii*) Dissension within the management

(*viii*) Incompetent management

(*ix*) Dishonest management.

B. External Causes

(*a*) Infrastructural Bottlenecks:

(*i*) Non-availability of irregular supply of critical raw materials or other inputs

(*ii*) Chronic power shortage

(*iii*) Transport bottlenecks.

(*b*) Financial Bottlenecks:

(*i*) Non-availability of adequate finance.

(*c*) Government Controls and Policies etc:

(*i*) Government price controls

(*ii*) Fiscal duties

(*iii*) Abrupt change in government policies

(*iv*) Procedural delays on the part of the financial/licensing/other controlling or regulating authorities (Banks, Reserve Bank of India, Financial Institutions. Government Departments, Licensing Authorities, Monopolies and Restrictive Trade Practices Board).

(*d*) Market Constraints:

(*i*) Market saturation

(*ii*) Revolutionary technological advances rendering one's products obsolete.

(*e*) Extraneous Factors:

(*i*) Natural calamities

(*ii*) Political situation (domestic as well as international)

(*iii*) War

(*iv*) Sympathetic strikes

(*v*) Multiplicity of labor unions.

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5.4 SYMPTOMS OF INDUSTRIAL SICKNESS

1. Continuous irregularity on cash credit accounts low capacity utilization
2. Reduction in credit summations (whenever the companies are in financial difficulty, they open a separate account with another bank and deposit all collections therein)
3. High rate of rejection of goods manufactured
4. A general decline in that particular industry combined with many failures
5. Rapid turnover of key personnel
6. Existence of a large number of lawsuits against company
7. Rapid expansion and too much diversification within a short time
8. Diversion of funds for purposes other than running the units
9. Any major change in the share holdings
10. Failure to pay statutory liabilities
11. Larger and longer out-standings in the bills accounts
12. Longer period of credit allowed on sale documents negotiated through the bank and frequent returns by customers of the same
13. Constant utilization of credit facilities and failure to pay timely instalment of principal and interest on the loans and installment credit
14. Non-submission of periodical financial data/stock statement etc., in time financing capital expenditure out of funds provided for working capital purposes.
15. Decrease in working capital on account of:
    (*a*) Increase in debtors and particularly dues from selling agents
    (*b*) Increase in creditors
    (*c*) Increase in inventories which may include, large number of slow or non-moving items.
16. Sudden/frequent changes in management whether professional or otherwise and/or dominated by one man/few individuals.

5.5 REMEDIES FOR SICKNESS OF SMALL SCALE INDUSTRIES

Majority of sick units is retrievable in order to tackle the problem of sickness from the wo angles the role of three agencies assumes significance : (*a*) The government (*b*) Finanial institutions and the industry associations.

(*a*) **The Role of Government.** If the number of units in the country has increased ome 10 times since independence and if we have diversified industrial structure with wide pread entrepreneurship the cerdit for this largely belongs to government.

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Second area where the government can be helpful is Vis-a-vis industrial licensing. The very existence of licensing and monopoly regulation implies that there is a stampede to "to get in" when ever licensing is liberaized for an industry or an economy as a whole.

(*b*) **The role of financial Institutions.** The following are the ways by which sickness can be prevented by financial institutions :

(*i*) Continuous monitoring of unit.

(*ii*) Careful project appraisal.

(*iii*) Professional institutional response to unit's problems.

(*iv*) Required systems at client units.

(*v*) Incentives to units to remain healthy.

(*c*) **The role of Industry Associations.** A good practical review by each industry association of installed and usable capacity in the industry, capacity utilization, growth trends, problems etc. should be useful 4 the potential new entrants 4 deciding whether 2 enter the industry or not. The industry can have some sort of 1st aid cell this could consist of professionals who could go to the aid of a unit that is beginning to fall with the offer of managerial and technical help also.

(*d*) **Curative measures.** These measures include how to cure the sickness after it has crept in. There are lots of agencies which help cure industrial sickness.

There is Industries (Development and Regulation) Act, 1951, which provides for the takeover of a sick unit by the Government of India. Before resorting to a takeover, other alternatives like rehabilitation through the concerned state government and financial institutions or for the merger of a sick unit with a healthy unit could be explored.

Then there is the Sick Industrial Companies (special provisions) Act, 1985, which has passed by parliament and received the assent of president in January 1986. It was amended in December 1991 so as to bring government companies within the preview of the Act.

Further, there is the Industrial Reconstruction Bank of India (IRBI) which came itno being on March 20th 1985 by converting the erstwhile Industrial Reconstruction Corporation of India. It provides assistance for reconstructions and rehabilitation of the sick industrial units by granting those loans and advances, underwriting shares and debentuers etc.

For the sick units in the small scale sector, separate facilities are available. State Finance Corporations and commercial banks will be asked to devise a scheme of the rehabilitation of sick units in the small scale sector, and the assistance given by them for the revival of such units will be eligible for refinancing by the IRBI at the confessional rate of interest.

SUMMARY

- **Industrial Sickness** has been defined in a number of ways and its concept lacks uniformity. A sick industrial unit may be defined as " one when it fails to generate surplus on a continuous basis and depends on frequent infusion of external funds for its survival".

- A sick industry is one whose financial viability is threatened by adverse factors present and continuing. The adverse factor might relate to management, market fiscal burden, labors relations or any other. When the impact of factors reaches a point where a company begins to incur cash losses leading to erosion of its funds, there is threat to its financial stability.
- A small scale industrial unit should be considered as sick if it has. at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years.

REVIEW QUESTIONS

1. Define Sickness.
2. What are the causes of Industrial Sickness?
3. What are the symptoms of industrial sickness?
4. Explain the remedies taken for sickness of small scale industries.

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