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MANAGEMENT OF SMALL SCALE  
INDUSTRIES AND ENTREPRENEURSHIP

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# UNIT-1 ENTREPRENEURSHIP

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ENTREPRENEURSHIP

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## CHARACTERISTICS AND FUNCTIONS OF ENTREPRENEUR

**Entrepreneur as risk bearer:** Richard Cantilon defined entrepreneur as an agent who buys factors as production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future. He illustrated a farmer who pays contractual incomes, which are certain to land owners and laborers, and sells at prices that are 'uncertain'. He includes merchants also who make certain payments in expectation of uncertain receipts. Hence both of them are risk-bearing agents of production. P.H. Knight described entrepreneur to be a specialized group of persons who bear uncertainty. Uncertainty is defined as risk, which cannot be insured against and is incalculable. He made distinction between certainty and risk. A risk can be reduced through the insurance principle, where the distribution of outcome in a group of instance is known, whereas uncertainty cannot be calculated.

**Entrepreneur as an organizer:** According to J Baptist Say "an entrepreneur is one who combines the land of one, the labor of another and capital of yet another, and thus produces a product. By selling the product in the market, he pays interest on capital, rent on land and wages to laborers and what remains is his/her profit". Say made distinction between the role of capitalist as a financier and the entrepreneur as an organizer. This concept of entrepreneur is associated with the functions of coordination, organisation and supervision. **Entrepreneur as an innovator:** Joseph A Schumpeter in 1934 assigned a crucial role of 'innovation' to the entrepreneur. He considered economic development as a dynamic change brought by entrepreneur by instituting new combinations of factors of production, i.e. innovations. The introduction of new combination according to him, may occur in any of the following forms.

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- (a) Introduction of new product in the market.
- (b) Use of new method of production, which is not yet tested.
- (c) Opening of new market.
- (d) Discovery of new source of raw materials.
- (e) Bringing out of new form of organisation.

Schumpeter also made distinction between inventor and innovator. An inventor is one who discovers new methods and new materials. An innovator utilizes inventions and discovers in order to make new combinations. Hence the concept of entrepreneur is associated with three elements riskbearing, organizing and innovating. Hence **an entrepreneur can be defined as a person who tries to create something new, organizes production and undertakes risks and handles economic uncertainty involved in enterprise.**

Some more important definitions of entrepreneur

**1. According to F.A.Walker:** “Entrepreneur is one who is endowed with more than average capacities in the task of organizing and coordinating the factors of production, i.e. land, labour capital and enterprises”.

**2. Marx** regarded entrepreneur as social parasite.

**3. According to Gilbraith:** “An entrepreneur must accept the challenge and should be willing hard to achieve something”.

**4. Peter F. Drucker** defines an entrepreneur as one who always searches for change, responds to it and exploits it as an opportunity. Innovation is the basic tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or service.

**5. According to E.E.Hagen:** “An entrepreneur is an economic man who tries to maximize his profits by innovation, involve problem solving and gets satisfaction from using his capabilities on attacking problems”.

**6. According to Mark Casson:** “An entrepreneur is a person who specializes in taking judgmental decision about the coordination of scarce resources”.

**7. Frank Young** defined entrepreneur as a change agent.

**8. According to Max Weber:** “Entrepreneurs are a product of particular social condition in which they are brought up and it is the society which shapes individuals as entrepreneurs”.

**9. International Labour Organization (ILO)** defines entrepreneurs as those people who have the ability to see and evaluate business opportunities, together with the necessary resources to take advantage of them and to initiate appropriate action to ensure success.

**10. Akhouri** describes entrepreneur as a character who combines innovativeness, readiness to take risk, sensing opportunities, identifying and mobilizing potential resources, concern for excellence, and who is persistent in achieving the goal.

## **CHARACTERISTICS OF ENTREPRENEUR**

Entrepreneur is a person of telescopic faculty drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess competencies to perform entrepreneur activities. Table 5.1 gives core competencies.

: Personal entrepreneurial characteristics

**Core competencies Entrepreneurial activities**

	Core competencies	Entrepreneurial activities
1.	Initiative	Does things before asked for or forced to by events and acts to extend the business to new areas, products or services.
2.	Perceiving opportunities	Identifies business opportunities and mobilizes necessary resources to make good an opportunity.
3.	Persistence	Takes repeated or different actions to overcome obstacles.
4.	Information gathering	Consults experts for business and technical advice. Seeks information of client or supplier's needs. Personally undertakes market research and make use of personal contacts or information networks to obtain useful information.
5.	Concern for quality work	States desire to produce or sell a better quality product or service. Compares his performance favorably with that of others.
6.	Commitment to contractual obligations	Makes a personal sacrifice or expands extraordinary effort to complete a job, accepts full responsibility in completing a job contract on schedule, pitches in with workers or work in their place to get the job done and shows utmost concern to satisfy the customer.
7.	Efficiency orientation	Finds ways and means to do things faster, better and economically.
8.	Planning	Various inter-related jobs are synchronized according to plan.
9.	Problem solving	Conceives new ideas and finds innovative solutions.
10.	Self-confidence	Makes decisions on his own and sticks to it in spite of initial setbacks.
11.	Experience	Possesses technical expertise in areas of business, finance, marketing, etc.
12.	Self-critical	Aware of personal limitations but tries to improve upon by learning from his past mistakes or experiences of others and is never complacent with success.
13.	Persuasion	Persuades customers and financiers to patronize his business.
14.	Use of influence strategies.	Develops business contacts, retains influential people as agents and restricts dissemination of information in his possession.
15.	Assertiveness	Instructs, reprimands or disciplines for failing to perform.
16.	Monitoring	Develops a reporting system to ensure that work is completed and quality norms.
17.	Credibility	Demonstrates honesty in dealing with employees, suppliers and customers even if it means a loss of business.
18.	Concern for employee welfare	Expresses concern for employees by responding promptly to their grievances.
19.	Impersonal relationship	Places long-term goodwill over short-term gain in a business relationship.
20.	Expansion of capital base	Reinvests a greater portion of profits to expand capital of the firm.
21.	Building product image	Concerned about the image of his products among consumers and does everything possible to establish a niche for his products in the market.

## DISTINCTION BETWEEN ENTREPRENEUR AND MANAGER

Often the two terms namely entrepreneur and manager are considered as synonym. However the two give different meaning. The major points of distinction between the two are presented in table 5.2.

### Distinction between entrepreneur and manager

Points	Entrepreneur	Manager
1. Motive	The main motive of an entrepreneur is to start a venture for his personal gratification.	Main motive of a manager is to render services in an enterprise already set by someone else.
2. Status	Owner	Servant
3. Risk	Assumes risk and uncertainty	Manager does not bear any risk involved in enterprise.
4. Rewards	Profits, which are highly uncertain and not fixed.	Salary which is certain and fixed.
5. Innovation	Entrepreneur himself thinks over what and how to produce goods to meet the changing needs of the customers. Hence he acts as innovator / change agent.	A manager simply executes plans prepared by the entrepreneur.
6. Qualification	An entrepreneur needs to possess qualities and qualifications like high achievement motive, originality in thinking, foresight, risk-bearing ability etc.	A manager needs to possess distinct qualifications in terms of sound knowledge in management theory and practice.

## **TECHNICAL ENTREPRENEUR**

There are large number of technical institutions at the degree and diploma level producing large number of technical personnel. The standard of our technical education is comparable with international standards. India has the third largest pool of technical and scientific personnel in the world. However, we are not able to utilize its full potential and on the other hand there is surplus technical manpower that are unemployed. This large pool of technical manpower can be best utilized for developing small-scale industries in the hi-tech areas using improved technologies and scientific methods of production. They can be trained to use latest management techniques to manage the projects they set up.

A technically qualified and experienced person can make a more competent entrepreneur as he acquires special knowledge of science, engineering materials and machines, production planning and control, manufacturing technologies and management techniques for successful launching and smooth running of an industrial unit. Also through training, he develops an aptitude for objective considerations and evaluation of issues involved in the process of an enterprise.

A technical entrepreneur develops characteristics of quality consciousness, adoption of modern technology and management technique and realization of the importance of research and innovation for productivity improvement, the absence of which can lead to industrial sickness.

In this regard many technical universities made it mandatory for technical institute to have Entrepreneurship Development Cell (EDC). Moreover a core subject on 'Entrepreneurship Development' is introduced for all disciplines of engineering and technology.

## **CHARMS OF BEING AN ENTREPRENEUR**

The most existing part of Entrepreneurship is that you are your own master. When you are an employee, you work for others according to their plans, whims and finances. In an Entrepreneurship, it is you who set the goal, plan the action and reap the satisfaction and rewards of having achieved the goal.

Why should you become an Entrepreneur?

- ◆ You will be your own boss and boss to other people and make decisions that are crucial to the business success or failure.
- ◆ You will make money for yourself rather than for someone else.
- ◆ You may participate in every aspect of running a business and learn and gain experience in a variety of disciplines.
- ◆ You will have the chance to work directly with your customers.
- ◆ You will have the personal satisfaction of creating and running a successful business.
- ◆ You will be able to work in a field of area that you really enjoy.
- ◆ You will have the chance to build retirement value.

### **Rewards for an Entrepreneur**

1. Freedom to work.
2. Satisfaction of being own boss.
3. Power to do things as he likes.
4. Rewards of ownership and retirement assurance.



5. Respect of family and friends.

### **Penalties for an Entrepreneur**

1. Constraints of financiers, laborers, customers, suppliers, and debtors curtail his freedom.
2. Frustration due to availability of limited capital and other resources.
3. Social and family life is affected due to hard long hours of working.
4. Frustration due to non-achievement of full objectives.
5. Risk of failure.

## **FUNCTIONS OF AN ENTREPRENEUR**

An Entrepreneur has to perform a number of functions right from the generation of idea up to the establishment of an enterprise. He also has to perform functions for successful running of his enterprise. Entrepreneur has to perceive business opportunities and mobilize resources like man, money, machines, materials and methods. The following are the main functions of an Entrepreneur.

1. **Idea generation:** The first and the most important function of an Entrepreneur is idea generation. Idea generation implies product selection and project identification. Idea generation is possible through vision, insight, keen observation, education, experience and exposure. This needs scanning of business environment and market survey.
2. **Determination of business objectives:** Entrepreneur has to state and lay down the business objectives. Objectives should be spelt out in clear terms. The Entrepreneur must be clear about the nature and type of business, i.e. whether manufacturing concern or service oriented unit or a trading business so that he can very well carry on the venture in accordance with the objectives determined by him.
3. **Rising of funds:** All the activities of the business depend upon the finance and hence fund raising is an important function of an Entrepreneur. An Entrepreneur can raise the fund from internal source as well as external source. He should be aware of different sources of funds. He should also have complete knowledge of government sponsored schemes such as PMRY, SASY, REAP etc. in which he can get government assistance in the form of seed capital, fixed and working capital for his business.
4. **Procurement of machines and materials:** Another important function of an Entrepreneur is to procure raw materials and machines. Entrepreneur has to identify cheap and regular sources of raw materials which will help him to reduce the cost of production and face competition boldly. While procuring machineries he should specify the technical details and the capacity. He should consider the warranty, after sales service facilities etc before procuring machineries.
5. **Market research:** Market research is the systematic collection of data regarding the product which the Entrepreneur wants to manufacture. Entrepreneur has to undertake market research persistently to know the details of the intending product, i.e. the demand for the product, size of the market/customers, the supply of the product, competition, the price of the product etc.
6. **Determining form of enterprise:** Entrepreneur has to determine form of enterprise depending upon the nature of the product, volume of investment etc. The forms of ownership are sole proprietorship,

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partnership, Joint Stock Company, co-operative society etc. Determination of ownership right is essential on the part of the entrepreneur to acquire legal title to assets.

**7. Recruitment of manpower:** To carry out this function an Entrepreneur has to perform the following activities.

- (a) Estimating man power requirement for short term and long term.
- (b) Laying down the selection procedure.
- (c) Designing scheme of compensation.
- (d) Laying down the service rules.
- (e) Designing mechanism for training and development.

**8. Implementation of the project:** Entrepreneur has to develop schedule and action plan for the implementation of the project. The project must be implemented in a time bound manner. All the activities from the conception stage to the commissioning stage are to be accomplished by him in accordance with the implementation schedule to avoid cost and time overrun. He has to organize various resources and coordinate various activities. This implementation of the project is an important function of the Entrepreneur. All the above functions of the Entrepreneur can precisely be put into three categories of innovation, risk bearing, and organizing and managing functions.

## **TYPES OF ENTREPRENEUR**

Today various types of Entrepreneurs are found engaged in different types of activities, not only in industrial activities but also in agriculture and commercial activities. Today we can recognize Entrepreneur in industry, service and business sectors which are technically called as ISB sectors. Entrepreneurs are classified in a number of ways as discussed below.

### **Clearance Danhof's Classifications**

Danhof classifies Entrepreneur into four types.

**1. Innovative entrepreneur:** This category of Entrepreneur is characterized by smell of innovativeness. This type of Entrepreneur, sense the opportunities for introduction of new ideas, new technology, discovering of new markets and creating new organizations. Such Entrepreneur can work only when certain level of development is already achieved and people look forward to change and improve. Such Entrepreneur are very much helpful for their country because they bring about a transformation in life style.

**2. Adoptive or imitative entrepreneur:** Such entrepreneurs imitate the existing entrepreneur and set their enterprise in the same manner. Instead of innovation, may just adopt the technology and methods innovated by others. Such types of entrepreneur are particularly suitable for under-developed countries for imitating the new combination of production already available in developed countries.

**3. Fabian entrepreneurs:** Fabian entrepreneurs are characterized by 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 enterprises.

**4. Drone entrepreneurs:** Such entrepreneurs are conservative or orthodox in outlook. They always feel comfortable with their old

fashioned technology of production even though technologies have changed. They never like to get rid of their traditional business, traditional machineries and traditional system of business even at the cost of reduced returns.

### **Arthur H Cole Classification**

Arthur H Cole classifies entrepreneurs as empirical, rational and cognitive entrepreneur. **Empirical:** He is entrepreneur hardly introduces anything revolutionary and follows the principle of rule of thumb.

**Rational:** The rational entrepreneur is well informed about the general economic conditions and introduces changes, which look more revolutionary.

**Cognitive:** Cognitive entrepreneur is well informed, draws upon the advice and services of experts and introduces changes that reflect complete break from the existing scheme of enterprise.

### **Classification Based on the Scale of Enterprise**

**Small scale:** These entrepreneurs do not possess the necessary talents and resources to initiate large-scale production and to introduce revolutionary technological changes.

**Large scale:** They possess the necessary financial and other resources to initiate and introduce new technological changes. They possess talent and research and development facilities.

### **Other Classification**

Following are some more types of entrepreneurs listed by behavior scientists.

**Solo operators:** These are the entrepreneurs who essentially work alone, introduce their own capital and if essential employ very few employees. In the beginning most of the entrepreneurs start their enterprises like them.

**Active partners:** Such entrepreneurs jointly put their efforts and resources. They actively participate in managing the daily routine of the business concern. Entrepreneurs who only contribute their funds but not actively participate in the business are called simply 'Partners'.

**Inventors:** Such entrepreneurs are creative in character and feel happy in inventing new products, technologies and methods of production. Their basic interest lies in research and innovative activities.

**Challenge:** According to such entrepreneurs, if there is no challenge in life, there is no charm in life. Such entrepreneurs plunge into industry/business because of the challenge it presents. When one challenge seems to be met, they begin to look for new challenges. They convert odds and adversities into opportunities and make profit.

**Buyers:** These are the entrepreneurs who do not like to face the hassles of building infrastructure and other facilities. They simply purchase the existing one and by using their experience and expertise try to run the enterprise successfully.

**Life timers:** Such entrepreneurs take business as an integral point of their life. Family enterprises, which mainly depend on exercise of personal skill, fall in this category.

**Industrial entrepreneurs:** Such entrepreneurs engage in manufacturing and selling products.

**Service entrepreneurs:** Such entrepreneurs engage in service activities like repair, consultancy, beauty parlor etc where entrepreneurs provide service to people.

**Business entrepreneurs:** They are also called as trading entrepreneurs which buy and sell goods.

**Agricultural entrepreneurs:** They engage themselves in agricultural activities like horticulture, floriculture, animal husbandry, poultry etc.

**Corporate entrepreneurs:** Corporate entrepreneurs undertake their business activities under legally registered company or trust.

**Rural entrepreneurs:** Entrepreneur's selecting rural-based industrial opportunity in either khadi or village industries sector or in farm entrepreneurship are regarded as rural entrepreneurs. According to khadi and village industry commission (KVIC) Village or rural industry means any industry located in rural area, population of which do not exceed 10,000 which produces any goods or services in which fixed investment of an artisan or a worker does not exceed one thousand rupees.

**Women entrepreneurs:** According to government of India an entrepreneurs is defined as an enterprise owned and controlled by 16 a woman and having minimum financial interests of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women. Women entrepreneurs play an important role in economy especially in rural areas.

## **INTRAPRENEURS**

A new breed of entrepreneurs is coming to the fore in large industrial organizations. They are called as 'Intrapreneurs'. In large organizations, the top executives are encouraged to catch hold of new ideas and then convert them into products through R and D activities within the framework of organizations. It is found in developed countries that such Intrapreneurs in large number are leaving the organization and started their own enterprises. Many of such Intrapreneurs have become exceedingly successful in their ventures. The difference between entrepreneurs and Intrapreneurs is given in table 5.3.

## **ULTRAPRENEURS**

Through the entrepreneurship has been there for a long time, its performance and execution evolve with the prevalent economic conditions of the day. The entrepreneurs of the 90s are a different breed in relation to their immediate predecessors from the 80s. Thus, the path of successful entrepreneurship is ever changing as the art and science of

entrepreneurship, is taking a new colors. Now-a-days new products and services are conceived, created, tested, produced and marketed very quickly and with great speed. Therefore today’s entrepreneurs need to have different mindset about establishing and operating a company. This mindset is what is called ultrapreneuring.

**Table 5.3:** Difference between entrepreneurs and intrapreneurs

	<b>Entrepreneurs</b>	<b>Intrapreneurs</b>
1. Dependency	He is independent in his operation.	He is dependent on the entrepreneurs i.e. owner.
2. Raising of funds	He himself raises funds required for the organization.	He does not raise funds for the organization.
3. Risk	Entrepreneurs bears the risk involved in the business.	He does not fully bear the risk involved in the organization.
4. Operation	An entrepreneur operates from outside. Entrepreneurs converts the ideas into viable opportunities. Entrepreneurs takes the profit of the business.	An intrapreneur operates from inside. Intrapreneurs takes the responsibility of creating innovation. He is provided with a variety of perquisite for his innovation.

According to James B Arkebaur, the concept of ultrapreneuring is to identify business opportunity, determine its viability and form a company. It requires assembling a super competent management team who then develop, produce and market the product or service. They then sell the majority interest of the company, all of this with maximum resource leverage of both talent and money in the shortest optimum time period. Ultra growth companies are not made to pass on to the next generation.

Ultrapreneurs create them and then sell out, merge or combine. Their lifelong challenge is to do it again and over again.

### **CONCEPT OF ENTREPRENEURSHIP**

Entrepreneurship is an elusive concept. The concept of entrepreneurship has been a subject of much debate and is defined differently by different authors. Some of them view it as ‘risk-bearing’; others call it as ‘innovations’, yet others consider it as ‘thrillseeking’. In a conference of entrepreneurship held in USA, it is defined, as

**“Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and management skills to mobilize human, financial and material resources necessary to bring a project to fruition”.**

A.H. Cole has defined entrepreneurship as “the purposeful activity of an individual or group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods and services”.

According to Heggins “Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw materials and selecting top manager’s of day-to-day operations.

According to Joseph A Schempeter entrepreneurship is essentially a creative activity.

It consists of doing such things as are not generally done in ordinary course of business.

An entrepreneur is one who innovates i.e., carries out new business.

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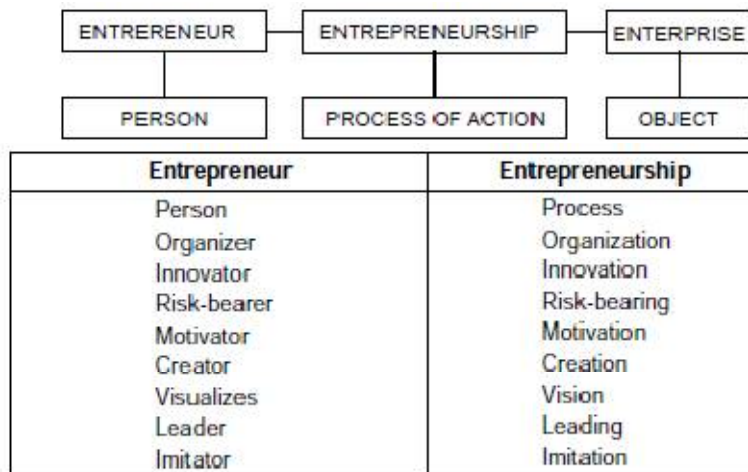
According to Mc Clelland, there are two characteristics of an entrepreneur: first is doing a thing in a new and better way, second is decision making under uncertainty.

The various definitions of entrepreneurship identify two basic elements of entrepreneurship namely innovation and risk bearing.

**Innovation:** Innovation is doing something new or something different. Entrepreneurs constantly look out to do something different and unique to meet the changing requirements of the customers. Entrepreneurs need not be inventors of new products or new methods of production or service, but may possess the ability of making use of the inventions for their enterprises. For example, in order to satisfy the changing needs of the customers, now-a-days fruit juice (mango, fruits etc.) is being served in tins, instead of bottles so that customers can carry it and throw away the containers after drinking the juice. Ratan Tata did not invent the automobile. Foreseeing the people's desire to have small cars at a lower price, he applied new methods of mass manufacturing, made use of new, light and relatively cheaper materials. Hence entrepreneurship needs to apply inventions on a continuous basis to meet customers' changing demands for products.

**Risk bearing:** Giving birth to a new enterprise involves risk. Doing something new and different is also risky. The enterprise may earn profit or incur loss, which depends on various factors like changing customer preferences, increased competition, shortage of raw materials etc. An entrepreneur needs to be bold enough to assume the risk involved and hence an entrepreneur is a risk-bearer, not a risk-avoider. This risk-bearing ability keeps him to try on and on which ultimately makes him to succeed. The Japanese proverb "Fall seven times, stand up eight" is applied to an entrepreneur.

Though the terms entrepreneur and entrepreneurship are used interchangeably, yet they are conceptually different.



## EVOLUTION OF ENTREPRENEURSHIP

The emergence of the entrepreneurial class is as old as our ancient history itself. It dates back to the Pre-Vedic period when Harappan culture flourished in India. The history of entrepreneurship and the emergence of the entrepreneurial class in India may be presented in two sections, viz. entrepreneurship during pre-independence and post-independence. **Entrepreneurship**

**during pre-independence:** In the excavation in Harappan and Mohanjodaro the handcraft items and metal molded items were found. It is also found that the craftsmen of the time made, handicraft items as part of their contribution to the society in which they lived. The entrepreneurship to make handicraft items existed in India around 2500 B.C. People developed their own social system and village economy in India. India also developed cast-based divisions of work, which helped in the development of skills of artisans.

The artisans in different parts of India grouped together and developed their own artifacts and were well known for their quality. The cities like Banaras, Gaya, Puri, Allahabad and Mirzapur, which were on the banks of Ganga River, established their own type of handicrafts work. The royal patronage by the local kings of that period helped artisan industries to flourish. The handicrafts industry of the time was basically skill based and started as tiny sector.

The population in India grew in the middle age and spread to the full geographical area. The local kings gave patronage to the handicrafts, silk, cotton-ware and development of other cottage based industries for consumption of higher section of the society. The development of agriculture products like spices, Ayurvedic medicines also flourished in some parts of the country and started export them. Spices from Kerala, Corah from Bengal, Shawls from Kashmir and Banaras, brass and Bidriware, Silk from Nagpur and Mysore enjoyed prestigious status in international market till earlier years of 18<sup>th</sup> century. The craftsmen gathered together in halls, which were called 'Karkhanas'.

Unfortunately the prestigious Indian handicrafts industries which were basically a cottage and tiny sector declined at the end of 18<sup>th</sup> century, because of the following reasons.

1. Disappearance of royal patronage to the handicrafts
2. Lukewarm attitude of British colonial towards Indian crafts
3. Imposition of heavy duty on imports of Indian crafts
4. Low priced British made goods
5. Changes in the tastes and habits of developing Indian citizens etc.

In other words East India Company handicapped Indian cottage and tiny sectors. The company injected various changes in the Indian economy by exporting raw materials and import of finished goods in India. 'Parsis' established good report with company. The company established the first shipbuilding industry in Surath and from 1673 Parsis started manufacturing vessels for the company. In 1677 Manjee Dhanjee was given the contract of building large gun-powder-mill in Bombay. In 1852 a Parsi foreman who was working in the gun factory started steel industry in Bombay. That is to say East India Company made some contribution toward entrepreneurial growth in India.

The actual emergence of manufacturing enterprise can be noticed in the second half of nineteenth century. In 1854 Cowasjee Nanabhoy started textile mill at Bombay, R. Chotelal started textile mill in 1861 in Ahamdabad, and in 1880 Nawrojee Wadia opened a mill in Bombay. Jamshadjee Tata established first steel industry in 1911. Though late, other commercial community namely jains, vaishyas changed their attitude from commercial entrepreneurship to industrial

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entrepreneurship. The 'swadeshi' campaign provided a seed bed for inculcating and developing nationalism in the country. Jamshadjee Tata was influenced by this and named his first mill 'swadeshi mill' and Krishna in its advertisement made the appeal "our concern is financed by native capital and is under native management throughout". After the first world war the Indians agreed to 'discriminating' protection to certain industries and made companies should be registered in India with rupees capital and have a proportion their directors as Indians. These measures helped in establishing and extending the factory manufacturing in India during the first four decades of 20<sup>th</sup> century during which the relative importance of Parsis declined and Gujarati's, Marawaris, and Vaishyas gained their importance in India's entrepreneurial scene. The emergence of managing agency system triggered Indian entrepreneurship. In 1936 Carr, Tagore & Co assumed the management of Calcutta steam tug association. Dwarakanath Tagore encouraged others to form joint-stock companies in which management remains in the hands of 'firm' rather than 'individual'. The European management agency houses, after East India Company loosing its monopoly entered business, trade and banking. It is stated that the managing agency houses were the real entrepreneurs and these agency houses emerged to overcome the limitations imposed by shortage of venture capital and entrepreneurial acumen.

**Entrepreneurship during post-independence:** In 1948 Indian government came forward with the first Industrial policy, which was revised from time to time. The government identified the responsibility of the state to promote, assist and develop industries in the national interest and recognized the role of private sector in accelerating industrial development.

The government took three important measures namely:

1. To maintain a proper distribution of economic power between private and public sector.
2. To encourage industrialization from existing centers to other cities, towns and villages.
3. To disseminate the entrepreneurship acumen concentrated in a few dominant communities to a large number of industrially potential people of varied social state.

To achieve this, government accorded emphasis on development of small scale industries in the country by providing various incentives and concessions in the form of capital, technical know-how markets and land to the entrepreneurs in the potential areas to remove the regional imbalances in development. To facilitate the new entrepreneurs in settings up their enterprises, Government established several institutions like Directorate of Industries, Financial Corporations, small scale industries corporations, small industry service institutes etc. Because of this small-scale units emerged very rapidly and their number increased from 1,21,619 in 1966 to 1,90,727 in 1970. There are also examples that some entrepreneurs grew from small to medium-scale and from medium to large scale manufacturing units during the period.

With the invention of digital computer, information technology era started in 1970. IBM was one of the pioneers in this field. The software



developments created new opportunities and the service industries started growing faster than manufacturing industry after 1980. The high growth of new industries also had high risks. The new top rated entrepreneurship opportunities arose such as communication, food services, entertainment, merchandising, cosmetics, and apparel with the electronic communication reducing the distances to a Global Village. The market size is growing and the entrepreneur has to benchmark himself with the global standards.

## **ROLE OF ENTREPRENEURSHIP IN ECONOMIC DEVELOPMENT**

Economic development essentially means a process of upward change whereby the real per capita income of a country increases for a long period of time. The economic history of the presently developed countries, for example, USA and Japan tends to support the facts that the economy is an effect for which the entrepreneurship is the cause. The crucial role played by the entrepreneurs in the western countries has made the people of underdeveloped countries conscious of the significance of entrepreneurship in economic development. After the Independence, India has realized that, for achieving the goal of economic development, it is necessary to increase the entrepreneurship both qualitatively and quantitatively in the country. Parson and Smelter described entrepreneurship as one of the two necessary conditions for economic development, the other being increased output of capital. Y.A. Say high describes entrepreneurship as a necessary dynamic force for economic development. The important role that an entrepreneurship plays in the economic development of an economy can be put in a more systematic manner as follows.

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

## **STAGES IN THE ENTREPRENEURIAL PROCESS**

Entrepreneurship is a process of comprising several distinct stages. The first stage in the entrepreneurial process is some change in the real world. For example, a war may destroy country's manufacturing facilities but spare its trained work force that has happened in West Germany during Second World War. Such a change leads to changes in every aspect of life in the country. It creates needs for new goods and

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services. The distraction of Japan's industry during the Second World War allowed the country to rebuild its industry from scratch.

The second stage in the entrepreneurial development is the 'idea'. For example, microprocessor, the brain of personal computer had been in the American market since the early 1970s. A company called 'Altair' had put out a computer that was so personal that one had to put it together oneself. But it was Apple Computer, which perceived that computer market was potentially very big.

One may become an entrepreneur in various ways. He may start a new enterprise. Alternatively he may acquire a franchise. Franchising is an entrepreneurial system whereby an individual runs a business based on the right to make a product or service granted by a manufacturer or other organization. Intrapreneuring is another strategy. It is the process of extending the firm's domain of competence by exploiting new opportunities through new combinations of its existing resources.

### **BARRIERS TO ENTREPRENEURSHIP**

A large number of entrepreneurs particularly in the small enterprises fail due to several problems and barriers. The greatest barrier to entrepreneurship is the failure of success. Karl. H. Vesper has identified the following entrepreneurship barriers:

1. Lack of a viable concept
2. Lack of market knowledge
3. Lack of technical skills
4. Lack of seed capital
5. Lack of business know how
6. Complacency—lack of motivation
7. Social stigma
8. Time pressure and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents

An entrepreneur is a person who buys factor services at certain prices with a view to selling its products at uncertain prices. Entrepreneur is a dynamic agent of change. An entrepreneur is a person of telescopic faculty, drive and talent who perceives business opportunities and promptly seizes them for exploitation. Entrepreneur needs to possess some core competencies like innovative, perceiving opportunities, persistence, information gathering, concern for quality, planning, problem solving etc. a clear distinction can be made between an entrepreneur and a manager. An entrepreneur has to perform various functions like idea generation, determination of business objectives, raising of funds, procurement of machines and materials, market research, deciding forms of ownership, recruitment of man power etc. entrepreneurs can be classified based on various factors. Intrapreneurs take the responsibility of innovation.

Entrepreneurship is purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain or earn profit by production and distribution of economic goods or services. It is an act of starting and running an enterprise. Entrepreneurship is as old as ancient history itself and dates back to pre-Vedic period when Harappan culture

flourished in India. The artisans and royal patronage of Indian kings have contributed for the entrepreneurship in the early ages of Indian history. East India Company handicapped the Indian tiny and cottage industries. Later Parsi's, Jain's and Vaishya's have contributed for the growth of entrepreneurship. The managing agency system and the Swadeshi movement have contributed for the growth of entrepreneurship in India.

After independence, the Government of India has taken measures for growth of industries through her Industry Policy Resolutions. There are many barriers to the entrepreneurship. They may be lack of viable concept, lack of market knowledge, lack of skills, lack of seed capital etc.

### REVIEW QUESTIONS

1. Explain in brief the concept of entrepreneur. Enumerate the characteristics of entrepreneur.
2. Distinguish between entrepreneur and manager. Write a note on technical entrepreneur.
3. What are the rewards and penalties for entrepreneurs? Explain in brief the functions of entrepreneur.
4. Explain in brief classification of entrepreneurs. Distinguish between entrepreneur and Intrapreneur.
5. Write a note on ultrapreneur. Explain in brief the concept of entrepreneurship.
6. Explain in brief the evolution of concept of entrepreneurship in India. Explain in brief the role of entrepreneurship in economic development.
7. Explain in brief the stages in entrepreneurial process. Write a note on barriers of entrepreneurship.

### FURTHER READINGS

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi
5. Entrepreneurship and Small Business Management- B. S. Bhatia

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# UNIT-2    SMALL SCALE INDUSTRY

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## CONTENTS

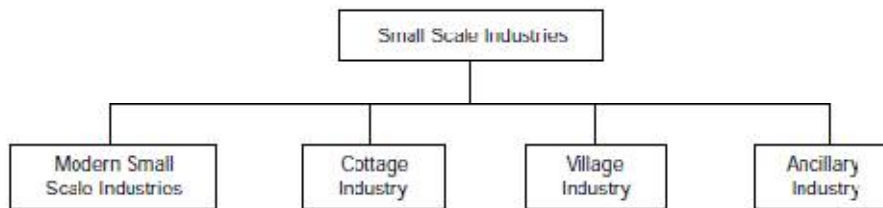
- ❖ Meaning And Definition Of Small Scale Industry
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## MEANING AND DEFINITION OF SMALL SCALE INDUSTRY

The definition of small scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country. There are at least 50 different definitions of SSI's found and used in 75 countries. In some of the countries of the world the criterion for defining small enterprise is related to the size of employment. For example in USA a small enterprise is one which has employment of 500 people. In UK it is less than 20 skilled labours, in Germany, less than 300 and in Italy less than 50 people. However, in most of the countries the definitions of SSI are related to either investment or size of employment or both. The definition of small scale industry is an important aspect of government policy as it identity the target groups. The first official criterion for small scale industry in India dates back to second five year plan when it was in terms of gross investment in land, building, plant, machinery and the strength of the labour force. On the recommendation of the Federal association of small industries of India (FASI), only the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or hire purchase, is considered instead of fixing the limit on overall investment in plant and machinery. The evolution of legal concept of SSI is given in the table 6.1. An ancillary unit is one which sells not less than 50% of its manufacturers to one or more industrial units.

However for small scale industries, the planning commission of India uses the terms village and cottage industries. These include modern small-scale industries and the traditional cottage and house-hold industries as shown in below.

1950	The fiscal commission for the first time defined an SSI as one which is operated mainly with hired labour usually 10 to 50 hands.
1954-55	The Government of India setup Central Small Scale Industries Organization (CSSIO) and Small Scale Industries Board (SSIB) to promote small scale industries.
1960	Employment criterion to define SSI was dropped and under investment criterion an industry having gross value of fixed asset up to Rs. 5 Lakhs was called as SSI.
1975	The investment limit was rise to Rs. 10 Lakhs (15 Lakhs for ancillary units).
1980	The investment limit was rise to Rs. 20 Lakhs (25 Lakhs for ancillary units).
1985	The investment limit was rise to Rs. 35 Lakhs (45 Lakhs for ancillary units).
1995	The investment limit was rise to Rs. 60 Lakhs (75 Lakhs for ancillary units).
March 1997	The investment limit was raised to Rs. 3 Crore.
1999 2000	The investment limit was reduced to 1 Crore.
2007	Limit is 1 Crore only.



## CHARACTERISTICS OF SSI

The following are the characteristics of SSI

- (1) A small unit is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors; the others are as sleeping partners.
- (2) In case of SSI, the owner himself or herself is a manager also and hence an SSI is managed in a personalized fashion. The owner takes effective participation in all matters of business decision making.
- (3) The scope of operation of SSI is generally localized, catering to the local and regional demands.
- (4) The gestation period i.e., the period after which return on investment starts is relatively lower when compared to large units.
- (5) SSI's are fairly labour intensive with comparatively smaller capital investment.
- (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 small units promote balanced regional development and prevent the influx of job seekers from rural areas to cities.
- (8) Small scale units are more change susceptible and highly reactive and receptive to socio-economic conditions. They are more flexible to adopt changes like introduction of new products, new method of production, new materials, new markets and new form of organization etc.

## RATIONALE

Emphasizing the very rationale of Small-scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated:

“They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they

facilitate an effective mobilization of resources of capital and skill which might otherwise be unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country". The rationale of small scale industries so established can broadly be classified into four arguments as discussed below.

### **1. Employment Argument**

In view of abundant labour and scarce capital resources, the most important argument in favor of the SSI's that have a potential to create immediate large scale employment opportunities. There are many research findings available which will establish that small scale units are more labour intensive than large units. Small units use more of labour per unit than investment. Studies have shown that the output-employment ratio is the lowest in small sector, employment generating capacity of small sector is eight to ten times that of large scale sectors.

Some scholars oppose this argument. They are of the opinion that employment should not be created for the sake of employment. According to them it is not how to absorb surplus resources but how to make the best use of scarce resources. Then employment argument becomes output argument.

### **2. Equality Argument**

An important argument in favor of small-scale industries is that they ensure a more equitable distribution of national income and wealth. This is based on two major considerations:

(i) Compared to ownership of large scale units, the ownership of small-scale units is wide spread.

(ii) Their more labour-intensive nature and decentralization and dispersal to rural and backward areas provide more employment opportunities to the unemployed. Most of these small-scale units are proprietary or partnership concerns, the relations between workers and employers are more harmonious in small-scale units than in large-scale units.

Dhar and Lydall do not agree this argument and give statistical evidence that wages paid to workers in small-units are much lower when compared to the workers in large industries. Workers in small enterprises due to non-existence of trade unions are unorganized and therefore are easily exploited by the employers. But in an underdeveloped country like India, even if small-scale units provide low paid jobs, they would be of virtual importance in our economy where millions are already in search employment to eke-out their livelihood.

### **3. Decentralization Argument**

Big industries are concentrated everywhere in urban areas, but small industries can be located in rural or semi-urban areas to use local resources and to cater to the local demands. Hence it promotes balanced regional development in the country. Though it is not possible to start small-scale industry in every village, but it is quite possible to start small units in a group of villages. Decentralization will help tap local resources, idle savings, and local talents and improves the standard of living even in erstwhile backward areas. The good example of this

phenomenon is the economy of Punjab which has more small-scale units than even the industrially developed state of Maharashtra.

#### **4. Latent Resource Argument**

According to this argument, small enterprises are capable of mapping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability etc. Dhar and Lydall feel that the real source of latent resources argument lies in the existence of entrepreneurial skill. According to them there is no evidence of an overall shortage of small entrepreneurs in India. Hence they doubt the force of this latent resource argument. Their assertion does not appear to be very sound simply because of the fact that if small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises?

The emergence of entrepreneurial class requires a conducive environment. The impressive growth in the number of small enterprises in the post independent period highlights the fact that, providing the necessary conditions such as power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

### **OBJECTIVES**

The various objectives of developing small-scale industries are in fact, implied in one way or other, in its rationale itself, just discussed in the section 6.3. However, an attempt has been made in this section to enumerate the main objectives of developing small enterprises in India.

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too, in the main stream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country.

### **SCOPE**

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and require less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are:

- Manufacturing activities
- Servicing/repairing activities
- Retailing activities
- Financial activities
- Whole-sale business
- Construction activities
- Infrastructural activities like transportation, communication etc.

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In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country. In 1967 only 47 items were reserved for exclusive manufacture in small scale sector. In 1983 the reserved list included 836 items. Later Abid Hussain committee dereserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, foot wares, plastic and rubber products, chemical and chemical products, glass and ceramics, pressure stove, electrical appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc.

It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. J.C. Sandesara, has found that the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability. He also adds that the reservation policy is calculated to keep 'infant' industry in a permanent state of infancy. However the main objective of reservation policy has been insulated small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved. Examples are many to support this view.

## **ROLE OF SSI IN ECONOMIC DEVELOPMENT**

Economic development is defined in a number of ways; the commonest definition could be 'an increase in real per capita income of a person resulting in improvement in the levels of living'. The developments of small-scale industries contribute to the increase in per capita income. The role of SSI in economic development is given below.

### **1. Employment**

SSI use labour intensive techniques and therefore provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector. SSI provides self-employment to artisans, technically qualified persons and professionals. These industries also offer employment to farmers when they are idle.

### **2. Optimization of Capital**

SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period. Small scale units help to mobilise small and scattered savings and channelise them into industrial activities.

### **3. Balanced Regional Development**

SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. They also help to improve the standard of living in suburban and rural areas.



#### **4. Mobilization of Local Resources**

SSI helps to mobilize and utilize local resources like small saving, entrepreneurial talent etc. which might otherwise remain idle and unutilized. These industries facilitate the growth of local entrepreneurs and self-employed professionals in small towns and villages.

#### **5. Export Promotion**

SSI helps in reducing pressure on the country's balance of payments in two ways. First they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports. There has been a substantial increase in exports from the small scale sector.

#### **6. Consumer Surplus**

SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector. About one-half of the output of manufacturing sector in India comes from small scale industries.

#### **7. Feeder to Large Scale Industries**

SSI plays a complementary role to large scale sector. They provide parts, components, accessories etc. to large scale industries. They serve as ancillary units.

#### **8. Social Advantage**

Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honorable and independent living to people with limited resources. They facilitate wide participation of public in the process of development.

#### **9. Share in Industrial Production**

SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.

#### **10. Development of Entrepreneurship**

Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.

### **ADVANTAGES OF SMALL SCALE INDUSTRIES**

- Small scale enterprises can be started as per convenience of the owner in terms of space, finance, product and manpower.
- The setting up of the unit and starting of production requires a small gestation period of only 2 to 6 months and layout can be made as per convenience.
- Locally available skilled and semi-skilled people can be appointed at short notice and at a much lower wages compared to the medium and large industries.
- Wherever high technology involved the parent company executives will help. Alternatively, consultants can be hired to sort out technology related problems.
- It is one of the best forms of self-employment as well as giving employment opportunities to own kith and kin, friends and relatives etc.
- In case of rural sector the SSI units will be able to have cheaper labour especially in off seasons.
- In developing countries the SSI units are a necessity to assist bigger industries and new projects. Thus they not only contribute to the

economy of the nation but also create employment opportunities to people around the project sites. • In case of SSI units started by experienced and talented executives, there is abundant scope to develop high technology components for MNCs and also to organize exports.

• Due to increase in population there has been increase in production of consumer goods and Fast Moving Consumer Goods (FMCG). In view of this there is a bigger role for small industries to take up components production and even manufacture the product itself.

• The small units are exempted from excise duty up to 75 lakhs per annum turnover. In case of industries in the backward districts, waiver or concession is given for various statutory taxes. Thus lot of paper work and formalities are avoided.

• Since employees are recruited based on contacts or relations there will be loyalty to the owner and hence there will be no trade union activity.

### **STEPS TO START AN SSIS**

Starting an SSI is a complex job. The potential entrepreneur has to pass through a number of steps in a step-by-step approach to achieve his goal of setting up an SSI. In fact, deciding and motivating the self is the first bedrock upon which the establishment concept of an enterprise is entirely posited. Similarly, the identification of a viable project ensures the proposition that “well begun is half done”. Hence the various steps involved in establishment of an enterprise through which the entrepreneur may pass are the following:

**1. Decision to be self-employed:** This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.

**2. Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis):** The potential entrepreneur has to analyze his strengths, weaknesses, opportunities and threats, while deciding to go for entrepreneur career. This analysis enables him to know what type and size of business would be the most suitable. This will vary from person to person.

**3. Scanning of business environment:** It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment. He should study the administrative framework, procedures, policies, rules and regulations and other formalities implemented by the government.

**4. Training:** Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training. He can avail the facilities of various training institutes like EDI, NIESBUD, IEDs existing in our country. These institutes are providing tailor-made Entrepreneurship Development Programmes (EDPs) and skill up gradation training programmes for the benefit of the new entrepreneurs, existing entrepreneurs and for the employees of the small scale industries.

**5. Product selection:** The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity. The level of activity will

help in determining the size of business and thus form of ownership. One could generate as many project ideas as one can through environment scanning and short list a few of them as discussed in the last chapter. Closely examine with the help of opportunity analysis each one of them and zero on the final product or products.

**6. Market survey:** It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production. Market survey implies systematic collection of data by the entrepreneur about the product for manufacture, demand-supply lag, extent of competition, frequency of demand, pattern and design of demand, its potential share in the market pricing, distribution policy, etc. The principle is to produce what actually people demand. The entrepreneur can contact the concerned authorities for this, and will be discussed later.

**7. Form of organization:** A firm can be constituted as proprietorship, partnership, limited company (public/private), cooperative society, etc. This will depend upon the type, purpose and size of entrepreneur's business. One may also decide on the form of ownership on the basis of resources at hand or from the point of view of investment.

**8. Location:** The next step will be to decide the location where the unit is to be established. Will it be hired or owned? The size of plot, covered and open area and the exact site will have to be decided.

**9. Technology:** To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most suitable one to be identified. This will also be useful to determine the type of machinery and equipment to be installed. The entrepreneur can contact DIC, TCO etc.

**10. Machinery and equipment:** Having chosen the technology, the machinery and equipment required for manufacturing the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated. One may have to plan well in advance for machinery and equipment especially if it has to be procured from outside the town, state or country.

**11. Project report preparation:** After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study. The economic viability and the technical feasibility of the product selected have to be established through a project report. A project report that may now be prepared will be helpful in formulating the production, marketing, financial and management plans. It will also be useful in obtaining finance, shed, power connection, water connection, raw material quotas, etc. The entrepreneur has to consider the guidelines given by the Planning Commission in preparing the report (see chapter 8).

**12. Project appraisal:** Ordinarily, project appraisal implies the assessment of a project. It is a technique for ex-ante analysis of a scheme or project. While preparing to set up an enterprise, the entrepreneur has to carefully appraise the project from the standpoint of economic, financial, technical, market, managerial and social aspects to arrive at the most socially-feasible enterprise. To avail the finance from

the financial institutions and banks, a comprehensive appraisal of projects carrying techno-economic feasibility aspects should be undertaken by the entrepreneur. Thus, a project which is selected should be technically feasible and economically viable, and then only it will be bankable. For this, the following appraisals can be performed at the preliminary level:

- (a) Economical appraisal
- (b) Financial appraisal
- (c) Technical appraisal
- (d) Management appraisal
- (e) Organizational appraisal
- (f) Operational appraisal
- (g) Market appraisal

**13. Finance:** Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it. A number of financial agencies provide capital assistance and venture capital for starting an enterprise. There are some agencies which provide financial assistance on concession rates. Under PMRY and REGP schemes financial assistance and subsidies are being provided to the persons who want to set up their own enterprise. Details of it are discussed in chapter 7.

**14. Provisional registration:** It is always worthwhile to get the unit registered with the government. The entrepreneur has to obtain the prescribed application form for provisional registration from DIC or Directorate of Industries. After having duly filled in the application form, he has to submit the application with all relevant documents in the local DIC or Directorate of Industries. This will enable the entrepreneur to avail various government facilities, incentives and assistances schemes including financial assistance from NSIC/SFCs/KVIC. The table 6.2 and table 6.3 gives the details.

**15. Technical know-how:** In some cases, technical know-how may be arranged for setting up enterprise. This can be arranged through TCOs, NSIC, SSIDC, DIC, private consultants, SISI, ED-institutes, foreign collaborators, India Investment Centre, and Industry, etc. Facilities are also available to SSI for making technical know-how arrangements including turn-key jobs.

**16. Power and water connection:** The sites, where the enterprise will be located, should either have adequate power connections or this should be arranged. Entrepreneur can calculate the total power requirement and determine the nearest pole from which power will be given to the enterprise as it can materially affect the installation cost. Similarly, the water connection will have to be obtained or provision should be made for adequate water supply to the firm.

**17. Installation of machinery:** Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.

**18. Recruitment of manpower:** Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower is to be decided. This presupposes the skilled, unskilled and semiskilled labour, administrative staff etc. Further, sources of getting desired

labour and staff members be indented and recruited. Possibly, the labour force has to be trained either at the entrepreneur's premises or in a training establishment.

**19. Procurement of raw materials:** Raw materials are the important ingredients for running an enterprise. The labour will require raw materials to work upon the installed machinery. These materials may be procured indigenously or may have to be imported by the entrepreneur. Entrepreneur has to identify the cheap and assured sources of supply of raw materials for running his own enterprise. Government agencies can assist in case the raw materials are scarce or imported.

**20. Production:** The unit established should have an organizational set-up. To operate optimally, the organization should employ its manpower, machinery and methods effectively. There should not be any wastage of manpower, machinery and materials. If items are exported, then the product and its packaging must be attractive. Production of the proposed item should be taken up in two stages:

(i) Trial production

(ii) Commercial production

Trial production will help tackling problems confronted in production and test marketing of the product. This will reduce the chances of loss in the eventuality of mistakes in project conception. Commercial production should be commenced after the test-marketing of the product.

**21. Marketing:** Marketing is the most important activity as far as the entrepreneurial development is concerned. Various aspects like how to reach the customer, distribution channels, commission structure, pricing, advertising, publicity, etc. have to be decided by the entrepreneur. Like production, marketing should also be attempted cautiously, that is, in two stages namely:

(i) Test stage

(ii) Commercial marketing stage

Test marketing is necessary to save the enterprise from going into disrepute in case the product launched is not well accepted by the customers. It will also assist the entrepreneur in carrying out modifications or additions in designs and features of the product. Having successfully test marketed the product, commercial marketing can be undertaken. The entrepreneur can contact the Small industries marketing corporation.

**22. Quality assurance:** Before marketing, the product quality certification from BIS (Bureau of Indian Standards)/AGMARK/HALLMARK, etc., should be obtained depending upon the product. If there is no quality standards specified for the products, the entrepreneur should evolve his own quality control parameters. Quality, after all, ensures long term success.

**23. Permanent registration:** After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.

**24. Market research:** Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, upgradation and growth. Market becomes waterloos for most SSI entrepreneurs as they ignore the vital day-to-day operation. Initial success should not lure the entrepreneur into a sense of complacency.

#### Sources of information

Sl. No.	Area	State level agencies	National level agencies
1.	Project selection	SISI, DIC, IDC'S, IC's, TCO's, SFCs, SIC, IC, IEB, PTC	CB, SIDO, CSIR, DEP, IIC, IFCI, IPB, NRDC, EDI
2.	Registration and licenses	CIF, DDCA, DIC, EB, GMD, SIC, WPCB IC, LA, STC, TC	CECD, CCIE, ISI, IDC, MIC, NSIC, RC, RT, SC, DGTD
3.	Finance	DIC, Bank, SFC, SIC, IICs, IDCs	CB, CEC, ICICI, IDBI, IFCI, NISC, SBI, DIC
4.	Technical	DDCA, DIC, DJCII, TOCs, GMD	CIPET, CSIR, IIC, IIFT, MRDC, NSIC, RT, SBS, SISI, CITD, ICMR
5.	Training	EDPs, SISI, TCDs, DICs	SBI, CB, CIPET, IRL, NISIET, IITs, NISBUT, EDI
6.	Infrastructure facilities	DIC, EB, IDC, LA	-
7.	Raw materials	DIC, MID, MDC, SIC, IC, STC	CCIE, MMTC, MDC, SPC
8.	Plant and machinery	DIC, IIC, SFC, SEC, IC, IDB	CCIE, NSIC, SISI
9.	Marketing information	DIC, TCO's, SEC, SIC, RIMCO	DEP, DGSD, CCIE, IIFT, MID, SIC, ICMR, ICAR

#### Application forms

S. No.	Subject	Agencies
<b>(A)</b>	<b>Planning Stage</b>	
1.	Provisional registration number	DIC
2.	Application for shed or plot	SIDC
3.	No objection certificate from local authorities	LA (Local Authority)
4.	No objection certificate from health department	District health officer
5.	No objection certificate from electricity department	Electricity department
6.	Loan application for term loan	SFC / NB / NSIC
7.	Subsidy registration	DIC
8.	Application for building plan and estimates	Approval of architect / contractor
9.	Application for bank account / cash credits / working capital loan	NB
10.	Application for air and water pollution no objection certificate	State pollution control authority
11.	Application for the approval of production programme for certain restricted items	DIC, SISI, Central Ministry

12.	Registration of partnership deed	Registrar of firms
13.	Application for ancillary units	Parent companies
14.	Registration of firms	Register of firms
15.	Application for the boilers and plant layout of the unit	Inspector of Boilers
16.	Application for the production of petroleum based products	Ministry of Petroleum
17.	Application for Excise Registration Number	Excise Department
18.	Application for Latex in rubber based products	Rubber Board
19.	No objection certificate from Forest Department for wood based products	State conservation of forests
20.	Applications for essential commodity items as raw materials	District Civil Supply Department
21.	Application for imported raw materials	DIC / Export-Import Boards
22.	Application for imported of machines	DIC / Export-Import Boards
23.	Application for raw materials quota	D / C / Export – Import Boards.
<b>(B)</b>	<b>During Implementation of Project</b>	
24.	Application for power connection	Local Electricity Dept.
25.	Application for water	LA
26.	Application for C-Form (Sales Tax)	Sales Tax Department
27.	Application for state Sales Tax Registration	Sales Tax Department
28.	Application for central Sales Tax Registration	Sales Tax Department
29.	Application for exemptions from Sales Tax	DIC / Sales Tax Dept.
30.	Application for exemption from Octroi Duty	DIC / LA
31.	Application for storing of inflammable raw material	Director of Explosives.
<b>(C)</b>	<b>During Running of Enterprise</b>	
32.	Application for Permanent Registration Number	DIC / Directorate of Industries
33.	Application for subsidy claims	DIC
34.	Application for power subsidy	LA
35.	Application for food preservation ordinance license.	Food Controller
36.	Application for registration in case of more than 20 employees without power use or more than 10 employees with power use.	Labour Welfare Board / Employment Exchange / P.F. Commissioner
37.	Application for product marketing to the Central Government Department	DIC, DGSD

SMALL SCALE  
INDUSTRY

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## GOVERNMENT POLICY: INDUSTRIAL POLICY RESOLUTIONS

### Major Environment

After attaining independence in 1947, India adopted economic planning as a method to achieve economic development. The pattern of planning that came to be accepted was of a mixed type meaning thereby that industrial units in the public and private sector will be operating in the economy. The mixed nature of the economy meant that on crucial areas the policy of the government was decisive and changes therein were in great relevance to industrial units. In the field of industry, government's objectives and intentions were announced through five Industrial Policy Resolutions (IPRs). These resolutions were announced in 1948, 1956, 1977, 1980 and 1990 (for a summary, see table 6.4). We shall briefly

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state what each of the IPRs had stated about growth and development of SSI sector. It must be added that it is only recently that government policy and activities of the different interface institutions have covered SSE in addition to SSI. The earlier thinking was mostly addressed to SSI.

#### **IPR 1948**

The industrial sector in 1948 was not different from the one existing in pre-1947 days and hence the SSI sector meant mainly rural industrial units, small job-cum-repair shops, units making agricultural implements, a few urban small units and handloom units weaving clothe. The greatest economic significance of these units to the Indian economy was their employment potential. It was this potential which called for protection through policy and the main thrust of IPR 1948 as far as the small scale sector was concerned was **protection**.

**IPR 1956** The second IPR was announced against the background of a bolder Second Five Year Plan, with a long term strategy for industrial and economic development. As to the SSI sector, the resolution envisaged a dual role viz. (i) manufacture of consumer goods such as clothe and (ii) manufacture of components for the newly established industry as part of the programme for long term industrial development. Thus, to the earlier emphasis of protection was added development. Industrial Policy for SSI aimed at “**Protection plus development**”. IPR 1956 in a manner initiated the modern SSI in India.

#### **IPR 1977**

The next IPR was announced after a lapse of two decades. During the preceding decades, two major problems had been witnessed. First was the lopsided industrial development—large, medium and small scale industries had become more of an urban phenomena and the other was large scale unemployment—the issue of urban and rural, educated and uneducated unemployed had started becoming difficult.

This situation led to a renewed emphasis on promotion of typical employment generating small scale industry, located in rural areas and small towns. As a formula it was: scale of output should be small, location semi urban/rural and technology, labour intensive.

This was the IPR which assigned a positive role to SSI in terms of wage employment of worker and self-employment of the entrepreneur. This was the IPR which therefore, offered a wider perception to policies and programmes for SSI development. To the earlier thrust of protection (IPR 1948) development (IPR 1956) this resolution added promotion. The SSI sector was thus, to be **protected, developed and promoted**.

#### **IPR 1980**

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment based key or basic industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wage and self-employment based opportunities in India.

#### **IPR 1990**

This IPR was announced during June 1990. Its basic aim is to introduce measures of economic liberalization and simplified rules and procedures with a view to enhancing the technological base of industry and



accomplishing higher levels of output. It gave a special emphasis on the SSI/SSE sector where employment opportunities are likely to be high. In order to enable the SSI units to update their technology the investment limit of SSI has been raised to Rs. 60 lakhs.

### SSI Policy Framework—Latest Amendment

In line with new economic policies, a policy document for SSI was announced on 6<sup>th</sup> August 1991.

It continued priority sector lending to SSI by Banks/Financial Institution.

- Excise exemption scheme
- Reservation of items for exclusive production
- Price and purchase preference
- Uniform package of incentives of the entire sector

It introduced new measures like:

- Removal of location restrictions
- Enhancement of coverage, limits
- Shift towards infrastructural development support
- Inclusion of services in this sector
- Allowing equity investment in SSI (up to 24%)
- Shift from protection/regulation to promotion of equality, technology and efficiency
- Substantial de-regulation and simplification of rules and procedures.

### Industrial policy resolution: a summary

Year	Main objective	Principal measure	The SSI universe
IPR 1948	Protection	Raw material cheap power technical advice, marketing of products, Safe-guarding against excessive competition from large units.	Village-based small enterprises Repairs-cum-job shops Units using local market, raw materials, labour. Hence locally self-sufficient.
1956	Protection plus development	Protect artisan based non-tech. enterprise development. Modern SSI for Industrial and consumer goods. Provide capital and skill. Develop export based units. Achieve regional balance through SSI. Package of assistance and incentives infrastructure, technological upgradation. Reservation of items for SSI.	Tiny/cottage rural units. Modern SSI units in urban areas. Units employing labour intensive technology. New entrants to SSI-new entrepreneurs. Ancillary units. Modern SSI.
1977	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production.	- do -
1980	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production, nuclear plant for SSI growth, reservation products for SSI.	- do -
1990	Promotion of equality, technology and efficiency	Promotion of SSI and agro-based industries reservation of products 836 and new lines to be identified. Central investment subsidy-rural and backward areas. Technology centers for modernization. Small industry Development Bank (SIDBI). Facilities of KVIC and KVI boards to be expanded to help artisans in marketing. Agro-processing industry to receive high priority.	- do -

## GOVERNMENT SUPPORT TO SSI DURING FIVE YEAR PLAN

Immediately after independence, government of India has given great importance to the development of small-scale sector in the successive five year plans. The expenditures for SSI during the eight Five Year Plans are given in table 6.5.

**First Plan:** In the first Five Year Plan Rs. 48 crores (constituting 47.8% of total plan expenditure on industry) was spent on small-scale sector alone. During this plan six boards were constituted namely All India Handloom Board, All India Handicraft Board, All India Khadi and Village Industry Board, Small-Scale Industries Board, Coir Board and Central Silk Board. The Boards were established to cover the entire field of small-scale and cottage industries.

**Second Plan:** As per the recommendations of Karve Committee, the second Five Year Plan focused on dispersal of industries. During this plan 60 industrial estates were established for providing basic facilities like water, power, transport etc. at one place. The total expenditure during this plan towards SSI was Rs. 187 crores. In addition some items were reserved for exclusive production in small-scale industries.

**Third Plan:** The third Plan focused on extension of coverage of small scale industries. During this plan Rs. 248 crores were spent.

**Fourth Plan:** The programmes adopted during the third plan were extended during fourth plan also. As a result, small-sector witnessed significant diversification and expansion during the fourth plan period, during which 346 industrial estates had been completed and small-scale sector provided employment to almost 82,700 persons.

**Fifth Plan:** The main thrust of the fifth plan was to develop small-scale industries to remove poverty and inequality stacking the land. During this plan the expenditure incurred is Rs. 592 crores.

**Sixth Plan:** Because of the massive development programmes initiated for the development of promising small-scale sector, the actual expenditure of Rs. 1945 crores surpassed the plan 836 items were reserved for manufacturing in small-scale industries and reserved 409 items for exclusive purchase from small scale industries. In addition, SIDO (Small-Industries Development Organization) was established to provide consultancy services in technical, managerial and marketing. In 1982 CART (Council for Advancement of Rural Technology) was established for providing necessary technical input to 23 rural industries. By the end of sixth plan, the production from small and cottage industries increased to Rs. 65,730 crores, exports touched Rs. 557 crores and employment in SSI sector reached 315 lakh persons. This accounts for 80% of the total industrial employment.

**Seventh Plan:** The main thrust of this plan was upgradation of technology to increase competitiveness of small sector. The new watch word was “competition” and “not reservation”. The actual expenditure of Rs. 3,249 crores surpassed the plan outlay of Rs. 2,752 crores. The value of production increased from Rs. 57,100 crores to Rs. 91,681 crores.

**Eighth Plan:** The main thrust of the eighth plan was the employment generation as the motive force for economic growth. To achieve this, small and village industries have been assigned an extremely important role. The proposals of this plan are (i) The plan reiterated that timely and adequate availability of credit is more important than concessional credit. For this purpose SIDBI was established, certain new initiatives like sanction of composite loans under 'single window system', concessional loans to state corporations for infrastructural developments were introduced.

(ii) Eighth plan proposed to establish tool room and training institutes in order to upgrade technology.

(iii) Growth centre approach has been accepted and 70 growth centers were established. In addition establishment of functional industrial estates with agricultural and horticulture products was also proposed.

(iv) Proposed to establish integrated infrastructure development centers for tiny units. For this the centre, the state governments and industry associations were also involved.

**Expenditure towards SSI in Five Year Plans**

Plan/period	Total expenditure towards SSI (in crores)
First (1951-56)	48.00
Second (1956-61)	187.00
Third (1961-66)	248.00
Fourth (1969-73)	242.00
Fifth (1974-78)	592.00
Sixth (1980-85)	1,945.00
Seventh(1985-90)	3,249.00
Eighth (1992-97)	6,334.00

**NEW POLICY INITIATIVES IN 1999-2000 FOR SMALL SCALE SECTOR**

The government of India has announced new policy initiatives for small-scale sector in 1999-2000. The features of new policy are listed below.

(1) A national programme for Rural Industrialization has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialization.

(2) To coordinate the latest development with regard to the World Trade Organization (WTO), a cell has been set up in the office of DC (SSI) to disseminate information to SSI Associations and SME units, regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organizing WTO sensitization seminars, workshops.

(3) Cotton yarn has been included in the general excise exemption scheme for SSIs.

(4) Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.

(5) Announcement of a new credit insurance scheme in the Budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI units, particularly export oriented and tiny units.

(6) The working capital limit for SSI units is determined by the banks on the basis of 20 percent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.

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(7) To increase the reach of banks to the tiny sector, tending by banks of Non- Banking Financial Companies (NBFCs) or other financial intermediaries for purpose of on lending to the tiny sector, has been included within the definition of priority sector for bank lending.

(8) Exemption from excise duty, as given to SSI units, will be extended to goods bearing a brand name of other manufacturers in rural areas.

(9) The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crores to Rs. 1 crore.

## **IMPACT OF GLOBALIZATION AND LIBERALIZATION ON SSI**

Before the introduction of new economic reforms in 1991 following the inevitable globalization, the SSI sector was overprotected. The small scale industry never had a strong desire to grow to medium and large scale because of the benefits of protection given to it. Many of the policies also discouraged the growth of small scale units into large ones and had a stunting effect on manufacturing, employment and output growth. With the globalization, the SSIs are now exposed to sever competition both from largescale sector, domestic and foreign and MNCs. The effect of globalization can be summarized as below.

(1) The new policies of the government towards liberalization and globalization without ensuring the interest or priority of small-scale sector resulted in poor growth rate of SSI sector. The SSI sector has suffered because of the lending institutions and promotional agencies, whose main agenda is to serve big units and multinationals.

(2) The problems of SSI in liberalized environment have become multidimensional delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.

(3) Globalization resulted in opening up of markets, leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on import by 2001 and all export subsidies by 2003. As a result every enterprise in India whether small-scale or large scale has to face competition. The process was initiated for small-scale units by placing 586 of its 812 reserved items on the open general license list of imports.

(4) With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market. The 1990's witnessed the entry of multinational companies in areas such as automobiles, electronics and IT based sectors.

In the changed environment after globalization and liberalization, the policies and projects for the SSI sectors will have to be effective and growth oriented (not just protecting) so as to achieve competitiveness.

In order to protect, support and promote small enterprises, a number of protective and promotional measures have been undertaken by the central government.

The promotional measures cover the following:

- Industrial extension services
- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire purchase terms
- Assistance for domestic marketing as well as exports
- Special intensive for setting up enterprises in backward areas
- Technical consultancy and financial assistance for technological upgradation

## **IMPACT OF WTO/GATT ON SSI**

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred world wide in favour of the free market forces and tilt away from state regulation/intervention in economic activity. This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows. The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms.

Increased market access to imports will mean opening up the domestic market to large flows of imports. The removal of quantitative restrictions on imports of these items will soon be freed from all restrictions as announced in the recent import-export policy. Increased market access will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in present contest.

SSIs have to face threats and also avail opportunities owing to the WTO and its agreements. The main opportunities of the WTO are classified into three. Firstly, national treatment of exportable items across the countries all over the world, with better market access through the internet. Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions. Finally, industries that are in constant touch with government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit. India has real chance of becoming superpower in the service sector, particularly IT. It has already captured about 25 percent of world exports.

## **SUPPORT**

### **Meaning and Need for Support**

Finance is one of the essential requirements of any line of activity. Before actually setting up their units, small entrepreneurs need to know

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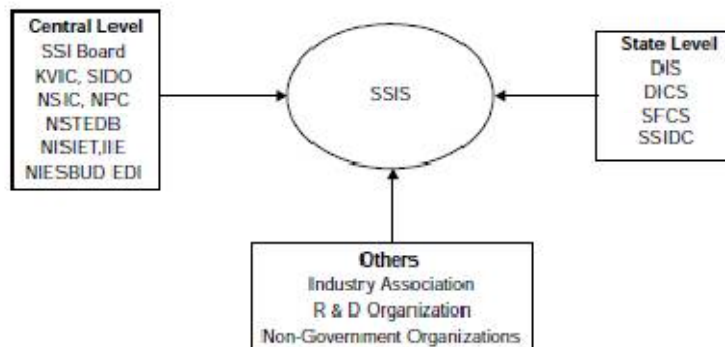
very clearly about the type and extent of their financial requirements. Integral to financial requirements is to know about the possible alternative sources from which finance can be availed of. Given the shortage of own funds, the Government of India as a part of its policy of promotion of small-scale sector in the country, has set up a host of institutions to meet the financial requirements of small entrepreneurs. Starting an industrial unit require various resources and facilities. Small scale enterprises, given their small resources, find it difficult to have these own. Finance has been an important resource to start and run an enterprise because it facilitates the entrepreneur to procure land, labour, material, machine and so on from different parties to run his/her enterprise. Hence finance is considered as “life blood” for an enterprise. Recognizing it, the Government through her financial institutions and nationalized banks, has come forward to help small entrepreneurs provide them funds. Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activities, a minimum level of prior built up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the Government to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various central and state government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of institutional support helps make the economic environment more conducive to business or industry. The various kinds of support and facilities provided are discussed in the next section. The various central, state government institutions are discussed in detail in chapter 7.

### **AGENCIES OF GOVERNMENT FOR SSI**

The ministry of small scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, programmes and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other central/state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of policies, programmes and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organization (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and various training institutes. The institutional network can be broadly classified as under and is shown in fig. 6.2.

- (1) Central level institutions/agencies
- (2) State level institutions/agencies
- (3) Other agencies



## NATURE AND TYPES OF SUPPORTS

### Policy Support

- (1) The investment limit for the tiny sector will continue to be Rs. 25 lakh.
- (2) The investment limit for the SSI sector will continue to be at Rs. 1 crore.
- (3) The ministry of SSI and ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology upgradation and to enable them to maintain their competitive edge.
- (4) The Limited Partnership Act will be drafted quickly and enacted. Attempt will be made to bring the bill before the next session of parliament.

### Fiscal Support

To improve the competitiveness of small-scale sector the exemption for excise duty Limit rose from Rs. 50 lakhs to Rs. 1 crore.

- (1) The composite loans limit rose from Rs. 10 lakh to Rs. 25 lakh.
- (2) The Small-Scale Service and Business (Industry Related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.
- (3) In the National Equity Fund Scheme, the project cost limit will be raised from Rs 25 lakh to Rs 50 lakh. The soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.
- (4) The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.

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(5) The Department of Economic Affairs will appoint a Task Force to suggest revitalization/restructuring of the State Finance Corporations.

(6) The Nayak Committee's recommendations regarding provision of 20 percent of the projected turnover as working capital is being recommended to the financial institutions and banks.

#### **Infrastructure Support**

(1) The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with 50 percent reservation for rural areas.

(2) Regarding upgrading Industrial Estates which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.

(3) A plan scheme for cluster Development will be drawn up.

(4) The Funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centers, for cluster Development and for setting up of IIDs in the North-East including Sikkim.

#### **Technological Support and Quality Improvement**

(1) Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter-ministerial committee of Experts will be set up to define the scope of technology upgradation and sectorial priorities.

(2) To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e., till the end of the 10<sup>th</sup> plan.

(3) Setting up of incubation centers in Sunrise Industries will be supported.

(4) The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET programme) and APCTT.

(5) SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.

(6) Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.

(7) One-time capital grant of 50 percent will be given to Small-Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

#### **Marketing Support**

(1) SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.

(2) The vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

#### **Informational Support**

(1) General information.

(2) Technical/Marketing expertise in specific areas.

(3) Technical and financial expertise.

(4) Implementation assistance for turn-key projects.



### **Incentives and Subsidies**

- (1) Export-import subsidies.
- (2) Interest free loans.
- (3) Subsidy for R & D work.
- (4) Capital investment subsidy.
- (5) Transport subsidy.
- (6) Interest subsidy.
- (7) Subsidy for power generation.
- (8) Exemption from property tax.
- (9) Incentives for NRI.
- (10) Exemption from income tax.
- (11) Sales tax exemptions.
- (12) Price preference to SSIs.
- (13) Subsidy/assistance for technical consultancy.
- (14) Exemptions from stamp duty.
- (15) Provisional for seed capital.
- (16) Allotment of controlled or subsidized raw materials.
- (17) Subsidy for cost of market study/feasibility study or reports.

### **Other Types of Support**

- (1) Streamlining Rules and Regulations.
- (2) Entrepreneurship development training.
- (3) Rehabilitation of sick units.

## **ANCILLARY, TINY AND SERVICE INDUSTRIES**

An ancillary unit is one, which sells not less than 50 % of its manufactures to one or more industrial units. The limit of investment is same for ancillary units and small scale industries.

The investment limit for tiny industry is Rs. 25 lakh in plant and machinery. There is no restrictive condition of the location of the unit in small towns. These enterprises would be entitled to preference in land allocations, power connection, access to facilities or skill/technical upgradation. These would also have easy access to institutional finance, priority in Government purchases and relaxation in labor laws.

Service units provide services such as hotel and hospital services. The investment ceiling is fixed at Rs. 1.0 million (excluding land and buildings).

In India a small-scale industry is defined as an industry having gross value of fixed asset in plant and equipment up to Rs. 1 crore. The characteristics of SSI are one man- show, scope of operation is generally localized, low gestation period, fairly labour intensive and generally makes use of local resources. The rationale of SSI can be broadly classified into employment argument, equality argument, decentralization argument and latent resource argument. SSI plays a crucial role in economic development. An entrepreneur has to follow a step-by-step procedure to start an enterprise right from identification of opportunities. The Government's objectives and intensions towards SSI were announced through her five Industrial policy Resolutions (IPR). The main thrust of IPR 1948 was protection, in IPR 1956 it was protection plus development, in IPR 1977 the focus was on protection, development and promotion. The IPR 1990 focus was on promotion of

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equality, technology and efficiency. In 1991 new economic policies were announced.

Notes

The Government of India has given great importance for the development of small scale sector in the successive five year plans. The total expenditure towards SSI in first five year plan was Rs. 48 Crore and in the eighth five year plan total expenditure towards SSI was Rs. 6334 Crore. Globalization, Liberalization, WTO and GATT have impact on SSIs, both positive and negative. The agencies of the Government to be contracted are classified as State and central Government agencies. These agencies provide financial support, technical support and marketing support etc.

### **REVIEW QUESTIONS**

1. What do you mean by Small-Scale industry? List the characteristics of Small-scale industries.
2. Explain the rationale of SSI. Enumerate the objectives of SSI. Discuss the scope SSI.
3. Explain the role of SSI in economic development. Discuss the advantages of SSI.
4. Explain in brief the steps involved in starting an SSI. Explain the Government policy for SSI through five Industrial Policy Resolutions.
5. Discuss the Government's support to SSI during five year plans.
6. Explain the impact of Globalization and Liberalization on SSI.
7. Explain the impact of WTO and GATT on SSI. Discuss agencies of Government for SSI.
8. Discuss the meaning and need of support. Explain in brief the nature and types of support for SSI.

### **FURTHER READINGS**

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi
5. Entrepreneurship and Small Business Management- B. S. Bhatia

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# UNIT-3 INSTITUTIONAL SUPPORT

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INSTITUTIONAL  
SUPPORT

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- ❖ National Small Industries Corporation (NSIC)
- ❖ Small Industries Development Organization (SIDO)
- ❖ Small Industries Service Institutes (SISI)
- ❖ Small Scale Industries Board (SSIB)
- ❖ State Small Industries Development Corporations (SSIDC)
- ❖ District Industries Centres (DIC)
- ❖ Technical Consultancy Services
- ❖ Small Industries Development Bank Of India (SIDBI)
- ❖ Review Questions
- ❖ Further Readings

The list of various State and Central Government agencies supporting small-scale industries is given in previous chapter. Their activities and functions are discussed in the following sections.

## NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small-scale enterprises.

1. **Single point registration:** Registration under this scheme for participating in government and public sector undertaking tenders.
2. **Information service:** NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.
3. **Raw material assistance:** NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.
4. **Meeting credit needs of SSI:** NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.
5. **Performance and credit rating:** NSIC gives credit rating by international agencies subsidized for small enterprises up to 75% to get better credit terms from banks and export orders from foreign buyers.
6. **Marketing assistance programme:** NSIC participates in government tenders on behalf of small enterprises to procure orders for them.

## SMALL INDUSTRIES DEVELOPMENT ORGANIZATION (SIDO)

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries

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Service Institute) 31 extension centers of SISI and 7 centers related to production and process development.

The activities of SIDO are divided into three categories as follows:

**(a) Coordination activities of SIDO:**

(1) To coordinate various programmes and policies of various state governments pertaining to small industries.

(2) To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.

(3) Implement and coordinate in the development of industrial estates.

**(b) Industrial development activities of SIDO:**

(1) Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.

(2) To give essential support and guidance for the development of ancillary units.

(3) To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.

(4) To recommend the central government for reserving certain items to produce at SSI level only.

**(c) Management activities of SIDO:**

(1) To provide training, development and consultancy services to SSI to develop their competitive strength.

(2) To provide marketing assistance to various SSI units.

(3) To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.

(4) To help them get updated in various information related to the small-scale industries activities.

## **SMALL INDUSTRIES SERVICE INSTITUTES (SISI)**

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

**The main functions of SISI include:**

(1) To serve as interface between central and state government.

(2) To render technical support services.

(3) To conduct entrepreneurship development programmes.

(4) To initiate promotional programmes.

**The SISIs also render assistance in the following areas:**

(1) Economic consultancy/information/EDP consultancy.

(2) Trade and market information.

(3) Project profiles.

(4) State industrial potential surveys.

(5) District industrial potential surveys.

(6) Modernization and in plant studies.

(7) Workshop facilities.

(8) Training in various trade/activities.

## **SMALL SCALE INDUSTRIES BOARD (SSIB)**

The government of India constituted a board, namely, Small Scale Industries Board (SSIB) in 1954 to advice on development of small

scale industries in the country. The SSIB is also known as central small industries board. The range of development work in small scale industries involves several departments /ministries and several organs of the central/state governments. Hence, to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advice to the government on all issues pertaining to the development of small-scale industries.

The industries minister of the government of India is the chairman of the SSIB. The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.

### **STATE SMALL INDUSTRIES DEVELOPMENT CORPORATIONS (SSIDC)**

The State Small Industries Development Corporations (SSIDC) were set up in various states under the companies' act 1956, as state government undertakings to cater to the primary developmental needs of the small tiny and village industries in the state/ union territories under their jurisdiction. Incorporation under the companies act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefit of the small sector.

The important functions performed by the SSIDCs include:

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.
- To provide assistance for marketing of the products of small-scale industries.
- To construct industrial estates/sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned provide management assistance to production units.

### **DISTRICT INDUSTRIES CENTERS (DIC)**

The District Industries Centers (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

The main functions of DIC are:

- (1) To prepare and keep model project profiles for reference of the entrepreneurs.

MSSIE	(2) To prepare action plan to implement the schemes effectively already identified.
Notes	<p>(3) To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e., industrial sector, service sector and business sector.</p> <p>(4) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of its supply and procedure for importing machineries.</p> <p>(5) To provide guidance for appropriate loan amount and documentation.</p> <p>(6) To assist entrepreneurs for availing land and shed equipment and tools, furniture and fixtures.</p> <p>(7) To appraise the worthiness of the project-proposals received from entrepreneurs.</p> <p>(8) To help the entrepreneurs in obtaining required licenses/permits/clearance.</p> <p>(9) To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.</p> <p>(10) To conduct product development work appropriate to small industry.</p> <p>(11) To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.</p> <p>(12) To conduct artisan training programme.</p> <p>(13) To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojgar Yojana).</p> <p>(14) To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.</p> <p>(15) To help the specialized training organizations to conduct Entrepreneur development programmes.</p> <p>In fine DIC's function as the torch-bearer to the beneficiaries/entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So the role of DIC's in enterprise building and developing small scale sector is of much significance.</p>

### **TECHNICAL CONSULTANCY SERVICES ORGANIZATION OF KARNATAKA (TECSOK).**

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing; IT related studies, detailed feasibility studies and reports. TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas through feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and

also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry.

TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition it offers expert professional services to various institutions and departments of the state and central government.

TECSOK undertake the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys.
- Fact-finding and opinion reports.
- Corporate planning.
- Collection and collation of information.
- Impact assessment.
- Evaluation of schemes and programmes.
- Asset evaluation.
- Infrastructure development project proposal.
- Event management and publicity campaigns, and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced engineers in different disciplines, MBAs economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

#### **Focused Consultancy Areas of TECSOK**

**Promotion of agro based industries:** TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

**Energy management and audit:** Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

**Environment and ecology:** TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka cleaner production center (KCPC) to provide total consultancy support in the area of environment.

**Human Resource Development:** TECSOK designs and organizes business development programmes, management development

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workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage local entrepreneurs TECSOK organizes awareness campaigns and motivation programmes in taluks and districts throughout Karnataka.

Other TECSOK activities:

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.
- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas.
- System study and software development.
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- Designing and organizing training programme.

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

For ensuring larger flow of financial and non-financial assistance to the small scale sector, the government of India set up the Small Industries Development Bank of India (SIDBI) under Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector. The important functions of IDBI are as follows:

- (1) To initiate steps for technological upgradation and modernization of existing units.
- (2) To expand the channels for marketing the products of SSI sector in domestic and international markets.
- (3) To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

The SIDBI's financial assistance to SSIs is channeled through existing credit delivery system comprising state financial corporations, state industrial development corporations, commercial banks and regional rural banks. In 1992-93 it has introduced two new schemes. The first is equipment finance scheme for providing direct finance to existing well-run small-scale units taking up technology upgradation/modernization and refinance for resettlement of voluntarily retired workers of NTC. The other new scheme was venture capital fund exclusively for small-scale units, with an initial corpus of Rs 10 crore. SIDBI also provides financial support to national small industries corporation (NSIC) for providing leasing, hire-purchase and marketing support to the industrial units in the small scale sector.



## **KARNATAKA INDUSTRIAL AREAS DEVELOPMENT BOARD (KIADB)**

INSTITUTIONAL  
SUPPORT

*Notes*

The Karnataka industrial areas development board is statutory board constituted under the Karnataka industrial area development act of 1996. Since then it is in the business of apportioning land for industries and gearing up facilities to carryout operations. The KIADB now acquires and provides developed land suited for industrialization, by drawing up well laid-out plots of varying sizes to suit different industries with requisite infrastructure facilities. The facilities include roads, drainage, water supply etc. The amenities such as banks, post offices, fire stations, police outposts, ESI dispensaries etc are also provided. It also plans to initiate the provision of common effluent treatment plants wherever necessary.

KIADB has acquired a land of 39,297 acres out of which 21,987 acres had been developed till March 1996. Developed industrial plots had been allotted to 7882 units. Application forms for the allotment of land may be obtained from the executive member, KIADB Bangalore or general manager DIC of concerned district or from the Zonal office of KIADB located at Mysore, Mangalore, Dharwad, Gulbarga, Bidar, Hassan and Belgaum. Applications duly filled must be accompanied by:

- (a) A brief project report.
- (b) Details of constitution of the company
- (c) Provisional registration certificate
- (d) EMD of Rs 500/- per acre, subject to a maximum of Rs 10,000/- along with 20%, 15% and 5% of the land cost for various districts.

On receipt of applications for all districts other than Bangalore, a discussion with the promoters regarding the project will be held in the concerned district headquarters. The district level allotment committee will take a decision on allotment of land to the SSI units.

In case of Bangalore, the screening committee comprising of executive member KIADB, director of SISI, chief advisor TECSOK with discuss the project and make necessary recommendation to a sub-committee. The sub-committee will in turn allot the land. Once land is allotted the remaining payment should be made within six months of the date of issue of allotment letter.

The industry should be started after obtaining the necessary license/clearance/ approval from the concerned authorities. Plans for the proposed factory/ building or other structure to be erected on the allotted sites are executed only after prior approval of the board. On being satisfied that the land is not being put to the prescribed use, the board reserves the right to re-enter and take possession of the whole or any part of the land. If necessary the leasehold rights on the allotted land may be offered as security in order to obtain financial assistance from the government or corporate bodies. However, prior permission of the board has to be obtained for creating second and subsequent charges of the land.

## KARNATAKA STATE FINANCIAL CORPORATION (KSFC)

The KSFC was established by the government of Karnataka in 1956 under the state financial corporation act 1951 for extending financial assistance to set up tiny, small and medium scale industrial units in Karnataka. Since 1956 it is working as a regional industrial development bank of Karnataka. KSFC has a branch office in each district; some districts have more than one branch.

KSFC extends lease financial assistance and hire purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has merchant banking department which takes up the management of public issues underwriting at shores, project report preparation, deferred payment guarantee, and syndication of loans, bill discounting and similar tasks.

KSFC give preference to the projects which are

- (i) Promoted by technician entrepreneur.
- (ii) In the small-scale sector.
- (iii) Located in growth centers and developing areas of the state;
- (iv) Promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society.
- (v) Characterized by high employment potential.
- (vi) Capable of utilizing local resources; and
- (vii) In tune with the declared national priorities.

The eligible industrial concerns for financial assistance from KSFC are those engaged/to be engaged in manufacture, preservation, processing of goods, mining, power generation transport, industrial estate, hotels, R & D of any product or process of industrial concern, weigh bridge facilities, power laundries, photocopying, hiring of heavy material handling equipment, cranes and other earth moving equipments, hospitals, nursing homes, medical stores, computers, tourism related activities, construction of roads, tissue and horticulture software development, software parks, block board vehicles, office construction, go down and warehouse construction, mobile canteens, commercial complexes, training institutes, office automation and so on.

### **Loan Schemes of KSFC**

KSFC has evolved loan schemes for extending financial assistance to industrial concerns promoted by rural artisans, weaker sections of society, disabled entrepreneurs, exservicemen, women entrepreneurs and others.

**The various loan schemes of KSFC are given below:**

- (1) Composite loan scheme
- (2) Disabled entrepreneurs loan scheme.
- (3) Scheduled cast and scheduled tribe's loan scheme.
- (4) Ex-service men loan scheme.
- (5) National equity fund scheme.
- (6) Mahila Udyama nidhi loan scheme.
- (7) Single window loan scheme.
- (8) Transport loan scheme.
- (9) Computer loan scheme.
- (10) Modernization loan scheme.

- (11) Diesel generator loan scheme.
- (12) Equipment finance loan scheme.
- (13) Tourism related activities loan scheme.
- (14) Hospital/nursing / medical store loan scheme.
- (15) Electro-medical equipment loan scheme.
- (16) Assistance for acquiring indigenous or imported second-hand machinery.
- (17) Qualified professionals loan scheme.
- (18) Scheme of assistance for acquisition of ISO 9000 series of certification.
- (19) Hotel /mobile canteen loan scheme.
- (20) Industrial estate loan scheme.
- (21) Loan scheme for office automation.
- (22) Loan scheme for training institution.
- (23) Loan scheme for private software technology parks.
- (24) Loan scheme for commercial complexes.
- (25) Industrial estate loan scheme.
- (26) Loan scheme for ready-built office/construction of new office building.
- (27) Loan scheme for acquisition of land/building/commercial space.
- (28) Loan schemes for marketing related activities.

**Equity lease finance:** Industrial concerns engaged in production for the preceding two years, earning profits and regular in repayment to financial institutions/banks, can avail the services of plant and machinery/equipment on lease without making investment or incurring debt obligation and become more competitive and efficient. The minimum assistance is Rs 5 lakh.

**Hire purchase:** This scheme provides for a fast, easy alternative to ready cash. Industrial concerns in commercial production for two years and earning profits and regular in repayment to financial institutions/banks can avail assistance of Rs. 1 lakh. Professionals and commercial operators can also avail hire purchase assistance.

The various central government agencies for support of SSI are SSI board, KVIC, SIDO, NSIC, NSTEDB, NPC, NISIET etc. The state government agencies are DI, DIC, SFC, SIDC, SIIC, SSIDC etc. NSIC provides information services, fulfills raw material requirements of SSIs, meets credit needs and provides marketing assistance. SIDO is a nodal agency for identifying needs of SSI units, coordinating and monitoring the policies and programmes for promotion of small industries. The activities of SIDO are divided into coordination activities, industrial development activities and management activities. SISI serve as interface between central and state government, render technical support services, conduct entrepreneurship development programme and initiate promotional programmes.

SSIB has constituted to facilitate coordination and to act as inter-institutional linkage. SSIDCs were setup in 1956 under companies act. The important function of SSIDC are procuring and distributing scarce raw material, supplying machinery on hire purchase system, providing marketing assistance and to construct industrial sheds. The district industries centers were started in 1958 to provide integrated

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administrative framework at the district level for promotion of small scale industries in rural areas. The main functions of DIC are preparing and keeping model project profiles, prepare action plans, carrying out industrial potential survey to identify feasible ventures, providing assistance for land/shed, equipment etc.

TECSOK is leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, merger and acquisition etc. KIADB is in the business of apportioning land for industries and gearing up facilities to carry out operations.

KSFC was established in 1956 for extending financial assistance to tiny, small and medium industries. It extends lease financial assistance, hire purchase assistance for acquisition of machinery/equipment/transport vehicles. KSFC has evolved more than thirty loans schemes.

### **REVIEW QUESTIONS**

1. Discuss the support provided by NSIC to small scale industries.
2. Explain various activities of SIDO.
3. Explain the functions of SISI. Enumerate various types of assistances rendered by it.
4. Discuss the important functions of SSIDC.
5. Explain in brief the main function of DIC.
6. Discuss the various activities of TECSOK.
7. Explain the focused consultancy areas of TECSOK.
8. Explain the procedure for getting industrial sheds/plots from KIADB.
9. Enumerate the projects for which KSFC gives preference.
10. List various loan schemes of KSFC.
11. Discuss equity lease finance and hire purchase schemes of KSFC.

### **FURTHER READINGS**

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi
5. Entrepreneurship and Small Business Management- B. S. Bhatia

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# UNIT-4 PREPARATION OF PROJECT

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PREPARATION OF  
PROJECT

Notes

## CONTENTS

- ❖ Meaning of Project
- ❖ Project Classification
- ❖ Project Identification
- ❖ Project Selection
- ❖ Meaning and Significance of Project Report
- ❖ Contents of a Project Report
- ❖ Formulation of Project Report
- ❖ Planning Commission Guidelines
- ❖ Network Analysis
- ❖ Common Mistakes by Entrepreneurs in Project Formulation
- ❖ Project Appraisal: Meaning and Definition
- ❖ Identification of Opportunity
- ❖ Project Feasibility Study
- ❖ Review Questions
- ❖ Further Readings

## MEANING OF PROJECT

An entrepreneur takes numerous decisions to convert his business idea into a running concern. His/Her decision making process starts with project/product selection. The project selection is the first corner stone to be laid down in setting up an enterprise. The success or failure of an enterprise largely depends upon the project. The popular English proverb “well began is half done” applies to project selection also indicates the significance of good beginning.

The dictionary meaning of project is that is a scheme, design a proposal of something intended or devised to be achieved. Newman and his associates define that “a project has typically has a distinct mission that it is designed to achieve and clear termination point, the achievement of the mission. Gillinger defines project “as a whole complex of activities involved in using resources to gain benefits”. According to Encyclopedia of management, “a project is an organized unit dedicated to the attainment of goal—the successful completion of a development project on time, within budget, in conformance with predetermined 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.

Project can differ in their size, nature of objectives, time duration and complexity. However projects partake of the following three basic attributes:

- (i) A course of action
- (ii) Specific objectives and
- (iii) Definite time perspectives.

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

## PROJECT CLASSIFICATION

Project classification helps in expressing and highlighting the essential features of project. Different authorities have classified projects differently. The following are some of the important classification of projects.

### (1) Quantifiable and Non-Quantifiable Projects

Quantifiable projects are those in which possible quantitative assessment of benefits can be made. Non-quantifiable projects are those where such assessment is not possible. Projects concerned with industrial development, power generation, mineral development fall in the first category while projects involving health, education and defense fall in the second category.

### (2) Sectional Projects

Here the classification is based on various sectors like

- Agriculture and allied sector
- Irrigation and power sector
- Industry and mining sector
- Transport and communication sector
- Information technology sector
- Miscellaneous

This system of classification has been found useful in resource allocation at macro level.

### (3) Techno-Economic Projects

Classification of projects based on techno-economic characteristic fall in this category. This type of classification includes factors intensity-oriented classification, causation oriented classification as discussed below.

(a) **Factor intensity-oriented classification:** Based on this projects may be classified as capital intensive or labor intensive if large investment is made in plant and machinery the project will be termed as capital intensive. On the other hand project involving large number of human resources will be termed as “labor intensive”.

(b) **Causation-oriented classification:** On the basis of causation, projects can be classified as demand based and raw material based projects. The availability of certain raw materials, skills or other inputs makes the project raw-material based and the very existence of demand for certain goods or services make the project demand-based.

(c) **Magnitude-oriented classification:** This is based on the size of investment involved in the projects, accordingly project are classified into large scale, medium-scale or small-scale projects. The selection of a project consists of two main steps: Project identification and project selection.

## PROJECT IDENTIFICATION

Often indenting entrepreneurs always are in search of project having a good market but how without knowing the product coat they determine market whose market they find out without knowing the item i.e. product? Idea generation about a few projects provides a way to come out of the above tangle.

**IDEA GENERATION**

The process of project selection starts with idea generation. In order to select most promising and profitable project, the entrepreneur has to generate large number of ideas about the possible projects he can take. The project ideas can be discovered from various internal and external sources. These may include:

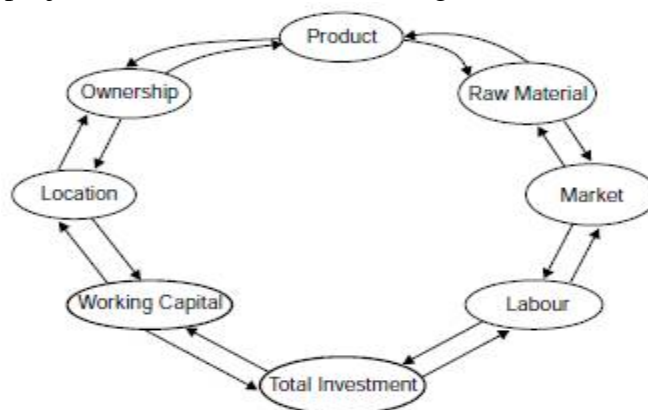
- (i) Knowledge of potential customer needs.
- (ii) Personal observation of emerging trends in demand for certain products.
- (iii) Scope for producing substitute product.
- (iv) Trade and professional magazines which provide a very fertile source of project ideas.
- (v) Departmental publications of various departments of the government.
- (vi) Success stories of known entrepreneurs or friends or relatives.
- (vii) A new product introduced by the competitor.
- (viii) Ideas given by knowledgeable persons.

All these sources putting together may give few ideas about the possible projects to be examined among which the project must be selected. After going through these sources if an entrepreneur has been able to get six project ideas, one project idea will be finally selected going through the following selection process.

**PROJECT SELECTION**

Project selection starts once the entrepreneur has generated few ideas of project. After having some ideas, these project ideas are analyzed in the light of existing economic conditions, market conditions, and the government policy and so on. For this purpose a tool is generated used what is called SWOT analysis. The intending entrepreneur analyses his strengths and weaknesses as well as opportunities/competitive advantages and threats/challenges offered by each of the project ideas. In addition the entrepreneur needs to analyze other related aspects also like raw material, potential market, labor, capital, location and forms of ownerships etc. Each of these aspects has to be evaluated independently and in relation to each of these aspects. This forms a continuous and back and forth process as shown in fig 8.1.

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 few projects is also termed as “Zeroing in Process”.



: Interdependent aspects of projects

Readers are advised to note that there is a time interval involved in between project identification and project selection. In some cases it may be few months and in others it may be few minutes.

## **MEANING AND SIGNIFICANCE OF PROJECT REPORT**

As is discussed in the previous section, Webster new 20<sup>th</sup> century dictionary defines as a scheme, design a proposal something intended or devised. A project report or a business plan is a written statement of what an entrepreneur proposes to take up. It is a kind of guide frost or course at action what the entrepreneur hopes to achieve in his business and how is he going to achieve it. A project report serves like a kind of big road map to reach the destination determined by entrepreneur. Hence a project report can be defined as a well evolved course of action devised to achieve the specified objectives within a specified period of time. It is like an operating document.

The preparation of project report is of great significance for an entrepreneur. The project report serves two essential purposes. The first is 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. In addition it enables the entrepreneur to know that he is proceeding in the right direction. Dan Steinhoff and John F. Burgess hold the view that without well spelled out goals and operational methods, most businesses flounder on the rocks of hard times.

The second purpose of the project report is to attract lenders and investors. The preparation of project report is beneficial for those small scale enterprises which apply for financial assistance from the financial institutions and commercial banks. On the basis of this project report the financial institutes make appraisal and decide whether financial assistance should be given or not. If yes how much. Other organizations which provide various assistance like work shed/land, raw material etc, also make decision on the basis of this project report.

## **CONTENTS OF A PROJECT REPORT**

The significance of project report as discussed above makes it clear that there is no substitution for business plan or project report and there are no shortcuts to prepare it. The more concrete and complete project report not only serves as road map but also earns the respect of outsiders who support in making and running an enterprise. Hence project report should be prepared with great care and consideration. A good project report should contain the following.

- (1) **General information:** Information on product profile and product details.
- (2) **Promoter:** His/her educational qualification, work experience, project related experience.
- (3) **Location:** exact location of the project, lease or freehold, location advantages.



- (4) **Land and building:** land area, construction area, type of construction, cost of construction, detailed plan and estimate along with plant layout.
- (5) **Plant and machinery:** Details of machinery required, capacity, suppliers, cost, various alternatives available, cost of miscellaneous assets.
- (6) **Production process:** Description of production process, process chart, technical know how, technology alternatives available, production programme.
- (7) **Utilities:** Water, power, steam, compressed air requirements, cost estimates sources of utilities.
- (8) **Transport and communication:** Mode, possibility of getting costs.
- (9) **Raw material:** List of raw material required by quality and quantity, sources of procurement, cost of raw material, tie-up arrangements, if any for procurement of raw material, alternative raw material, if any.
- (10) **Man power:** Man power requirement by skilled and semi-skilled, sources of manpower supply, cost of procurement, requirement for training and its cost.
- (11) **Products:** Product mix, estimated sales distribution channels, competitions and their capacities, product standard, input-output ratio, product substitute.
- (12) **Market:** End-users of product, distribution of market as local, national, international, trade practices, sales promotion devices, proposed market research.
- (13) **Requirement of working capital:** Working capital required, sources of working capital, need for collateral security, nature and extent of credit facilities offered and available.
- (14) **Requirement of funds:** Break-up project cost in terms of costs of land, building machinery, miscellaneous assets, preliminary expenses, contingencies and margin money for working capital, arrangements for meeting the cost of setting up of the project.
- (15) **Cost of production and profitability of first ten years.**
- (16) **Break-even analysis.**
- (17) **Schedule of implementation.**

## **FORMULATION OF PROJECT REPORT**

A project report is like a road map. It is an operating document. What information and how much information it contain depends upon the size of the enterprise, as well as nature of production. For example small-scale enterprises do not include technology which is used for preparing project reports of large-scale enterprises. Within small-scale enterprises too, all information may not be homogeneous for all units. Vinod Gupta has given a general set of information in his study "Formation of a project report." According to Gupta, project formulation divides the process of project development into eight distinct and sequential stages as below:

- (1) General information
- (2) Project description
- (3) Market potential
- (4) Capital costs and sources of finance
- (5) Assessment of working capital requirements

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- (6) Other financial aspects
- (7) Economical and social variables
- (8) Project implementation

The nature of formation to be collected and furnished under each of these stages has been given below.

#### **(1) General Information**

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

**Bio-data of promoter:** Name and address, qualifications, experience and other capabilities of the entrepreneur. Similar information of each partner if any.

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

**Constitution and organization:** The constitution and organization structure of the enterprise; in case of partnership firm its registration with registrar of firms, certification from the directorate of industries /district industry centre.

**Product details:** Product utility, product range, product design, advantage to be offered by the product over its substitutes if any.

#### **(2) Project Description**

A brief description of the project covering the following aspects should be made in the project report.

**Site:** Location of the unit; owned, rented or leasehold land; industrial area; no objection certificate from 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.

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

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

(c) **Utilities:** These include:

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

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

(iii) **Water:** The sources of water, quality and quantity available.

(d) **Pollution control:** The aspects like scope of dumps, sewage system, sewage treatment plant, infiltration facility etc., should be mentioned.

(e) **Communication and transportation facility:** The availability of communication facilities, e.g., telephone, fax, telex, internet etc., should be indicated. Requirements for transport, mode of transport, potential means of transport, approximate distance to be covered, bottlenecks etc., should be stated in the business plan.

(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 machines 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) **Other common facilities:** Availability of common facilities like machine shops, welding shops and electrical repair shops etc should be stated in the project report.

(k) **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 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, what is the gap between demand and supply and how much gap will fill up by the proposed unit.

(b) **Expected price:** Expected price of the product to be realized should also be mentioned.

(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 should normally be stated in the project report.

### **(4) Capital Costs and Sources of Finance**

An estimate of the various components of capital items like land and buildings, plant and machinery, installation costs, preliminary expenses, margin of working capital should be given in the project report. The sources should indicate the owners funds together with funds raised from financial institutions and banks.

### **(5) Assessment of Working Capital**

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

### **(6) Other Financial Aspects**

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 this, the break even analysis should also be presented. Break even point is the level of production at which the enterprise shall earn neither profit nor incur loss. Breakdown level indicates the gestation period and the likely moratorium required for repayment of the loans. Break-even point is calculated as

Break-Even Point (BEP) =  $F/S-V$

Where F = Fixed Cost

S = Selling Price/Unit

V = Variable Cost/Unit

MSSIE The break-even point indicates at what level of output the enterprise will break even.

Notes **(7) Economical and Social Variables**

Every enterprise has social responsibility. 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. Arrangements made for treating the effluents and emissions should also be mentioned in the report. In addition the following socio-economic benefits should also be stated in the report.

(i) Employment Generation

(ii) Import Substitution

(iii) Ancillaration

(iv) Exports

(v) Local Resource Utilization

(vi) Development of the Area

**(8) Project Implementation**

Every entrepreneur should draw an implementation scheme or a timetable for his project to the timely completion of all activities involved in setting up an enterprise. If there is delay in implementation project cost overrun. Delay in project implementation jeopardizes the financial viability of the project, on one hand, and props up the entrepreneur to drop the idea to set up an enterprise, on the other. Hence there is need to draw up an implementation schedule for the project and then to adhere to it.

PERT and CPM discussed later in this chapter can be used to get better insight into all activities related to implementation of the project.

**PLANNING COMMISSION GUIDELINES**

In order to process investment proposals and arrive at investment decisions, the planning Commission has issued guidelines for preparing/formulating industrial projects. The guidelines have been summarized 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 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 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 their level of production actually attained, a list of all projects for which letters of intent 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 and its implications should also be looked into. An account of the foreign exchange requirement should be taken. The profitability of different options should also be looked into. An account of the foreign exchange

requirement should 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 report should provide a brief description of the technology/process chosen for the project. Information relevant for determining the optimality of the location 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, land, air, flora, fauna, effects arising out of the project's pollution, other environmental destruction, etc. The report should contain a list of important items of capital equipment and also the 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: Data on the marketing plan, demand and prospective supply in each of the areas to be served. The methods and the data used for making 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 cost:** 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 items of operating cost should be collected. Operating costs relate to cost of raw, materials and intermediaries, 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 Performance balance sheet for the project data should be presented. Depreciation should be allowed for on the basis 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 analyze the sensitivity of the rate of return on the level and pattern of product prices.

**8. Economic analysis:** Social profitability analysis needs some adjustments in the data relating to the costs and return to the enterprise. One important type of adjustment involves a correction in input and cost, to reflect the true value of foreign exchange, labour 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 analyzed and their importance emphasized.

## NETWORK ANALYSIS

A project consists of a number of constituted activities. It is examined in detail and the details are utilized to compile the sequential narration of the constituent activities of a project. The compilation is known as the project logic. When it is represented in the form of a graphical portrayal it is called as network. Network in simple words is defined as the graphical representation of interrelated activities of the project. A network generally comprises a set of symbols connected with each other in a sequential relationship with each step making the completion of an event. The network diagram and scheduling computations enable the project formulation team to identify the longest series of activities through the project implementation phase which determines the project duration.

A number of network techniques have been developed and some of them are discussed below:

**Critical Path Method (CPM):** The CPM is a logical mathematical model of the project based upon the optimal duration required for each activity and optimal use of available limited resources. It is a deterministic model.

**Program Evaluation and Review Technique (PERT):** The PERT is primarily a scheduling technique. It shows any job or project as a set of processes of operations called 'activities' which must take place in a certain sequence. All activities have to be compelled in order to accomplish the project. It is a probabilistic model and introduces uncertainties in project network.

**Graphical Evaluation and Review Technique (GERT):** The GERT is a more recently used network. This is superior to CPM and PERT. It allows for probabilistic events while all events in CPM and PERT are deterministic. In the networks representing research and development project the process is repeated till the desired outcome is achieved. CPM and PERT cannot be used in such situations. In GERT network only simulation can be used.

**Line of Balance (LOB):** Line of balance uses graphic techniques to show the progress achieved on the project with respect to key events.

**Workshop Analysis Scheduling Programme (WASP):** This technique of networking system was developed by the British Automatic Energy Authority. However, the most commonly used techniques are PERT and CPM.

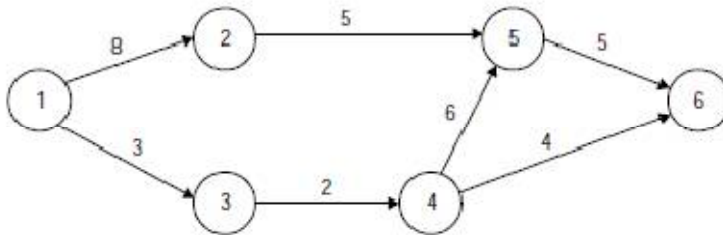
**Use of PERT:** The following steps are used in PERT:

- (1) The activities of the project are identified along with their interrelationships and graphically represented using networks.
- (2) The time required for completing each activity is estimated and noted on the network.
- (3) The minimum time required for completing the entire project is estimated.
- (4) The critical activities are identified for the efficient allocation of resources in order to complete the project earlier, if necessary.
- (5) Closer watch on critical and other activities so as to complete the project on time.

The following table gives the activities and the time required to complete each activity of the project.

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Activity	Time required to complete activity (days)
1-2	08
1-3	03
3-4	02
2-5	05
4-5	06
4-6	04
5-6	05

Path 1-2-5-6 = 8+5+5 = 18 days

Path 1-3-4-6 = 3+2+4 = 09 days

Path 1-3-4-5-6 = 3+2+6+5 = 16 days

Since the path 1-2-5-6 consumes longest time, it is known as critical path and the activities 1-2, 2-5 and 5-6 are known as critical activities. Hence the project completion time is 18 days.

**Use of CPM:** The CPM is almost similar to the PERT. However it is activity oriented and focuses on cost and not time. The CPM is generally used to find the optimum project cost and time. The optimum project cost is the minimum cost at which the project can be completed. This can be determined by using the concept of crashing of activities. Crashing of activity is nothing but reducing the time required to complete an activity, by allocations additional resources, which adds cost. CPM is also used to find minimum time at which a project can be completed, irrespective of cost, which may be necessary under crisis situations.

#### **Advantages of PERT**

- (1) It determines the expected duration of activities and consequently of the project duration.
- (2) It incorporates risk analysis in project network.
- (3) It determines critical activities in the project.
- (4) It determines the most economical scheduled for fixed project duration.
- (5) It enables optimal allocation of limited resources.

#### **Limitations of PERT**

- (1) The time estimates to perform activities constitutes a major limitation of this technique.
- (2) The probability distribution of total time is assumed to be normal which in real life situations may not be true.

(3) The simple PERT technique does not consider the resources required at various stages. If a certain resource must be used to perform more than one activity and at the same time if it can be used for only one activity at a time then the network diagram will become infeasible.

#### **Advantages of CPM**

(1) CPM allows for a comprehensive view of the entire project. Because of the sequential and concurrent relationships, time scheduling becomes very effective.

(2) Identifying critical activities keeps the project manager alert and in a state of preparedness, with alternative plans ready in case these are needed.

(3) Selective management principle may be used in project management. In the network analysis, the critical activities become item 'A' the sub-critical activities item 'B' and all others, item 'C'. Breaking down the project into smaller components permits better and closer control.

(4) Through the plan schedule derived from CPM, delegation can be effectively practised.

#### **Limitations of CPM**

(1) CPM is deterministic model based on certainty assumptions as regards time. But it may not be true in practice.

(2) CPM does not use statistical analysis in making time estimates.

(3) It cannot be used as a controlling device since any changes introduced will alter the entire structure of network.

#### **Differences between PERT and CPM**

Though both PERT and CPM are used for managing projects, yet there are differences between them. These are listed in table

PERT	CPM
1. It is event oriented approach	It is an activity oriented approach
2. It allows uncertainty	It does not allow uncertainty
3. It is probabilistic model	It is deterministic model
4. It is time based	It is cost based
5. It averages time	It does not average time
6. It has three estimates of time	It has single estimate of time
7. It is suitable when high precision is required.	It is suitable where reasonable precision is required.

## **COMMON MISTAKES BY ENTREPRENEURS IN PROJECT FORMULATION**

Entrepreneurs do make mistakes while selecting and formulating their projects and evolving business plans. Some of the common errors found in project formulation are:

(1) **Selection of project area:** Entrepreneurs select wrong area of product or service by studying wrong or exaggerated data of particular industries. This happens particularly when entrepreneur gets data from the presentations and projections made by experts in the field or exhibitions or from trend analysis. The selection of a product without detailed study of product market, demand patterns, competition in the industry, change of customer taste and perceptions or mistaken overview of the demand pattern. Usually an entrepreneur selects a product which he knows best or where he has worked for long years. Example: A marketing man in textile is likely to choose textile as his product.



(2) **Market study and analysis:** Market research, study and analysis is a critical aspect for an entrepreneur in selection of a product and market segment. Any decision based on scanty, wrong or un-organized data will give a distorted demand picture leading to wrong choices. An entrepreneur should also choose products' based on the objective studies and not go by his previous experience, avoiding likes and dislikes in his personal capacity.

(3) **Selection of technology:** An appropriate technology is necessary for any new enterprise for its survival and growth. A wrong selection of technology leads to problems of costs, profit margins and feasibility issues of the entire project.

(4) **Optimistic estimates:** Over optimistic estimates by the entrepreneurs in the area of productivity, capacity utilization, prevailing marketing conditions, under estimation of competitors and pricing give wrong selection of products. Any business plan made by an entrepreneur based on wrong data, financial jugglery will give problems in selection and implementation of the project. (5) **Ownership form:** A suitable ownership form be evolved for the project to avoid stoppages and disputes.

(6) **Selection of location:** An entrepreneur should not be tempted select locations that are not viable. A location is almost permanent to any project and as such plays an important role in cost competitiveness and viability of the organization throughout its life. An entrepreneur is tempted usually on three counts, first the cheapness on and second love of the native place of the entrepreneur and third the incentives offered by the government agencies for location of industries. It could be seen that all the three alternative give a broad idea of the costs whereas the selection be made only on the basis of techno-economic analysis and overall benefits to the proposed projects. In order to process investment proposals and arrive at investment decisions, of the Planning Commission has issued guidelines for preparing formulating industrial projects. The guidelines have been summarized as follows.

## **PROJECT APPRAISAL: MEANING AND DEFINITION**

Project appraisal is an exercise whereby, a lending financial institution makes an independent and objective assessment of various aspects of an investment proposition to arrive at the financial decision. Project appraisal means the assessment of project in terms of its economic, social and financial viability. It is a complete scanning of the project. Usually banks and financial institutions conduct a critical appraisal of projects, which are submitted to them by the entrepreneur for getting loans. They have been traditionally accepting the data provided by the entrepreneur as valid while assessing the project. In fact the emphasis has largely been on the cash flow and financial viability of a project in assessing their suitability for extending the loans.

Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter person who is no way involved in or connected with its preparation and who is as such able to take an independent dispassionate and objective view of the project in its totality as also in respect of its various components.

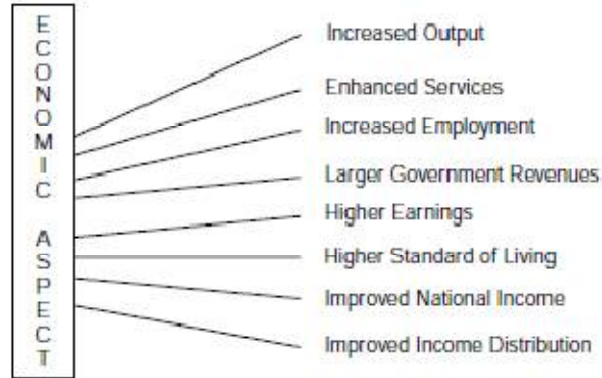
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The person who carries out appraisal of project is usually a team of institutional officials.

The appraisal of proposed project includes the following analysis:

(1) **Economic analysis:** An economic analysis looks at the project from the viewpoint of the whole economy, asking whether the latter will show benefits sufficiently greater than project cost to justify investment in it.



(2) **Financial analysis:** The purpose of the appraisal of the financial aspects of a project is generally to ensure its initiation of financial conditions for the sound implementation and efficient operation.



(3) **Market analysis:** Financial institutions examine the project to ensure economic justification of investment details. They study the marketing scope of the project and also its worth to the national economy by analyzing the consumption pattern and the potential demand for the project.

**Market analysis covers the following:**

- Anticipated market for the product
- Analysis of market opportunity and specifying marketing objectives
- Planning the process of marketing the product
- Organization for the marketing process
- Life cycle of the product

(4) **Technical analysis:** Technical appraisal of a project broadly involves a critical study of the following:

(i) **Location and site:** There are a number of aspects that influence industrial location because it may significantly influence the cost of production and distribution efficiency, the operating environment etc. The important factors that influence industrial location are raw material,

proximity to market, availability of water, power, transportation facilities, man power, labor laws, taxes, incentives, subsidies etc. The factors to be considered for selection of site are load bearing capacity, access to water, effluent discharge etc.

(ii) Size of the plant/scale of operation: The size of the plant determines the economic and financial liability of a project. An important aspect of size is the available process technology. Equipment is often standardized at specific capacities in production sectors. Operative capacities in such sectors are therefore available only in certain multiples.

(iii) Technical Feasibility: The appraisal of the technical aspects involves scrutiny of such aspects of the project as

- Technology selected
- Technical collaboration arrangements made
- Capacity/Size of the project
- Selection of plant, machinery and equipment
- Plant layout and factory building
- Technical and engineering services

(5) **Organizational analysis:** As a lender and development institution, the banks and other financial institutions place particular stress on the need and efficient organization and responsible management for the execution of the project. During project appraisal, these two aspects of a project are examined. If both aspects are not carried out properly, short term remedial steps are recommended to the entrepreneur. The objective of this aspect of appraisal is to make sure that the project is adequately carried out. The various organizational aspects are organization, structure, recruitment, training and development and so on.

(6) **Managerial aspects:** If the management is incompetent, even a good project may fail. It is rightly pointed out that if the project is weak, it can be improved upon but if the promoters are weak and lack in business acumen, it is difficult to reverse the situation. To safeguard from this problem, the financial institutions can exercise control over the assisted units. There is a provision for appointment by the financial institutions of nominee directors on the boards of all MRTP companies assisted by them. The companies act, the industries act (Development and Regulation), empower government to exercise powers of control over the management, including the takeover of management of industrial undertakings. All these indicate the importance given to proper managerial strategies to prevent mismanagement. If the proper appraisal of the managerial aspects is made in the beginning itself, future problems in this area can be avoided to a very large extent.

## **IDENTIFICATION OF OPPORTUNITY**

The reason for anyone to think of establishing an SSI unit can be summarized in single word—opportunity. The opportunity to be your own boss, to implement your own ideas, to earn for himself or herself is reason to think of starting an SSI unit. Starting an SSI needs a lot of courage. To be successful, to stay in the business an entrepreneur needs combination of hard work, skill and perseverance.

Entrepreneur who starts their own business can be grouped into two broad categories. The first category consists of people who know exactly what they want to do and are merely looking for the opportunity or

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resources to do it. These people may already developed many of skills necessary to succeed in their chosen field and are also likely to be familiar with industry customs and practices, which can help during the start-up phase of a new business.

The second group consists of people who want to start their own business, but do not have definite ideas about what may would like to do. They may have developed skills during their education or in the course of their previous employment, but many have not be interested in opening a business in the same field of endeavor. Project identification is concerned with the collection complication and analysis of data for the eventual purpose of locating possible opportunities for investment and with the development of the characteristics of such opportunities. Opportunities, according to Drucker, are of three kinds: additive, complimentary and break-through. Adiptive opportunities are those opportunities which enable the decision maker to better utilize the existing resources without in any way involving a change in the character of business. Complementary opportunities involve the introduction of new ideas and as such do lead to certain amount of change in the existing structure. Breakthrough opportunities on the other hand, involve fundamental changes in both the structure and character of business. Additive opportunities involve the least amount of disturbance to the existing state of affairs and hence the least amount of risk.

The element of risk is more in other two opportunities. Project identification cannot be complete without identifying the characteristics of the project. Every project has three elements—inputs, outputs and social costs and benefits. The input characteristics define what the project will consume in terms of raw material, energy, manpower, finance and organizational setup. The native and magnitude of these input must be determined in order to make the input characteristics explicit. The output characteristics of a project define what the project will generate in the form of goods and services, employment revenue etc. The quantity and quality of all these output should be clearly specified. In addition every project will have impact on society. It inevitably affects the current equilibriums of demand and supply in the economy. It is necessary to evaluate carefully the sacrifice which the society will be required to make and the benefits will not accrue to the society from a given project.

## **PROJECT FEASIBILITY STUDY**

Project feasibility analysis is carried out to ensure viability of project. The important project feasibility study is

1. Market feasibility
2. Technical feasibility
3. Financial feasibility
4. Economic feasibility
5. Ecological feasibility

### **Market feasibility**

Market feasibility is concerned with two aspects the aggregate demand for the proposed product/service, the market share of the project under consideration. For this market analysis requires variety of information

and appropriate forecasting methods. The kind of information required is

- Consumption trends in the past and the present consumption level
- Past and present supply position
- Production possibilities and constraints
- Imports and exports
- Structure of competition
- Cost structure
- Elasticity of demand
- Consumer behavior, intentions, motivations, attitudes, preferences and requirements
- Distribution channels
- Administrative, technical and legal constraints

### **Technical Analysis**

Technical analysis seeks to determine whether prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size, and so on. The important questions raised in technical analysis are:

- Has the availability of raw material, power, and other inputs been established?
- Is the selected scale of operation optimal?
- Is the production process chosen suitable?
- Are the equipment and machines chosen appropriate?
- Have the auxiliary equipment and supplementary engineering works been provided for?
- Has provision been made for treatment of effluents?
- Is the proposed layout of the site, buildings and plant sound?
- Have work schedules been drawn up realistically?
- Is the technology proposed to be employed appropriate from the social point of view?

### **Financial Analysis**

Financial analysis is necessary to ascertain whether the proposed project is financially viable in the sense of being able to meet the burden of servicing debt and whether the proposed project will satisfy the return expectations of those who provide the capital. The aspects to be looked into while conducting financial appraisal are as follows.

- Investment outlay and cost of project
- Means of financing.
- Project profitability
- Break-even point
- Cash flows of the project
- Investment worthiness judged in terms of various criteria of merit
- Project financial position
- Level of risk

### **Economic/Social Cost-benefit Analysis**

This is concerned with judging a project from the larger social point of view, where the focus is on social costs and benefits of a project, which may often be different from its monetary costs and benefits. The questions to be answered in social cost-benefit analysis are as follows.

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- What are the direct economic benefits and costs of the project measured in terms of shadow (efficiency) prices and not in terms of market prices?
- What would be the impact of the project on the distribution of income in the society?
- What would be the impact of the project on the level of savings and investment in the society?
- What would be the contribution of the project towards the fulfilment of certain like self-sufficiency, employment and social order?

### **Ecological Analysis**

Today, environmental concerns assumed a great deal of significance and hence ecological analysis should be done, particulars for project which have significant ecological implications like power plants and irrigation schemes and for environmental polluting industries like chemicals, leather processing etc. The key questions to be answered in ecological analysis are as follows.

- What is the likely damage caused by the project to the environment?
- What is the cost of restoration measures required to ensure that the damage to the environment is contained within acceptable?

A project is defined as a scientifically evolved work plan devised to achieve a specific objective within a specified period of time. Projects are classified in a number of ways. Project identification involves idea generation. The project ideas can be discovered from various internal and external sources. Project ideas are analyzed in the light of existing economic and market conditions, government policy and so on in order to select project. A project report can be defined as a well evolved course of action devised to achieve the specific objectives within a specified period of time. It is like an operating document. The project report contains general information, project description, market potential, capital costs and sources of finance, assessment of working capital, economic and social variables, project implementation scheme and so on. Planning commission provides guidelines for preparing project report. Network techniques like PERT, CPM and GERT can be used for scheduling and controlling the projects.

Project appraisal can be defined as the promoter taking a second look critically and carefully at a project as presented by the promoter person. Project appraisal involves carrying economic, financial, market, technical organizational analysis.

### **REVIEW QUESTIONS**

1. Explain in brief the meaning of project. Discuss the classification of projects.
2. Write a note on the following
  - a. Idea generation
  - b. Project selection
3. What do you mean by a project report? Explain in brief the contents of project report.
4. Discuss the guidelines of planning commission for project report.
5. List the merits and demerits of PERT and CPM. Explain the steps involved in using PERT and CPM.

6. Write a note on errors in project report. What do you mean by project appraisal? Explain various types of analysis used in project appraisal.
7. Write a note on
  - a. Identification of opportunity
  - b. Feasibility study

*PREPARATION OF  
PROJECT*

*Notes*

### **FURTHER READINGS**

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi
5. Entrepreneurship and Small Business Management- B. S. Bhatia

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# UNIT-05 SOCIAL RESPONSIBILITY & BUSINESS ETHICS

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## CONTENTS

- ❖ Introduction
- ❖ Social Responsibility
- ❖ Business Ethics
- ❖ Application of Ethics to Business
- ❖ Review Questions
- ❖ Further Readings

### **Introduction**

Business depends on the society for the needed inputs like men, material and labour. They also depend on the society for selling their products. Thus, business depends on the society for existence, sustenance and encouragement. Hence, business being so much depended on society has definite responsibility towards the society.

A businessman should keep his social obligation in mind before contemplating any action. Social responsibility is understood as the obligation of decision – makers to take actions which protect and improve the welfare of society as a whole along with their own interests. Every decision a businessman takes and every action he contemplates like decision on expansion, opening a new branch, closure of a branch or appointment of new employees, will have an effect on the society in one way or the other. Hence, he has to keep the society in mind before making any decision.

### **Definition of social responsibility**

According to Koontz and O'Donnell “social responsibility is the personal obligation of every one, as he acts in his own interest, to assure that the rights and legitimate interests of all others are not infringed”

In the words of Adolph Berle “social responsibility is the business’s responsiveness to public consensus, i.e., the obligation of the business to meet those demands and aspirations of the society about which there is public consensus”. H.E. Bownen defines as “social responsibility is the obligation to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of objectives and values of our society.”

### **Evolution of social responsibility**

#### **“A Healthy Business and a Sick Society are hardly compatible”.**

The social responsibility has evolved over a period of time. In the Eighteenth century, businesses were small and few. Even then the businessmen made contributions to schools, institutions and to poor. During the nineteenth century, businesses charitable contributions increased as great fortunes were made in business.

During the latter part of the 19<sup>th</sup> century and 20<sup>th</sup> vigorous industrial growth had many negative social impacts. Due to new rigid governmental rules and regulations many businessmen started



manipulating the accounts. By 1920's, government brought about rules that large scale organizations have to compulsorily contribute towards the welfare of the society or donate to governmental funds which will be exempted from tax.

Gradually, many new rich business families started setting up trusts or contribute towards schools, colleges, hospitals, orphanages, art galleries, museums etc. During the freedom movement period, business contributed to many of the social and cultural causes associated with the movement. Many of Indian leading businessmen-GD Birla, Jamnalal Bajaj, Lala Shri Ram, Ambalal Sarabhai and others came under the influence of Mahatma Gandhi and contributed liberally to his programmes for the removal of untouchability, rural reconstruction, etc. They have started many scientific and technical research and art academies. For eg-Tata Institute of Fundamental Research, the Birla Institutes of Technology at Pilani and Ranchi, the Calico Textile Museum in Ahmedabad, etc.

Now-a-days, big businessmen or companies are also contributing towards the welfare of the society. They are providing bus stop's shades, sign boards, directions to various places, road-side warnings (such as drive slowly, don't drink and drive, overtake from the right, etc). Many companies are opening schools, colleges, hospitals and public toilets.

### **SOCIAL RESPONSIBILITY**

Entrepreneurial development is the key to achieve all-round economic development through acceleration of industrial and entrepreneurial activities. Entrepreneurship, therefore, will flourish in an atmosphere which is favourable for enterprise building—politically, economically and socially. In the context of new economic scenario where liberalization, privatization and globalization are glorified, the responsibilities of business have undergone radical changes. Ethical discipline plays a great role in the changing environmental conditions. Entrepreneurs have to follow the ethical norms of the business in the society. As such, social responsibility implies responsibility of the entrepreneur towards smooth operation of the society by efficient utilization of national resources for greater interest of the people. To remain in business on a sustainable basis, an entrepreneur has to exercise his responsibilities to the society in the following ways:

#### **1. Responsibility of the entrepreneur towards conservation of national resources:**

The first and foremost social responsibility of an entrepreneur is to efficiently conserve and utilize national resources for the public good.

**2. Responsibility towards owners/shareholders:** An entrepreneur is responsible to safeguard the capital invested by the shareholders and the owners of the enterprise.

He should ensure that they get adequate dividend from their investment.

**3. Responsibility towards customers:** An entrepreneur has to satisfy his customers by the following two ways:

- (i) Providing quality products to the customers
- (ii) Charging reasonable and affordable price for the product

**5. Responsibility towards employees:** Social responsibility of an entrepreneur is to provide adequate measures to make the employees

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contented in all respects so as to encourage them to contribute their best. The responsibility of an entrepreneur towards the employees may include the following:

- (a) Providing at least minimum wages to the employees
- (b) Providing conducive working environment for good work culture
- (c) Provision of social security measures
- (d) Granting weekly holidays
- (e) Settling employees grievances
- (f) Giving opportunity to employees participation and management

**5. Responsibility towards creditor/banker:** One of the most important social responsibilities of an entrepreneur is responsibility towards creditors and bankers who provide financial assistance. This responsibility includes the following:

- (a) Regular repayment of principal and interest
- (b) Effective utilization of funds
- (c) Adhering to the repayment schedule without any default.
- (d) Restricting diversion of loans to the uses other than the specific purpose for which it has been advanced

**6. Responsibility towards community:** An entrepreneur should have the concern for the community where the enterprise is located. The following are the responsibilities of the entrepreneur towards the community:

- (a) Generation of employment opportunities for local youth
- (b) Prevention of environmental pollution
- (c) Restricting the problem of congestion housing and crime in the community where the enterprise is located
- (d) Creating awareness about population pressure and the family welfare measures
- (e) Reducing the deleterious effects of industrial products on human health and environmental balance
- (f) Reduction of illiteracy among the people, both for men and women.

**7. Responsibility towards government:** India is considered the largest democracy in the world. Its policies aim at public welfare. In the country, the responsibility of the entrepreneur towards the government includes the following:

- (a) To pay taxes, duties in time and discourage tax evasion
- (b) To comply with the government rules, procedures and legal requirements
- (c) To support the socio-economic development policies of the government
- (d) To work in close association with the government for social welfare.

**8. Responsibility to uphold general values and philosophy of the country:** In

Indian context, this includes:

- (a) Respect towards ideologies of the society like democracy, freedom and tolerance
- (b) Fair play in marketing and establishing enterprises
- (c) Due respect towards secularism
- (d) Emancipation of weaker sections of the society
- (e) Empowerment of women in the society

(f) Highlighting technological dynamism

The following are the arguments cited against social responsibility:

- The concept of social responsibility is vague. It is difficult to distinguish it from economic responsibility.
- Entrepreneurs and business managers are familiar with economic aspects of the activities. They are not social scientists and, therefore, lack social skills.
- It would be unjust to overburden the businessmen since they have several economic responsibilities like payment of tax, payment of tariff, etc.
- A social responsibility approach may not always be viable and hence be suicidal in the long run.
- Business enterprises have hardly any social power. No responsibility can be accepted without the necessary power.
- Private entrepreneurs are essentially responsible only to their shareholders.
- Social responsibility influences the decision-making process and would involve additional cost.
- It would entail certain division of resources meant for economic activities.

**BUSINESS ETHICS: MEANING**

“Earning of profit cannot be the objective of a business any more than eating is the objective of living”. A truly successful business can be built up only if the objective of service to community is constantly kept in view. Then, profit will come automatically.

Therefore, business ethics are of much importance to business.

Business ethics refers to the moral principles which are considered right by the society, and so; should govern and guide the activities of a business. They are the moral principles and rules of conduct which should guide the activities of a business. Business ethics are derived from social values. They lay down the norms of behaviour for the business. In short, business ethics is the study of good and evil, right and wrong, and just and unjust actions of businessmen.

**APPLICATION OF ETHICS TO BUSINESS**

In the past, it was assumed in most companies that ethics was a matter of individual conscience. Today, many companies are using managerial techniques that are designed to encourage ethical behaviours. Every organization should have a culture that it exercises, so that, it can influence the employees to follow the same.

Employees pick up subtle hints and clues that tell them what behaviour is approved and what is forbidden. Therefore, a company culture is a blend of ideas, customer traditional practices, company values and shared meanings that help define normal behaviour for everyone who works in a company. Nearly 95% of fortune 500 companies have code of conduct which they follow.

The council for Fair Business Practices (CFBP) established in 1966, by leading private sector industrialists in western India, have given certain ethics applicable to business. They are

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(1) To Charge only fair and reasonable price and take every possible step to ensure that the prices to be charged to the consumer are brought to his notice.

(2) To take every possible step to ensure that the agents or dealers do not charge prices higher than fixed.

(3) In times of scarcity, not to withhold or suppress stocks of goods with a view to hoarding or profiteering.

(4) Not to produce or trade in spurious goods of standards lower than specified.

(5) Not to adulterate goods supplied.

(6) Not to publish misleading advertisements.

(7) To invoice goods exported or imported at their correct prices.

(8) To maintain accuracy in weights and measures of goods offered for sale.

(9) Not to deal knowingly in smuggled goods.

(10) Providing after-sales service where necessary or possible.

(11) Honoring the fundamental rights of the consumers like, Right of safety, Right to choose, Right to information and Right to be Heard.

(12) Discharging social responsibilities and the responsibility to protect the environment and nature's infrastructure.

(13) Ensuring that the product warranty is offered in simple, unambiguous and concise language, highlights the rights of consumer under it.

The CFBP has instituted a set of prizes and awards called '**Jammalal Bajaj Uchit Vyavahar Puraskar**' to promote exemplary application of the above norms. The Federation of Indian Chambers of Commerce and Industry has recently issued a declaration of 'Norms of Business Ethics', which is almost identical to that of CFBP. The Punjab, Haryana and Delhi Chamber of commerce has also lately formulated a 'Code of Ethics' applicable to business. The code says -

(1) Business must maintain the highest standards of behaviour for the benefit of industry, employees, customers, shareholders and the society.

(2) Goods and services must conform to the commitment promised to customers. Business must be realistic and truthful in stating claims.

(3) Customers must be given best possible service and treated with respect and fairness.

(4) Business must understand and respect the needs, concerns and welfare of the community and society. It should use knowledge and experience for upgrading the quality of life. All business endeavours must combine the qualities of private excellence for public good.

(5) The best way of promoting high standard of business practices is through self regulation.

Therefore, it is mandatory for all business firms to follow Business Ethics, which will result in its own welfare.

## **REVIEW QUESTIONS**

1. Define social responsibility its scope.
2. Discuss about Evolution of social responsibility.
3. What are the causes of the awareness about social responsibility?
4. What is the meaning of business ethics?
5. Discuss about the application of ethics to business.

*SOCIAL RESPONSIBILITY  
AND BUSINESS ETHICS*

*Notes*

## **FURTHER READINGS**

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi
5. Entrepreneurship and Small Business Management- B. S. Bhatia

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# UNIT-6 GOVERNMENT SCHEMES AND INCENTIVES

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## CONTENTS

- ❖ Government Schemes and Incentives
- ❖ For Promotion of Entrepreneurship
- ❖ Role and Responsibilities of Udyami Mitras
- ❖ Government Policies on Entrepreneurship
- ❖ New Small Enterprise Policy (NESP)
- ❖ Review Questions
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## GOVERNMENT SCHEMES AND INCENTIVES FOR PROMOTION OF ENTREPRENEURSHIP

World over, micro and small enterprises (MSEs) are recognized as an important constituent of the national economies, contributing significantly to employment expansion and poverty alleviation. Recognizing the importance of micro and small enterprises, which constitute an important segment of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base, the Central and State Governments have been implementing several schemes and programmes for promotion and development of these enterprises.

### 1. PRIME MINISTER'S EMPLOYMENT GENERATION PROGRAMME (PMEGP)

Government of India has approved the introduction of a new credit linked subsidy programme called Prime Minister's Employment Generation Programme (PMEGP) by merging the two schemes that were in operation till 31.03.2008 namely Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. PMEGP will be a central sector scheme to be administered by the Ministry of Micro, Small and Medium Enterprises (MoMSME). The Scheme will be implemented by Khadi and Village Industries Commission (KVIC), a statutory organization under the administrative control of the Ministry of MSME as the single nodal agency at the National level. At the State level, the Scheme will be implemented through State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres (DICs) and banks. The Government subsidy under the Scheme will be routed by KVIC through the identified Banks for eventual distribution to the beneficiaries / entrepreneurs in their Bank accounts.

#### Objectives

I. To generate employment opportunities in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises.

II. To bring together widely dispersed traditional artisans/ rural and urban unemployed youth and give them self-employment opportunities to the extent possible, at their place.

III. To provide continuous and sustainable employment to a large segment of traditional and prospective artisans and rural and urban unemployed youth in the country, so as to help arrest migration of rural youth to urban areas.

IV. To increase the wage earning capacity of artisans and contribute to increase in the growth rate of rural and urban employment.

**Eligibility Conditions of Beneficiaries**

(i) Any individual, above 18 years of age

(ii) There will be no income ceiling for assistance for setting up projects under PMEGP.

(iii) For setting up of project costing above Rs.10 lakh in the manufacturing sector and above Rs. 5 lakh in the business /service sector, the beneficiaries should possess at least VIII standard pass educational qualification.

(iv) Assistance under the Scheme is available only for new projects sanctioned specifically under the PMEGP.

(v) Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme) are also eligible for assistance under PMEGP.

(vi) Institutions registered under Societies Registration Act,1860;

(vii) Production Co-operative Societies, and

(viii) Charitable Trusts.

(ix) Existing Units (under PMRY, REGP or any other scheme of Government of India or State Government) and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government are not eligible.

**2. MARKET DEVELOPMENT ASSISTANCE SCHEME FOR MICRO/ SMALL MANUFACTURING ENTERPRISES/ SMALL & MICRO EXPORTERS**

The scheme offers funding for:

1. Participation by manufacturing Small & Micro Enterprises in International Trade Fairs/ Exhibitions under MSME India stall.

2. Sector specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation.

3. Initiating/ contesting anti-dumping cases by SSI Associations and

4. Reimbursement of 75% of one time registration fee (w.e.f. Ist January 2002) and 75% of annual fees (recurring) (w.e.f. Ist June 2007) paid to GSI (Formerly EAN India) by Small & Micro units for the first three years for bar code.

**Objectives:**

(i) To encourage Small & Micro exporters in their efforts at tapping and developing overseas markets.

(ii) To increase participation of representatives of small/ micro manufacturing Enterprises under MSME India stall at International Trade Fairs/ Exhibitions.

(iii) To enhance export from the small/ micro manufacturing enterprises

(iv) To popularize the adoption of Bar Coding on a large scale.

### **3. SCHEME FOR ASSISTANCE TO TRAINING INSTITUTIONS**

The Scheme envisages financial assistance for establishment of new institutions (EDIs), strengthening the infrastructure of the existing EDIs and for supporting entrepreneurship and skill development activities. The main objectives of the scheme are development of indigenous entrepreneurship from all walks of life for developing new micro and small enterprises, enlarging the entrepreneurial base and encouraging self-employment in rural as well as urban areas, by providing training to first generation entrepreneurs and assisting them in setting up of enterprises. The assistance shall be provided to these training institutes in the form of capital grant for creation/strengthening of infrastructure.

### **4. RAJIV GANDHI UDYAMI MITRA YOJANA**

#### **A Scheme of “Promotion and Handholding of Micro and Small Enterprises”**

There are still wide spread variations in the success rate, in terms of actual setting up and successful running of enterprises, by the EDP/SDP/ESDP trained entrepreneurs. It has been observed that new entrepreneurs generally face difficulties in – availing full benefits under available schemes of the Governments / financial institutions, completing and complying with various formalities and legal requirements under various laws/regulations, in selection of appropriate technology, tie-up with buyers and sellers etc. In order to bridge the gap between the aspirations of the potential entrepreneurs and the ground realities, there is a need to support and nurture the potential first generation entrepreneurs by giving them handholding support during the initial stages of setting up and managing their enterprises.

#### **Objective**

The objective of **Rajiv Gandhi Udyami Mitra Yojana (RGUMY)** is to provide handholding support and assistance to the potential first generation entrepreneurs, who have already successfully completed EDP/SDP/ESDP or vocational training from ITIs, through the selected lead agencies i.e. '**Udyami Mitras**', in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles and in completion of various formalities required for setting up and running of the enterprise. Under RGUMY, financial assistance would be provided to the selected lead agencies i.e. **Udyami Mitras** for rendering assistance and handholding support to the potential first generation entrepreneurs.

#### **Role and Responsibilities of Udyami Mitras**

The selected lead agencies i.e. Udyami Mitras would be expected to render following services:

(i) Networking, coordinating and follow up with various Government departments/ agencies/ organizations and regulatory agencies on the one hand and with support agencies like Banks/financial institutions, District Industries Centers (DICs), technology providers, infrastructure providers on the other hand, to help the first generation entrepreneurs in setting up their enterprise. Udyami Mitras are expected to help the first generation entrepreneurs in:

- Identification of suitable project/product/enterprise and preparation of bankable project report for the same;



- Creation of the proprietorship firm/ partnership firm/ Company/ Society/ SHG etc;
- Filing of Memorandum (as prescribed under MSMED Act 2006);
- Accessing bank loans, admissible capital subsidy/ assistance under various schemes of the Central /State Government and other agencies/ organizations/ financial institutions/ Banks etc. by networking with respective agencies
- Assistance and support in establishment of work shed/office;
- Sanction of Power load/connection;
- Selection of appropriate technology and installation of plant and machinery/office equipment etc;
- obtaining various registrations/ licenses/ clearances / No Objection Certificates (NOCs) etc. from the concerned regulatory agencies/ Government departments/ local bodies/ Municipal authorities etc.;
- Allotment of Income Tax Permanent Account Number (PAN) and Service Tax/ Sales Tax/ VAT registration etc;
- Sanction of working capital loan from the banks;
- Arranging tie up with raw material suppliers;
- Preparation and implementation of marketing strategy for the product/ service and market development; and
- Establishing linkage with a mentor for providing guidance in future
- Creation of web page and email identity;

(ii) Once the enterprise has been successfully set up, the Udyami Mitras would also monitor and follow up on the functioning of the enterprise for a further period of minimum 6 months and provide help in overcoming various managerial, financial and operational problems.

The organizations of Ministry of MSME engaged in the task of entrepreneurship development i.e. the three national-level EDIs, (i.e. NIESBUD Noida, IIE Guwahati and NIMSME Hyderabad) MSMEDIs/ Branch MSMEDIs, KVIC and NSIC (hereinafter referred as Category-I Udyami Mitras) are deemed to have been empanelled as Udyami Mitras under the scheme. Udyami Mitras would enroll the potential entrepreneurs for providing them handholding support. Only those beneficiaries would be enrolled who have already undergone EDP/SDP/ESDP of at least two weeks or who have successfully completed the vocational training in ITIs.

## **7. CREDIT LINK CAPITAL SUBSIDY SCHEME FOR TECHNOLOGY UPGRADATION**

The Scheme was launched in October, 2000 and revised w.e.f. 29.09.2005. The revised scheme aims at facilitating Technology Upgradation of Micro and Small Enterprises by providing 15% capital subsidy (12% prior to 2005) on institutional finance availed by them for induction of well established and improved technology in approved sub-sectors/products. The admissible capital subsidy under the revised scheme is calculated with reference to purchase price of Plant and Machinery. Maximum limit of eligible loan for calculation of subsidy under the revised scheme is also been raised Rs. 40 lakhs to Rs. 100 lakh w.e.f. 29-09.2005. The scheme has been continues 10th five year plan to 11th five year plan. Under the scheme approximately 7396 units have availed subsidy of Rs. 315.21 crore upto August, 2009.

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## **8. MICRO&SMALL ENTERPRISES-CLUSTER DEVELOPMENT PROGRAMME (MSE-CDP)**

Office of the Development Commissioner (MSME) launched Micro and Small Enterprises Cluster Development Programme (MSE-CDP) for holistic development for selected MSEs Clusters through value chain and supply chain management on cooperative basis. Designed on need assessment, the major component of the scheme are Technology Upgradation, Quality Upgradation and Certification, Credit Facilitation, Marketing Support, including exposure to the global markets and Collective Capacity Building of the cluster units with a view to enabling them to ultimately operate as collectives of their own. Establishment and operation of Common Facility Centres (CFCs), organized procurement and marketing continuous skill and technology upgradation are the deliverables of any intervention under MSE-CDP. Recently, support for infrastructural upgradation for resurgence of the clusters has also been included in the MSE-CDP.

Objectives of MSE-CDP:

- Key Strategy for enhancing productivity/Competitiveness of small enterprises.
- To Facilitate economies of scale
- For integrated and focused development of MSEs.
- Interventions for large number of units with higher gains at lower cost

## **9. CREDIT GUARANTEE FUND SCHEME FOR MICRO AND SMALL ENTERPRISES**

The Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGMSE) was launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to be covered under the scheme. The Ministry of Micro, Small and Medium Enterprises and Small Industries Development Bank of India (SIDBI), established a Trust named Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) to implement the Credit Guarantee Fund Scheme for Micro and Small Enterprises. The scheme was formally launched on August 30, 2000 and is operational with effect from 1st January 2000. The corpus of CGTMSE is being contributed by the Government and SIDBI in the ratio of 4:1 respectively and has contributed Rs.1754.05 crore to the corpus of the Trust up to March 31, 2009. As announced in the Package for MSEs, the corpus is to be raised to Rs.2500 crore by the end of 11th Plan. As on March 31, 2009, 1,50,034 proposals from micro and small enterprises have been approved for guarantee cover for aggregate credit of Rs.4824.34 crore.

## **10. NATIONAL AWARD SCHEME**

The Micro, Small &Medium Enterprises (MSMEs) in India have seen a vast development in the last five decades. The MSMEs have registered tremendous growth as also progress in terms of quality production, exports, innovation, product development and import substitution, very much beyond the expected objectives of setting up MSMEs by the planners of industrial production base in the country. Entrepreneurial efforts have made it possible to produce number of items, which hitherto were imported. In quite a few cases new variants so produced are having

additional attributes than their original versions and are capable of solving a multitude of user problems. This all has become possible owing to the ambitions and visionary spirit of entrepreneurs of MSMEs

### **Objective**

The ministry of Micro, Small and Medium Enterprises with a view to recognizing the efforts and contribution of MSMEs gives National Award annually to selected entrepreneurs and enterprises under the scheme of National Award.

### **11. SCHEME TO SUPPORT 5 SELECTED UNIVERSITIES / COLLEGES TO RUN 1200 ENTREPRENEURSHIP CLUBS.**

The scheme is to support 5 universities to run Entrepreneurship Clubs (one each from Northern, Western, Eastern, Southern and North East region). Each university will have to run 240 clubs per year and each club may have a membership of 50 entrepreneurs. In a period of 5 years, 3 lakh entrepreneurs are to be benefited in all.

### **Objectives:**

The scheme has been devised to encourage entrepreneurs to run self-employment ventures of Micro or Small Enterprises.

Moreover, this will be a very important scheme bringing the entrepreneurs, universities and MSME-Development Institutes (MSME-DI) together.

In addition, this will create a base to entrepreneurs for coming together to solve their common problems a shift from Lobbying Mode to Facilitation Mode, giving hard intervention in the form of technology and soft intervention like arranging workshops, seminars, guidelines to obtain ISO certification, ISI Marks, participation in Trade Fairs, implementation of Quality Management Tools.

### **12. SCHEMES FOR WOMEN ENTREPRENEURS:**

**A. Mahila Udyami Yojana (MUY):** IDBI has set up special fund under this scheme with corpus fund of Rs.5Crore to provide seed capital assistance to the women entrepreneurs intending to start projects in SSI sector. This scheme is implemented by SIDBI. 51% of equity should be managed by women.

- Seed capital is provided as soft loan- 15% of fixed cost without insisting security.
- Promoter should contribute atleast 10% of fixed cost.
- Repayment is for 10 years with moratorium period of 5 yrs.
- Debt equity ratio should be 3:1

**B. SBI Stree Sakthi Package:** Under this EDPS are exclusively designed and conducted for women entrepreneurs .Rs.25000/- is provided without collateral security.

**C. Priya darshini yojana:** It is implemented by Bank of India. Financial assistance is provided to women entrepreneurs who take up small business, retail traders, transport (auto rickshaws), professional and self employed, and who take up allied agricultural activities.

- Max. loan is upto 2 lakhs for term loan and 1 lakh for working capital.
- Assets acquired with finance are hypothecated as security.
- Repayment period is 3-5 years.
- Margin money is 20% depending on type of activity.

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Besides these programmes other schemes like PMRY, SEPUP (Self Employment Programme for Urban Poor.),SGSY, IRDP and Rashtriya Mahila Kosh help women entrepreneurs in providing financial assistance.

In conclusion Government incentives available are of two types of subsidies.

- Investment subsidy to establish more enterprises. It includes capital investment subsidy, transport subsidy, power generator subsidy, social subsidy to women entrepreneurs.
- Other subsidies include Export / import subsidy, tax subsidy, excise subsidy/ duty exemption, and capital subsidy for technology upgradation.

### **GOVERNMENT POLICIES ON ENTREPRENEURSHIP**

From the announcement of first Industrial Policy Resolution (IPR) step by step approach was followed & various policies were implemented during past 5 decades.

**a. IPR 1948** –aimed at Post independent national reconstruction through industrialization. Envisaged the importance of cottage & small enterprises for employment creation and utilization of local resources and skills. **The main thrust in small scale sector was centered round Protection.**

**b. IPR 1956** – Provided a clear emphatic policy and incentive support to small scale & cottage industries. **It aimed at Protection plus Development of small industrial sector.**

**c. IPR 1977** – Establishment of DICs focusing on regional growth of industries & utilization of local resources and skill. IDBI & KVIB are established & small scale sector was given priority. This policy focused on promotion. Thus **Protection, Development plus promotion became its focus.**

**d. IPR 1980-** Thrust areas were Industrial infrastructure, higher productivity promotion of agro based industries, consumer protection & quality control. For generation of wage employment & **development of entrepreneurial spirit among people small scale sector was again treated most important.**

**e. IPR1990-** Policy of economic liberalization & Introduce simple procedures, formalities, rules & regulations. More emphasis to women & youth was given under entrepreneurship. **SIDBI was established to assist entrepreneurs in the small scale sector.**

### **NEW SMALL ENTERPRISE POLICY (NESP) :**

This was made to provide adequate support to tiny and micro enterprises. Thrust areas are

1. Inclusion of industry- Business & service related enterprises irrespective their location as small scale industries
2. Widen scope of National Equity Fund, enlarge Single window scheme and associate commercial banks with provision of composite loan scheme
3. Financial support to entrepreneurs by allowing equity participation up to 24% of share
4. Setting up of technology development cell in SIDO
5. Setting up of Export development centre in SIDO

6. Liberalization by limited partnership act
7. Integrated infrastructure development system
8. Technology development and equitable distribution of local & imported raw material on a priority to small & tiny sector
9. Improvement in incentive delivery system.
10. Marketing, market promotion and export support modernization.
11. Quality upgradation and procedural simplification.
12. Increase in investment limit from 2 to 5 lakhs for plant & machineries and tiny industrial units.

*GOVERNMENT SCHEMES  
AND INCENTIVES*

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**Review questions**

1. Give your view government schemes and incentives for promotion of entrepreneurship
2. Describe role and responsibilities of udyami mitras.
3. Describe government policies on entrepreneurship
4. Write short notes on new small enterprise policy (NESP).

**FURTHER READINGS**

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi
5. Entrepreneurship and Small Business Management- B. S. Bhatia

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# UNIT-7                      SUPPLY CHAIN MANAGEMENT & WOMEN ENTREPRENEURS

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- ❖ Input Industry Farmer Trade Distribution Centre Retailing
- ❖ Advantages Of Supply Chain Management
- ❖ Drivers Of Supply Chain Performance
- ❖ Scope Of Agri-Supply Chain Management
- ❖ Women Entrepreneurship- Concept, Problems And Development Of Women Entrepreneurs
- ❖ Concept Of Women Entrepreneurs
- ❖ Problems Of Women Entrepreneurs
- ❖ Development Of Women Entrepreneurs- Recent Trends
- ❖ Review Questions
- ❖ Further Readings

Supply chain management (SCM) represents the management of the entire set of production, manufacturing/transformations, distribution and marketing activities by which a consumer is supplied with a desired product. The practice of SCM encompasses the disciplines of economics; marketing, logistics and organizational behaviour to study how supply chains are organized and how institutional arrangements influence industry efficiency, competitions and profitability. SCM provides a means to conceptualize management of the changes required in the system to efficiently respond to consumer needs, based on integration and coordination of the efforts of all the business units involved in the production and delivery processes.

### **INPUT INDUSTRY FARMER TRADE DISTRIBUTION CENTER RETAILING**

Managing supply chains requires an integral approach in which chain partners jointly plan and control the flow of goods, information, technology and capital from 'farm to fork', meaning from the suppliers of raw materials to the final consumers and vice versa. Supply chain management results in lower transaction costs and increased margins. Because of the many activities and aspects involved it demands a multidisciplinary approach and sustainable trade relations.

#### **Advantages of supply chain management:**

1. Reduction of product losses in transportation and storage.
2. Dissemination of technology, advanced techniques,
3. Capital and knowledge among the chain partners.
4. Better information about the flow of products, markets and technologies.
5. Transparency, Tracking & tracing to the source.
6. Better control of product safety and quality.
7. Large investments and risks are shared among partners in the chain.

### **Stages of Supply chain**

In general, supply chain may involve a variety of stages. The supply chain stages include;

- Customers
- Retailers
- Wholesalers/Distributors
- Manufacturers
- Component / Raw material suppliers

### **Process of a supply chain**

A supply chain is a sequence of processes and flows that take place within and between different stages and combine to fill a customer need for a product. There are two different ways to view the processes performed in a supply chain.

**1. Cycle view:** The processes in a supply chain are divided into a series of cycles, each performed at the interface between two successive stages of a supply chain.

**2. Push/pull view:** The processes in a supply chain are divided into two categories depending on whether they are executed in response to a customer order or in anticipation of customer orders. Pull processes are initiated by a customer order whereas push processes are initiated and performed in anticipation of customer orders.

#### **Cycle view of supply chain processes**

All supply chain processes can be broken down into the following four process cycles. **Customer order cycle:** The customer order cycle occurs at the customer / retailer interface and includes all processes directly involved in receiving and filling the customer's order.

Typically, the customer initiates this cycle at a retailer site and the cycle primarily involves filling customer demand.

**Replenishment cycle:** The Replenishment cycle occurs at the retailer/distributor interface and includes all processes involved in replenishing retailer inventory. It is initiated when a retailer places an order to replenish inventories to meet future demand.

**Manufacturing cycle:** The manufacturing cycle typically occurs at the distributor/manufacturer (or retailer/manufacturer) interface and includes all processes involved in replenishing distributor (or retailer) inventory.

**Procurement cycle:** The procurement cycle occurs at the manufacturer/supplier interface and includes all processes necessary to ensure that materials are available for manufacturing to occur according to schedule. During the procurement cycle, the manufacturer order components from suppliers that replenish the component inventories.

#### **Push / Pull View of Supply Chain Processes**

Pull processes, execution is initiated in response to a customer order. With push processes, execution is initiated in anticipation of customer orders. Therefore, at the time of execution of a pull process, customer demand is known with certainty whereas at the time of execution of a push process, demand is not known and must be forecast. Pull processes may also be referred to as reactive processes because they react to customer demand.

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Push processes may also be referred to as speculative processes because they respond to speculated (or forecasted) rather than actual demand.

### **DRIVERS OF SUPPLY CHAIN PERFORMANCE**

Four key drivers of supply chain performance are facilities, inventory, transportation and information. These drivers not only determine the supply chain's performance in terms of responsiveness and efficiency, but also determine whether strategic fit is achieved across the supply chain.

#### **Inventory**

Inventory is nothing but raw materials, work in process and finished goods within a supply chain. Inventory is an important supply chain driver and it is one of the factors that decide the supply chain's efficiency and responsiveness.

#### **Transportation**

Transportation entails moving inventory from one point to another point in the supply chain. Transportation choices have a large impact on supply chain responsiveness and efficiency.

#### **Facility**

These are locations where raw materials, finished goods are stored or fabricated and distributed. The two major types of facilities are production sites and storage sites. Whatever the function of the facility, decisions regarding location, capacity and flexibility of facilities have a significant impact on the supply chain's performance.

#### **Information**

Information consists of data and analysis concerning facilities, inventory, transportation, and customers throughout the supply chain. Information is potentially the biggest driver of performance in the supply chain as it directly affects each of the other drivers.

### **SCOPE OF AGRI-SUPPLY CHAIN MANAGEMENT**

At the farmer level a key preliminary step is often the development of relationships between individual farmers to create a trading entity with capacity to supply sufficient quantity and continuity to be a credible supply chain member. This may be championed by a farmer, by another member of the chain, or by an external facilitator or manager. Hence the technical and professional issues in supporting the operation of supply chains may include facilitating:

- the development of relationships between farmers to allow their participation
- the development of relationships between members of the supply chain
- information flows between members of the supply chain
- establishing common standards between members of the supply chain
- Optimizing performance within each level of the supply chain and in the linkage processes.

#### **Promotion activities needed in Agri-Chain Development**

- Public private partnership is needed.
- Investing in transportation, communication and electricity.
- Subsidies or co-financing supply for high -risk investments.
- Ensure the availability of (production, price, industry) information and statistics to facilitate market activity and to monitor market progress.



## **WOMEN ENTREPRENEURSHIP- CONCEPT, PROBLEMS AND DEVELOPMENT OF WOMEN ENTREPRENEURS**

Women constitute around half of the total world population. So is in India also. They are, therefore, 'regarded ' as the better half of the society. In traditional societies, they were confined to the four walls of houses performing household activities. In modern societies, they have come out of the four walls to participate in all sorts of activities. The global evidences buttress that women have been performing exceedingly well in different spheres of activities like academics, politics, administration, social work and so on. Now, they have started plunging into industry also and running their enterprises successfully. Therefore the development of women entrepreneurs in the country is of paramount important for economic development.

### **CONCEPT OF WOMEN ENTREPRENEURS**

Based on the general concept of entrepreneur just discussed in the previous chapter, women entrepreneurs may be defined as a woman or group of women who initiate, organize and run a business enterprise. The Government of India has defined women entrepreneurs based on women participation in equity and employment of a business enterprise. Accordingly, a women entrepreneur is defined as "an enterprise owned and controlled by a women having a minimum financial interest of 51 per cent of the capital and giving at least 51 per cent of the employment generated in the enterprise to women".

In nutshell, women entrepreneurs are those women who think of a business enterprise, initiate it, organize and combine the factors of production, operate the enterprise and undertake risks and handle economic, uncertainty involved in running a business enterprise.

In India, women entry into business is a new phenomenon. Women entry into business or entrepreneurship is traced out as an extension of their kitchen activities mainly to 3 Ps, viz., Pickles, Powder and Pappad. Women in India plunged into business for both pull and push factors.

**Pull factors** imply the factors which encourage women to start an occupation or venture with an urge to do something independently.

**Push factors** refer to those factors which compel women to take, up their own business to tide over their economic difficulties and responsibilities. With growing awareness about business and spread of education among women over the period, women have started shifting from 3 Ps to engross to 3 modern Es, viz., Engineering, Electronics and Energy. They have excelled in these activities. Women entrepreneurs manufacturing solar cookers in Gujarat, small foundaries in Maharashtra and T.V. capacitors in Orissa have proved beyond doubt that given the opportunities, they can excel their male counterparts. Smt. Sumati Morarji (Shipping Corporation), Smt. Yarnutai Kirloskar (Mahila Udyog Limited), Smt. Neena Malhotra (Exports) and Smt. Shahnaz Hussain (Beauty Clinic) are some exemplary names of successful and accomplished women entrepreneurs in our country.

### **PROBLEMS OF WOMEN ENTREPRENEURS**

Women entrepreneurs encounter the following general problems of entrepreneurs and problems specific to women entrepreneurs.

**1. Problem of Finance:** Finance is regarded as "life-blood" for any enterprise, be it big or small. However, women entrepreneurs suffer from shortage of finance on two counts.

Firstly, women do not generally have property on their names to use them as collateral for obtaining funds from external sources. Thus, their access to the external sources of funds is limited. Secondly, the banks also consider women less credit-worthy and discourage women borrowers on the belief that they can at any time leave their business. Given such situation, women entrepreneurs are bound to rely on their own savings, if any, and loans from friends and relatives which are expectedly meagre and negligible. Thus, women enterprises fail due to the shortage of finance.

**2. Scarcity of Raw Material:** Most of the women enterprises are plagued by the scarcity of raw material and necessary inputs. Added to this is the high price of raw material, on the one hand, and getting raw material at the minimum of discount, on the other.

**3. Stiff Competition:** Women entrepreneurs do not have organizational set-up to pump in a lot of money for canvassing and advertisement. Thus, they have to face a stiff competition for marketing their products with both organized sector and their male counterparts. Such a competition ultimately results in the liquidation of Women enterprises.

**4. Limited Mobility:** Unlike men, women mobility in India is highly limited due to various reasons. A single woman asking for room is still looked upon suspicion. Cumbersome exercise involved in starting an enterprise coupled with the officials' humiliating attitude towards women compels them to give up idea of starting an enterprise.

**5. Family Ties:** In India, it is mainly a woman's duty to look after the children and other members of the family. Men play a secondary role only. In case of married women, she has to strike a fine balance between her business and family. Her total involvement in family leaves little or no energy and time to devote for business. Support and approval of husbands seem necessary condition for women's entry into business. Accordingly, the educational level and family background of husbands positively influence women's entry into business activities.

**6. Lack of Education:** In India, around three-fifths (60%) of women are still illiterate. Illiteracy is the root cause of socio-economic problems. Due to the lack of education and that too qualitative education, women are not aware of business, technology and market knowledge. Also, lack of education causes low achievement motivation among women. Thus lack of education creates problems for women in the setting up and running of business enterprises.

**7. Male-Dominated Society:** Male chauvinism is still the order of the day in India. The Constitution of India speaks of equality between sexes. But, in practice, women are looked upon as abla, i.e. weak in all respects. Women suffer from male reservations about a woman's role, ability and capacity and are treated accordingly. In nutshell, in the male dominated Indian society, women are not treated equal to men. This, in turn, serves as a barrier to women entry into business.

**8. Low Risk-Bearing Ability:** Women in India lead a protected life. They are less educated and economically not self-dependent. All these

reduce their ability to bear risk involved in running an enterprise. Risk-bearing is an essential requisite of a successful entrepreneur. In addition to above problems, inadequate infrastructural facilities, shortage of power, high cost of production, social attitude, low need for achievement, and socio-economic constraints also hold the women back from entering into business.

## **DEVELOPMENT OF WOMEN ENTREPRENEURS-RECENT TRENDS**

The First National Conference of Women Entrepreneurs held at New Delhi in November 1981 advocated the need for developing women entrepreneurs for the overall development of the country. It called for priority to women in allotment of land, sheds, sanction of power, licensing, etc. The Second International Conference of Women Entrepreneurs organized by the National Alliance of Young Entrepreneurs (NAYE) held in 1989 at New Delhi also adopted certain declarations involving women's participation in industry.

The Government of India has been assigning increasing importance to the development of women entrepreneurs in the country in recent years. The Government of India further stressed the need for conducting special entrepreneurship development programmes for women with a view to encourage women to enter industry. Product and process-oriented courses enabling women to start small-scale industries are also recommended.

There are several institutional arrangements both at the centre and the state levels like nationalized banks, state financial corporations, state industrial corporations, district industry centres and voluntary agencies like FICCI's Ladies Organization (FLO), National Alliance of Young Entrepreneurs (NAYE) which have been engaged in protecting and developing women entrepreneurs in the country. Added to these are national and international women associations set up with a purpose to create a congenial environment for developing women entrepreneurship in rural and urban areas.

## **REVIEW QUESTIONS**

1. What are the advantages of supply chain management?
2. What are drivers of supply chain performance?
3. What are scope of agri-supply chain management
4. Discuss about women entrepreneurship- concept, problems and development of women entrepreneurs.
5. Describe the concept of women entrepreneurs.
6. What are the problems of women entrepreneurs?

## **FURTHER READINGS**

1. Small Scale Industries: Management of small scale industries- Mookkiah Soundarapandian
2. Entrepreneurship of Small Scale Industries- Manohar U. Deshpande
3. Management and Entrepreneurship- N. V. R. Naidu
4. Management of Small-scale Industries- Bala Shashi

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6. Problems And Management Of Small Scale And Cottage Industries- Nisar Ahmad
7. Management Of Small Scale Industry- Ghosh & Kumar