

CHAPTER 5

ENTREPRENEURSHIP

Learning Objectives:

- To introduce the concept of entrepreneur and entrepreneurship.
- Discuss characteristics and functions of entrepreneur.
- Present the classifications of entrepreneurs.
- Introduce the concepts of intrapreneur, ultrapreneur and technical entrepreneur.
- Trace the evolution of entrepreneurship.
- Present the role of entrepreneurship in economic development.
- Discuss the stages in entrepreneurial growth.
- Present the barriers to entrepreneurship.

5.1 EVOLUTION OF CONCEPT OF ENTREPRENEUR

The word 'entrepreneur' is derived from French word 'Entreprendre' which was used to designate an organizer of musical or other entertainments. Later in 16th century it was used for army leaders. It was extended to cover civil engineering activities such as construction in 17th century. But it was Richard Cantillon, an Irishman living in France who first used the term entrepreneur to refer to economic activities. According to Cantillon "An entrepreneur is a person who buys factor services at certain prices with a view to selling its product at uncertain prices". Entrepreneur, according to Cantillon, an entrepreneur is a bearer of risk, which is non-insurable. Schumpeter gave a central position to the entrepreneur who believed that an entrepreneur was a dynamic agent of change; that an entrepreneur was a catalyst who transformed increasingly physical, natural and human resources into correspondingly production possibilities. Since then the term entrepreneur is used in various ways and various views.

5.2 CONCEPT OF ENTREPRENEUR

As said above entrepreneur is used in various ways and various views. These views are broadly classified into three groups, namely risk bearer, organizer and innovator.

Entrepreneur as risk bearer: Richard Cantillon 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 instances 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 co-ordination, 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.

- (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 risk-bearing, 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.

5.3 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.

Table 5.1: Personal entrepreneurial characteristics

	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.

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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.

5.4 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.

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.

5.5 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.

5.6 CHARMS OF BEING AN ENTREPRENEUR

The most exiting 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.

5.7 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 rising 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, 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.

5.8 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 entrepreneur is defined as an enterprise owned and controlled by 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.

Learning activity 5.1: Visit industrial estate of your city/district, survey the industries and classify them.

5.9 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.

5.10 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

	Entrepreneurs	Intrapreneurs
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 life long challenge is to do it again and over again.

Learning activity 5.2: with respect to industries surveyed for previous activity find out whether technology used is an imported one or indigenous. Describe the reasons for the use of imported /indigenous technology.

5.11 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 'thrill-seeking'. 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 Schumpeter 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.

According Mc Clelland, there are two characteristics of 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.) in 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 automobile. Foreseeing the peoples desire

to have small cars at lower price, he applied new methods of mass manufacturing, made use of new, lights 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 or raw materials etc. An entrepreneur needs to be bold enough to assume the risk involved and hence an entrepreneur is a risk-bearer not 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” applied to entrepreneur.

Though the terms entrepreneur and entrepreneurship are used interchangeable, yet they are conceptually different. The relationship between the two is indicated in fig. 5.1 and table-5.4.

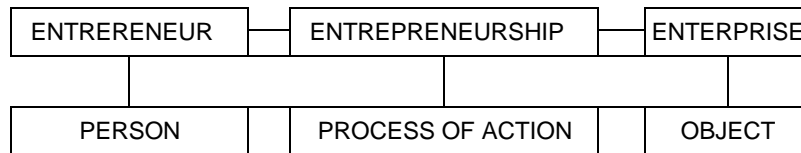


Fig. 5.1: Concept of entrepreneurship

Table 5.4: Relationships between entrepreneur and entrepreneurship

Entrepreneur	Entrepreneurship
Person	Process
Organizer	Organization
Innovator	Innovation
Risk-bearer	Risk-bearing
Motivator	Motivation
Creator	Creation
Visualizes	Vision
Leader	Leading
Imitator	Imitation

Learning activity 5.3: Meet two to four entrepreneurs and list their competencies which helped their enterprises.

5.12 EVOLUTION OF ENTREPRENEURSHIP

Emergence of entrepreneurial class is as old as our ancient history itself. It dates back to the Pre-Vedic period when Harappan culture flourished in India. History of

entrepreneurship and emergence of 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, handcraft 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 a 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 18th 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 18th 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 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 20th 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 losing 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 setting 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.

5.13 **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.

Learning activity 5.4: Visit a technical entrepreneur and find the benefits/advantages of technical entrepreneur over others.

5.14 **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 services. The destruction 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.

5.15 **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 presence and distractions
9. Legal constraints and regulations
10. Monopoly and protectionism
11. Inhibitions due to patents

Chapter Summary

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.

QUESTIONS

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

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CHAPTER 6

SMALL SCALE INDUSTRY

Learning Objectives:

- To introduce the meaning and concept of Small-scale industry.
- Present the characteristics of SSI.
- Discuss the rationale of SSI.
- Understand the objectives and advantages of SSI.
- Present the role of SSI in economic development.
- Present steps involved in starting an SSI.
- Present Government policy towards SSI.
- Trace Government support to SSI during five year plan.
- Present impact of Globalization/Liberalization, WTO and GATT on SSI.
- Present meaning, need, nature and types of support and agencies of Government for SSI.

6.1 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 identifies the target groups. The first official criterion for small scale industry in India dates back to the 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 manufactures 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 fig 6.1.

Table 6.1

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 set up 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.

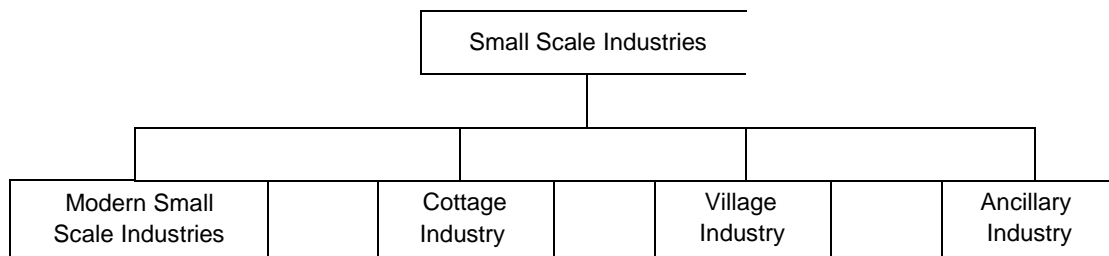


Fig. 6.1: Types of small-scale industries

6.2 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.

6.3 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 is that they 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 under-developed 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 every where 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.

6.4 OBJECTIVES

The various objectives of developing small-scale industries are in fact, implied in oneway 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.

6.5 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.

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.

6.6 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.

6.7 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.

6.8 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 assistance schemes including financial assistance from NSIC/SFCs/KVIC. The table 6.2 and table 6.3 give 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 man-power 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 indentured 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. (See table 6.2) 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 is 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.

Table 6.2: Sources of information

Sl. No.	Area	State level agencies	National level agencies
1.	Project selection	SISI, DIC, IDC'S, IIC'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

Table 6.3: Application forms

S. No.	Subject	Agencies
(A)	Planning Stage	
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

Contd...

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)	During Implementation of Project	
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.
(C)	During Running of Enterprise	
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

Learning activity 6.1: Meet an entrepreneur and discuss with him the steps he has taken while starting his enterprise. Also identify the difficulties he has faced in starting his industry.

6.9 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 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 6th 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.

Table 6.4: 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 –

Learning activity 6.2: Visit a small-scale industry and find what benefit the entrepreneur has availed from Industrial policy.

6.10 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.

Table 6.5: 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.
- (7) To increase the reach of banks to the tiny sector, lending 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.

Learning activity 6.3: Meet two entrepreneurs, one in manufacturing and one in service sector. Discuss with them the factors they have considered for product selection and location of the enterprise.

6.11 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 severe competition both from large-scale 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

6.12 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 context.

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.

6.13 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 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.

6.14 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

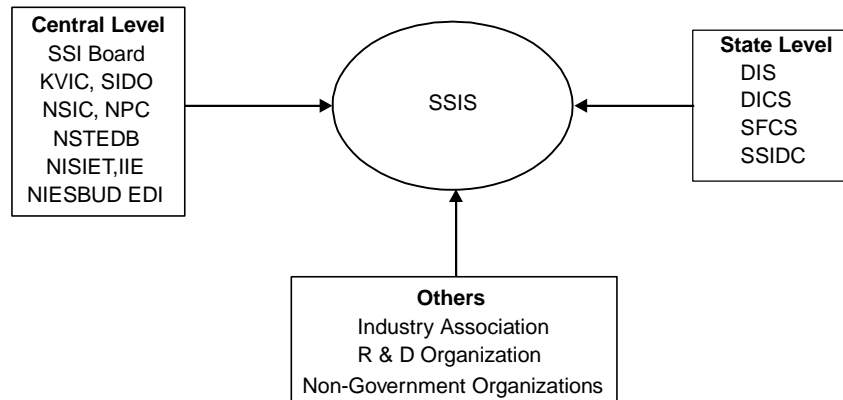


Fig 6.2: Institutions supporting small-scale industries

6.15 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.
- (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 10th 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.

Learning activity 6.4: Visit an entrepreneur and discuss with him about the agencies to be contacted for registration, marketing assistance and technical support.

6.16 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).

Chapter Summary

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

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

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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.

QUESTIONS

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