

AL61- Management and Entrepreneurship

UNIT V

Small Scale Industry-

Definition, characteristics, types, role of SSI in economic development.

Steps to start an SSI – Govt. policy towards SSI, Govt. support for SSI,

Institutional Support-Different Schemes, TECKSOK, KIADB, KSSIDC, KSIMC, DIC, Single window Agency, SISI, NSIC, SIDBI, KSFC

Small Scale Industry (SSI)

**Under the Micro, Small and Medium Enterprises Development (MSMED) Act,2006,
(operational from 2 October 2006),**

The earlier rather limited concept of "Industries" has been widened to that of "Enterprises. Enterprises have been classified broadly into

-
- Enterprises engaged in the manufacture/production of goods pertaining to any industry,**
 - Enterprises engaged in providing/rendering of services**

**Manufacturing enterprises have been defined
in terms of investment in plant and machinery
(excluding land and buildings)**

Definitions : Small scale enterprise

In the Indian context, a small scale enterprise is broadly defined in terms of the value of investment in plant and machinery.

A small scale enterprise is the one in which the investment in fixed assets in plant and machinery,

whether held on ownership terms, on lease, or on hire purchase, is above Rs 25 lakh and up to Rs 5 crore

(above Rs 10 lakh and up to Rs 2 crore for service enterprises)

**subject to the condition that the unit is
not owned, controlled
or subsidiary of any other industrial
undertaking (MSME, 2009b)**

In calculating the value of plant and machinery, the original price thereof, irrespective of whether the plant and machinery are new or Second hand, shall be taken into account.

In the case of imported machinery, the following shall be included in calculating the value, namely:

- Import duty (excluding miscellaneous expenses as transportation from the port to the site of the factory, demurrage paid at the port),**
- the shipping charges,**
- customs clearance charges, and**
- sales tax.**

Computer software development and software services including computer graphics, engineering design, computerized design and

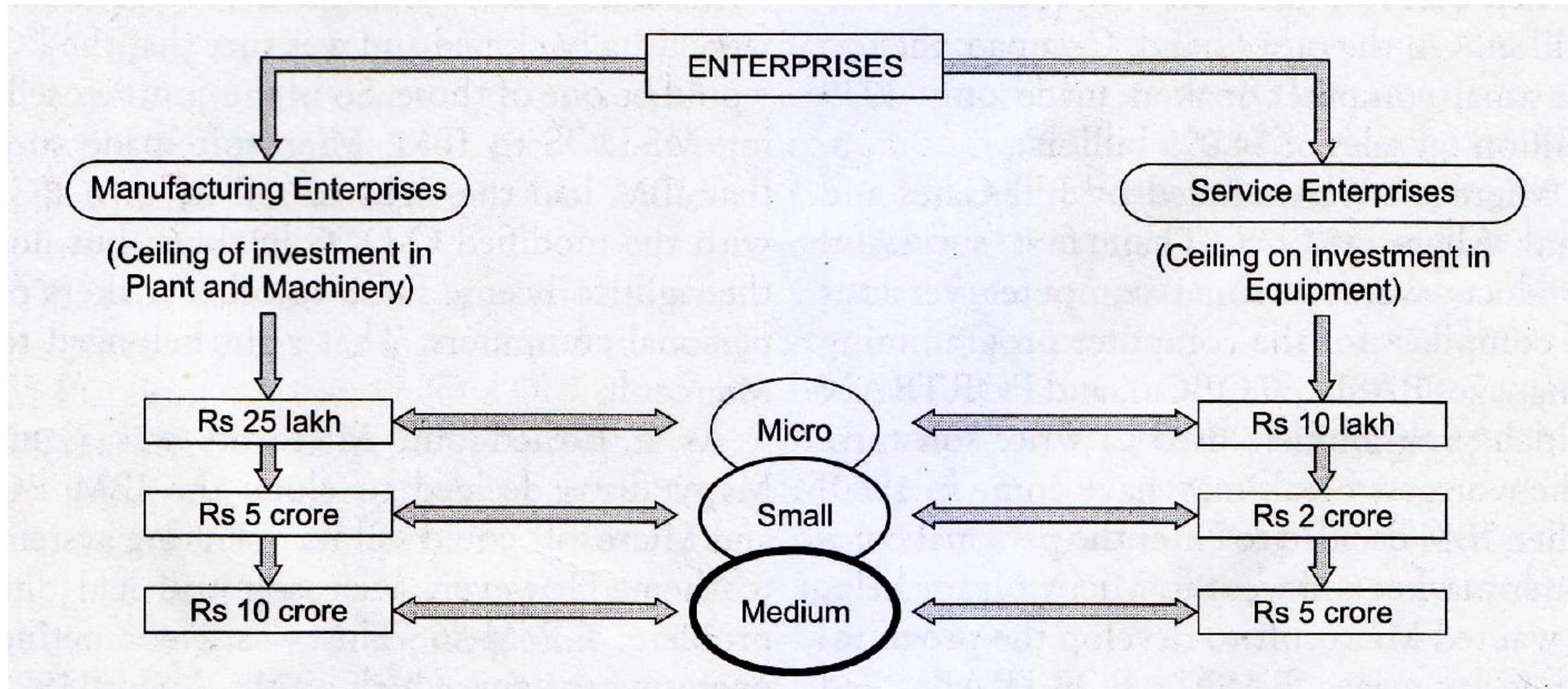
Drafting have been recognized as industrial activities eligible for registration as small scale enterprises (MSME, 2009c)

Ancillary industrial undertaking

It is an industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services;

and undertaking supplies or renders or proposes to supply or render, not less than 50 percent of its production or services, as the case may be, to one or more other industrial undertakings and

whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire-purchase, does not exceed Rs 1 crore (MSME, 2OO9b)



New Nomenclature and Classification of MSMED Act, 2006

Small Scale Industry (SSI)- Characteristics

Production output in small quantities

Informal management style

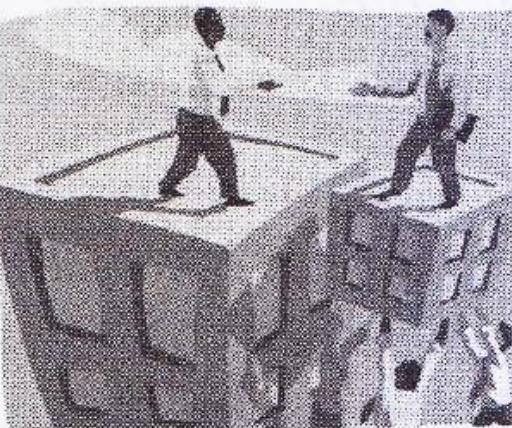
Small number of workers and employees

Usually present in the form of family business

Lowest possible capital investment in plant and machinery

Generally utilize local resources and produce goods/services to meet local demand

Have lower gestation period and are easy to set up in rural and backward areas



Characteristics of SSI

The unit is not owned, controlled or subsidiary of any other industrial undertaking

Production output in small quantities- By virtue of small planned capacity of SSI enterprises, the production output is small.

Small number of workers and employees- The small scale of operations in SSI requires small number of workers and employees

Lowest possible capital investment in plant and machinery,
The investment in fixed assets in plant and machinery whether held on ownership terms, on lease, or on hire-purchase does not exceed Rs 5 crore (MSME, 2009b)

Have lower gestation period and are easy to setup in rural and backward Areas:

Gestation period is the time taken to conceptualize and develop the enterprise before it starts generating business.

In case of SSI, the gestation period is relatively lower than medium and large enterprises, which take much longer time in conceptualization and development.

For this reason, SSIs are easy to set up in rural and backward areas where the resources are limited and the local market is small.

Thus, in such areas, SSIs can be quickly setup for generating employment and for utilizing local resources, while addressing the needs of the local market with an innovative product/service

The unit is not owned, controlled or subsidiary of any other industrial undertaking.

'Where two or more industrial undertakings are -setup by the same person ", as a proprietor each of such industrial undertakings shall be considered to be controlled by the other industrial undertaking or undertakings (MSME,2009b).

In that scenario, all such industrial undertakings would not be considered as SSIs. Therefore, it is necessary that in order to quantify as an SSI, the unit should not be owned, controlled or subsidiary of any other industrial undertaking.

Generally utilize local resources and produce goods/services to meet local demand.

The small scale of operations in SSI generally requires utilization of local resources (to avoid transportation cost of sourcing the raw materials from distant locations).

Similarly, the local markets “are most easily accessible to the SSIs for selling their products and services at competitive prices.

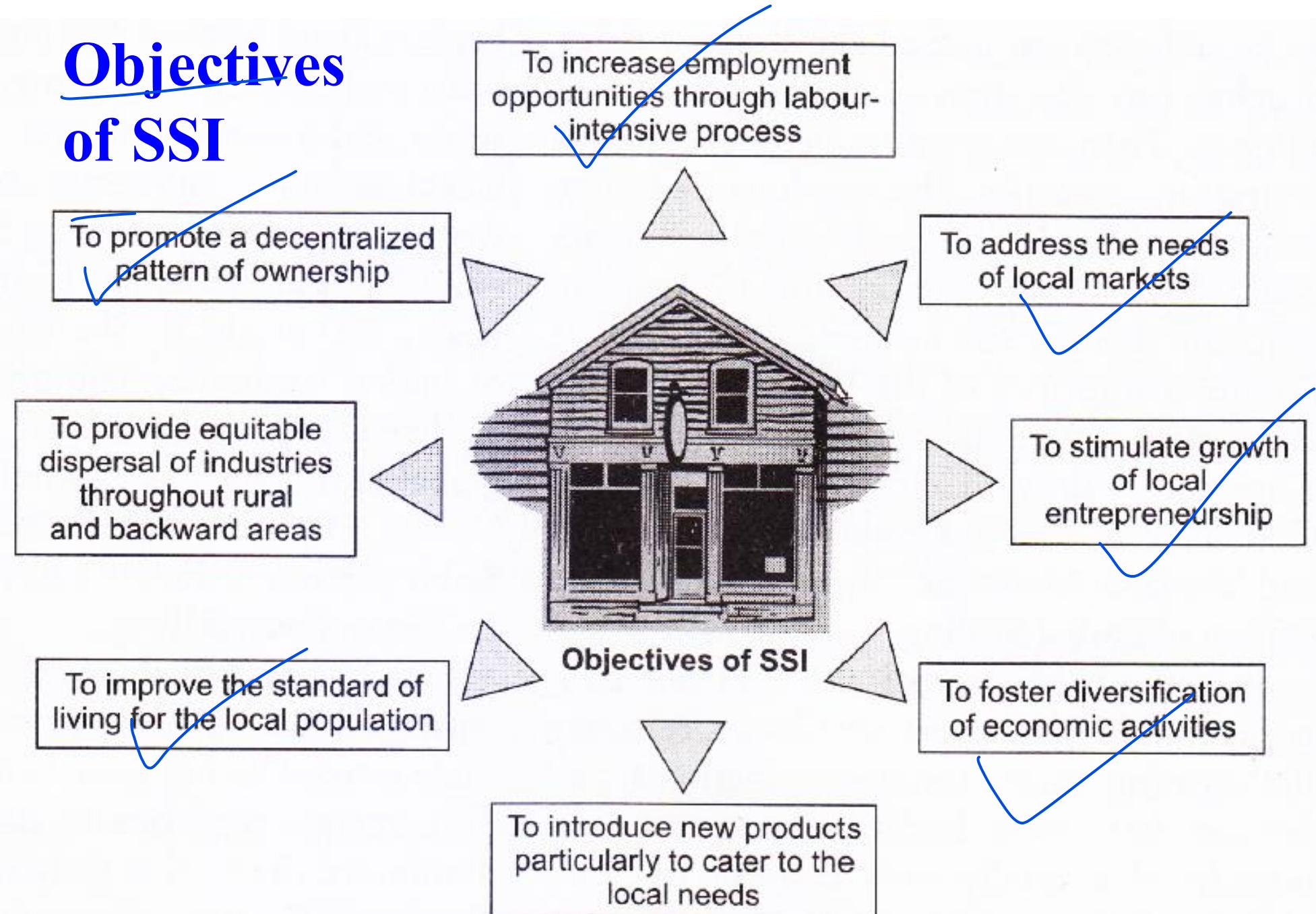
Usually present in the form of family business.

SSIs are usually present in the form of family business not only in India, but also elsewhere in the world.

Informal management style.

Informal management style is prevalent in SSIs, whereby members of family business, relatives, friends, and outside assume multiple roles as warranted by the small business from time to time. The work atmosphere is characterized by unity, harmony, love, and affection

Objectives of SSI



Address the needs of local markets

There is a demand of low-priced products in local markets like small towns and villages which cannot be largely fulfilled by the products manufactured by largescale enterprises due to their relatively higher prices (which cannot be afforded by all in our poverty-stricken country)

SSIs play a major role in creating products for the local population which are much more economical due to avoidance of transportation costs, traditional production systems, and cheap local labour.

For example, washing soaps are often, manufactured and sold by SSIs in local marker at throw-away prices. similarly, steel almirahs, trunks, boxes, etc.

are locally manufactured by SSIs for local markets.

Case Study: Shankar group of companies



Case Study: Shankar group of companies

<http://www.sgcorporates.com/index.html#call-to-action-2>



Case Study: Shankar group of companies

Mr Sathya Shankar always had the craving to set up the manufacturing industry to provide large employment to the people and so he tried his tryst with to set up packaged water plant and so launched the product 'Bindu Mineral Water'

Case Study: Shankar group of companies

The turnover of the company was just Rs 35 Lakhs in 2001. It dramatically jumped to 6 Crores in 2006.

Then the company dared to dream a frightening figure of 100 crores mark by 2010 and it sealed it too with focus & determination.

SG corporate's insatiable thirst for the growth of the company went unabated. It challenged its own figures of success and went on to clinch the unbelievable mark of 250 Crores in 2013.

Role of SSI in economic development

What is economy !!!!

The state of a country or region in terms of the production and consumption of goods and services and the supply of money.

What is GDP [1] (Gross Domestic Product) !!!!

is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year.

[1] Ref: <https://economictimes.indiatimes.com/definition/gross-domestic-product>

Role of SSI in economic development

**In India, Micro and Small Enterprises (MSEs)
(till recently, known as village and small enterprises)
account for almost 40% of the total industrial production and
34% of the exports.**

**They manufacture over 6000 products ranging from
handloom sarees, carpets, and soaps to pickles, papads, and
machine parts for large industries
(Eleventh Five Year Plan, 2008, p. 195)**

**The small-sector is the second largest employer in India after agriculture.
The total employment from SSI sector
(including small service enterprises) in the country**

**As per the Third All India Census of SSIs conducted with
the reference year of 2001-02 was 249.33lakh.**

**As per the estimates compiled for the year
2005-06, the employment was 294.91,lakh in SSI sector**

**The share of SSIs in the total employment among units engaged in manufacturing and services is around 34.93% (MSME, 2009e).
The total jobs in the MSE ,Sector India goes up to 650lakh
(Eleventh Five Year plan, 2008, p.197).**

By its less capital intensive and high labour absorption nature, SSI sector has made significant contributors to employment generation, and also to rural industrialization.

This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices.

Govt. support for SSI

The policy framework and the promotional measures are intended to enable the small scale units withstand competition from the large-scale enterprises

Industrial policies have over the years promoted SSIs through various incentives in order to fulfil socio-economic objectives.

These incentives were related to financial, fiscal, and infrastructural measures and were targeted at achieving the growth of the sector during the various Five Year Plan periods

**Incentives were extended either on a "one-time"
basis (initial support for setting up of units)**

**or In the form of sustained support for a specified
period (protectionist measures, subsidies, etc.).**

Measures to promote SSI

- **Reservation of items for exclusive manufacture in the small scale sector**
- **Reservation of items for exclusive purchase from SSIs;**
**Under the Government Stores Purchase Programme,
the Director General of Supplies and Disposal (DGS&D)
of the Ministry of Supplies arranges for the purchase and**
- **Delivery of all stores indented by different Ministries of the government of India and their attached offices.** The purchase policy of the government has two ways of providing marketing support to SSIs

- **Firstly, purchases are made exclusively from SSI units for specified items known as reserved items.**
 - **Secondly, even for those items which are not reserved, a purchase price preference of 15%, as against the quotations from large-scale units/other suppliers, is given to the SSI units.**
- **Excise duty exemption on third party branded goods manufactured by SSI units in rural areas**
- **SSIs allowed to pay excise duty on a monthly basis as against payment of duty at the time of removal of goods from the factory**

Third-Party Manufacturing, *Case Study-Pharma Company*

Contract Manufacturing Organization (CMO) and contract development and manufacturing organization (CDMO).

Are the companies which serve other companies in the pharmaceutical industry on contract basis to provide them supply of their requirements of medicines/drugs as per their needs.

Basically Contract Manufacturing Companies manufacture medicines/drugs or products for any Pharma brand/company in their manufacturing unit to fulfil their requirements.

Third-Party Manufacturing, *Case Study-Pharma Company*

Benefits -Third Party Manufacturers:

- You can start your own pharmaceutical company without investing on manufacturing unit.**
- There is no need to buy any land for production of your products/medicines/drugs.**
- There is no need of purchasing machines to make medicines and take care of them in regular intervals.**

Third-Party Manufacturing,

Case Study-Pharma Company

Benefits -Third Party Manufacturers:

- You can also run your company by hiring minimum professional. Because there is no need to hire anyone for manufacturing unit.
- It will save your efforts in taking care of production. So you can totally focus on your business.
- You can maintain your manufacturing process by the help of QA professionals who will check the quality of products in a regular interval for you.

Third-Party Manufacturing,

Case Study-Pharma Company

Benefits -Third Party Manufacturers:

- It reduces your efforts and save money and time for you.**
- You can add categories of products to your business as per your needs without investing much for manufacturing.**

Third-Party Manufacturing, *Case Study-Foxconn #*

Hon Hai Precision Industry Co., Ltd., trading as Foxconn Technology Group and better known as Foxconn, is a Taiwanese multinational electronics contract manufacturing company with its headquarters in Tucheng, New Taipei, Taiwan.

Today, it is the world's largest provider of electronics manufacturing services^[3] and the fourth-largest information technology company by revenue.^[4]

The company is the largest private employer in Taiwan^[5] and one of the largest employers worldwide.^{[6][7]} Its founder and chairman is Terry Gou.

Third-Party Manufacturing, *Case Study-Foxconn#*

Foxconn manufactures electronic products for major American, Canadian, Chinese, Finnish and Japanese companies.

Notable products manufactured by Foxconn include the [BlackBerry](#),^[8] [iPad](#),^[9] [iPhone](#), [iPod](#),^[10] [Kindle](#),^[11] [Nintendo 3DS](#), [Nokia](#) devices, [Xiaomi](#) devices, [PlayStation 3](#), [PlayStation 4](#), [Wii U](#), [Xbox 360](#), [Xbox One](#),^[12]

and the [TR4 CPU](#) socket on some motherboards. As of 2012, Foxconn factories manufactured an estimated 40% of all consumer electronics sold worldwide.^[13]

Measures to promote SSI ... contd

- **All industrial units in the North Eastern region are exempted from excise duty for 10 years starting from 17 August 1999 or from the respective date of commencement of production:**
- **A grant of Rs 75,000 to each SSI unit which opts for ISO-9000 certification:**
- **One-time capital grant of 50% for Small Scale Associations which wish to develop and operate Testing Laboratories, provided they are of international standard,**

- **No liability for SSIs under state sales Tax Law for import of the goods into or export of goods out of the territory of India:**
- **Export sales for SSIs exempted from levy of sales tax under Central Sales Tax Act, 1956**

Impact of liberalization, Privatization, and Globalization

**The Government of India announced the policy for the SSI
On 6th August 1991**

Globalization means free movements of factor inputs, both labour and capital, as well as output between countries

Foreign Direct Investment(FDI) and free movement of goods, particularly from developed to developing countries

Liberalization

FDI regimes and the strengthening of international standards for the treatment of foreign investors allow foreign firms greater

- **Greater freedom in making international location decisions. It intensified the competition for small firms in the national as well as international markets.**
- **Consequently, the small scale units have to compete with similar units, large scale units, and multinationals manufacturing similar products.**

Impact of Globalization

**The small scale units, which have been until know
which are secured and protected, struggle to survive**

**Globalization has become a big blow to these units, which have already
been struggling to exist.**

**There has been decelerating trend in the number of units, employment
generated, and investment made in small industrial units after
globalization**

Private participation has increased drastically in the Indian industry after liberalization

Growth of public-sector, a major customer of small enterprises in India has declined considerably since 1991

This has resulted in reduced growth or even absolute reduction in public sector demand for small industry products.

Policy changes which occurred at the global, national, sectoral levels, Have radically changed the environment for the functioning of small industry in India (Pandey,2007).

A considerable number of small scale industrial units have been closed down

Reason cited is that a majority of Indian small industry does not have access to reliable and efficient infrastructure

Effect of WTO/GATT

The world Trade organization (WTO) is the only global international organization dealing with the rules of trade between nations.

At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments

The goal is to help producers of good and services, exporters, and importers conduct their business.

WTO was formed on 1 January 1995. The formation of WTO marked the culmination of the General Agreement on Trade and Tariffs (GATT) negotiations.

WTO has 135 member nations.

The basic principles of WTO are:

- **Non-discrimination between countries**
- **Freer trade: gradually through negotiations**
- **Predictability**
- **Promoting competition**

**The formation of the WTO has only accelerated the process
of scaling down of tariff and non-tariff restrictions on imports.**

As a member of WTO,

**India has substantially done away with its quantitative and non-
quantitative restrictions by 1 April 2001.**

**As a result, the industry will have to-face much
stronger international competition**

The process of removal of quantitative and non-quantitative restrictions across countries has led to free movement of goods between countries including India.

The reduction of restrictions on the movement of goods between countries and the subsequent increase in world exports would have benefited multinational corporations much more than small enterprise

Institutional Support



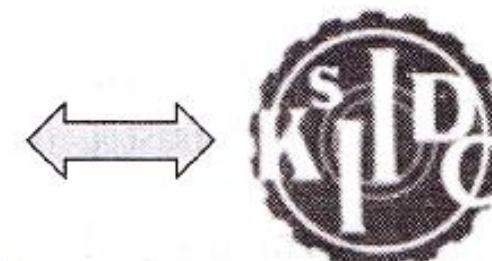
Directorate of Industries and
Commerce (DIC)—Single
Window Mechanism



Technical
Consultancy Services
Organization of
Karnataka (TECSOK)



Karnataka Udyog
Mitra (KUM)



Karnataka State
Industrial Investment
& Development
Corporation (KSIIDC)



Karnataka State
Financial Corporation
(KSFC)



Support Agencies
in Karnataka



Karnataka Industrial
Areas Development
Board (KIADB)





Technology Consultancy Services Organization of Karnataka (TECKSOK)

Established in the year 1976 by the Government of Karnataka

Objective of founding TECSOK was to provide reliable consultancy support for entrepreneurs to start up self-employment ventures in Karnataka

Functions

TECSOK is a multidisciplinary management consultancy organization promoted by the Government of Karnataka

To provide reliable consultancy services in India.

TECSOK has been excelling its expertise in a wide range of services. The package of services includes:

- **Location-specific identification of investment opportunities.**
- **Assistance in obtaining statutory and procedural clearances.**
- **Feasibility studies and environment impact studies.**
- **Preparation of detailed project reports as per investment norms and financial norms.**
- **Market survey and research.**
- **Project implementation and turnkey assistance.**
- **Reorganization and restructuring of enterprises.**

- valuation of assets, manpower planning, and budgetary control system.
- Energy management and audit, corporate plan, technology transfer.
- Diagnostic studies and rehabilitation of sick industries.
- Designing and organizing training programmes.
- Management studies, company formation, corporate restructuring.
- Port tariff plan study and related areas.
- consultancy for agro-based industries as a Nodal Agency of Government of India.
- Consultancy for mergers/takeovers
- Infrastructure development projects

Karnataka Industrial Areas Development Board (KIADB) is engaged in acquiring and developing industrial lands in different industrial areas.

In case the investor desires, KIADB acquires land in specific location of investor's choice and develops the land if required, at entrepreneur's cost





KIADB allots the land on lease-cum-sale basis and the period of lease 10 years

The allottees are required to set up the industry within a specified time frame

Further, allottees are required to construct the factory and other buildings as per the plan approved by the Directorate of Factories and Boilers

KARNATAKA INDUSTRIAL AREAS DEVELOPMENT BOARD

(A Govt. of Karnataka Undertaking)



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Building Plan

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Occupancy Certificate

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Karnataka State Small Industries Development Corporation

Promote and develop Small Industries in the State.

Construction and utilisation of infrastructure, especially in backward areas, procurement and marketing of Raw Materials,

Technical support and assistance are means to reach the goals.

A concern for results, emphasis on quality and timely work and willingness to understand the problems of

An Industrially prosperous Karnataka is our vision



Karnataka State Small Industries Development Corporation

Concern for results, emphasis on quality and timely work and willingness to understand the problems of entrepreneurs-are the staff creed, and KSSIDC constantly strive for this end.

An Industrially prosperous Karnataka is our vision.

Small industries development bank sf India (SIDBI)

Established on 2 April 1990, the Small Industries Development Bank of India(SIDBI)

Principal development financial institution for promotion, financing and development of industries in the small scale sector and

For coordinating the functions of other institutions engaged in similar activities

Small industries development bank sf India (SIDBI)

SIDBI has the mission to empower the MSME sector with a view to contribute to the process of economic growth, employment generation, and balanced regional development

Small industries development bank sf India (SIDBI)

Indirect Finance: Re-finance scheme is used for catering to the need of funds of eligible primary lending institutions (PIs) like state financial corporations, state industrial development corporations, Scheduled commercial banks both in the public and private sector, etc.

For financing small scale industries. Under the scheme, SIDBI grants refinance against term loans granted by the eligible PLIs to industrial concerns for setting up industrial projects in the small scale sector as also for their expansion/ modernisation/diversification.

Small industries development bank sf India (SIDBI)

Direct finance:

Through 38 of SIDBI's own offices by means of several tailor-made schemes to provide financial assistance to specific SSI target groups.

Small industries development bank sf India (SIDBI)

Promotional and developmental activities:

Like human resource development in SSI sector, technology upgradation, programmes on environment and quality management, market promotion, ~~information dissemination~~, etc.

By involving accredited non-governmental organizations, voluntary organizations, scientific and research institutions, technology institutions, management institutions, etc.

KARNATAKA SMALL INDUSTRIES MARKETING CORPORATION LIMITED (KSIMC)

Karnataka Small Industries Marketing Corporation Limited is a Public incorporated on 12 September 1984.

It is classified as State Govt company and is registered at Registrar of Companies, Bangalore. Its authorized share capital is Rs. 30,000,000 and its paid up capital is Rs. 17,100,000.

It is involved in Legal, accounting, book-keeping and auditing activities; tax consultancy; market research and public opinion polling; business and management consultancy

District industries Centres (DIC)

The District Industries Centres (DICs) Programme was initiated in May 1978

centrally sponsored scheme with the objective of developing the small, tiny, and cottage industries in the country and to generate greater employment

opportunities especially among rural. and backward areas

**The establishment of DICs office at the district level aimed at
Providing support facilities**

Dispersed in rural areas and other small towns

**There were 430 centrally approved DICs,
which covered almost all parts of the country except
The metropolitan cities at the time of the withdrawal of the central
sponsorship in 1993-94. .**

At present, DICs are being operated by respective states.

Functions-DICs

- **Dissemination of information**
- **Supply of machinery and equipment**
- **Provision of raw materials and quality inputs**
- **Arrangements for credit facilities**
- **Marketing**
- **Consultancy**

Karnataka state financial corporation(KSFC)

Karnataka State Financial Corporation (KSFC) is one of the fast track term lending financial institution in the country, with assistance to more than 1,59,225 units, amounting to nearly Rs 8,532 crore over the last 49 years in Karnataka

Karnataka state financial corporation(KSFC)

It is one of the robust and professionally managed state financial corporations.

Functions- provides term loans for establishment of new Tiny/SSI/MSI service units and for expansion/modernization/ diversification of existing units.