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***“Not only will the global market reward learning, it will severely punish the lack of learning”***

M. ATHREYA  
.....  
Management Guru



***“With increasing adherence to the learning organisation, we are at the cusp of a transition”***

ARUN MAIRA  
.....  
CEO, Innovation Assoc.

# 45

## CHAPTER

## LOCATION OF AN ENTERPRISE

*"The choice of the place (location) where an industrial undertaking (Unit) started has a very great influence on productivity, efficiency and profitability of the enterprise."*

### INTRODUCTION

Location considerations for the establishment of manufacturing plants is critical to the operation of the set-up in an uninterrupted and least resistant manner. Considerable emphasis is laid from the technical point of view regarding site locations.

The study of industrial location forms an important branch of economic geography which has engaged the attention of both economists and geographers. Economists judge from the point of view of profit, productivity and growth. Similarly, they may also look from the point of view of raw material, market, labour, finance, infrastructure, policy, costs, incentives, and subsidies.

In this chapter, an entirely different perspective of selection of site for an enterprise has been dealt with. The selection of site and equipment are important aspects of a project to derive maximum operative economy and effectiveness.

An ideal site certainly contributes to the smooth and efficient functioning of an enterprise. It not only saves on costs but also enhances productivity and profits. An ideal location is a boon to a manufacturing unit to grow, diversify and prosper, as well as provide quality products on an ongoing basis.

#### Need for Enterprise Location

The need for plant location arises under the following circumstances:

- (1) When a new enterprise is to be established.
- (2) In the case of established enterprise, the need for enterprise location arises when expansion, decentralisation and diversification is undertaken to meet the increased demand for its products.
- (3) Whenever the existing factory is not in a position to obtain renewal of lease.
- (4) When an undesirable location is to be abandoned.
- (5) When the tendency of shifting the market, depletion of raw materials, changes in transportation facilities, new processes requiring a different location are observed in a factory.
- (6) When a new branch or branches are to be opened for increasing the volume of production or distribution or both.

## ***Importance of Enterprise Location***

The selection of an appropriate location enables the enterprise to operate smoothly, efficiently, and with the minimum cost; it is estimated that manufacturing and distribution costs may vary to an extent of 10 per cent simply by virtue of the choice of enterprise location. Wrong location leads to wastage in efforts and talents of the promoters with consequent uncertainty in results. The location of enterprise has a great effect on the success or failure of the operation of that plant. If the selection of the site is not proper, then all the money invested on factory building, machinery and their installation etc. will go waste and the owner of the factory will have to suffer a great loss. Further, the cost of transferring it from one location to another would prove a very costly affair and pose problems which cannot be easily solved. Therefore, while selecting a site, the owner must consider technical, commercial and financial aspects and then to select a suitable site that may provide maximum advantages.

Location is also an important factor determining the ultimate success or failure of a small-scale unit. On it may depend the small industry's ability to obtain an adequate and regular supply of its raw materials at minimum cost, to maintain a sufficient labour force, and to serve its customers satisfactorily. In spite of its importance, many small entrepreneurs in the past ignored the problem of proper location of their units.

## ***Steps in Enterprise Location***

According to Bethel, Atwater and Smith enterprise location involves three main steps. They are: (1) selection of the region or general area; (2) selection of the particular community; and (3) selection of the exact plant site.

In choosing a plant location the entrepreneur would do well to follow the under-mentioned steps:

- (i) Selection of the region;
- (ii) Selection of the locality or community;
- (iii) Selection of the exact site; and
- (iv) Selection of an optimum site.

## ***Location***

Location is also an important factor determining the ultimate success or failure of a small-scale unit. On it may depend the small industry's ability to obtain an adequate and regular supply of its raw materials at a minimum cost, to maintain a sufficient labour force and to serve satisfactorily its customers. In spite of its importance, many small entrepreneurs in the past did not pay much attention to the problem of proper location of their units.

Location of any project is sometimes determined by government licensing regulation and not by the choice of the promoters. However, since location is an extremely important aspect for ensuring commercial success of an enterprise, appraisers evacuate location in relation to availability of raw materials, power, labour, fuel, transport, market and other infrastructure needs. The social infrastructure facilities such as availability of housing and education, medical and recreation facilities such as availability of housing and education, medical and recreation facilities also become important, particularly if skilled personnel have to be attracted from outside. In the case of certain projects involving sophisticated technology, availability of testing and research facilities are also taken into consideration. The weightage given to different aspects depends upon the type of industry. Water and power availability, for example, are the major factors examined particularly in relation to a power and water-intensive project. Generally, the power-intensive units are not encouraged to be set up in areas having a chronic power shortage. In the case of export-oriented projects, location near a port might prove advantageous.

Factors influencing selection of location may be shown in an exhibit as given below:

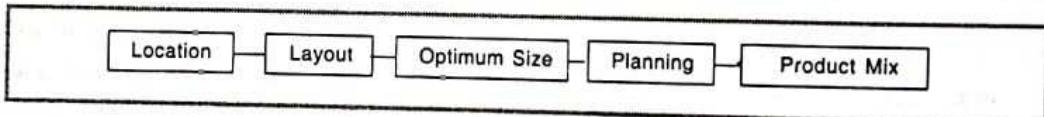
**Table 45.1 Factors Affecting Location of an Enterprise**

(A) Selection of Region	(B) Selection of Community	(C) Selection of Site	(D) Optimum Selection of Site
<ul style="list-style-type: none"> <li>(i) Availability of raw materials</li> <li>(ii) Nearness to market</li> <li>(iii) Availability of power and fuel</li> <li>(iv) Transport</li> <li>(v) Suitability of climate</li> <li>(vi) Government policy</li> <li>(vii) Competition among states</li> <li>(viii) Meteorological conditions and topography</li> </ul>	<ul style="list-style-type: none"> <li>(i) Availability of labour</li> <li>(ii) Civic amenities for workers</li> <li>(iii) Existence of complementary and competing industries</li> <li>(iv) Finance and Research facilities</li> <li>(v) Availability of water and the fighting facilities</li> <li>(vi) Local Taxes and restrictions</li> <li>(vii) Momentum of an early start</li> <li>(viii) Personal factors</li> <li>(ix) Banking facility</li> <li>(x) Communication facility</li> <li>(xi) Cultural affinity</li> <li>(xii) Religious and social institutions</li> <li>(xiii) Educational environment</li> <li>(xiv) Historical factors</li> <li>(xv) Political stability</li> </ul>	<ul style="list-style-type: none"> <li>(i) Soil, size and topography</li> <li>(ii) Disposal waste</li> <li>(iii) Price of land</li> <li>(iv) Expansion potential</li> <li>(v) Commercial services</li> <li>(vi) Communication</li> <li>(vii) Availability of amenities</li> <li>(viii) Health of locality</li> <li>(ix) Statutory considerations</li> <li>(x) Flood and drought experience</li> <li>(xi) Right and title of the land</li> <li>(xii) Good scenery</li> <li>(xiii) Attitude of local people</li> <li>(xiv) Technological know-how</li> <li>(xv) State Assistance</li> </ul>	Optimum site is selected on the basis of a comparative economic survey of the alternative sites in question

Generally speaking if the value-added component is not high, the project may be located near the source of raw material but for projects manufacturing high value-added products, a wide choice in respect of location is available as the products can bear the to and fro transportation cost of raw materials and finished products.

It has been found in a recent investigation that some 92% of the small industrialists had selected the location of their units to the nearest point of their residence; and out of these some 90% ignored the economics of the location of an industry. They did not bear in mind the fact that heavy recurring costs were involved in the purchase of raw materials that came from a place that was far from the location of their industries. In the case of some small industrial units, a particular type of climate, proximity to rail or road transport is necessary, but no care had been taken in selecting a site with these locational advantages. The study concludes: "Due to the faulty selection of a site for the location of an industry, some 56% of the small units failed within a period of five years of their start." This fact emphasises the importance of location as a primary consideration in planned production and control.

**Fig. 45.1:  
Production  
Channel of an  
Enterprise**



### Weber's Theory of Industrial Location

The Weber's theory of industrial location is based on the following basic assumptions:

(1) The materials used by an industry can be classified into ubiquitous and localised materials.

The ubiquitous are those raw materials which are available everywhere, like brick, clay and water. The localised materials are those which are available in certain localities only, like minerals, fuel etc.

The localised materials are further divided into (i) weight-losing or gross materials and (ii) pure materials. The weight losing materials are those which considerably lose weight during the manufacturing process (e.g., coal and other minerals) as opposed to pure materials like cotton or wool.

(2) The situation and size of places of consumption are given, with the market comprising a number of separate points.

### **Box 45.1**

#### **THE PROJECT**

The Company has already set up a unit for re-refining of used/waste oils with an installed capacity of 10,500 KL/MT. The proposed issue is to partly finance the Company's expansion programme to manufacture blended lubricating oils, industrial waxes and jellies as well as to provide balancing equipments to the existing re-refining plant to improve capacity utilisation and plant efficiency. After the proposed expansion the capacity will increase to 13,500 KL/MT per annum.

#### **LOCATION**

The unit is located at Khopoli, Dist. Raigad, Maharashtra which is about 90 kms. from Mumbai. It is a 'C' category Backward area having benefit of State Subsidy.

The factors favouring this location are as under:

1. Easy availability of raw materials from the surrounding areas in Maharashtra and Gujarat.
2. Proximity to the potential market of Mumbai.
3. Well established road network.
4. Easy availability of power, water, labour and general industrial infrastructure.

#### **LAND & BUILDING**

The Company is in possession of free hold land at Village Honad, Taluka Khalapur, Dist. Raigad, admeasuring 10,789 sq. mtrs. As on March 31, 1992, the Company had incurred an expenditure of Rs. 55 lakhs approximately, towards purchase and development of land and construction of building.

The existing built-up area is 1,130 sq. mtrs. approximately. The built-up area after the proposed expansion will be 1,785 sq. mtrs. and the civil construction contract has been awarded to M/s. Akcon Engineering Company.

(3) There are certain fixed labour locations and labour is immobile. Wage rates may vary from location to location but in each location supply of labour is unlimited at the given wage rate.

Weber's theory divides the factors influencing industrial location into the following two:

- (i) The general regional factors of transport and labour costs. These general regional factors are regarded as the primary causes affecting industrial location.
- (ii) The local factor of 'agglomerative' or 'deglomeration' forces regarded as the secondary causes responsible for redistribution of industries.

The location of an industry is determined by the interaction of the two sets of factors.

The limitations of the Weber's theory of industrial location are:

- (1) The theory is based on three wrong assumptions about labour supply;
- (2) Transport cost depend on the mode of transport, nature of goods etc.;
- (3) Location and size of markets may vary with changes in the economy;
- (4) Non-economic factors also exert important influence on industrial location;
- (5) The theory ignores the role of capital and entrepreneurship in industrialisation; and
- (6) The classification of materials is not proper.

## **Selecting General Area**

The important factors, which should be taken into account in the selection of a site, are (i) availability of raw materials; (ii) availability of skilled and unskilled labour; (iii) nearness to the source of motive power; (iv) nearness to market; (v) availability of transport facilities; (vi) nuisance problems; and (vii) suitability of the climate.

(i) *Availability of Raw Materials:* The region in which a manufacturing industrial unit is proposed to be set up should provide at least a greater part of the raw material required, thus ensuring a continuity of supply at reasonable prices.

(ii) *Availability of Skilled and Unskilled Labour:* It has to be seen whether proper labour required is available in the area. If labour is brought from other areas, its cost would go up.

(iii) *Nearness to the source of motive power:* The area should provide cheap power, soft water and adequate sewage disposal facilities. Power failure has been one of the important reasons for industrial breakdowns in the small-scale sector.

(iv) *Nearness to market:* If production is meant for self-consumption the location of a small-scale industry is determined solely by considerations of the availability of raw materials, power and labour. If its production is for the market, its nearness to market has also to be taken into account.

**Table 45.2 The Important Factors in the Selection of a Site**

	<i>Selection of region</i>	<i>Selection of locality</i>	<i>Selection of site</i>
1. Availability of raw materials	xxx		
2. Nearness to markets	xxx		
3. Availability of power	xxx		
4. Transport facilities	xxx		
5. Suitability of climate	xxx		
6. Government policy	xxx		
7. Competition between States			
8. Availability of labour		xxx	
9. Civic amenities for workers		xxx	
10. Finance and research facilities		xxx	
11. Availability of water and fire-fighting facilities		xxx	
12. Local taxes and restrictions		xxx	
13. Momentum of an early start		xxx	
14. Personal factors		xxx	
15. Soil, size and topography			xxx
16. Disposal of waste			xxx
17. Housing facilities for workers			xxx
18. Unencumbered land			xxx
19. Good scenery			xxx
20. Road, rail and water connections			xxx

(v) *Availability of transport facilities:* Transport cost has often been a decisive influence in the choice of location. In making a selection, the factor to be considered is the availability of transportation facilities at a reasonable cost.

(vi) *Nuisance Problems:* If there are any special "nuisance" problems connected with an industry — smoke, noise, odour, or smog — an arrangement for their control should either be available or necessary controls should be installed.

(vii) *Suitability of Climate:* Although the natural climate as a factor has lost its importance following rapid technological advances, small-scale industries have yet to pay adequate attention to this factor. Climate does influence the product and its quality.

The other important features to be considered are:

(1) Topography — flat, cheap or marshy land, sea, lake or river location. Vegetarian in the area, elevation above sea-level.

(2) Soil conditions — this determines the nature of foundation, nature and depth of piling required, steps to be taken with regard to corrosion to underground pipes, drainage requirements, quantity and cost of fill required.

- (3) Water supply — surface or underground. Quality of water is important. Where water is extremely hard additional plant for softening and treatment may be required.
- (4) Waste disposal — local regulations may require additional facilities for treatment of effluents prior to discharge to main stream.
- (5) Position of plant to local transport facilities: nearness to rail connections or highway.
- (6) Availability of homes for workers.
- (7) Local legislations and municipal laws including sanitation, air and steam pollution and other factors.
- (8) Living conditions for labour and management which include consideration of climate, recreational facilities, quality of schools, religious institutions, medical facilities, hospitals and other factors.
- (9) Community directives and community attitude towards manufacturing activities and outside investors.
- (10) Tax concessions and other incentives applicable to area/site.

It is very important to ascertain the general development surrounding the site. Whenever a construction activity is launched, it is useful to have ancillary support available in the area. Availability of construction facilities like rental of cranes, earth-moving equipments, welding sets etc., in the vicinity reduces the cost of construction as well as the time of project implementation.

The extent of industrialisation has as much bearing as its impact on unionisation. Location of sites closer to the concentration of industries has significant fallouts in terms of interference from external elements. The usual outcome of such interactions are comparison of notes and the germination of seeds of dissatisfaction, which even if not directed towards one's organisation, has a potent effect of acting as a source of 'learning' to others. In such situations, any manipulation tends to cold thinking and often leads to industrial strife without cause.

Having decided upon the location, the selection of a suitable site for the project is important. Factors taken into consideration in the selection of a site are:

- Soil test indicating type and load-bearing capacity of the soil at various depths, water table, terrain, etc.;
- Extent of site development required;
- Climatic conditions, namely, temperature, rainfall, humidity etc.;
- Presence of mineral deposits;
- Proneness to natural and structural disturbances;
- Leasehold or freehold nature of land, price/compensation, mode of acquisition, etc.

For a proper assessment of the locational features of a project, the borrowers are asked to enumerate the locational advantages and are also required to furnish copies of the location map, site plan showing the contour lines, internal roads, power receiving station, railway siding, tubewell, factory, lay-out providing for flow of raw materials and finished products, etc. While appraising the project, it is examined whether the land at site is sufficient not only for the immediate but also for its future requirements. Care is also taken to ensure that the formalities connected with the acquisition of land are completed before the appraisal of the project.

## **Economic Size**

For each project, there exists a certain minimum economic size below which the project will not be viable. It may so happen that in the case of some acute scarcity products, a project even below the economic size may appear to be viable in the immediate future, but if a long-term view is taken, it may not be so. This size varies from industry to industry, depending upon the nature of product to be manufactured, complexity of the manufacturing process, factors of production, particularly capital and labour. This concept is also linked with inflationary pressures on the unit cost of investment and technology adopted.

## **Processing Unit**

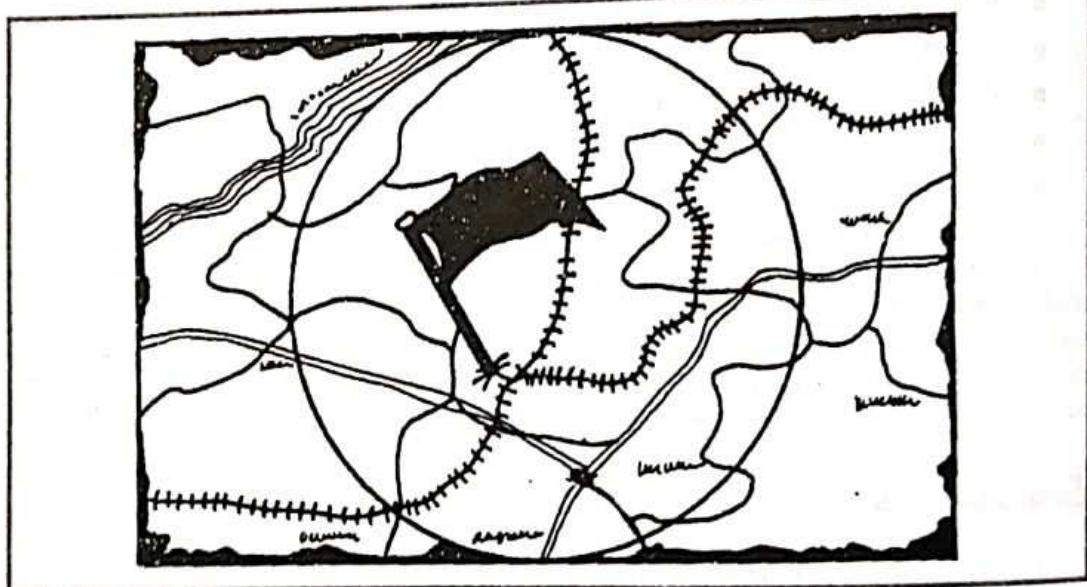
In a continuous processing unit, the minimum size of a plant is determined by technology as also the size of the plant/equipment available while in a jobbing unit, the size of the plant will depend on the product mix, project site, availability of skilled labour, cost of infrastructural inputs and quantum of bought-out finished and semi-finished components. The scale of a project is, therefore, examined keeping in view technological efficiency, cost of production, size of the targeted market and capital cost. These factors may, however, be conflicting and, therefore, while deciding on the scale of operation, certain compromises may have to be made. For instance, when the expected demand for the product is not adequate to justify the size of the project, it would be necessary to compromise on the technological efficiency criteria and choose a lower scale of operation sacrificing thereby a part of technological efficiency.

## **Project Phasing**

Various alternatives are often evaluated for project phasing in terms of either the size of the plant or the extent of integration. When eventually the market develops, the project size can be increased appropriately by either backward or forward integration.

Other factors which have an important bearing on the economic size of the project are the cost structure and availability of infrastructure facilities. With this, it might often be necessary to compromise with project smaller with this shorter gestation period vis-a-vis large capacity plants involving huge investment and long gestation periods. Thus, in each and every case, its economic size is analysed carefully by the appraising financial institution and it is ensured that neither the project is too small nor too ambitious. If a project is found to be of an uneconomic size, the borrower is advised at the initial stage itself so that it might be possible for him to modify his scheme and make it an economically viable and acceptable proposition. It may be mentioned here that the institutions also ensure that the licensed capacity of a plant is expressed in terms of physical quantities and not in terms of monetary value as per the directions of the Central Government.

**Fig. 45.2:**  
**Site Perspectives**

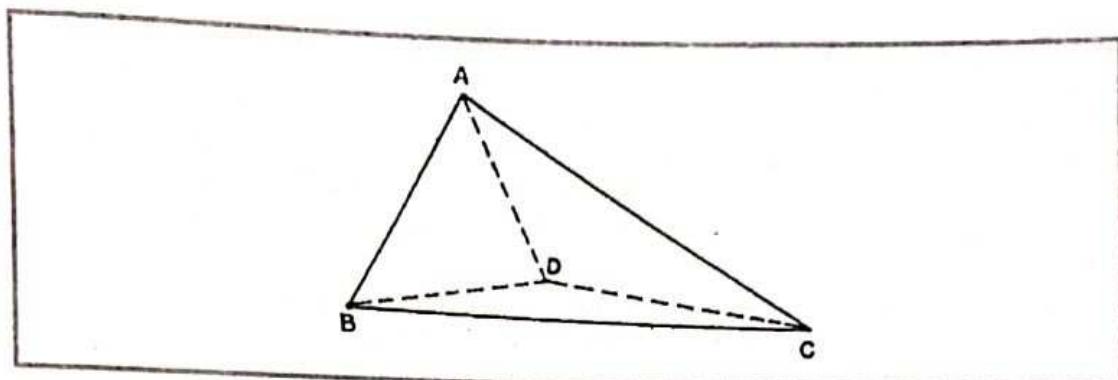


## **Selection of Most Economic Site**

According to Kimball and Kimball, the "most advantageous location is that at which the cost of gathering material and fabricating it plus the cost of distributing the finished product to the customer will be a minimum." This statement can better be explained with the help of the following diagram:

Let A and B represent the two sources of supply of materials. Let C stand for the market place; and let D represent the site of the factory. If the site of the factory is located at the market place C, then only the transportation cost of raw

Fig. 45.3:  
Economic Site



materials will have to be paid. Instead, if the factory site is located either at A or B, then only the distribution cost of finished goods is to be incurred. If the site is located at an intermediate point D, then only transportation cost on incoming raw materials and outgoing finished goods will have to be incurred. In order to arrive at the final decision for the most economic site, a comparative statement of total cost is to be prepared for an alternative site. This is illustrated below:

### ***Selection of Actual Site***

<i>Items of Cost</i>	<i>Cost per unit at site</i>		
	<i>Site A</i>	<i>Site B</i>	<i>Site C</i>
<b>Fixed Capital</b>			
(1) Land acquisition cost			
(2) Building construction cost			
(3) Equipment installation cost			
Total of fixed cost			
<b>Cost of Production and Distribution</b>			
(1) Materials cost:			
(a) Direct Materials			
(b) Indirect Materials			
(2) Labour cost:			
(a) Direct labour cost			
(b) Indirect labour cost			
(3) Overheads:			
(a) Factory insurance			
(b) Factory taxes			
(c) Factory depreciation			
(d) Office salaries			
(e) Selling overheads			
(f) Distribution overheads			
Total			

### ***Factors Influencing the Location of Projects***

Broadly speaking, there are two types of measures that may be advocated or adopted to influence the location of projects. The first set of measures may be called *positive measures* to encourage the growth of certain areas by offering to the industrialists various inducements some of which have been listed above. The technique of setting up industrial estates and export processing zones has been widely used as a means of simulating growth in certain areas. The other set of measures to be adopted by the authorities includes negative measures to discourage the setting up of projects in certain areas. The first set of measures refers to the various inducements extended to the industrialists to

set up their projects in certain specified areas, whereas the second set of measures imposes restrictions on the location of projects in certain congested areas. In the actual operation of the policy, as experience suggests, both sets of measures are necessary for the purpose of an effective location policy. During a given period, the total number of projects to be developed stood limited. In other words, the resources available for industrial projects, for instance, were limited. If more resources are invested in projects in one region, less resources will be available for investment of resources in projects in some regions of the country. Thus a combined use of both positive and negative measures is of importance.

If a policy of industrial location with a view to achieving decentralisation and dispersal is accepted on economic, social, political and environmental grounds, then there is a strong case for setting up a machinery for the administration of the policy. The machinery should exist at the central, regional and local levels to deal with the problems of regional or local industrial development. Naturally, the central ministry of industry which has much to do with industrial matters should be in charge of the overall administration of the policy. Various ministries and agencies are concerned with the problems of industrial development. Co-ordination, therefore, becomes extremely important. The ministry of industry in charge of administration of the policy will be in a better position to co-ordinate various aspects of the policy through an inter-ministerial or inter-departmental panel competent to take decisions on the project sites with efficiency on sound economic and social grounds. There is the need for a similar organisation at the regional and local levels to deal with the problems of industrial development in a particular region and locality. At the regional and local levels also, the responsibility for the administration of the policy should rest with the regional office of the department of industry. Here also a large number of departments and agencies will be concerned with industrial matters and the task of co-ordination may be achieved through inter-departmental regional panel which will promote dispersal of industries even in hitherto background areas.

**Table 45.3 State Incentives**

<i>Incentives offered</i>	<i>Small-scale industries</i>	<i>Medium and large-scale industries</i>
(1) Feasibility study subsidy	Subsidy to a ceiling of 75% of the cost of preparing the report upto a maximum of Rs. 5,000.	Loan of 75% of the cost of preparing feasibility report upto a maximum of Rs. 50,000.
(2) Investment subsidy	10% of value of fixed assets, subject to a ceiling of Rs. 5 lakhs.	10% of the value of fixed assets, subject to a ceiling of Rs. 10 lakhs
(3) Development loan	Overall ceiling of 25% of the value of fixed assets.	For Zone II, 10% of the value of fixed assets to a maximum of Rs.50 lakhs and for Zones III & IV, 15% of the value of fixed assets, subject to a maximum of Rs. 50 lakhs.
(4) Working capital loan	Interest-free loan offered, subject to a ceiling of 25% of the value of fixed assets or the development loan taken whichever is less.	Interest-free loan, subject to a maximum of Rs. 50 lakhs.
(5) Procurement of know-how	It shall be reimbursed in full, subject to a maximum of Rs. 25,000.	50% of fees paid by new units for procurement of know-how shall be subsidised upto a ceiling of Rs. 1 lakh.
(6) Stamp duty exemption and reduction in registration fee	Exemption on a stamp duty for executing agreement with KSFC. There is also reduction fee of Re. 1 per Rs. 100 for registering the agreement deeds.	Same as in the case of small-scale industries.
(7) Subsidy on housing	Subsidy at the rate of Rs. 1,500 per house of built-up area of not less than 300 sq. ft. shall be offered for the new units, who have plans to build houses for the employees.	Same as in the case of small-scale industries.

Among the important factors relating to industrial location, state incentives also play a key role. Although central incentives and subsidies assist the growth of enterprises in the country, it is the state incentives which attract entrepreneurs to set up their enterprises in particular States/Union Territories. The objectives of state incentives is to provide assistance and facilities to allure and motivate techno-entrepreneurs, intrapreneurs and first generation entrepreneurs to locate their ventures in their region. State incentives must be so devised as to synchronise private incentives with social returns in an efficient, cost-effective manner that simultaneously promote moral imperatives. To the extent state incentives are a tool, no less than a programme, they make industrialisation and growth of entrepreneurship a reality. The nature of assistance, however, varies from state to state.

### ***Location Policy***

Location Policy has also been significantly amended. In location other than cities of more than one million population, there is no requirement of obtaining industrial approvals from the Central Government except for the industries under compulsory licensing. In respect of cities with population greater than one million, industries other than those of a non-polluting nature such as electronics, computer software and printing, may be located outside 25 Kms. of periphery of urban areas, except if they are located in designated industrial area, prior to 25.7.1991. Zoning and Land Use Regulations and Environmental Legislation continue to regulate industrial locations.

## **CONCLUSION**

Among other things, the entrepreneur has to give special emphasis to the location of his project, equipment and layout to derive maximum benefits. Selection of site and equipment is governed by various variables. Taking into consideration all these aspects, the entrepreneur has to select the site and equipment for his enterprise.

The selection of the most economical site is possible where an entrepreneur prepares a comparative cost statement, taking into account the different sites available. Certain recent trends in plant location are now discernible. These are: (a) To locate plants away from cities; (2) The development of industrial estates; (3) Competition among states to develop industries; (4) Trend towards decentralisation; (5) Pollution control; (6) Location of industries leading to balanced regional development; and (7) Growth of multinational firms, thereby transcending the geographical area of the country.

Location of an industrial enterprise plays an important role in the development of the industry in terms of cost-structure, growth potential and profitability of an enterprise. A location that is most beneficial to an enterprise in all respects is known as an optimum location. An optimum location is essentially an idealistic concept. Such a location is difficult to obtain and still more difficult to retain. Taking into consideration the ground realities and the basic needs of an enterprise, the entrepreneur has to select the best among the lot and then develop the area as he needs it to be. It is, therefore, very necessary to weigh the merits and demerits of location factors before setting up of an industrial enterprise. In fact, location is a most important factor, next only to the choice of an industry/product, in laying a sound foundation for an industrial enterprise. A critical evaluation of the industrial location policies reveals that a thorough overhauling is required in the approach toward location of industries based on economies of scale and marketing.

In the years ahead, industrial location will be guided primarily by commercial considerations and sustainability rather than by regulatory or social demands alone. An investment which does not maximise the generation of surpluses cannot contribute to the country's social goals. Thus, location in backward regions where there is a great deal of willingness and native skill amongst the first generation workers provides very attractive scenario to the decaying environment of cities where industry has been traditionally located.



## **ANNEXURE - I**

### ***Check List***

The location of an enterprise has to be carefully selected. A wrong choice sometimes proves fatal for the enterprise. The selection of a suitable locality depends on a number of factors. Further, each factor is influenced by a number of other factors. So a thorough analysis of the location to be selected is to be undertaken by the entrepreneur before he selects a particular site. The following check list prepared by the United States Department of Commerce will help the entrepreneur in the appraisal of the basic location factors:

### ***Check List for considering Basic Industrial Location Factor***

#### **I. Location of Production (Raw) Materials**

- A. What production materials exist in the area?
- B. In what volume are the production materials available?
- C. What is the quality of each production material?
- D. How accessible are the available material?

Does the nature of such production materials (quantity, bulk, perishability etc.) or any unusual advantage attendant thereto definitely favour plant location at or near site or source?

#### **II. Labour**

- A. What is the labour force of the area?
- B. What is the quality of the available labour force?
- C. What is the character of the labour force?
- D. What quantity of labour is seasonably available?
  - 1. Is a large supply necessary?
  - 2. Are special skills required?

#### **III. Sites**

- A. How much land is available for industrial expansion?
- B. What are the soil and topographic features?
- C. At what cost and terms can land be purchased or leased?
- D. What facilities are now or will be available?
- E. What industrial floor space is or will be available in existing structures?
  - 1. Is a large area needed?
  - 2. Must the site have special features, such as topographic soil conditions, transportation facilities, low costs, etc.?

#### **IV. Industrial Fuel**

- A. What industrial fuel is available for additional industry?
- B. How dependable is the supply?
- C. At what cost is the fuel available?
  - 1. Is low cost heat a major factor in processing?
  - 2. Is a particular fuel required?

#### **V. Transportation Facilities**

- A. What transportation facilities are available?
- B. What is the rate situation?
  - 1. Do materials and/or product require prompt and/or low cost movement?
  - 2. Does product or raw material require a special type of transportation?

## **VI. Market**

- A. What is the trading area generally served by this location?
- B. What is the general quality of this market?
  - 1. Are time and distance vital matters to reach the market?
  - 2. Is price or quality a vital market factor?

## **VII. Distribution Facilities**

- A. What agencies and services are available?
  - 1. Are there channels for marketing complex and do they require special financing, inspection, warehousing, storage or terminal facilities?

## **VIII. Power**

- A. What kind of industrial power is available?
- B. How dependable is the power supply?
- C. At what cost is the power available?
  - 1. Is power a significant factor?
  - 2. Is sufficient surplus power available?

## **IX. Water**

- A. How much water is available for additional industry?
- B. What is the quality of the water supply?
  - 1. Is significant quality of low-cost water required in processing?
  - 2. Whether the required quantity is available?

## **X. Living Conditions**

- A. Are adequate facilities available for education, recreation, shopping, religious and social life, health and professional services?
- B. Is sufficient housing available?
  - 1. Will the industry employ enough people to make housing and environment significant factors?

## **XI. Laws and Regulations**

- A. What laws and regulations exist of significance to prospective industries?
  - 1. Is the industry subject to special local and/or state regulation?

## **XII. Tax Structure**

- A. How favourable is the tax structure to industry?
  - 1. Is the capital investment of such a size that the tax rate or assessment policy will be important?

## **XIII. Climate**

- A. What are the climate characteristics of the area?

# **46**

**CHAPTER**

## **STEPS FOR STARTING A SMALL ENTERPRISE**

*"The success of a small-scale industry solely depends upon doing the right thing at the right time. In other words, a small-scale industrialist has to be conversant with the varied regulations governing the small-scale industry and the procedures to be followed in order to acquire the necessary assistance and incentives offered by the Government from time to time."*

### **INTRODUCTION**

The development of small-scale industries has been one of the most significant and characteristic features of industrial development in India. One of the distinctive characteristics of small-scale sector is that, the development of these industries would create broader employment opportunities, assist in entrepreneurship and skills development, and ensure a better use of scarce financial resources and appropriate technology. Furthermore, they can play a main role in the achievement of national economic and socio-political objectives. The gestation period is very short and they need smaller amount of capital to start. It also helps in the dissemination of productive capacity unlike the large-scale industries which tend to concentrate in a few hands. This part, establishment of such industries in rural areas and small towns helps to check the influx of population into bigger towns.

The procedural aspects of the small-scale industry are quite formidable. Each and every entrepreneur is often overwhelmed by the multitude of procedures which help to face at every stage of the development of a small-scale industry. It is therefore, necessary to emphasise here that the student should concentrate more on the purpose and the principles underlying the various procedural formalities than on such routine formalities as filling in various forms, applications etc.

### ***Basic Objectives***

The basic objectives underlying the development of small and medium scale industries are the increase in the supply of manufactured goods, the promotion of capital formation, the development of indigenous entrepreneurial talents and skills and the creation of broader employment opportunities. In addition, they include socio-economic goals such as the decentralisation and dispersal of manufacturing activities from the metropolitan to the non-metropolitan and rural areas, the reduction of regional economic imbalances within a country and the diffusion of entrepreneurial and managerial abilities and skills and technology throughout the country.

In the Indian Economy, cottage and small-scale industries have a significant role to play. With increasing pace of industrialisation and sophistication of the large-scale industries, a new orientation is inevitable in the relationship of the

of the quantity of production, ability to meet stringent delivery schedules and very many other problems that arise in a dynamic and changing environment not only in the country but also in the international field.

## Steps of the Ladder the Entrepreneur (Small) has to Climb It is a Continuous Process of Industrialisation

34. Ancillary Development
33. Grow Bigger
32. Compete with Others
31. Modernisation
30. Diversification
29. Plough Back Profits
28. Keep up-to-date
27. Sell
26. Produce
25. Plan out Record-keeping
24. Organise Marketing
23. Decide on Pricing Policy
22. Trial Run
21. Recruit Personnel
20. Procure Materials
19. Instal Machinery
18. Plan Buying
17. Apply for Materials (If Imported or Controlled)
16. Place Order for Machinery (Preferably on Hire-purchase)
15. Plan Sources of Machinery
14. Plan Finance
13. Obtain Clearance from Central, State and Local Authorities and SSI regn. no.
12. Make sure what laws will particularly affect you
11. Arrange the worksheet with facilities (preferably on rent)
10. Decide on location and site
9. Obtain the project report from SISI or elsewhere or prepare it yourself
8. Decide whether to purchase a going concern or to start a new one
7. Decide on form of ownership [sole-proprietor/partnership/cooperative/company (private/public)]
6. Choose a Line
5. Date with Yourself for a Decision
4. Discuss with all around you and with SISI & D.I. office
3. Consult publications and agencies
2. Date with yourself for newer ideas
1. Analyse yourself and your objectives

*Note:* This is a bare outline. The next chapter contains some details and suggestions for step-by-step planning.

The success of a small-scale industry solely depends upon doing the right thing at the right time. In other words, a small-scale industrialist has to be conversant with the varied regulations governing the small-scale industry and the procedures to be followed in order to acquire the necessary assistance and incentives offered by the Government from time to time.

The procedural aspects of the small-scale industry are quite formidable. Each and every entrepreneur is often overwhelmed by the multitude of procedures which help to face at every stage of the development of a small-scale industry. It is therefore, necessary to emphasise here that the student should concentrate more on the purpose and the

principles underlying the various procedural formalities than on such routine formalities as filling in various forms, applications etc.

### ***Right Thing at the Right Time***

In this chapter, the treatment of procedures — right from conceiving a small-scale industry until the repayment of creditors and ploughing back of profits — is based on the personal and practical experience of a small industrialist. In the latter part of the discussion, a reference has been made to the varied regulations that a small-scale industrialist has to abide by. They are mentioned later.

A discussion of the relevant procedures to be followed when setting up a small-scale industry has been dealt with reference to various phases of its development. These phases are:

- (i) Selection of a small industry and preparation of feasibility and project reports;
- (ii) Accommodation, power and other infrastructural facilities;
- (iii) Machinery;
- (iv) Raw materials;
- (v) Finance;
- (vi) Marketing and
- (vii) Securing various incentives offered for the development of the small-scale industry.

## **SELECTION OF A SMALL-SCALE INDUSTRY**

The process of setting up a small-scale industry has been indicated in Fig. 46.1, which has been drawn on the basis of practical experience gained in its promotion. It indicates all the important stages in the setting up of a small-scale industry.

The objectives of the promotional regulations are to provide an impetus to the growth of a small-scale industry and regulate the supply of machinery, electricity, water, premises, finance, raw materials and markets. The process of production and marketing is governed by a series of rules and regulations. In a way, these regulations are a boon to the small entrepreneur.

A potential entrepreneur has to pass through various stages for setting up his small-scale unit and these are:

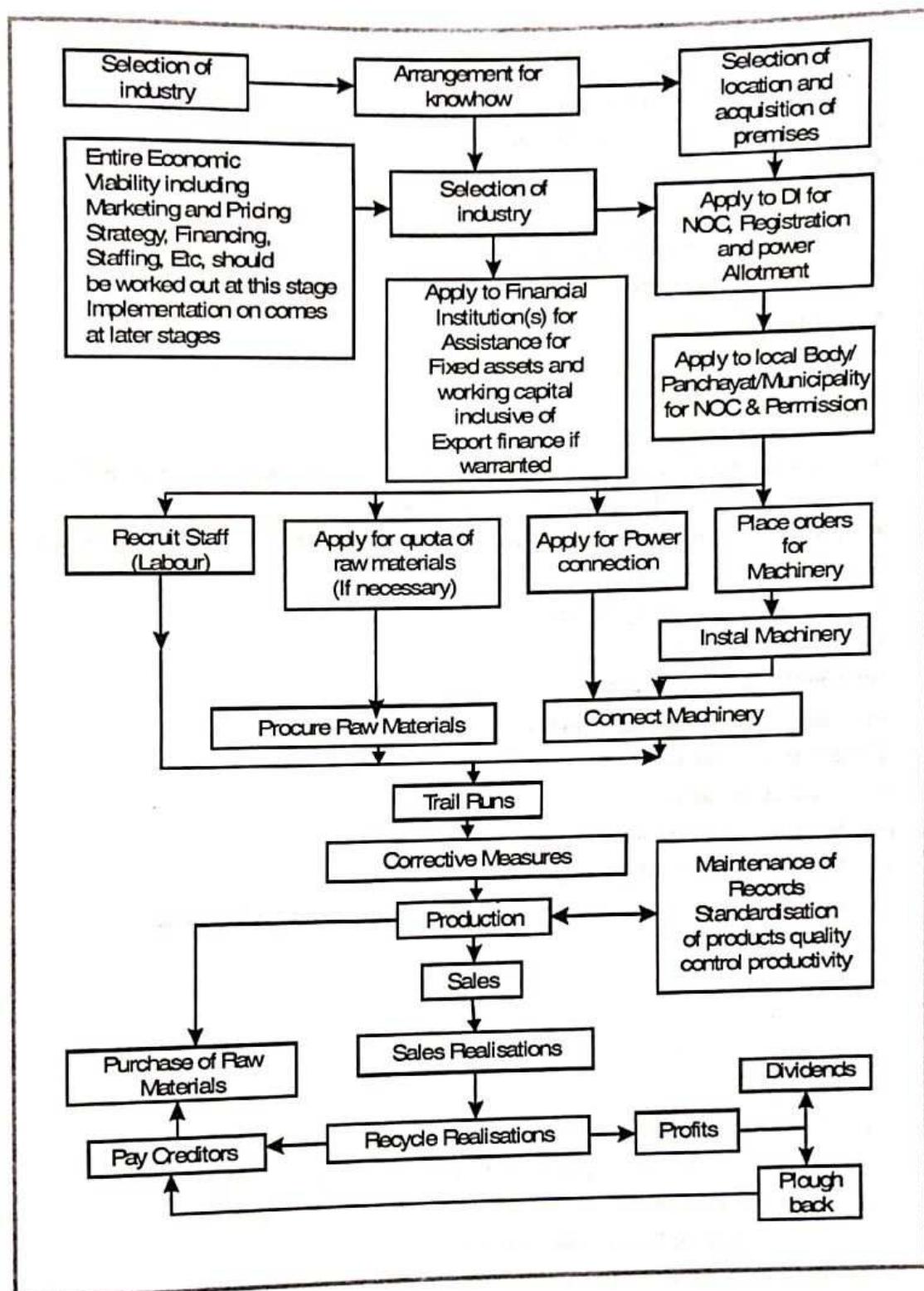
- (i) Decision to be self-employment
- (ii) Identification of opportunities
  - (a) Idea generation
  - (b) Screening product/service idea
  - (c) Concept testing
- (iii) Selection of the line of business

### ***Business Analysis***

#### **Market Analysis**

- Demand estimation, analysis, factors affecting demand
- Derived and autonomous demand
- Forecasting demand
- Marketing methods
- Marketing feasibility
- Market research

**Fig. 46.1:**  
**Process of Setting up a Small-Scale Industry**



#### Technical Analysis

- Proper location of the unit
- Proper size of the plant
- Suitable process of manufacture
- Factory layout
- Organisational set-up

#### **Financial Analysis**

- Fixed assets of units
- Requirement of working capital
- Manufacturing cost of the product
- Sources of finances
- Repayment schedule
- Profitability and production statements
- Cash flow statements
- Break-even point
- ROI in each year

#### **Economic Analysis**

- Social cost benefit analysis
- Economic benefits and costs measured in terms of efficiency, impact of project on distribution of income in society, level of savings and investment in society
- Contribution of project towards fulfilment of merit wants, e.g., employment, self-sufficiency, social orders

#### **Market and Demand Analysis**

(iv) Selection of product/products

#### **Product Development**

(v) Selection of site (location)

Purchase/lease of land/shed in industrial estate

Development of the plot

(vi) Building the factory

(vii) Selection of ownership form

(viii) Preparation of the project report

A comprehensive appraisal of proposed project should cover the following:

- (i) Technological Aspect
- (ii) Financial Aspect
- (iii) Economic Aspect
- (iv) Managerial Aspect
- (v) Market Aspect
- (vi) Break-Even Analysis
- (vii) Planning Commission's guidelines for feasibility Report
- (viii) Project Life Cycle
- (ix) Project Manager Role Responsibilities
- (x) Network Analysis — PERT and CPM
- (xi) Financial Appraisal methods
- (xii) Registration in case of company or partnership type of organisation
- (xiii) Agreement with collaborator, if any
- (xiv) Obtaining letter of intent or provisional registration of SSI
- (xv) Preparation of detailed project feasibility report

- (xvi) Obtaining import licence, customs, clearance, etc.
- (xvii) Power connection/water connection etc.
- (xviii) Completion of civil works
- (xix) Delivery of imported and indigenous machinery
- (xx) Erection of machinery and equipments
- (xxi) Obtaining clearance from pollution control board
- (xxii) Obtaining industrial licence or permanent SSI registration
- (xxiii) Acquiring manufacturing know-how
- (xxiv) Selection of personnel — technical and administrative
- (xxv) Procuring unskilled labour
- (xxvi) Training the labour
- (xxvii) Designing financing schemes
- (xxviii) Arranging finance by all means
- (xxix) Arrangement of raw materials
- (xxx) Apply for getting grants/subsidies from the government
- (xxxi) Trial run and commissioning of plant
- (xxxii) Start of commercial production
- (xxxiii) Arrangement for sale of products
- (xxxiv) Registration of designs and trade marks.

A small entrepreneur can obtain the necessary information and guidance from the Government Departments, Organisations and Agencies like Director of Industries and Commerce, Manager of District Industries Centres, Kerala State Industrial Development Corporation etc.

## ***Starting a Small-Scale Industry***

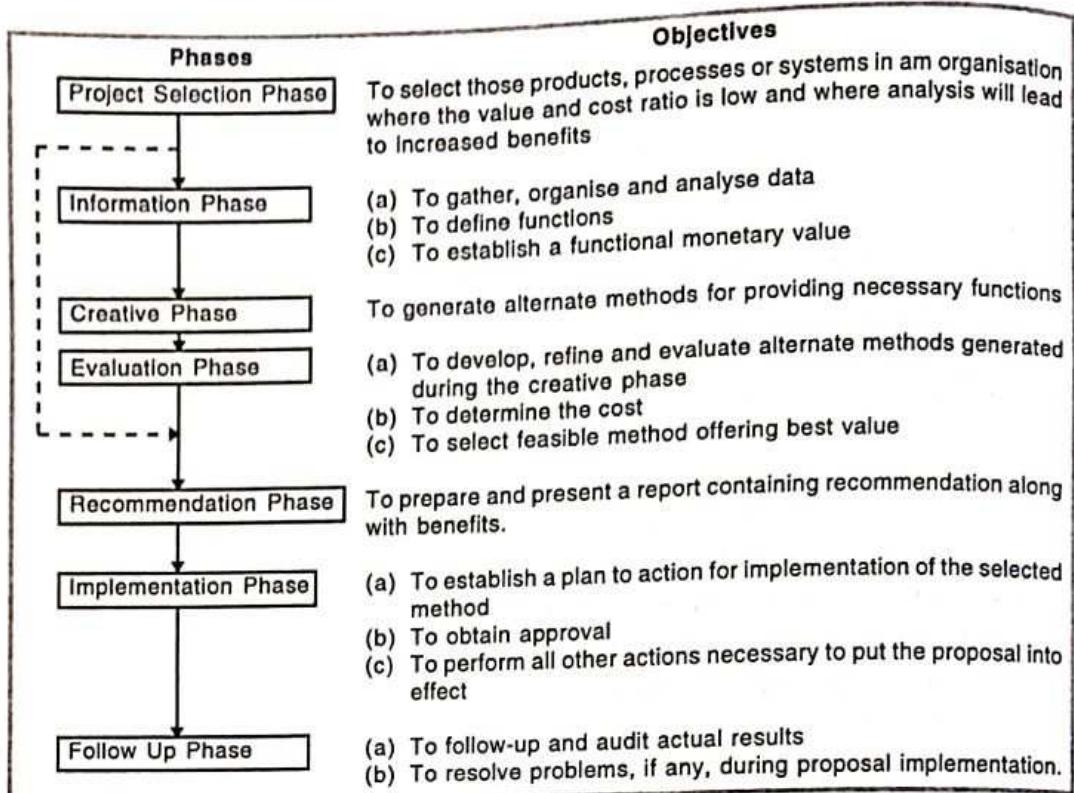
A small entrepreneur is the chief executive of his unit, its floor supervisor, accounts clerk, purchase manager, salesman, legal and economic adviser, planner and visionary — all rolled into one.

Every now and then, you will come across advertisements and announcements enticing you to set up small industries under the aegis of the State Small Industries Corporations, which promise a fully developed industrial shed with power and water, assistance in getting you raw materials, machinery on hire-purchase basis, common services facilities, training facilities and facilities in the marketing of your product. Assurance of term loans on attractive terms and working capital in time and at concessional rates. In backward areas, a number of additional subsidies are available.

An entrepreneur may be a qualified engineer. Even so, he should not dream of becoming a small entrepreneur unless he is confident of meeting the following twelve essential requirements:

- (i) The entrepreneur should be fully conversant with the product line. It is not enough that he knows the method of manufacturing; he has to know how to operate the machines, etc.
- (ii) He should have adequate shop floor experience to guide the machine operators in fool-setting techniques or the die-maker on the specific needs of his press tools.
- (iii) He should be familiar with the raw materials he requires, their specifications, how to ensure their quality and where to get them at reasonable prices.
- (iv) He should know how to keep accounts, how to maintain stores, how to prepare the balance sheet, etc.
- (v) He should have knowledge of marketing channels, distribution network, agency practices, transport intricacies, and the economics of packaging.

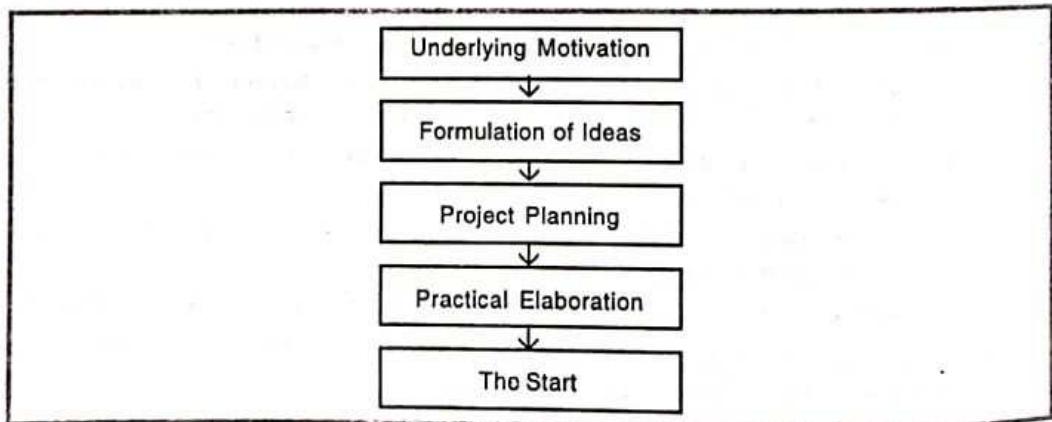
**Fig. 46.2:**  
**Project Objectives**



- (vi) He should know how to ensure the stipulated quality of his product.
- (vii) He should be well-versed in taxation and other laws governing SSIs.
- (ix) He should be willing to put up with bureaucratic regulations and insults, and be fractional under any circumstances.
- (x) He should know how to avail himself of the various benefits available to the SSIs.
- (xi) He should possess expertise, shrewdness, resourcefulness and, most important, perseverance in his business dealings. There is no substitute for hard work.
- (xii) He should have the guts to withstand the high pressure climate in which he has to build his unit.

Any entrepreneur desirous of starting a small-scale industry should have a clear picture of the objectives of his project. It is advisable to prepare a comprehensive check list. Such a list, embracing all the important matters, has been given below for the guidance of prospective entrepreneurs. Students will get an insight into the various processes of a small-scale industry.

**Fig. 46.3:**  
**Process of Starting a Small Enterprise**



## Checklist

Does your industry have scope for development? (Consult Director of Industries)	Yes/No
Is there enough demand for the item you propose to manufacture?	Yes/No
Do you have some experience of: (a) Manufacturing? (b) Marketing?	Yes/No Yes/No
Have you studied the viability of your scheme? (Consult the Small Industries Service Institute)	Yes/No
Is factory space available: (a) In the Industrial Estate (b) In an Industrial Area or (c) In some other approved place?	Yes/No Yes/No Yes/No
Have you obtained the necessary licence from the Municipality or the local body?	Yes/No
Are the necessary raw materials available: (a) Indigenously (b) Are they to be imported?	Yes/No Yes/No
Are facilities available for: (a) Tooling (b) Quality Control?	Yes/No Yes/No
Is necessary labour available: (a) Of skilled workers (b) Of semi-skilled workers?	Yes/No Yes/No
Have you the necessary technical background for: (a) The manufacture of various parts (b) Operations?	Yes/No Yes/No
Have you studied your product in respect of: (a) The manufacture of the various parts (b) Production Planning (c) Inspection and Quality Control (d) Assembly (e) Packing (f) Diversification?	Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No
Have you the necessary finance: (a) Are you a client of any bank? (b) Has any bank offered to lend you — (i) Short-term loans? (ii) Long-term loans? (c) Have you any assets? (d) Are your assets adequate for obtaining the necessary funds? (e) Have you other sources/ways of raising money? (f) Have you approached the Director of Industries/State Financial Corporation for financial help? (g) Do you propose to approach the NSIC/SSIC for machinery on hire-purchase basis? (h) Have you adequate cash/bank arrangement to furnish the earnest money required by the NSIC?	Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No Yes/No

What are your markets?	
(a) Local	Yes/No
(b) Country-wide	Yes/No
(c) Export?	Yes/No
How would you market your products(s)? Through	
(a) Retailers	Yes/No
(b) Wholesalers or	Yes/No
(c) Agents?	Yes/No
Are necessary transportation facilities available by	
(a) Road or	Yes/No
(b) Rail?	Yes/No
Have you attended a course on	
(a) Production, Planning and Control	Yes/No
(b) Purchasing and Marketing	Yes/No
(c) Finance and Cost Control	Yes/No
(d) Personnel Management	Yes/No
(e) General Industrial Management?	Yes/No
Have you entered into a foreign collaboration agreement for	
(a) Technical know-how	Yes/No
(b) Royalty/Commission on sales?	Yes/No
(c) Has your agreement been approved by the Government?	Yes/No

Once the industry is identified, the SISI prepares a feasibility report and project report, giving one a comprehensive idea of an industry's prospects and profitability.

## 1. Feasibility Report

Before starting a small-scale industry, one should consult the Director of Industries and the Small Industries Service Institute (SISI) located in one's State. The SISI guides entrepreneurs as to the type of industry to start, where to start and how to start it. The SISI helps them to select the various items of manufacture which have scope for development in different areas. It suggests the lines on which a project report for the proposed units should be prepared for the consideration of various financial institutions with a view to securing financial assistance. Similarly, technical help in the selection of proper raw materials and type of machinery is also provided. Apart from this, the SISI gives valuable information of the various incentives available to the small-scale industries from various organisations.

## 2. Project Feasibility Analysis

A project feasibility analysis includes market analysis, technical analysis, financial analysis and social profitability analysis. Although each feasibility analysis is different and is tailored to the product, its goal is to identify the strengths and weaknesses of the project.

The starting point of a project analysis is the establishment of the objectives to be attained. The next stage is the pre-selection stage — the advisability of having an indepth study. The analysis stage consists mainly of three factors — market, technical and financial analysis. A market analysis is a method of screening project ideas as well as a means of evaluating a project's feasibility in terms of the market. A market analysis should cover the following areas:

- (i) A brief description of the market including the market area, methods of transportation and existing rates of transportation. Channels of distribution and general trade practices are also included.
- (ii) An analysis of past and present demands, including the determination of quantity and the value of consumption and identification of the major consumers of the product.

- (iii) An analysis of past and present supply, broken down as to source (whether imported or domestic) as well as information which will assist in determining the competitive position of the product such as selling prices, quality and marketing practices of the competitors.

The technical analysis of a project feasibility study establishes whether the project is technically feasible or not, and whether it offers a basis for the estimation of costs. Moreover, it provides an opportunity for a consideration of the effect of various technical alternatives on employment, ecology, infrastructure demands, capital services, support or processes to be applied and should incorporate:

- (i) A description of the product, including specifications relating to its physical, mechanical and chemical properties, as well as uses of the product.
- (ii) A description of the selected manufacturing process, showing detailed flow charts and presenting the alternative process which may have been considered and the justification for the adoption of the selected process.
- (iii) A determination of the plant size and production schedule, which includes the expected volume for a given time period on the basis of start-up and technical factors.
- (iv) Selection of machinery and equipment, including specifications, equipment to be purchased and its origin, quotations from suppliers, delivery dates, terms of payment and a comparative analysis of alternatives in terms of cost, reliability, performance and spare parts availability.
- (v) An identification of the plant's location and an assessment of its desirability in terms of its distance from raw material sources and markets. For a new project, this part may include a comparative study of different sites, indicating the advantages and disadvantages of each.
- (vi) A design of the plant lay-out and an estimate of the cost of the erection of the proposed buildings and land improvements.
- (vii) A study of the availability of raw materials and liabilities and utilities, including a description of physical and chemical properties, quantities needed, current and prospective costs, terms of payment, locations of sources of supply and continuity of supply.
- (viii) An estimate of labour requirements, including a detailed breakdown of direct and indirect labour requirements, and the supervision required for the manufacture of the product.
- (ix) A determination of the type and quantity of waste to be disposed of together with a description of the waste disposal method, its costs and the necessary clearance from proper authorities and
- (x) An estimate of the production cost of the product.

In the financial analysis of a project feasibility study, emphasis is on the preparation of financial statements, so that the project may be evaluated in terms of the different measures of commercial profitability and the magnitude of financing required may be determined. The financial analysis requires the assembly of the market and technical costs estimated into various proforma statements. If it is necessary to have more information on which to base an investment decision, a sensitivity analysis or possibly, a risk analysis may be conducted. The financial analysis should concentrate on —

- (i) Projects that involve new companies, statements of total project cost, initial capital requirements and cash flows relative to the project time-table;  
*For all projects, financial projections for future time periods including income statements, cash flows and balance sheet are imperative.*
- (ii) For all projects, supporting schedules for financial projection, stating the assumption made as to the collection period of sales, inventory levels, payment period of purchases and expenses, and the element of production cost, selling, administrative and financial expenses.
- (iii) For all projects, prepare a financial analysis showing returns on investments, returns on equity, break-even volume and price analysis.
- (iv) For all projects, if necessary, a sensitivity analysis to identify items which have a substantial impact on profitability or possibly a risk analysis.

For the small entrepreneur, the studies conducted during the analysis stage of the project provide the material for an assessment. If positive results are obtained, the entrepreneur, in seeking finance will want to prepare an investment proposal. The planners or government officials, however, having obtained positive conclusion from the economic feasibility study, will want to evaluate the element of social profitability.

The purpose of the investment or loan application is to convince a lender (financial institution) that the project is a desirable investment; that it not only possesses the potential for profit but that the proposed management team has the capability to achieve the potential. The investment proposal normally contains:

- (i) General information on the product, company history, the nature of the industry and the reputation and qualifications of the existing or proposed management.
- (ii) A description of the period, which usually consists of extracts from economic feasibility studies and includes information on such items as market, production, selected manufacturing methods (with detailed indication of the cost of equipment and operational expenses) and a financial statement and
- (iii) Miscellaneous information, such as the steps taken for the implementation of the project and the qualifications of the technical partners envisaged or selected.

### ***3. Break-even Analysis***

Let us first address 'why break-even analysis?' While discussing preparation of a project report of feasibility report, we stated that the level of estimated capacity utilisation, i.e., quantum of production in terms of goods or services as the case may be, needs to be spelled out in advance in the project report. Our business experience tells us that when the enterprise/business is actually started, in other words, the project is actually implemented, the projected or targeted level of capacity is not achieved due to various unforeseen reasons.

Such a situation entails financial implications. Then, the entrepreneur needs to decide to what extent the curtailment in production can be afforded to meet all its liabilities. Steinhoff and Burgess put it as "How much must I sell before I start making profit." The answer to this question is called the 'break-even analysis' where income exactly equals expenses. Let us now understand "What is break-even analysis? In simple words, it is an analysis of production point at which profit starts. This point is where income and expenses are exactly equal and the point is called 'break-even' point. Thus, break-even analysis is used to find the break-even point.

Having understood the concept of break-even analysis, we now intend to expose you to the mechanics involved in finding out break-even point. In carrying out any enterprise, profit comes from sale of goods or services as the case may be and expenses emerge out from the cost involved. Expenses to be incurred refer to cost. Cost is broadly divided into two types, viz.: (1) Fixed cost, and (2) Variable cost. What are these costs?

**Fixed Cost:** Fixed costs are defined as those that do not change with increase or decrease in production. No matter what the production is, the fixed cost remains the same. Examples of fixed costs could be the monthly rent paid for the factory, interest on long-term loans, administrative expenses, etc. Even if there is zero production, the fixed cost will remain unchanged. Say, if factory rent, i.e., Rs.10,000 per month is the only cost, it will remain fixed at Rs.10,000 if there is a production of 500 units or 200 units or even no production at all.

**Variable Cost:** In short, what is not fixed cost is variable cost. Variable cost is defined as expenses that change with the volume of production. It varies proportionately with changes in production. Thus, if production is zero, variable cost would be zero. The absolute total variable cost increases or decreases along with increase or decrease in production. But the variable cost per unit is constant at any level of production. The following example clears it.

There are some variable costs that do not vary proportionately with the change in production. In fact, these vary in varying degrees. As a result such costs are called semi-variable. The popular examples of such costs could be telephone, electricity and gas charges if they are billed on a usage basis. In such cases that proportion of expenses which continue even if production falls are considered as fixed and expenses which increase or decrease as production increases or decreases are considered as variable cost.

After knowing sales and total cost in terms of fixed cost and variable cost, now the break-even point can be calculated.

According to the simplest method, Profit is the excess of sales over cost, i.e., Sales – Cost = Profit. The calculation of break-even point involves four steps. These are:

1. Segregation of fixed and variable costs
2. Percentage of variable costs to sales
3. Calculate the contribution or margin, i.e., the difference between 100 and the percentage of variable cost to sales as worked out above.
4. Divide the fixed cost by the percentage of contribution or margin as worked out above.

It will be better, at least for those of you who are coming across to the concept of break-even point for the first time, to calculate break-even point with the help of an example.

#### **4. Licences**

An impression seems to have gained ground among some people that there are some restrictions on the getting up of small-scale industrial units and that licences from either the Central or State Governments have to be taken out before an entrepreneur to set up an industrial unit in the small-scale sector; no formal permission from the State or Central Government is necessary for this purpose. Also, industries employing less than 100 workers and having fixed assets of less than Rs. 10 lakh need not obtain any licence under the Industries (Development & Regulation) Act.

Small-scale units have, however, to conform to the rules and regulations prescribed by State or local authorities under the Factories Act, Commercial Establishments Act, Town Planning Rules, and rules made for the issues of quotas of raw materials, etc.

However, powerlooms do not come under the purview of the small-scale industries programme. For installing powerlooms, the prior permission of the Textile Commissioner, Government of India, Mumbai is required.

#### **5. Registration of Small-scale Industries**

In their own interest, all existing small-scale units or intending entrepreneurs employing more than 10 workers should get themselves registered with the Director of Industries in their State. A copy of this application for registration should be sent to the Director of Small Industries Service Institute in the concerned State. Such registration with the Director of Industries and the Small Industries Service Institute will be of considerable help to small-scale unit in obtaining financial assistance from the government and for obtaining machinery on hire-purchase basis from the National Small Industries Corporation. Assistance in the supply of controlled raw materials, specific certificate for imported raw materials and components, and facilities for export promotion, would then be easily made available to small-scale units registered with the State Director of Industries. The registration number is now required to be quoted while submitting import applications.

#### **6. Infrastructure**

The Director of Industries and/or the SISI in the State can be approached to provide you with built-up factory space in an industrial estate, or develop the factory site, power, etc. After the initial clearance from the State Director of Industries, the Municipality or the Panchayat issues a "No Objection Certificate."

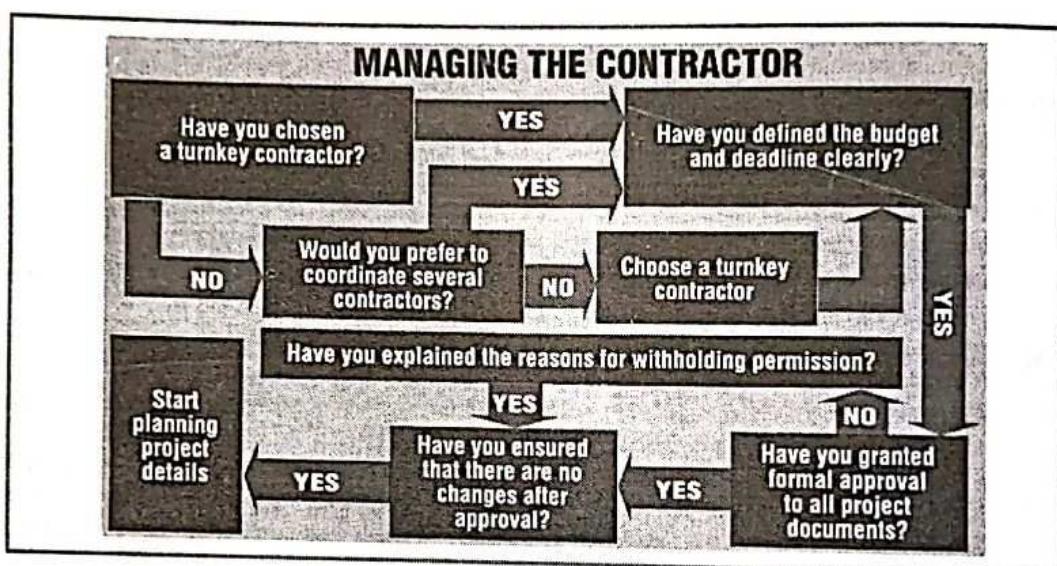
The mechanics of putting up a new factory in Greater Mumbai are:

- (i) Apply to the Industries Commissioner, Industries and Labour Department, Government of Maharashtra, and obtain a "No Objection Certificate." (NOC)
- (ii) With a copy of the above NOC, apply in Factory Form "A", to the Word Engineer of B.M.C.
- (iii) Clarifications and submission of further details on the information supplied in Form "A" may follow.
- (iv) The sub-engineer will inspect the premises and submit Form No. '2' to his assistant engineer.

- (v) The assistant engineer will scrutinise and confirm if the applicant's activity conforms to the zone and will intimate to the applicant in Form No. '3' if there is no objection or in Form No. '4' if there is any objection.
- (vi) Form 'B' will be received by the applicant if Form No. '3' is issued to him. This form should be filled in and submitted.
- (vii) Within 21 days after the submission of Forms 'A', 'B' and the factory plans in triplicate, the assistant engineer will issue Form No. '5' and '6' in which he will specify:
  - (a) The electric power sanctioned (thereafter, the BEST provides current);
  - (b) Adequate water facilities provided;
  - (c) The various requirements, requisitions and conditions for operating the factory, including those required by the chief inspector of factories.

Form 'C' will also be issued along with these forms. (Upon complying with the stipulations in Form 'B', the BMC should be informed thereof in writing.)

Subsequently, permission to commence production will be given.



## 7. Machinery

The small entrepreneur needs the requisite type of machines for production. He can get the necessary machinery from the National Small Industries Corporation under a hire-purchase scheme.

The scheme for the supply of indigenous and imported machines on hire-purchase basis was launched in March 1956 to enable small entrepreneurs without substantial means to avail themselves of assistance. The scheme is different from the credit operations scheme for entrepreneurs. The NSIC has acquired the necessary experience and expertise in the procurement of machines from the right sources. It also takes care of the problems up to the stage of delivery entrepreneurs. Also, while financial institutions plan to look mainly to the creditworthiness of entrepreneurs, the NSIC would look primarily to the motivation of the individual applicant, his capacity, his technical competence and his managerial ability to run the enterprise.

The small entrepreneur should enlist himself as a member with the NSIC. His application form should be accompanied by the Registration Certificate and report of the Director of Industries. The application for obtaining machines under the hire-purchase scheme of the NSIC is quite comprehensive. The small entrepreneur has to provide full details along with the relevant documents.

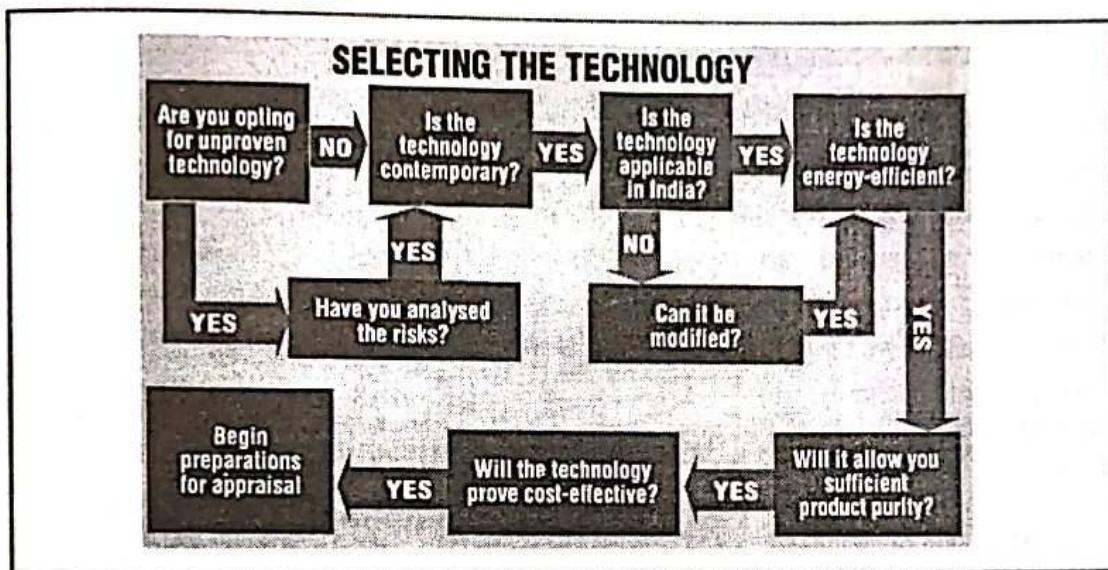
The application form for hire-purchase of machinery calls for information regarding the organisational set-up of the unit, its programme of production, and the marketability and profitability of the enterprise. It also calls for additional

information regarding the cost of production, the infrastructural facilities available for the unit, the technical capability of the entrepreneur, etc. The details in the application are self-explanatory.

## 8. Raw Materials

The raw materials required by SSIs may broadly be classified as under:

- (i) Raw material components and spares, both indigenous and imported;
- (ii) Non-ferrous materials — both indigenous and imported;
- (iii) Iron and steel — both indigenous and imported; and
- (iv) Chemicals — indigenous and imported.



Under the liberalised scheme, the actual users are provided with adequate foreign exchange to meet their justifiable requirements of imported items of industrial materials. The "priority" industries are assured of an adequate supply based on requirements by way of grant of rotational licences.

Small-scale units should apply directly to the Regional Licensing Authority, and not through the sponsoring authority, for import licences for raw materials, components and spares after utilising the previous set of licences to the extent of 90% by way of opening their own credit or 60% by way of actual import, covering six months' requirements of the unit. New units should submit their applications through their respective sponsoring authority.

The State Director of Industries allocates indigenous non-ferrous metals. Some of the non-ferrous items are canalised through the State Trading Corporation of India (STC). The raw materials imported by the STC are given to the SSI units in accordance with the recommendations of the Director of Industries concerned.

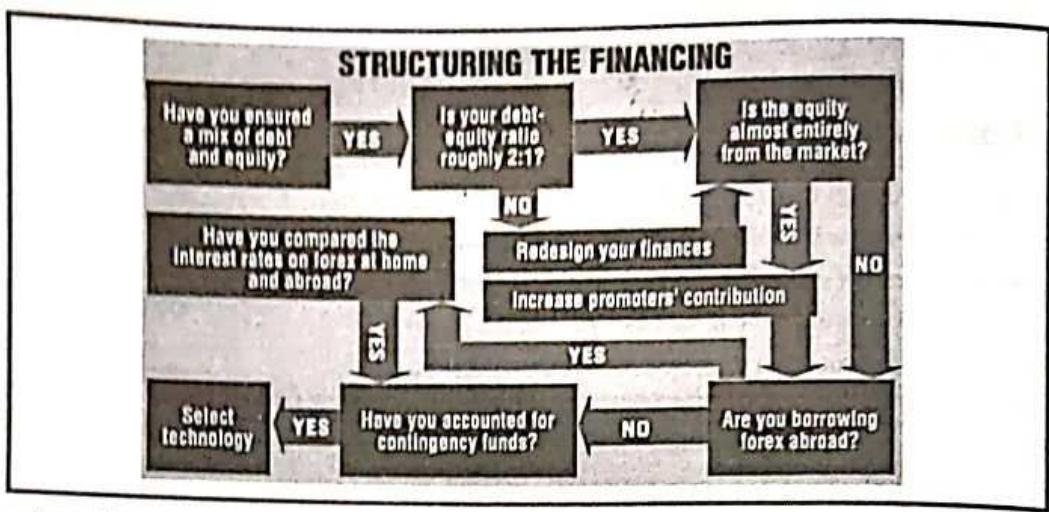
The same applies to iron and steel raw materials are canalised through the MMTC.

In times of difficulties, the decontrolled chemical raw materials are canalised through the DGTD in accordance with the recommendation of the State Director of Industries. Indigenous controlled chemicals are allocated through the State DIS/SICs. Imported raw materials are canalised through the STC.

In short, controlled and imported raw materials are to be obtained through the State DIS, SICs (SSI).

## 9. Finance

The financial function in a small-scale industry is similar to the financial function in any other organisation, but with this essential difference — that there are a host of banking and insurance regulations to be strictly adhered to and quite a few precautions to be taken.



The areas where finance would be needed, after the small-scale industrialist fixes the land accommodation, are:

- (i) Purchase and installation of machinery;
- (ii) Procurement of raw materials and components and the manufacture of products;
- (iii) Working funds;
- (iv) Availability of funds until the realisation of sales.

The State Director of Industries provides loans for block capital under the Industries Act. One should apply through the sponsoring authority. State Financial Corporations provide long-term credit for the purchase of fixed assets. The application should be submitted to the SFCs along with the following documents:

- (i) Project Report; (ii) Copy of Registration; (iii) Cash-flow Statement; (iv) Stock Statement.

In some states SFCs and the banks agreed to process the common applications for loans. Up to an amount of Rs. 2 lakh, a commercial bank provides medium-term instalment credit. It also provides loans for meeting needs for working capital for the purchase of raw materials as also for day-to-day requirements.

In order to get a loan from a commercial bank, the entrepreneur has to fill in an application form as per the specimen provided by the financial institutions including banks and submit it to the bank along with the following documents:

- (i) Authentic copies of Balance Sheets and Profit and Loss Accounts (if the industrial concern is a limited company or an industrial co-operative society).
- (ii) A statement of total assets and liabilities in the prescribed form in the case of partnership and proprietary concerns.
- (iii) Perform statements in all other cases.
- (iv) Copies of the affidavit in regard to the size of the unit.
- (v) Technical Feasibility Report from the Small Industries Service Institute, the Director of Industries, if obtained, may also be closed.

## **10. Recruitment of Personnel**

Even single proprietary concerns cannot be run with the sole owner doing all activities. In some enterprises, it is just possible the owner and his family members may be able to manage the affairs. In these days of specialisation and competition, professionals and skilled workers would have to be recruited. Depending on the size and nature of the industry, skilled and unskilled workers would have to be recruited to run small-scale enterprises. After making realistic assessment of the actual manpower requirements of an enterprise, suitable arrangements should be made for recruitment of personnel. It would always be advantageous to decide beforehand and ascertain the norms of production for a year

or any shorter period. On the basis of the manpower requirements contemplated in the project report for the smooth and effective functioning of the unit, decisions to recruit the stipulated number of persons may be implemented.

The next step would be to resort to advertisements or request the Employment Exchange to send suitable persons with the requisite skills, training and experience.

If the prospective entrepreneur is merely a matriculate or a graduate and is keenly interested to take up the manufacture of a chemical item, say, calcium carbide, it would always be advantageous to appoint a works manager well-versed in chemical engineering. Besides, the technical personnel in an industrial unit should possess certain basic skills such as —

- (i) Technical knowledge relating to the job;
- (ii) Experience relevant and adequate;
- (iii) Academic knowledge;
- (iv) Ability to express ideas.

The time of installation of machinery should always synchronise with the time of recruitment of personnel. If personnel were recruited several weeks before the installation of machinery, most of the workers may idle away their time and it would be a wasteful expenditure. On the other hand, if machinery is installed, and there are no workers to operate the machines, the unit would not be able to start production and the gestation period would prolong. Adequate planning is, therefore, essential to match the various stages of activities and start production at the earliest.

Training is one of the important industrial extension services rendered by the Small Industries Development Organisation (SIDO) through various Small Industries Service Institutes, Branch SISIs, and Extension/Production Centres. The training courses organised by SIDO are aimed at upgrading the skills of workers as well as the managerial capabilities of personnel.

Regular and *adhoc* training courses in various technical trades are conducted by the Small Industries Service Institutes, Branch SISIs, Extension Centres and Production Centres for artisans, both skilled and semi-skilled, sponsored by the small-scale industries. Broadly, the technical courses are divided into four categories:

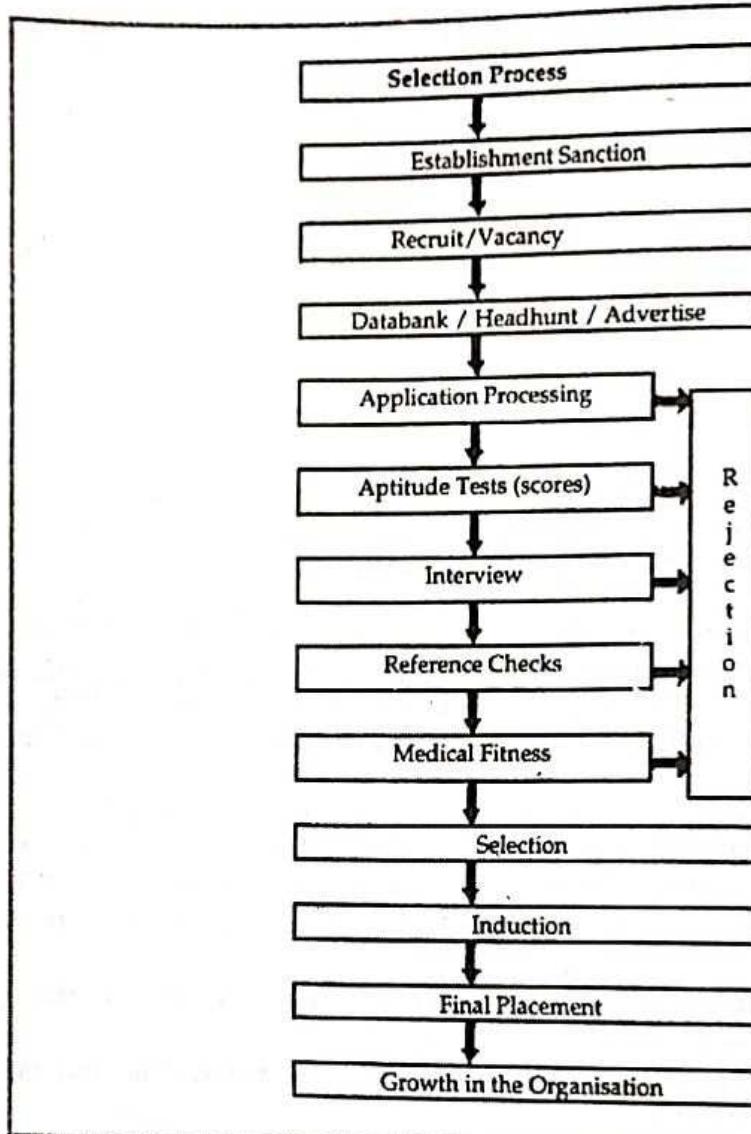
- (i) Shop practice courses, viz., tool room practices, foundry techniques, blacksmithy and forging, electrical shop practice, etc.
- (ii) Trade-oriented courses which provide advanced know-how in the trade of tool-making (press tools) machinist, filter, sheet metal, pattern making, carpentry, etc.
- (iii) Process-oriented courses, viz., heat treatment, gas and electric welding, food and vegetable preservation, anodising, leather tanning, etc.
- (iv) Product-oriented courses, viz., lens grinding, paints and varnishes, glass beads, footwear, sports goods, thermometer making, scientific glass blowing etc.

With a new thrust on the development of industries in the backward and rural areas, SIDO diversified its Entrepreneurship Development of industries in the backward and rural areas, SIDO diversified its Entrepreneurship Development Programmes in the year 1978-79 to serve new categories of entrepreneurs like Educated Unemployed, Women, Rural Artisans, Weaker Sections, Handicapped, Defence Personnel and Students. The Entrepreneurial Development Programmes are broadly classified into two categories, namely, (a) motivation campaign for identification and selection of entrepreneurs and (b) Entrepreneurial Development Training Programmes for the target groups. In the year 1985-86, SIDO also introduced Entrepreneurial Development Programmes for the beneficiaries of the Self-Employment Scheme.

## 11. Marketing

The rationale of the Government Purchase Scheme of the Corporation lies in the fact that the Government of India is the largest single buyer, and by channelising these purchases in favour of small-scale units, it gives a tremendous boost to the marketing of their products.

Fig. 46.4:



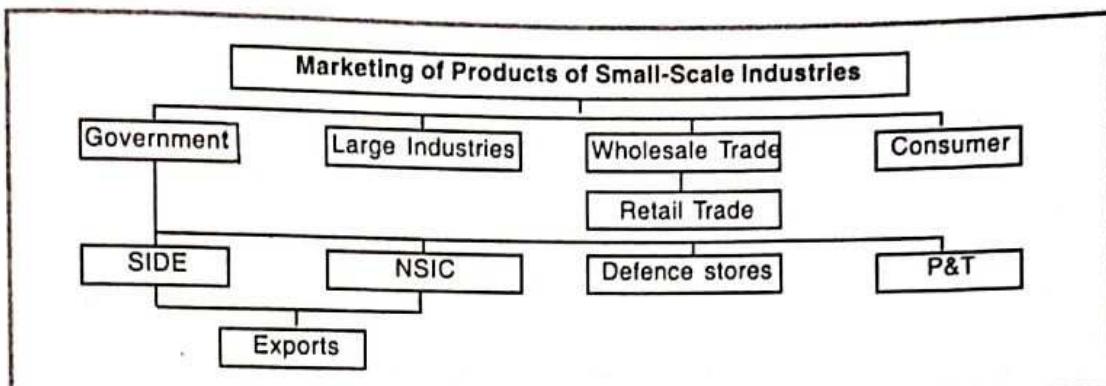
The salient features of the scheme are:

- (a) The small-scale units, desiring to avail themselves of assistance, have to enlist themselves with the NSIC;
- (b) Instead of purchasing tender sets from the DGS & D, the small units enlisted with the NSIC automatically get them from it and its branches free of cost;
- (c) If their prices are acceptable to the DGS & D they are not required to pay a security deposit on the issue of a competency certificate by the NSIC;
- (d) Price preference up to 15% over the quotations of large-scale units is considered by the Purchasing Agency, depending on the merits of each case;
- (e) Wherever they feel that injustice has been done to them, the NSIC takes up their cases with the DGS & D and other Government Departments such as Defence, the Railways and the P & T in order to find out the reasons for non-placement of contracts with the units, and tries to redress their grievances.

In the beginning, purchases in respect of only 16 items were reserved exclusively for the small-scale sector; the number of such items has steadily increased to 409 items in 1995-96.

Besides, in respect of 13 items, purchases upto 75 per cent and in respect of 28 items, purchases upto 50 per cent of the requirements are earmarked for the small-scale sector.

**Fig. 46.5:**  
**Marketing of Products of SSIs**



The Corporation also helps small-scale industries in securing contracts from other Government Departments such as the Railways, Posts and Telegraphs, etc.

Hitherto, the purchase programme has been restricted purely to Central purchase houses like DGS & D, the P & T and the Railways. It is proposed to extend the base further to cover State Government Departments such as the State Electricity Boards, PWDs, etc. and provide liaison offices at each of the principal centres of the State.

## 12. Innovation



"There are three types of innovation: continuous, dynamically continuous and discontinuous. The former results in minor changes to society (a new shampoo), at the other extreme, you get the "gem theory of disease" that radically changes society. There is a continuum of such innovations."

Professor Phillip Parker, *Eli Lilly Chaired Professor of Innovation*

*Business and Society, INSEAD, France.*

In the last years, the infusion of new manufacturing technologies, adoption of quality management techniques, and of Japanese management approaches such as Kaizen and TPM have seen Indian companies innovate in production processes as they seek to reach the global productivity frontier. This was probably the easy part. The more difficult challenge is to come up with proprietary approaches that enable companies to play a leadership role.

The next generation of innovation to be undertaken by Indian companies will involve higher risks and more complexity in management. This is evident from industries as diverse as pharmaceuticals (where the initial euphoria of the potential of the global generics market that allows exploitation of Indian skills in process innovation is now wearing off).

Innovation in organisation (decentralisation), financial arrangements (risk-sharing), supply chain management and marketing (including packaging innovations to reach out to currently underserved markets) will have to complement technological and product innovation if Indian companies are to succeed in meeting this challenge. In new technology areas, particularly those that involve the creation of dominant designs or the evolution of standards, a lot of innovation happens through networks and alliances, so the ability to manage such inter-organisational arrangements will be important. More than anything else, family-managed businesses will have to either train themselves to understand technological innovation better or innovate in their governance structures to give greater freedom to professionals working for them.

At the policy level, while economic policy changes have succeeded in creating an environment in which innovators can hope to compete on the merit of their products, more can be done to support innovation. Prevention of fakes and spurious imitations by vigorous implementation of the law would be a good starting point. More seed capital needs to be available for technology-based entrepreneurs. The government's Technology Development Board, which provides low-cost loans for indigenous technology development, needs to widen its ambit and scope of operations. And last, but not the least, as a society, we need to be more tolerant of experimentation and failure, because these are essential elements of the innovation process.

Though there are no set rules, Rosebeth Moss Kanter, a Professor at Harvard University has suggested six characteristics of innovation:

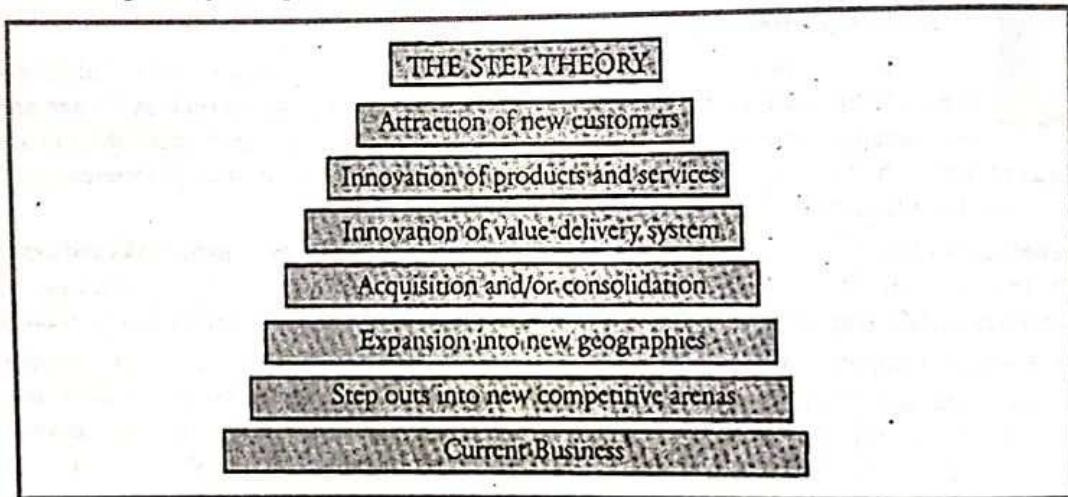
- Uncertain
- Knowledge intensive
- Controversial
- Crosses boundaries
- Changes work relationships and hierarchical arrangements
- Conditions for organisation and innovation are different from those of adoption and diffusion.

Thus, "if innovation is uncertain, fragile, political and imperialistic (reaching out to other territories)," she adds, "then it is most likely to flourish where conditions allow flexibility, feedback, quick action and intensive care, coalition formation, and connectedness." Here Kanter also hints at the organisational environment that surrounds the entire process.

The innovation process involves at least five generic stages:

- Idea generation and concept definition
- Model development
- Limited/test production
- Full production and growth
- Diffusion and adoption

Innovation cannot be divorced from change. A technological innovation may bring a change in the materials, manufacturing process, shop-floor management, product packing and marketing strategies too. This change may be opposed by the people affected by it and this could initiate a debate or opposition which is seldom objective. Often restructuring in an organisation follows a major innovation or breakthrough. It is important to ensure that a minor innovation that could possibly take place at such a time is not ignored.



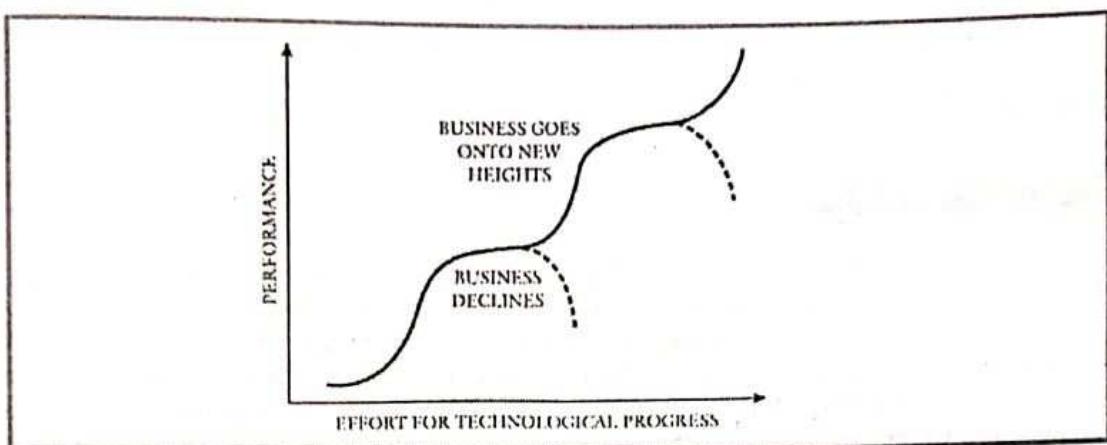
### ***Increased Innovation***

Innovation will provide the basis for the sustainability of an organisation. Richard Foster in his book *Innovation* has sketched the curve of performance versus effort for technological progress. The result is an S-shaped curve that moves from infancy to explosion and then a gradual maturation. The key to sustainability is the ability to glide through successive such S curves, in other words, the ability to continually innovate. 3M, on account of its constant innovation (it has something like 60,000 products in its stable) has been able to glide smoothly through many successive S-curves and thus has built an incredible amount of staying power in the market.

Implicit in continuous innovation is the importance of cannibalisation. Intel is one of the few organisations that has perfected the art of cannibalisation. As the market of a processor begins to mature, Intel launches a superior processor, and tries to make the market graduate to its new offering. This not only pre-empts imitators, but also keeps margins

high for Intel. In fact, with its continual innovation and cannibalisation, Intel has been able to create an artificial monopoly for itself.

Fig. 46.6:  
The Successive  
S-Curve



### 13. Incentives

For availing the various incentives, it is advisable to seek the help of the SISI and/or the Director of Industries.

Small-scale industries are the industrial units having an investment in fixed assets in plant and machinery not exceeding Rs. 10 lakhs. The ancillary units are those having an investment in fixed assets in plant and machinery not exceeding Rs. 15 lakh and they are engaged in the manufacture of parts and components.

The Small Industries Development Organisation (SIDO), Ministry of Industry, Nirman Bhavan, New Delhi, co-ordinates policies and programmes at the national level and provides a comprehensive range of extension services through its network of sixteen Small Industries Service Institutes, nineteen Branch Institutes and forty-five Extension Centres.

At the State level, organisation like State Directorates of Industries, Small Industries Development Corporations and Finance Corporations cater to the needs of small industries; these needs include land, sheds, credit, power, raw materials, etc.

The National Small Industries Corporation (NSIC), Okhla, New Delhi, has been providing machines and equipment on hire-purchase basis to entrepreneurs, assists units to participate in stores purchase programmes and provides training and prototype development facilities.

Registration with NSIC entitles the units to obtain facilities from Central or State Government organisations. New units have to apply to the respective State Directors of Industries for provisional registration, which is given within a week. It enables the party to take the necessary steps to bring the unit into existence, i.e., apply for sheds in industrial estates or on developed sites, for water and power connections, and for credit facilities. After the party has taken all the steps, it can apply for registration.

SIDO provides technical consultancy on improved technical processes, use of modern machines and equipment and technical assistance on all aspects of production. Each SISI has attached workshops for common facility services, training of workers, demonstration of modern machines and processes, making of tools and dyes, etc.

The Central Institute of Tool Design (CITD), Hyderabad, has been specialising in the provision of technical consultancy and tool facilities training in the design and manufacture of tools.

The Institute for the Design of Electrical Measuring Instruments (IDEMI), Mumbai, provides technical know-how and testing, calibration, laboratory, workshop and training facilities to manufacturers of electrical measuring instruments.

The Prototype Development and Training Centres (PDTCs) at Okhla, Rajkot and Howrah develop prototypes of machine tools and other machinery provide assistance to units in the manufacture of prototype machines, technical consultancy and training.

The Product and Process Development Centre in glass and ceramics, Ranchi has been developing new products, viable processes, new designs of product and machines, consultancy services and training.

Under the modernisation programme for selected industries guidance and assistance are provided to small-scale units to adopt modern production and management techniques with a view to improving their productivity and competitive strength.

Technical assistance guidance in a wide range of industries is provided by specialised institutions and experts. Testing facilities are available at the Regional Testing Centres in New Delhi, Kolkata, Mumbai, Chennai and also at SISI Workshops.

## ***The Winning Edge***

The opening up of the Indian small industry sector to competition as well as the increase in the need to cater to the global market, demands fresh perceptions to respond to the radical changes in the 90s. Consequently, this sector must change first to survive as well as restructure itself to meet the new challenges through a critical evaluation of the forces of free global trade and increased competition. These events demand quantum strategic changes in terms of industry culture, flattening of the organisation structure, employee empowerment as well as team building. Only those organisations which can respond to these changes will be able to survive and retain a winning edge.

Some of the important characteristics that differentiate the successful organisations from the unsuccessful ones are:

- (1) The most important aspect of successful business is leadership. It calls for clear vision, goals and objectives, well defined mission, dash and employees' participation.
- (2) Adequate but well-orchestrated control. Constant feedback of results as well as setting and adherence of high standards give an organisation a cutting edge over others. Planning, foresight and analysis are other important qualities.
- (3) To be able to extract the best from its employees through total involvement, the organisations put a lot of emphasis on proper internal communication and on training employees.
- (4) The successful organisation is one which is very close to the market place. The process of systematic market research is used to develop products or process of systematic market research is used to develop products or process and to provide value for money to the customers. This helps to gain the market share.
- (5) The next most important characteristic of a winning business organisation is "Zero Basing" or sticking to the last — knowing what business the company is in swiftly recognising and preventing when it has diverted into an unsuitable path and preventing risks.

## **CONCLUSION**

Starting a small-scale industry is not easy. It is ninety per cent perspiration and hardly ten per cent profit. It calls for vision, perseverance, co-operation and hardwork. The entrepreneur has a uphill task in coordinating multifarious activities and turn into a viable enterprise. It calls for a thorough business plan and prompt implementation. The entrepreneur needs a number of skills to set up a small industry, which will grow into a giant in coming years. Many of the giants of to-day, viz., Kirloskar, Honda, Escort, Camlin, Reliance were started small. It calls for a missionary work with a purpose. Then the joys of fulfillment is like a beautiful rainbow.

As the main thrust of the new economic policy is to encourage competitiveness, characteristic of market-driven economy, small-scale units have to increasingly equip themselves to be on their own. Technology, together with quality promotion measures, holds the key to improved factor productivity and strengthening of competitiveness. An enlightened entrepreneurial class, fully conscious of the directions in which changes are taking place, can look forward with confidence to improve its market share, both within and in a global setting in recognition of the opportunities available for further growth.

But you may have to face some problems too. Raw materials may be scarce. Finding a market for your products may not always be easy. Procuring or executing really large orders may be virtually impossible.

You would need assistance in such circumstances. And this can best come from organisations that are specially geared to assist small-scale units.

Primarily, it is necessary to decide on what to manufacture, where and how. Then follows the process of establishing a small-scale industry. But, till the dream is realised, there are a number of hurdles, which could be crossed over, if one takes care. Herein, one's perseverance is at least. Let us start the hurdle race. No, before participation in this hurdle as well as marathon race, let us prepare ourselves or be fit for the race.

If you are a novice in the field, the first exercise you should concentrate on is what items you can market either on your own or through a reliable selling agency. Once a product is decided, you can then take up for examination their manufacturing, marketing, viability and profitability in the small-scale sector. You are just a pin, a small pin in the huge machine of industry. While exploring the market, please assess the element of competition. Please do not overlook competition to your products as well as the capacity of the competitors to outwit you by underselling. Bear always that the road is not smooth. Even the hurdles are of uneven nature, competition is taken for granted. Even the special institution will suggest to you to manufacture only such items which you can successfully market.



## **ANNEXURE 1**

### ***Process of Setting up a Small-Scale Industry — Guidelines***

#### **I. Selection of Industry**

Small Industries Service Institutes

They guide entrepreneurs in the selection of industries, areas, suitable raw materials and machinery.

Indian Investment Centre  
Parliament Street, New  
Delhi-1

It advises on foreign capital participation and technical collaboration. Provides guidance to entrepreneurs regarding government policies, procedures, available incentives and facilities for investment, economic size of unit and the magnitude of investments required, demand forecast, availability of raw materials etc.

It approves the cases of foreign collaboration.

#### **II. District Industries Centres**

Ministry of Industrial Development  
and Company Affairs, New Delhi.

In each district, there would be one agency to deal with all requirements of small and village industries, which would be called the Districts Industries Centre. Under the single roof of the centre, all the services and support required by small and village entrepreneurs would be provided. The Centre would have a separate wing for looking after the special needs of cottage and household industries as distinct from the small industry. The Rural Industries Project and Rural Artisans Programme would be merged with the programme of the District Industries Centre. Each DIC would have a General Manager and seven managers of different disciplines for looking after planning and economic investigation, credit, marketing etc.

#### **III. Factory Accommodation**

Directors of Industries

They provide built-up factory space in industrial estates or developed factory sites, power, water etc. (The building designs have to be approved by Municipalities or Corporations while power and water connections are sanctioned by State Governments/ Undertakings.

#### **IV. Industrial Estates**

There are more than 600 industrial estates in India which provide constructed accommodation in developed areas. Main facilities include common facility services, workshops, allotment of sheds on hire-purchase, concessional charges on water and power, exemption from octroi duty on building materials etc.

#### **V. Registration**

Although it is not mandatory, it is certainly helpful to obtain the SSI Registration Number from the Director of Industries.

#### **VI. Machinery**

Small Industries Service Institutes

They advise about the kind of machinery and equipment needed for the manufacture of different products.

It supplies indigenous as well as imported machinery on hire-purchase basis.

They provide indigenous machinery on deferred credit basis.

He issues import licences for machinery of foreign origin on the recommendation of the Directors of Industries.

Install machinery as per the layout drawn by them.

#### **VII. Raw Materials**

Development Commissioner,  
Small-Scale Industries, New Delhi

He procures raw materials for the small industry and distributes them among State Governments. He also arranges imports of raw materials through the Minerals and Metals Trading Corporation and the State Trading Corporation of India.

They allot quotas of scarce raw materials.

They supply raw materials.

They issue licences for the import of raw materials.

#### **VIII. Finance**

Small Industries Development  
Bank of India, Lucknow, 1989

Small Industries Development Bank of India (SIDBI) has started operations through its 25 offices located in different states of the country. The SIDBI has been set up under an Act of Parliament as the principal financial institution for promotion, financing and development of industry in the tiny and the small-scale sector. The SIDBI is also

	<p>State Financial Corporations State Directors of Industries State Bank of India and its Subsidiaries</p>	<p>expected to coordinate the functions of the institutions engaged in similar activities. The SIDBI is a wholly-owned subsidiary of the Industrial Development Bank of India (IDBI). It has taken over IDBI's financing activities relating to the small-scale sector. They provide long-term credit for the purchase of fixed assets.</p>
	<p>Commercial Banks Small Industrial Service Institutes</p>	<p>They provide loans under State Aid to Industries Act/Rules for block capital. They sanction medium-term and instalment credit loans for the purchase of machinery and the construction of factory buildings. They also provide working capital for the purchase of raw materials and meeting other day-to-day requirements.</p>
IX. Technical know-how	Small Industries Service Institutes	<p>They sanction loans for working capital needs They furnish technical reports to Institutes, the State Bank of India on the applicant units.</p>
	<p>National Small Industries Corporation, New Delhi Council of Scientific and Industrial Research, New Delhi Productivity Councils Small Industry Extension Training Institute, Hyderabad Central Institute of Tools Designs (CITD) Hyderabad Institute for Design of Electrical Measuring Instruments (IDEWI) Mumbai</p>	<p>They prepare improved designs and Institute's drawings for products. They assist in making tools, dies, jigs and fixtures. They help in the optimum utilisation of men, materials and machinery. They prepare management control charts for the maximisation of profits. They train managers and supervisors in industrial management. They train workers to upgrade their skill They demonstrate modern technical processes. They give advanced training in their prototype Production-cum-Training Centres in the operation of modern machines. It develops new technological processes and disseminates the same to the industry.</p>
X Standardisation	Small Industries Service Institutes	<p>Train factory-owners to increase productivity. It gives full-time management training to managers/proprietors in the small industry sector. Specialises in provision of technical consultancy and tool facilities, training in design and manufacture of tools.</p>
XI. Marketing	Small Industries Service Institutes	<p>Provides technical know-how and testing, calibration laboratory, workshop and training facilities to electrical measuring instrument manufacturers.</p>
XII. Export	Small Industries Service Institutes	<p>They provide technical guidance in the production of goods according to prescribed standards. It prescribes specifications for the products and issues ISI certification. They prescribe standards and give 'Q' Mark to the small industry's products. Those in charge provide technical guidance in maintaining the quality of products.</p>
	<p>National Small Industries Corporation, New Delhi State Small Industries Corporations</p>	<p>They conduct distribution and surveys for the benefit of small industrialists. They enlist the units for participation in the Central Government Stores/Purchase Programme. They issue competency certificates to the units receiving government orders. They promote ancillary relationships with large and medium-scale units in public and private sectors. It secures contracts from the Director General of Supplies and Disposals, Railways, and Defence Departments for supply of manufactured goods by small-scale units. They secure orders from the State Government and other semi-government organisations for the supply of stores.</p>
	<p>Chief Controller of Imports and Exports, New Delhi Directorate of Export Promotion, Udyog Bhavan, New Delhi Export Promotion Councils</p>	<p>They enlist small units for participation under the Export Aid to Small Industry Scheme of the State Trading Corporation of India. They render technical counselling services for a satisfactory execution of export orders. They disseminate information about the items having export markets. They maintain a close liaison with specialised agencies like the Export Promotion Councils to have up-to-date knowledge about the products having export markets. He issues licences for the export of products to foreign countries. It collects and supplies information on foreign markets. It carries out market studies for particular products. It publishes Trade Directories, Brochures and Bulletins. They organise exhibitions and show-rooms. They maintain a close liaison between Indian exporters and foreign buyers. They settle commercial disputes.</p>

<b>XII. State Trading Corporation of India, New Delhi</b>	They frame special export promotion schemes. It registers units for participation under Export Aid to Small Industry Scheme. It helps the small-scale units in the preparation of sales leaflets, price lists etc. It secures export orders for small industries.
<b>XIII. Trade Fair Authority of India, New Delhi</b>	Organises National Small-Scale Industries Fairs. Conducts publicity work. Project image of the industry and assists in finding potential markets.
<b>XIII. Inventions</b>	The Inventions Promotion Board, 39 Ring Road, Lajpat Nagar IV, New Delhi-110 014 The Central Institute of Tools Design, Hyderabad.
<b>XIV. Training</b>	The Inventions Promotion Board, 39 Ring Road, Lajpat Nagar IV, New Delhi-110 014 The Central Institute of Tools Design, Hyderabad.
<b>XIV. Training</b>	Small-Scale Industries Development Organisation Small Industries Service Institutes Extension Centres
<b>XIV. Training</b>	Indian Investment Centre
<b>XV. Small Industry Extension Training Institute (SIET)</b>	It promotes workable inventions of practical utility through financial assistance and other incentives. It produces tools, jigs, fixtures, dies and moulds. It trains practicing personnel in the design and manufacture of tools etc.
<b>XV. National Institute for Entrepreneurship and Small Business Development (NIESBUD)</b>	It trains practicing managers and technologists.
<b>XV. Problems</b>	They conduct management courses for senior managerial personnel. They conduct regular and <i>ad hoc</i> training courses in various technological trades for skilled and semi-skilled workers.
<b>XV. Problems</b>	Conducts regular entrepreneurial development programme courses. Assistance is given to the trainees in the identification of project reports. They are also helped in obtaining the necessary financial assistance from the financial institutions and guidance is also provided upto the stage of trial production.
<b>XV. Problems</b>	Offers training in industrial management and other aspects of small industries development; undertakes feasibility and research studies and collects and disseminates technical information through its Documentation Centre.
<b>XV. Problems</b>	Under assistance to Young Engineers program, training is provided through specified agencies and interest subsidy, i.e., difference between interest rate of 7% per annum and the normal rate charged by the financial institutions is provided subject to a maximum of Rs. 20,000 per annum for a period of five years in backward areas and three years in other areas.
<b>XV. Problems</b>	NIESBUD is an apex body established in 1983 for coordinating and overseeing the activities of various institutes/agencies engaged in entrepreneurship development in the small industry and related business.
<b>XVI. Monitoring</b>	They represent the problems faced by the small industries to the Government. They discuss the problems and represent them to the appropriate authorities.
<b>XVI. Monitoring</b>	The Federation of Associations of Small Industries of India, Rohtak Road, New Delhi, Chambers of Commerce and Industry
<b>XVII. Other Voluntary Organisations</b>	It is a national level apex organisation of entrepreneurs. It assists in promoting new enterprises through first-generation entrepreneurs. It also monitors the programmes of entrepreneurial development in India. Association of Women Entrepreneurs of Karnataka (AWAKE) Women Entrepreneurs Association of Maharashtra (WIMA) Self-Employed Women's Association (SEWA) World Association of Small and Medium Enterprises (WASME) National Alliance of Young Entrepreneurs (NAYE) National Association of Software and Service Companies (NASSCO) Consortium of Women Enterprises of India (CWEI) etc.

## **Golden Rules for a Good Leader/Entrepreneur**

- Motivate: Everyone has an invisible sign hanging from their necks that reads "Make me feel important"
- Listen: You have to be a good listener
- Trust your team: If you don't believe in them, they are unlikely to give you 100%
- Say Thanks: Many managers don't seem to realise the power of those two words
- Be Courteous: Again, this is so obvious that it should hardly need saying
- Keep your ear to the ground: This will help you to spot a looming staff crisis before it happens
- Be Flexible: Recognise that even the most committed people do have a life outside of work
- Stay cool under pressure: If the boss looks as if he is losing his head in a crisis, how do you expect the rest of the staff to respond?
- Lead by Example: Be the FIRST into office and the LAST out. Especially when the times are hard
- Be an Expert: Make sure that your staff knows that you know what you are talking about
- Stay Humble: Never get too big for your boots
- Have a sense of humour: If you don't have one of these, then go home
- Celebrate: When the news is good, don't be afraid to bring out the champagne.

## **Recipe for Success for Startups**

1. Entrepreneurs need to have passion. A lot of people turn entrepreneurs to make money. That's the wrong way as there are other ways of making money. You start something because you want to change the world and you have to have passion to do something that will make a difference to everyone.
2. You have to assemble a group of people around you because anything with a change-the-world kind of concept is not going to take place in isolation. And make sure the people around are smarter than you. Most importantly, always listen to them.
3. Try and choose a market where if your niche idea doesn't work, the market is big enough for you to look at other niches. Don't pick such a small market where if your idea doesn't work, you fall off the table. Choose something that gives you leeway.
4. Startups take different timeframes to succeed. The returns to the founders of HCL came after a 15-year journey. On our 10th anniversary, we got together and looked at what we had done. We had Rs.1,75,000 when we started the company. We spent Rs.1,25,000 in buying an office in Nariman Point. So all we had as working capital was Rs.50,000. Ten years later, the returns on Rs.1.25 lakh seem better than on Rs.50,000. Go in for the long haul!
5. At some point, disassociate yourself emotionally. It's difficult to do, especially in India. But not all entrepreneurs are good managers of large companies.

— Arjun Malhotra  
Chairman and CEO,  
Headstrong.

# **47**

**CHAPTER**

## **SELECTION OF TYPES OF OWNERSHIP ORGANISATION**

*"Organisational structure is the formal system of task and authority relationships that control how people coordinate their actions and use resources to achieve organisation's goals. The principal purpose of organisational structure is one of control: to control the means used to motivate people to achieve these goals." — Gareth R. Jones*

### **INTRODUCTION**

The selection criteria of a proper form of organisation is crucial for the success of a business enterprise. Every entrepreneur has to decide, at the outset, about the type of organisation which he plans to select for his private enterprise. It is an important entrepreneurial decision. This choice is by and large influenced by the socio-cultural norms and then prevailing industrial environment.

The decision of an entrepreneur depends on a number of variable factors. Among the many, the following factors are given weightage in making a choice of a suitable form of organisation which is most suited to one's enterprise. The deciding core factors are:

- Type of business — service, trade, manufacturing.
- Selection of industry and the area of operation.
- Scope of operations, volume of business and the size of the market, including its expected growth potential.
- Amount of capital funds required — initial capital, working capital.
- Possibility of raising resources from the market — institutions, subsidies and other incentives.
- Costs and procedures and relative freedom from Government regulation.
- Comparative tax advantages, etc.
- Size of the risk.
- Continuity of the enterprise.
- Degree of direct control and adaptability of administration.

By and large, the final organisational choice is a compromise that is most suitable to the entrepreneur's needs. The above ten factors are the major factors that will influence the choice of a proper form of an organisation, which will withstand all the stresses and pressures and strive for its smooth progress on an ongoing basis.

The aim of entrepreneurial development programmes in India should not be to treat the small entrepreneurs as small, but to help the more promising and efficient ones amongst them to grow big. This will mobilise the productive

resources of the country, contain the monopoly of a few large enterprises, and increase income, profits and employment. The objective is to accelerate the process of innovative entrepreneurial development in the country. Herein, choice of organisation also depends on the entrepreneurial skills and vision.

## **Ownership Organisation**

The first and foremost question in organising a small-scale industry is that of ownership, represented by the right of an individual or a group of individuals to acquire legal title to assets for the purpose of controlling an industrial operation and enjoying the gains or profits flowing from such activities.

Small industrial units are, by and large, started by persons who value independence and are desirous of obtaining the highest rewards for their initiative, innovation, technical skills, business acumen and experience. As Nihal Singh aptly observed that "*The owner of a small industry values his undertaking for the job it provides him as well as for any return it may make on his invested capital.*" The chief forms of an ownership organisation are:

- (i) Sole proprietorship;
- (ii) Partnership;
- (iii) Co-operative society; and
- (iv) Joint-stock company.

## **Policy Decision**

Each entrepreneur has to make policy decisions in all vital areas of business activities and organise and manage his business affairs on scientific lines. He has to make a decision either as a manufacturer of some product or as the distributor of the products made by others. Whatever activity he chooses, he will be confronted with problems and his ultimate success will depend upon his entrepreneurial ability to solve these problems. He will have to make a policy decision about the size of organisation. Should he start his enterprise as a sole proprietary concern, partnership or any other form of organisation suited to the needs of his business? Should it be a small-scale industry or a large-scale industry? He should also decide whether to register the SSIs with the appropriate authorities or not.

## **Ownership Organisation Decision**

The entrepreneur's choice of the type of organisation will depend upon the nature of business, scale of operation, capital requirements, ownership rights such as control and decision-making opportunities and impact of taxation. He should understand the impact of these factors on his business and decide whether to operate his business as a one-man show or a joint venture company. In general, an entrepreneur wishing to start an industry on his own will prefer to organise it on a small-scale unit if he has a limited capital and skill, and cater for the local market. If he is unable to do so, he will call for responses from partners, join him in this business. In this way, new ability and more capital will be brought into the businesses. Partnerships are common in commercial businesses. Partnership is not a legal entity; the partners are personally responsible for all the activities performed by them in the name of the firm. The risks associated with the unlimited liability can be avoided and large amount of capital can be brought by forming a limited company. If the capital requirements are not very large, a private limited company may be formed to meet the needs of a large capital to run a large business, a public company will have to be formed.

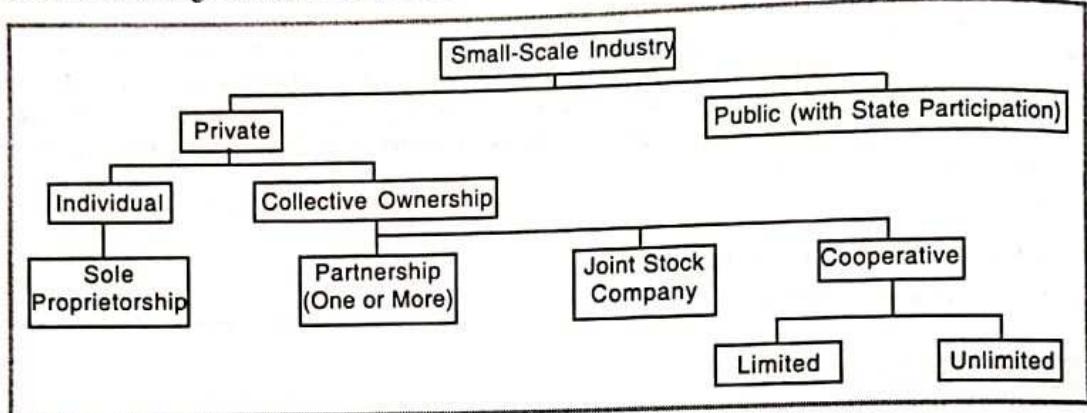
A survey of SSIs in Greater Bombay showed the organisational structure of small business units. The sole-proprietorship is the most popular form of small business ownership. According to the survey, 78.5% of the total units were of private proprietorship type, joint family and partnership accounting together 20%, cooperative and private limited units accounting together for about 1% of the total. Even in the case of joint family and partnership, many a times a single entrepreneur controls the enterprises.

The type of organisation suited for these units depend upon several factors such as the nature and type of industry, the extent of capital, the nature of skill required, and the capacity to offer livelihood to the participating factors. Sole proprietorship is, however, the dominant form in these enterprises.

## **State Policy**

It is the policy of the Government, both at the Centre and in the States, to encourage and promote cooperative enterprises of all types. The Registrar of Cooperative Societies in each State is concerned with the administration, supervision, coordination and development of cooperative societies, assisted by deputy registrars, assistant registrars and inspectors. The registrar offers assistance and guidance in the formation of all types of cooperatives and keeps a vigilant eye on their stability, administration, working, financial accounting, etc. through instructions, regulations, inspections, audit and other checks. Fig. 47.1 shows the forms of ownership organisation in a small-scale industry.

**Fig. 47.1:**  
**Organisational  
Structure of Small-  
Scale Industries in  
India**



## **Sole Proprietorship**

*"Sole proprietorship is a form of business organisation in which an individual invests his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operation."* The individual, with the assistance of other workers or by his own labour and capital, may run the industry. This form of organisation is also known as *individual entrepreneurship* — the oldest and the most sought after form of enterprise in the field of small-scale industry, and the easiest and simplest form of entrepreneurship from the operational point of view. The individual entrepreneur embarks upon some industrial activity with his own savings or with funds borrowed from his friends or relatives. The industry may be started either in a portion of the entrepreneur's own house or in rented premises. There are no legal formalities to be gone through except those required for a particular type of industry. For example, if the entrepreneur decides to start a small engraving industry, he has no legal formalities to comply with. He and his family members may run the industry in their own residence. In this form of ownership, the liability is unlimited. The small industrialist and the industry are highly interrelated and integrated. If the industry prospers, the entrepreneur is the sole beneficiary, and *vice versa*. Moreover, he enjoys full control over the affairs of the industry and the sole authority to decide, plan and control the operations of his business: In short, the entrepreneur is his own master. The import features of a sole proprietorship are:

- (a) Sole ownership;
- (b) One-man control;
- (c) Unlimited risk;
- (d) Undivided risk;
- (e) No Separate entity of the firm;
- (f) No Government regulations.

## **Merits**

The sole proprietorship form of organisation has the following advantages:

(i) *Easy and simple formation:* The greatest advantage of this form of organisation is that it can be very easily established. Unlike other forms, no elaborate legal formalities are necessary for its formation. One can open it easily

and in a simple manner and at the same time, one can close it down whenever he may choose to do so. There are no legal formalities for expansion, contraction or dissolution of the business. Thus, it is the most flexible type of business enterprise.

(ii) *Smooth management:* Another merit of this form of organisation is that the management of the concern can be carried on smoothly. There is no one to oppose and hence there is no room for any friction.

(iii) *Promptness in decision-making:* The sole proprietor is free to conduct the affairs of his business and he has to consult no one for it. For this reason, he is able to make quick decisions without any delay and hesitation. Such promptness in decision-making is essential, in general, for the smooth conduct of business operations.

(iv) *Direct motivation and incentive to work:* The sole proprietorship has to assume all the risks and is entitled to receive all the profits; therefore, he takes pains to work hard as there is direct relationship between the efforts and the rewards.

(v) *Personal touch with customers:* A sole trader is always able to maintain close and personal touch with his customers. With this, he is able know to the tastes and needs of the consumers. Such personal touch adds to the success of the business.

(vi) *Secrecy:* An individual entrepreneur is able to maintain complete secrecy about important matters relating to his business and thus may be able to safeguard business secrets from his competitors.

(vii) *Social advantages:* This refers to the provision of employment opportunities to many by ensuring diffusion of business ownership and thus concentration of wealth and power in the hands of a few is avoided. Further, it helps in the development of several essential qualities in entrepreneurs, such as the initiative, hard work, responsibilities, tact and self-reliance etc. The single proprietorship offers the best promise of securing motivation and widespread ownership and control of industry.

## ***Limitations***

The sole proprietorship has several limitations which are as follows:

(i) *Limited financial resources:* The greatest limitation in this case is that the capital available for the business remains very limited. An individual cannot possess enormous savings and he can borrow only limited funds from his friends and relatives. He may not have enough credit to borrow huge sums from the banks or financial institutions. This limits the size as well as financial profits of the business.

(ii) *Limited managerial ability:* An individual cannot be expected to possess knowledge of every branch of management. Now, when the management is highly specialised and business is becoming more and more complex, nobody can claim to be an expert on all the subjects. An individual may have limited knowledge and ability to take correct decisions. He may take a wrong decision which ultimately may prove to be drastic for the business. Few persons are qualified by training or experience to handle alone the varied problems of purchasing, merchandising, advertising, customer relations and financing.

(iii) *Unlimited liability:* Another great limitation is that the liability of the sole trader is unlimited. It implies that there is always a risk that he may lose the capital invested in his business as well as his personal property. In the event of some disaster, his creditors can satisfy their claims out of his personal property also. Thus, the entire risk has to be borne by one person alone. But, in a way unlimited liability may be of help too. The sole trader may get more credit from the creditors, as the limit of credit may extend to the value of property owned by him, and it will not be limited to the extent of capital invested by him in business only.

(iv) *Lack of continuity:* There is always lack of continuity or stability in such business. The mortality rate of such business has also been high. If the owner falls ill or he is away, the business stops. In case of any mishap, the business may disappear completely or may have to be rebuilt.

In spite of the above limitations, this form of business organisation occupies a prominent place in the business world. In advanced countries and in developing economies like India, it is playing an important role. This form is best suited for small ventures and may be more than a match for larger enterprises. It is more suitable for concerns where (i) personal capital required is small, (ii) risk involved is not heavy, (iii) goods of artistic nature are to be produced, (iv) personal

touch with customers is necessary, (v) an individual is able to control the affairs, (vi) prompt decision is needed, (vii) scale of production is relatively small, and (viii) operation is simple in character not needing highly skilled management.

Nearly 61% of the SSIs are proprietary concerns. The most important factor in the formation of proprietary concerns is non-interference from others. Further, an entrepreneur is not bound by law to publish annual accounts or to keep accounts except to the extent it may be necessary to do so for income-tax and other related purposes. He need not disclose any confidential information. Besides, this form of organisation is simple, and no legal formalities are required for its formation.

## **Partnership Organisation**

Partnership organisation grew and gained importance as an individual is not competent enough to possess enormous capital and knowledge or competence to manage everything. With the expansion of business and enlargement of the scale of its operations it became necessary for a group of persons to join hands together and supply the necessary capital and skills. Often it is found that a person may be having a huge capital but may not possess the required skill. Individually, none of them can run a business enterprise single-handed but together they may be highly successful in its operations. Thus, partnership organisation has been adopted to arrange more capital, offer better skill, control and management to take advantage of high degree of specialisation and division of labour, and to share the risks.

In India, such organisations are governed by the Indian Partnership Act, 1932. Section 4 of this Act defines a partnership as "*the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all.*" Persons who enter into partnership are collectively known as "firm" but individually known as "partners." If we analyse this definition carefully, the following points emerge as the main elements of partnership: (i) Partnership is the relation between persons, i.e., at least two persons must be there to constitute a partnership. (ii) There should be an agreement between them. This also means that persons should be legally competent to enter into a contract. (iii) They should carry on some business. It implies that an agreement to run a charitable institution will not constitute a partnership. Business here necessarily implies a lawful business. (iv) The business must be carried on by all or any of them acting for all. Thus, one or some partners can represent the firm and bind it by his/their actions in the course of business.

## **Basic Features**

The partnership organisation has some basic or fundamental features which have been discussed below, with special reference to the position of partnership in India.

**1. Number of persons:** There should be at least two persons to form a partnership organisation. In India, there is no upper limit prescribed under the Partnership Act, but a limit has been put under the Companies Act indirectly. Under this Act, a partnership consisting of more than 20 persons is illegal. Under this Act, a partnership consisting of more than 20 persons for a general business and 10 persons for a banking business has been made illegal. Thus, the upper limit of the number of partners in a general business is 20 and in the banking business it is 10.

**2. Contractual relationship:** Partnership is the result of contractual relationship between two or more persons. There must be an agreement between persons who wish to form a partnership. It is a fundamental feature of the partnership organisation. For example, a manager of a firm may get his remuneration which may be based on the profits of the firm, but on that account he cannot be taken as a partner as the element of agreement is not there. Similarly, two or more persons may be sharing the gains of a property jointly held and on that account alone, there cannot be a partnership jointly held between them. Further, as it is the result of a contract, the law does not interfere with its formation or dissolution. On that very basis, no partners agree for the same. Similarly, if a partner dies the firm gets dissolved as one of the contracting parties is dead. Thus, it has been rightly said that a partnership arises from a contract and not from status.

**3. No legal distinction between firm and its partners:** It has been mentioned earlier that persons entering into a partnership are individually known as 'partners' and collectively as a 'firm.' Since a partnership is merely an association of persons, no separate legal entity or fictitious partners are created. This implies that the law does not make any

distinction between the firm and the partners who compose it. Any partner can bind the firm with his decisions on behalf of the firm. But, at the same time, a partner is free to undertake personal business or enter into personal contracts.

**4. Unlimited liability:** Just like the sole proprietorship, the liability of the owners of the firm is unlimited. But the difference between the two is that in the case of the former, all risk is to be shouldered by one person alone but in the case of a partnership, this is borne by two or more persons. This means that a partner is not only liable to the extent of capital he has invested in the firm but he may be called upon to meet the liability out of his personal property also. If need be, the creditors of the firm can claim debt but out of the personal property of the partners. In such an eventuality, the partner loses the capital invested in the firm as well as his personal property.

## ***Advantages of Partnership Organisation***

A partnership organisation has certain advantages as compared to the sole proprietorship or joint-stock company organisation. We discuss below these advantages:

(i) ***Easy formation:*** A partnership can be easily formed as no legal formalities are to be observed to establish it. At the same time, unlike a company, not much of expenses are incurred for its formation.

(ii) ***Flexibility:*** A partnership organisation is highly flexible as well as mobile. Changes can be introduced without much difficulty. The necessary additional capital can be raised, new partners be introduced including changes in the place and object of the firm. Business of the firm can also be expanded or contracted according to the needs.

(iii) ***Pooling of resources and skill:*** Unlike the sole proprietorship, under a partnership, several persons pool their capital, resources, skill, expertise, experience and services etc. Two or more persons are always better than one and in that sense partners strive to work with zeal for the better. It enables combination of such individuals who may not be in a position to do anything alone.

(iv) ***Division of risks:*** Under a partnership, the risks of business are divided among the partners and are not shouldered by one person alone. Thus, it is more useful for business with large investments.

(v) ***Strong credit position:*** Unlimited liability of the partners enhances the creditworthiness of the firm. The credit can be extended to it to the limit of the value of property owned by the partners, and not confined to the extent of capital contributed by the partners. Further, it restricts on the speculative and reckless activities of the partners with which they always remain vigilant.

(vi) ***Less incidence of tax:*** As compared to joint-stock company, the burden of taxes on a firm or its partners individually is lower.

(vii) ***Encouragement of mutual trust, personal element in business:*** Partners act in co-operation and thus mutual faith, trust and goodwill are maintained. They maintain personal relations with each other and take personal care to promote the business of the firm. This personal element in business, which is not found in a company, is highly useful. The existence of partnerships rests on mutual faith and goodwill and that way it encourages the spirit of helpfulness and instills the qualities of honesty, sincerity, responsibility, initiative and self-reliance.

## ***Disadvantages***

While the partnership organisation has the above advantages, it has the following serious limitations which cannot be ignored:

(i) ***Limited resources:*** In spite of pooling its of resources by in partners, it is not possible to raise huge amount of capital and engage specialists required for modern business or industrial units. Partners may be rich but their capacity to contribute capital is limited as compared to the needs of modern industrial complexes. Undoubtedly, a joint-stock company may raise more capital as against a partnership firm.

(ii) ***Unlimited liability:*** One of the serious limitations of a partnership organisation is that the liability of partners is not limited. The partners like the sole trader unlike the shareholders of a company, may be personally held liable for the debts incurred by the firm. Their private property also remains at stake. Moreover, liability is cumulative. Further, a partner may also be called upon to compensate for the misdeeds and dishonesty of his fellow partners along with his own acts.

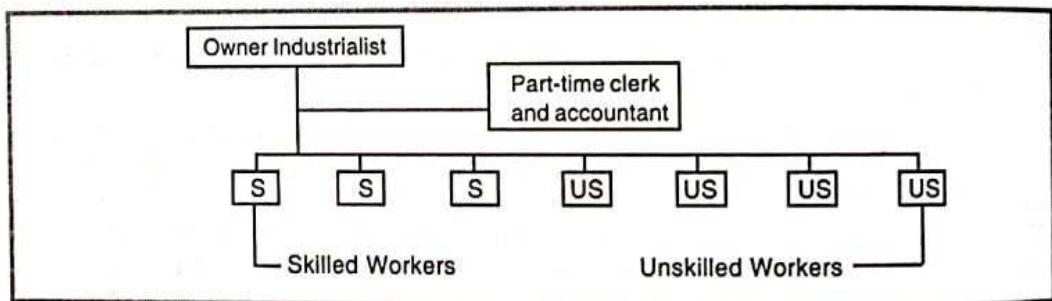
(iii) *Instability*: Theoretically, it may appear that the partnership organisation is more stable than the sole proprietorship but in practice it is not so. It is often found that a firm's business comes to an end on account of petty quarrels among the partners. If a partner is dishonest and short-tempered, it may become difficult for other partners to carry on business with him. Any misunderstanding may prove ruinous for it. It is also unstable because death, retirement, and insolvency of a partner may dissolve the partnership. It is quite true that the partnership provides better means to perpetuate itself "but existence of that 'self' at any given time is more precious."

(iv) *Lack of harmony of interest*: Unlike a sole proprietorship, it is not possible to maintain harmony of interests among the partners. There is always the possibility of friction. The partners may follow a conservative policy to avoid risk of their private property. Their combined judgement often may not prove useful. If mutual co-operation is lacking, prompt decisions may also not be possible. There is the possibility of leakage of business secrets and matters which may affect the business adversely.

About 35% of the SSIs in India existed as partnership concerns of which, 21% are joint-family partnerships and 14% partnership concerns. Very often, small entrepreneurs with business acumen and training are handicapped by lack of capital; or there may be need of a wealthy man with managerial capacity. Partnership organisations grew essentially out of the failures and limitations of the sole proprietorship form of organisation. The formation and management of a partnership organisation is governed by the provisions of the Indian Partnership Act of 1932. According to it, a "partnership is the relation between persons who have agreed to share the profits of a business carried on by all or by any one of them acting for all." A partnership deed is essential for this type of organisation. The Partnership Act, 1932, outlines the rights and duties of a partner. The liability of a partnership is unlimited.

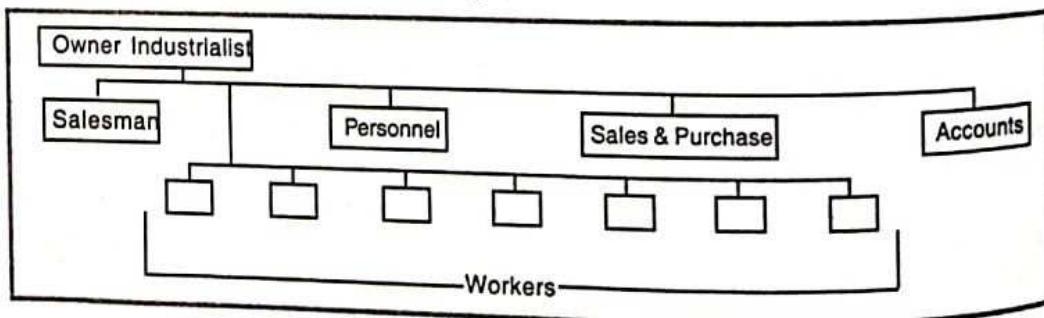
The ownership pattern of small units is given in Table 47.1. As indicated in the table, 61% of the units are single proprietary small-scale industrial units, followed by family partnerships, i.e., businesses owned by two or more members of the family. Only 14% of these units are non-family partnerships, where the ownership is held by a small group which does not constitute a family. Among the small-scale industrialists, there is a strong tendency to keep the business within the family. As a general rule, a non-family partnership is restricted to craftsmen pooling their resources; alternatively, it may be a venture of a group of merchants. An industry-wise analysis shows that in the printing presses, general engineering and soap industries, 20% of the units fall in the category of non-family partnerships. In these cases, a large amount of capital investment is necessary, and the family resources are generally too meagre for such a venture. The capital resources are increased by converting the industrial unit into a non-family partnership.

**Fig. 47.2:**  
Functioning of  
one-man Small-  
Scale Entrepreneur  
doing all the Work:  
(Phase 1)



In hosiery, leather goods and wooden furniture industries — wherein capital investment is less and one can develop the business by productively utilising one's skills with the co-operation of workers — a very large percentage of these units come under the category of individual proprietorship.

**Fig. 47.3:**  
Functioning of a  
Single Small-Scale  
Entrepreneur with  
the Assistance to  
Supporting Staff:  
(Phase 2)



**Table 47.1 Small Units Classified According to the Type of Ownership**

Industry	Single Proprietorship	Partnership		Co-operatives	Joint Stock	Total
		Family	Family & Others			
1. Flour Mills	36.4	49.1	—	14.5	—	100.0
2. Printing Presses	52.0	28.0	—	20.0	—	100.0
3. Leather Footwear	62.0	32.0	2.0	4.0	—	100.0
4. Light Engineering	48.0	36.0	4.0	12.0	—	100.0
5. Electrical Goods	25.0	65.0	4.0	6.0	—	100.0
6. Wooden Furniture and Fixtures	60.0	30.0	1.0	8.0	1.0	100.0
7. Hosiery	63.0	25.0	—	11.0	1.0	100.0
8. General Engineering	58.0	18.0	—	20.0	1.0	100.0
9. Soap	27.0	53.0	—	20.0	—	100.0
10. Electroplating	40.0	39.0	8.0	13.0	—	100.0
11. Foundries	43.0	43.0	—	14.0	—	100.0
12. Oil Mills	15.0	70.0	—	12.0	2.0	100.0
13. Drugs	60.0	35.0	—	3.0	—	100.0
14. Utensils	55.0	38.0	—	6.0	1.0	100.0

### **Joint-Stock Companies**

The growth of joint-stock companies constitute an important step in the historical evolution of forms of ownership of business enterprises. With the enlargement of the scale of business operations, it became difficult for a sole trader or partnership firm to cope with the problems of finding more resources and arranging for more specialised management.

The development of these companies has taken place almost in all the countries of the world but the nomenclature differs. There may be technical points of difference but the basic characteristics are almost the same everywhere. We call it joint-stock company in England and in India. In the U.S.A., it is known as a "corporation."

**Definition:** A company is a voluntary association of persons who contribute to its capital but their liability remains limited. It carries on business for profit as a legal entity. It can sue and be sued in its own name. Thus, a corporation is an artificial being, invisible, intangible, and existing only in the contemplation of law. Being a mere creation of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence.

### **Salient Features**

A joint-stock company exists as a separate legal entity quite apart from that of the members comprising the organisation unlike a *partnership*. In other words, this company is considered to be a "*person*" in the eyes of law. Also these company possesses the right to own and transfer any property.

In India, only 3% of the units exist as joint-stock companies. In a sense, it is an extension of the partnership form; it is an association of a number of members which has a legal sanction behind it. Because of the complicated and cumbersome legal procedures, heavy taxation and the possibility of unscrupulous promoters securing capital for an undesirable concern, this system has not made any headway in the small-scale industries sector.

### **One-Person Company for Lone Entrepreneur**

The proposed introduction of one-person company into the legal system is a move that would encourage corporatisation of business and entrepreneurship. At present, an entrepreneur in India has to find another person to

implement his skills through incorporation of a company while in the UK, Australia, Singapore, Pakistan, etc., a single person can form a company.

In the UK, Australia, Singapore, Pakistan, a single person is capable of forming a private limited company which may be limited shares or guarantee. Such single-member companies need to have only one director, who may also be the company secretary. In Singapore, the single person may be an individual or a corporate.

In India, the JJ Irani Expert Committee recommended the formation of one-person company (OPC). It has suggested that such an entity may be provided with a simpler legal regime through exemptions so that the single entrepreneur is not compelled to fritter away time, energy and resources on procedural matters. The committee proposed the following:

- OPC may be registered as a private company with one member and may also have at least one director.
- Adequate safeguards in case of death/disability of the sole person should be provided through appointment of another individual as nominee director. On the demise of the original director, the nominee director will manage the affairs of the company till the date of transmission of shares to legal heirs of the demised member.
- 'OPC' to be suffixed with the name of one-person companies to distinguish them from other companies.

OPCs are imperative because they would give entrepreneurial capabilities of people an outlet for participation in economic activity and such economic activity may take place through the creation of an economic person in the form of a company. There has been criticism in certain quarters against the formation of such a company as it may give room for evasion of public funds and tax liability by an individual.

The fears may be addressed through adequate precautions. The law pertaining to the formation of companies should address some specific issues such as:

- Whether only an individual or even a legal person can form a one-person company.
- Whether a single member can form a company without any limit on the paid-up capital or some ceiling.
- If the turnover of the one-person company exceeds certain limits, whether it should be converted into private/public limited.

### ***Illustration:***

#### ***It's all in the family***

The Amalgamations group has been the largest privately held business houses in the country. The company in the group which went public in 1978, Bimetal Bearings Limited, did so only because it had to bring down its foreign shareholding. Although these shares have been briskly traded, the family held about 70% of the equity. Other publicly held companies listed were: T. Stanes of Coimbatore; the two plantation companies (Unitea and SAE), and Amalgamations Repco Ltd.

The holding company, Amalgamations had two directors, Sivasailam and Krishnamurthy. The shares of the holding company were divided equally among Anantharamkrishnan's four children — two sons and two daughters. Sivasailam and Krishnamurthy, the two sons, were the chairman and vice-chairman of the group. One of Sivasailam's sons-in-law, K.S.Sundaram, Addisons Paints and the other son-in-law, N.Venkatramani, headed India Pistons. Each company in the group has been managed by its own board. Generally, there are very few outsiders on the boards.

Both the brothers looked after some of the group companies directly. For instance, Sivasailam monitored TAFE and Amco Batteries on day-to-day basis, while Krishnamurthy has been involved in Simpsons, Bimetal Bearings and Shardlow. Sivasailam had the greater say.

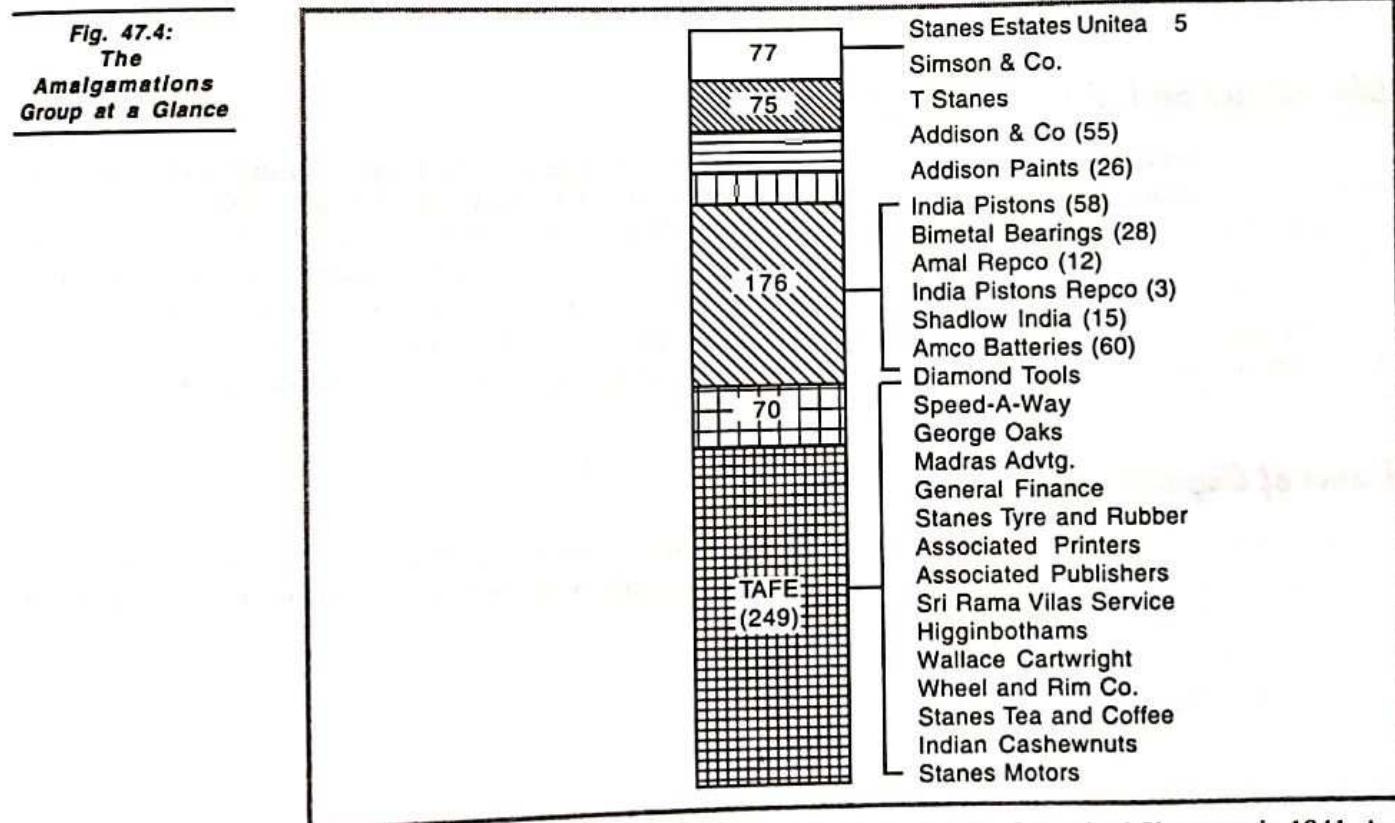
**Third generation:** The third generation in the business consists of Srinivasan, 30 (who is married to Venu Srinivasan of the TVS group), and MBA from Wharton University USA, is general manager (planning and co-ordination) in TAFE. The younger daughter, Jayshree Venkatraman, 17 (married to M.S. Venkatraman of WS Industries), who has an MBA from the International Management Institute, Delhi, has been inducted as an executive assistant to the chief executive of Amco. Krishnamurthy has no children.

Obviously, in a group like this, the chairman has always been the power centre. He deals with the banks, the government and makes all the initial preparations for collaborations. Krishnamurthy, who described his role as a supportive one has been in charge of group industrial relations. If there are any disagreements, the decisions taken by the chairman prevail. Sivasailam felt that the unique strength of the group lies in respect for authority and the consequent discipline that it brings. "I see this as a value which should not be discounted. The group's strength lies in its togetherness under the umbrella of Amalgamations. We offer limitless opportunities to talented professionals. The family should induct and retain them. But the directions should come from the family," he said.

### *Simpsons, Amalgamations and "J"*

Nobody quite knew who he was. But Simpson, who hailed from Scotland, chose to set up a company in Madras in 1840 to build horsedrawn coaches and carriages for the affluent. The star achievement of the company in the 19th century was to build a carriage for the use of the Prince of Wales during his visit to India in 1876. In the early 1900s, Simpsons actually built a motor car and ran it on Mount Road. The company, however, confined itself to the car trade and opened many workshops and branches. It was only during the fifties, under the Indian management, that the company began to manufacture diesel engines.

In 1930, a 25-year-old unassuming accountant joined Simpsons. S. Anatharamakrishnan was known to his English colleagues as simply J. The nickname stuck and no one knows why. By 1938, J was ready to start a business of his own. He formed Amalgamations Pvt. Ltd. that year. Why he chose that particular name is again not known. He then established Sri Rama Vilas Service (SRVS) which went on to run a large bus fleet and a cargo service. The same year an agency, Speed-A-Way, was established to distribute automobile spare parts.



**Historical move:** In what is referred to in modern parlance as a historical move, J acquired Simpsons in 1941. And W. W. Ladden, then chairman of the company, voluntarily opted to serve under J. Simpsons became a subsidiary of Amalgamations. In the next 25 years, both Amalgamations and Simpsons began to acquire and promote companies at a blistering pace.

J was a true visionary who realised that after independence, it would be necessary to begin manufacturing goods. He established units to manufacture paints, pistons, batteries and tractors, among other things. He bought a publishing house which owned a newspaper (*The Mail*). In 1961, he acquired interests in several plantations.

When J passed away in 1964, he left a highly diversified business house which featured among the top twenty in the country.

## ***The Co-operatives***

A co-operative society is essentially an association of persons who join together on a voluntary basis for the furtherance of their common economic interests. The International Labour Organisation (ILO) defines a cooperative as "*an association of persons, usually of limited means, who voluntarily join together to achieve a common economic end through the formation of a democratically controlled business organisation, making an equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking.*" This type of organisation has not made any appreciable impact on the small-scale industrial sector. Of the total small-scale units, only 0.7% are organised as cooperative societies. These are mainly in such industries as wooden furniture and fixtures, utensils, agricultural hand tools and implements, printing, and washing soaps.

In the Indian context, a study of 100 most outstanding enterprises indicates that family-run firms continue to dominate the corporate scene — an indication that professional management has yet to gain the respectability and confidence that it commands abroad. This is no doubt changing. The Government could hold the process by reducing the burden of wealth tax which prevents individuals from accumulating investible wealth.

The choice of an organisation is to attain higher levels of performance through efficiency and innovation. It keeps on changing with the needs of the hour and changes in the environment.

## ***Advantages and Disadvantages***

Each form of organisation or unit has its own relative merits and demerits. Which type of an organisation would be suitable in a particular case or whether there is really a need for switching over from one form to another form of the organisation should be decided after taking into consideration all the factors stated above. What is, however, important is the organisational or administrative set-up within the unit. As your enterprise grows, it cannot apparently remain as a 'one-man show.' It is essential that suitable persons are appointed for the various key functions in the enterprise.

An entrepreneur will have to make a choice of an organisation only after scrutinising their merits and demerits while keeping in mind his goals and objectives. The choice of an organisation should always foster growth and development. It should be efficient, flexible and growth-oriented.

## ***Forms of Organisation***

The selection of the form of organisation depends basically on the nature of industrial activity proposed to be undertaken, the scale of operations in terms of the volume of business proposed to be handled, the scope of the market to be covered, the sharing of risks and tax advantages.

Three salient features of all forms of organisation are:

- (i) Relationship — Line, Functional, Staff.
- (ii) Authority — Direct, Indirect, Representative.
- (iii) Responsibility — General, Specialised, Advisory.

In other words, the organisational structure is based on:

- (i) Division of labour;
- (ii) Co-ordination;

## Comparative Evaluation of Different Forms of Business Ownership

Basis of Comparison (1)	Sole Proprietorship (2)	Partnership (3)	Private Company (4)	Public Limited Company (5)
1. Formation	Easiest, no legal formalities	Easy, only an agreement required	Difficult, some legal formalities	Very difficult, several legal formalities
2. Registration	Not necessary	Optional	Compulsory	Compulsory
3. Membership	One man show Single membership	Minimum: 2 Maximum: 10 in banking and 20 in others	Minimum: 2 Maximum: 50	Minimum: 7 Maximum: No limit
4. Legal status	No separate legal existence	No separate legal existence	Separate legal entity	Separate legal entity
5. Liability of Members	Unlimited, full risk	Unlimited, joint and several, risk shared	Limited	Limited
6. Financial capacity & suitability	Limited capital suitable for small business	Pooling of capital, suitable for medium size	Large capital, suitable for medium scale business	Very large capital suitable for large scale operations
7. Sharing of profits	All to the owner	As per agreement	On the basis of shares held	On the basis of shares held
8. Management and control	Quick decision, no specialisation, management & ownership lie in the same hands.	Unanimous decision, limited specialisation, management lies where ownership is.	Board decisions, greater specialisation, ownership and control go together	Board decision, specialisation, divorce between ownership and management
9. Business Secrecy	Perfect secrecy No audit or reports	Secrets limited to partners, no audit or reports compulsory	Secrets shared by members, audit and reports compulsory	Secrets shared with public, audit and reports compulsory
10. State regulation and flexibility	Practically none, full flexibility of operations	Very little, sufficient flexibility	Considerably, limited flexibility, privileges, & exemptions	Excessive, no flexibility
11. Transferability of interest	At will	With mutual consent	Restricted as Articles of Association	Freely transferable
12. Tax Burden	Low at small level of income, progressive rate	Low at small level of income, progressive rate	Low at medium level of income, flat rate, double taxation	Low at high level of income, flat rate, double taxation
13. Stability or continuity	Unstable, life fully dependent on the owner	Less stable, may be dissolved by death, insolvency, etc. of a partner	Perpetual existence	Perpetual existence
14. Winding up	At will	At will	Under the Act	Under the Act
15. Governing Act	General law	The Partnership Act, 1932	The Companies Act, 1956	The Companies Act, 1956

(iii) Accomplishment of goals and objectives; and

(iv) Authority — responsibility.

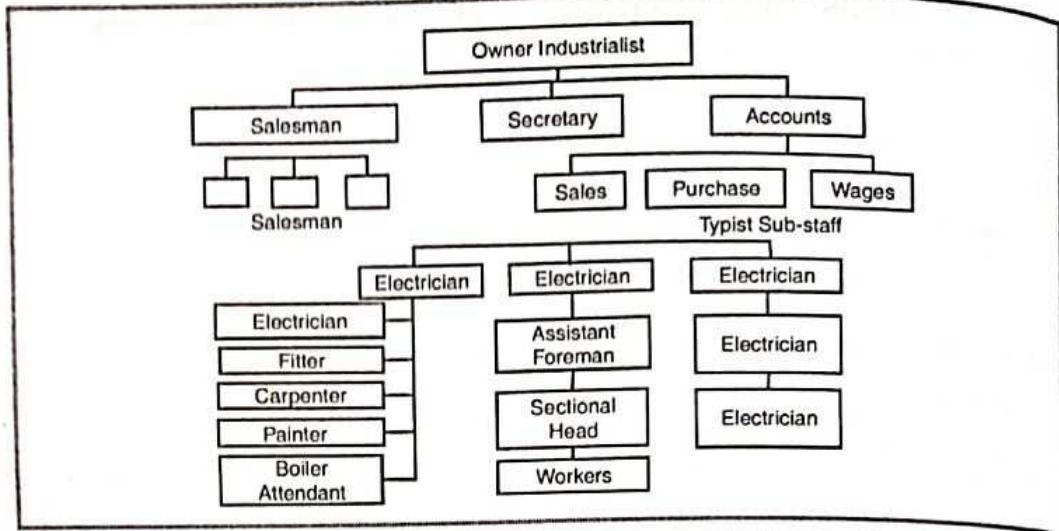
The process of organisation consists in making a rational division of work into groups of activities for the accomplishment of a task. The various stages of this process are:

- (a) Determination of objectives;
- (b) Enumeration of activities;
- (c) Classification;
- (d) Fitting individuals (workers) into functional activities; and
- (e) Assignment of authority for action.

### **Line Organisation**

A line organisation is the basic framework of an organisation. It is the backbone of the organisational hierarchy. Mr. Lundy has observed that "line organisation is characterised by direct lines of authority flowing from the top to the

**Fig. 47.5:**  
**Small-Scale**  
**Industrialist**  
**Functioning with**  
**the Assistance of**  
**Technical**  
**Supporting Staff:**  
**(Phase 3)**



*bottom of the organisational hierarchy and lines of responsibility flowing in an opposite but equally direct manner.*" Under this type, various activities are organised in groups and controlled by a manager, who is responsible to the top man. In this type of organisation, authority flows from the top to the bottom while responsibility flows from the bottom to the top.

### **Advantages**

- (i) It is simple to form and easy to operate.
- (ii) In it, line executives enjoy decision-making powers.
- (iii) It has a systematic organisational structure.
- (iv) It maintains a balance between authority, responsibility and accountability.
- (v) Discipline can be maintained easily.
- (vi) Communication is easy and quick.

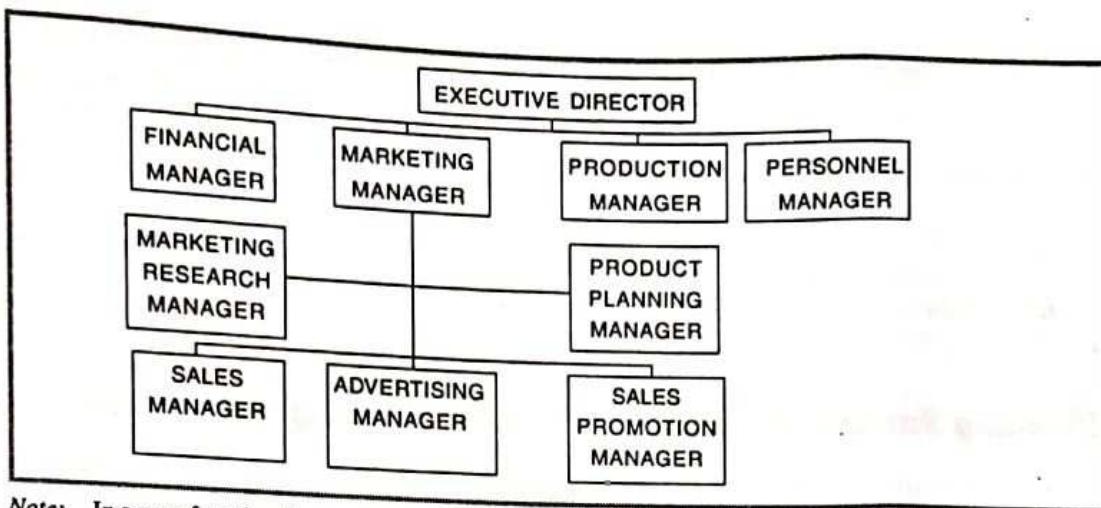
### **Disadvantages**

- (i) It becomes autocratic or dictatorial.
- (ii) It suffers from lack of specialisation.
- (iii) There is an overload of responsibility.
- (iv) It hampers initiative.
- (v) There is absence of co-ordination among the different departments.
- (vi) It is unstable.

### **Functional Organisation**

The simplest type of departmentation is the functional type of structure which consists of grouping of all similar activities into major departments. It was organised by F.W. Taylor with a view to bringing about the specialisation of management activities. Under functional foremanship, office work is separated from shop or plant work. Fig. 47.6 depicts a functional structure in operation.

**Fig. 47.6:**  
**Functional  
Structure**



**Note:** In a pure functional organisation, we have multiple and divided responsibility. Although there is a need for functionalisation, it is probably never used in its pure form. A practical approach to functionalisation is reflected in the line-and-staff organisation, which is necessary for a large enterprise.

## ***Advantages***

- (i) It promotes a better division of labour.
- (ii) It ensures proper communication.
- (iii) It offers a good scope for specialisation.
- (iv) It promotes co-ordinated work.
- (v) It ensures systematic organisation.

## ***Disadvantages***

- (i) The unity of command is absent.
- (ii) There is a tendency towards over-specialisation.
- (iii) In this type of organisation, it is difficult to pinpoint responsibility.
- (iv) It is costly.
- (v) There is no continuity of authority.
- (vi) Lower potency for developing managers for promotion.

## ***Selecting a Viable Structure***

Industrial activity has been diversified in which routine functions are entrusted to the secretary, accountant, sales director. The industrialist has opened a new branch for export and import and has also sought the services of a legal adviser in all legal matters connected with the operation of his industry.

Apparently, the functioning of a small-scale industry is organised on the basis of their functional activities. The owner-industrialist still provides the necessary leadership and initiative. The overall control remains in his hands. In many cases, key positions like those of the works manager, the sales director and the accountant, are held by his close relatives (brother or sons), while other routine matters are looked after by employees whose services are hired. The small-scale industrialist also appoints young and well-qualified to attend to the personnel problems of his industry. To make the delegation of authority really effective, he should not only pay due attention to the principles of delegation, but also recognise the obstacles that stand in the way of a true delegation of authority. He should create an atmosphere in which the line staff are prepared to give and accept authority and responsibility enthusiastically. This is the beginning

of delegation and an appreciation of modern management methods with a view to maximising profits.

Finally, he has to select a viable structure most suited to achieve his objective or goals. In the words of Peter Drucker: "Organisation is not an end in itself, but a means to an end of business performance and business results. Organisation structure is an indispensable means; and the wrong structure will seriously impair business performance and may even destroy it.... Organisation structure must be designed so as to make possible the attainment of the objectives of the business for five, ten, fifteen years hence." This may be achieved by analysis of activities, decision analysis and relations analysis — all on a continuing basis. All in all, the organisation structure must contain the least possible number of management levels, and forge the shortest possible chain of command. It must also make possible the training and testing of tomorrow's top entrepreneurs.

## ***Deciding Factors on Organisation while Starting a Business***

It is worthwhile for the entrepreneur of a new or proposed business to be familiar with the following factors in making a choice for a suitable form of ownership:

- (1) Type of business — service, trade, manufacturing.
- (2) Scope of operations — volume of business and the size of the market area served.
- (3) Degree of direct control and management desired by the owners.
- (4) Amount of capital funds required.
- (5) Size of the risk.
- (6) Continuity of the concern.
- (7) Costs and procedures and relative freedom from government regulation.
- (8) Adaptability of administration.
- (9) comparative tax advantage, etc.

An entrepreneur has to weigh these major factors, as well as others in deciding the form of organisation while starting a business. Many a time, an enterprise, like a river, may be started as a proprietary concern, converted into a partnership when like minded people come together, promoted into a joint-stock company when it grows substantially big. This organisational evolution is an ongoing process through interaction with the social, political and economic environment.

The best and the brightest always stand out as the most outstanding. The best invariably prosper. Prosperity leads to growth. And growth ultimately shows up in increased size. So in a free market economy, the size of the business (enterprise) is a fair indicator of excellence. Managing a larger enterprise is without doubt more difficult than running a small one. And so it is likely that many small enterprises are more profitable than their larger counterparts. But this in no way detracts from the achievements of the latter. Big is always better, by way of its inherent strength, the capacity to bear opted shocks and stresses, and simply by the fact that it has grown so big in a world where roughly everyone has had the same opportunities.

## **CONCLUSION**

An organisation is the planned coordination of the activities for the achievement of some common, explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibility.

- Organisation refers to the planned coordination of the activities of a number of people to achieve shared goals.
- Organisations perform several functions such as allocating resources; instructing employees, exert power and control, and the like.
- Organisation designs and structures are the backbones for organisations.
- Several key factors determine organisation designs.

- Functional design, place design and product design are important organisation designs.
- Managers need to make several decisions relating to organisation designs.
- Organisation structures will impact employee behaviour considerably.
- Organisation do chart out the growth of the enterprise.

According to the Third Census of SSIs in November, 2002, 95.8 per cent of the units were proprietary units and about 1.13 per cent of the units were partnership units. In the event of globalisation, the business environment has become competitive. In order to strive ahead, the SSIs need to change and develop a professional management culture, which involves continuous effort at improving strategies on an ongoing basis. There is a need of organisation change. To be professional means broad basing of ownership and changes in organisation. There is also a need for professional ownership for the sustained growth of the enterprises in the coming years.

The small and medium enterprises (SMEs) have become a key focus area for manufacturing & service sectors. In the current scenario, for an SME to sustain in the market and remain successful, it has to work meticulously towards streamlining its business processes. And as discussed above the business process needs to be innovative and efficient enough to adapt to the market and business requirements. These integrated processes need not only include departments but also partners, suppliers and customers. And it can only be attained by using information technology which can support and drive business objectives. Consequently, this also enables to innovate and respond faster and adapt to the globally changing business conditions — a must for SMEs.



## Which type of company? Seven factors to consider before you start your business

	<i>Sole proprietorship</i>	<i>Partnership</i>
Flexibility	This is as flexible as you can get. You are the sole person in charge some heads wearing more than one hat.	Less flexible than proprietorship, as the areas of responsibility are somewhat defined. But there may be
Capital risk	Very high, as the proprietor bears all the risk. The returns too are all his.	Lower than sole proprietorship, as the capital is shared by the partners.
Liability	Unlimited, extending to personal assets of the sole proprietor.	Unlimited, extending to the personal assets of the partners.
Formation	Simplest. No legal requirements.	Through a partnership deed, though not compulsory. If there is no deed, the partnership is governed by the Indian Partnership Act, 1932.
Exit option	On death of the sole proprietor, or if he decides to close down the business.	As per the Indian Partnership Act, or through a deed of dissolution which has to be accepted by all partners.
Inheritance	Depends on the will of the sole proprietor.	The partnership deed can specify whether the business will carry on in the event of the death of a partner, and who will be entitled to his share of profits, or whether a new deed will be drawn up, or the partnership will stand dissolved.
Goodwill	May or may not be mentioned in the books of account.	Has to be mentioned in the books of account. Method of calculation is subjective and open to debate.

<i>Organisational Reality</i>	<i>Immediate Objective</i>
IR Disputes and disharmony; climate of distrust within the organisation.	To build harmony and trust among the organisational members which will later be harnessed for productive and profitable purposes.
A conservative organisation (say in engineering industry) facing increased competition for domestic and international players	To bring in sufficient organisational awareness about the emerging realities and prepare a ground for meeting competitors face to face.
A conservative organisation in a traditional industry infamous for paternalistic approach to organisational members (e.g., Textiles, Jute).	To raise the organisation's ability to confront the changing environment and to manage the complexities of change.
Monopoly situation and no serious complaints on product quality.	To take proactive measure within the organisation which will create entry-barriers for potential competitors.

# 48

## CHAPTER

# INCENTIVES AND SUBSIDIES

*"With a view to small scale industries stronger enough to face domestic and international competition, to make exports an effective instrument for promoting greater economic activity and employment and to facilitate growth of entrepreneurship in the country the government has been supporting through incentives and subsidies."*

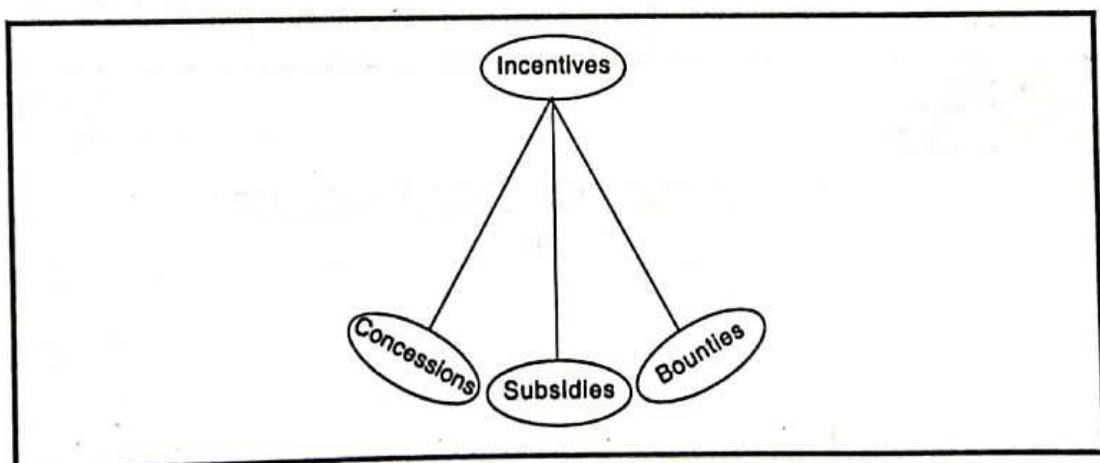
## INTRODUCTION

Entrepreneurs in India are offered a number of incentives with their strategic contributions to economic development. Firstly, they facilitate the decentralisation of economic power by encouraging prospective entrepreneurs to take up industrial ventures and assist in the dispersal of industries over India's geographical area. Secondly, they facilitate the transformation of a traditional technology, which is characterised by low skill, low productivity and low wages, into a modern technology, subsequently characterised by improved skills, high productivity, rising wages and a higher standard of living. They serve as a catalyst to start a dynamic process of development. They also influence the location of enterprises and contribute to regional distribution and development.

The Ford Foundation Team, which visited India in 1953-54, suggested a positive programme for the development of modern SSIs. Based on the recommendations of this team, the Government provided a broad infrastructural and institutional set-up for the accelerated growth of these industries.

In the present chapter, an attempt has been made to indicate the assistance and the incentives which are available from the Government.

**Fig. 48.1:**  
*Pattern of Incentives*



## Incentives

The term '*incentive*' means encouraging productivity. It is a motivational force which makes an entrepreneur take a right decision and act upon it. Broadly, incentives include concessions, subsidies and bounties. Economic incentives — both financial and non-financial — push an entrepreneur towards decisive decision and action.

### The Power of Incentives

There is evidence that people respond significantly to incentives even in situations where we do not usually imagine their behaviour to be rational. Apparently psychologists have discovered by experiment that when you hand a person an unexpectedly hot cup of coffee, he typically drops the cup if he perceives it to be inexpensive but manages to hang on if he believes the cup is valuable. Indeed, the response to incentives may be as innate as any other instinctive behaviour.

In a series of experiments at Texas A&M University, researchers have allowed rats and pigeons to "purchase" various forms of food and drink by pushing various levers. The researchers have found that rats and pigeons respond appropriately to changes in prices, income, and wage rates. When the price of root beer goes up, they buy less root beer. When wage rates go up, they work harder — unless their incomes are already very high, in which case they choose to enjoy more leisure.

These are precisely the responses that economists expect and observe among human beings. Incentives matter. The literature of economics contains tens of thousands of empirical studies verifying this proposition, and not one that convincingly refutes it. Economists are forever testing the proposition and forever expanding the domain of its applicability.

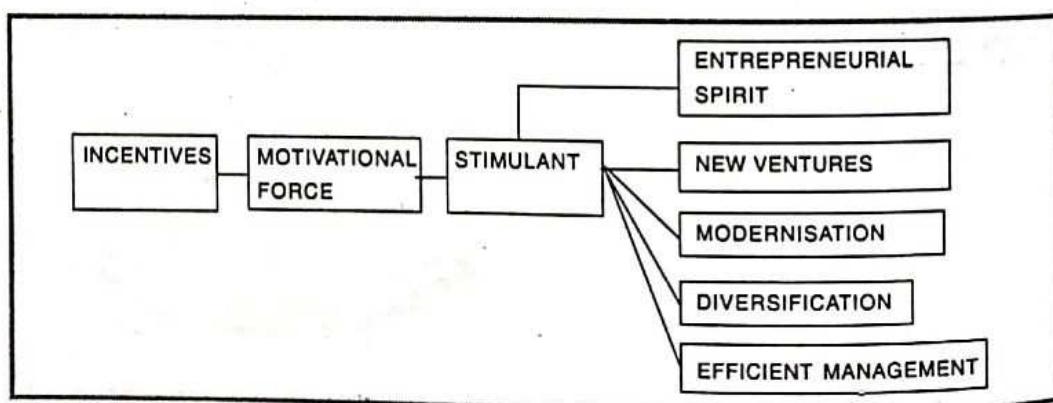
### Subsidy

'*Subsidy*' denotes a single lump-sum which is given by a Government to an entrepreneur to cover the cost. The term '*bounty*' denotes a bonus or financial aid given to an industry to help it to compete with other units in country or in a foreign market. The objective of incentives is to motivate an entrepreneur to set up a new venture in the larger interest of the nation and the society.

### Controversies on the Efficacy of Incentives and Subsidies

Often one comes across an intellectual controversy over the good or evil or nil effect of incentive programmes. According to one criticism, the argument proceeds, of course, with empirical evidence and other pure measurement approaches, that incentive schemes would ultimately deteriorate into useless tax give-aways, would only cause other States to reciprocate with the result that industry locations would be affected by those lures and would cause the financial position of the exchequer seriously impaired. While this argument may be true, the industrial development schemes have been in use for more than three decades. As against this view, there are study results establishing the economic significance of the impact of incentive programmes. We also find, to our surprise, the fast-growing, information on the reappraisal of the '*legitimacy*' of the regional economic industrial policy with incentive schemes.

**Fig. 48.2:**  
*Incentives as a Motivational Force*



## Need for Incentives

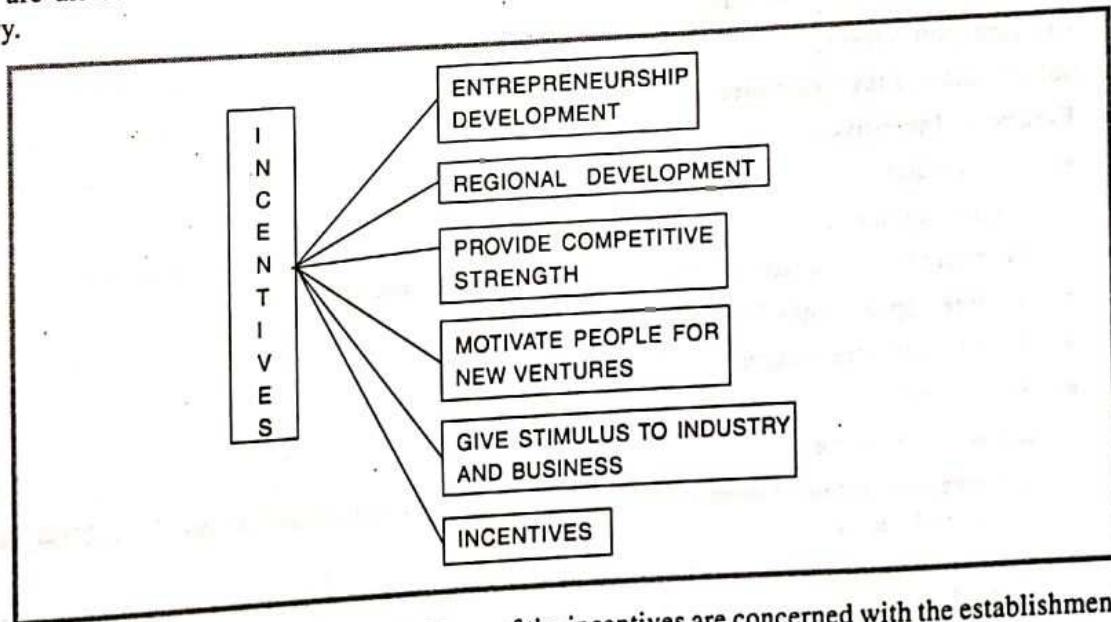
The need for incentives and subsidies arise for the following reasons:

1. *To correct regional imbalances in development:* The usual package of incentives and concessions has been available in backward as well as developed districts. It has been, however, the experience of industrial administration, department of industries, district level officers, development corporations, etc., that what is lacking in the backward districts is the overall existing environmental growth. One of the ways is to identify pockets of savings of different activity groups like traders, businessmen, agriculturists, professionals, etc., and provide them with relevant information as well as suitable incentives to offset the disadvantages prevailing in such places. Industrial policy uses incentives both to correct the market imperfections and to accelerate the process of industrialisation so as to drive the forces of supply and demand reach the equilibrium level. Such a policy then aims at inducing some entrepreneurs or sections of the community (e.g., technicians) to locate their industrial units in areas selected by Government rather than that of their own choice. Regional balances can also lead to effective utilisation of regional resources, removal of disparities in income and levels of living and contribute to a more integrated society.

2. *To promote entrepreneurship by removing economic constraints:* As for the economic constraints, the new entrants in the field face many impediments on account of inadequate infrastructures. The new entrepreneur suffers because of distances separating central administrative organs from entrepreneurs and their projects, deficiency of various supporting services such as market intelligence, entrepreneurial guidance and training, technical consultancy and merchant banking facilities, lack of an institutional mechanism to provide full-time management personnel complementary to that of the new entrepreneurs, and finally, from insufficient orientation of the promotional institutions, barring a few exceptions, at the State level to the needs of new entrepreneurs.

The various incentives normally aim at mitigating some or all of the problems by several means. Industrial estates, industrial complexes, industrial nucleus etc., availability of power, concessional finance, capital investment subsidy, transport subsidy, etc., are all but a few examples of incentives to solve constraints impeding the emergence of entrepreneurs in industry.

**Fig. 48.3:**  
**Objectives of  
Incentives**

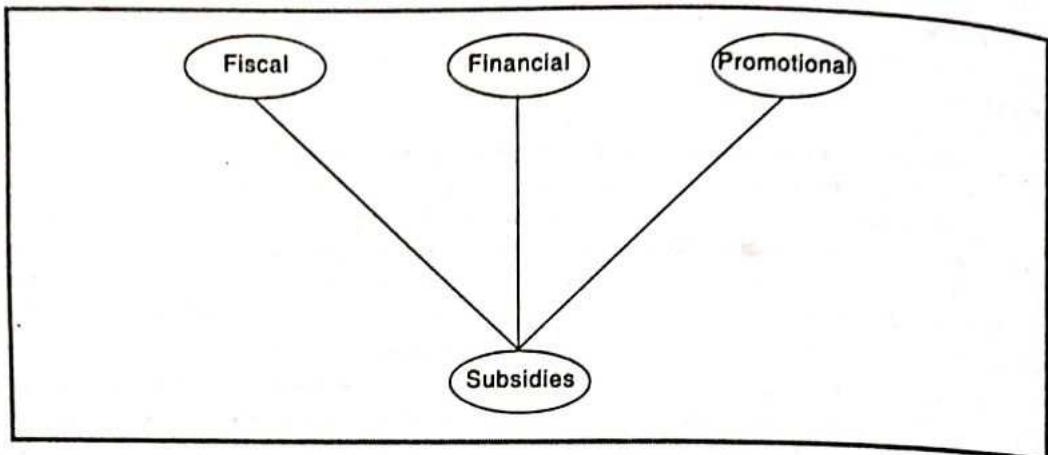


3. *To provide competitive strength, survival and growth:* Some of the incentives are concerned with the establishment of industries while others are concerned with the survival and growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period. Instances may be cited of the reservation policy for SSIs due to which a small firm can hope to compete in the market to which entry by larger units is barred. If these units are already established and are brought under the reservation policy later, it will be a case of incentive to support its competitive strength. For a newcomer, the reservation is an incentive to enter the industry itself. A price preference improves its competitive strength.

## ***Types of Incentives***

Incentives provided to small scale enterprises are in the nature of:

**Fig. 48.4:  
Types of Incentives**



### **1. Fiscal Incentives**

- Tax concessions — exemptions, rebates, refund or postponement of direct or indirect taxes,
- Incentives for Exports including duty drawbacks,
- Exemption and preferential treatment from Excise duties,
- Exemption from Sales Tax,
- Other incentives
  - (i) Capital investment subsidy
  - (ii) Transport subsidy
  - (iii) Creation of tax free zones

### **2. Financial Incentives**

- Seed capital
- Credit on priority
- Technology Upgradation Fund Scheme for Textile Industry
- Venture capital funds for software and IT industry
- Credit Guarantee Scheme
- Micro Finance

### **3. Promotional Schemes**

- Reservation of items for exclusive manufacture in the SSI Sector (As on 20-10-2004, 605 items were reserved in the SSI Sector)
- Enhancement of investment limit, for export-oriented/high-tech items reserved for manufacture in SSI Sector to Rs.5 crores from Rs.1 crore.
- Price and purchase preference scheme
- Protection from competition
- Items of stores reserved for exclusive purchase
- Foreign Direct Investment
- Infrastructural facilities
- Industrial growth centres

- Export Processing Zones
- Industrial Parks
- Integrated Infrastructure Development Centres
- Cluster Development Programme
- National Programme for Rural Industrialisation.

#### 4. Marketing Support

The marketing infrastructure, as available for SSIs, consists of a combination of agencies and incentive schemes.

(a) Agencies

- (i) National Small Industries Corporation (NSIC)
- (ii) SIDO
- (iii) Export Promotion Councils
- (iv) SIDBI

(b) Incentive Schemes

- (i) Sub-contracting Exchanges
- (ii) Quality certification
- (iii) Marketing Development Scheme
- (iv) Exhibitions and Trade fairs
- (v) Vendor Development Programme

#### 5. Organisational Support

- (i) Consultancy
- (ii) Training
- (iii) Testing and Toolroom facilities
- (iv) Workshops and Seminars
- (v) Research and Development (R&D)
- (vi) Design
- (vii) Industrial motivation campaigns
- (viii) National Award for Small Scale Entrepreneurs
- (ix) Technology business incubators.

### Incentives Strategy

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1. Subsidy for Purchase of know-how	— Varies from 50% to 100% of cost
2. Entrepreneur Training	— Free with stipend for SC/ST and women entrepreneurs
3. Developed Land	— At subsidised cost, on hire-purchase/outright purchase basis
4. Factory shed	— In industrial estates subject to availability
5. Machinery	— On hire-purchase/lease
6. Seed capital loan (Margin Money Loan)	— To start industries
7. Central Investment Subsidy	— At the rate of 25% varies from Rs. 10 lakh to Rs. 50 lakh
8. State Investment Subsidy	— 10% to 15%
9. Tax Exemption	— Excise and sales-tax Exemption from stamp duty and concessional registration charges.

10. Establishment Grant  
11. Stamp Duty

— In some cases  
— Exempted

Thus, a creative and shrewd entrepreneur can set-up a small-scale industry and/or industries without putting a single pie of his own and even capital out of it. Some successful entrepreneurs have built their own industrial empire, acquired status and power

### Schemes of Incentives and Subsidies in Operation

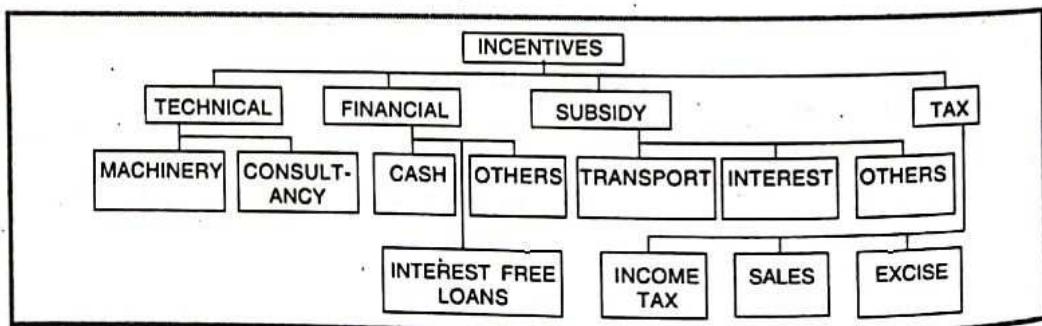
Incentives in Operation	Subsidies in Operation
<ul style="list-style-type: none"> <li>(i) Interest free loans,</li> <li>(ii) Exemption from property tax,</li> <li>(iii) Incentives to NRIs,</li> <li>(iv) Special incentives to women entrepreneurs,</li> <li>(v) Exemption from income-tax,</li> <li>(vi) Interest-free sales tax loans,</li> <li>(vii) Sales tax exemptions,</li>   <li>(viii) Land and building at concessional rates,</li> <li>(ix) Price preference to SSI Units,</li> <li>(x) Exemption from stamp duty,</li> <li>(xi) Provision of seed capital,</li> <li>(xii) Allotment of developed/constructed sheds,</li> <li>(xiii) Allotment of controlled or subsidised raw materials,</li> <li>(xiv) Concessional water,</li> <li>(xv) Special facilities for import of RAW materials,</li> <li>(xvi) Taxation benefits,</li> <li>(xvii) Excise concessions.</li> </ul>	<ul style="list-style-type: none"> <li>(i) Export/Import subsidies and bounties,</li> <li>(ii) Subsidy for R &amp; D works,</li> <li>(iii) Capital investment subsidy,</li> <li>(iv) Transport subsidy,</li> <li>(v) Interest subsidy,</li> <li>(vi) Subsidy for power generations,</li> <li>(vii) Subsidies to artisans and traditional industries including handlooms,</li> <li>(viii) Subsidy for buying test equipment,</li> <li>(ix) Subsidy for industrial housing,</li> <li>(x) Subsidy/assistance for technical consultancy,</li> <li>(xi) Subsidising the cost of market studies/ feasibility studies or reports,</li> <li>(xii) Subsidised consultancy services,</li> <li>(xiii) Subsidy for market studies,</li> <li>(xiv) Subsidy for quality standards.</li> </ul>

### The Assistance Programme

Some of the important measures of assistance now available for the entrepreneurs in the industrial sector are:

- (i) Technical assistance through industrial extension service;
- (ii) Assistance for obtaining raw materials;
- (iii) Cash assistance;
- (iv) Supply of machinery on hire-purchase basis;
- (v) Marketing assistance;
- (vi) Assistance to small entrepreneurs;
- (vii) Rural Industries Projects;
- (viii) Seed capital assistance;

**Fig. 48.5:  
Types of Incentives**



- (ix) Concessional finance assistance;
- (x) Technology assistance;
- (xi) Pollution control.

In order to promote industrialisation of the country as a whole and to remove disparities in levels of development between different regions, the Central Government is operating three major schemes, viz., central investment subsidy scheme, transport subsidy scheme and central assistance scheme for infrastructural development in no-industry districts.

### ***Advantages of Incentives and Subsidies***

- (a) They act as a motivational force which makes the prospective entrepreneurs to enter into manufacturing line.
- (b) They encourage the entrepreneurs to start industries in backward areas.
- (c) By providing subsidies and incentives the Government can
  - (i) Bring industrial development uniformly in all regions.
  - (ii) Develop more new entrepreneurs which leads to entrepreneurial development.
  - (iii) Increase the ability of entrepreneurs to face competition successfully.
  - (iv) Reduce the overall problems of small-scale entrepreneurs.

### ***Problems of Incentives and Subsidies***

- Empirical studies reveal that the incentives and subsidies are being highly misused.
- Incentives and subsidies turned out to be grounds for dishonesty.
- They have given scope for favouritism and rampant corruption.
- They have become the seeds of unethical business practices.
- Resulted in financial drain on the exchequer.
- The real objective of providing incentives, subsidies and assistance is hardly achieved.

### ***Central Investment Subsidy Scheme***

This was introduced in 1971, and has been modified from time to time. The scheme is for encouraging setting up of industries in centrally notified backward areas. For setting up industries in Category "A" backward areas, subsidy is allowed at the rate of 25% subject to a maximum of Rs 25 lakh (enhanced to Rs 50 lakh for setting up electronics industry in hilly districts). It is 15% and 10% subject to a maximum of Rs. 15 lakh and Rs. 10 lakh for category 'B' & 'C' districts respectively. MRTP/FERA companies are not eligible for subsidy in Category 'C' areas. Entrepreneurs who set up nucleus plants in Category 'B' and 'C' districts/areas are eligible for 20% and 15% subsidy, subject to a maximum of Rs. 20 lakh and Rs. 15 lakh respectively. Since the inception of the scheme and upto December, 1989, a total sum of Rs. 855.46 crore reimbursed to States/Union Territories excluding Delhi and Chandigarh.

### ***Transport Subsidy Scheme***

The Scheme was introduced in 1971 and is applicable to remote and inaccessible areas. It covers the entire North Eastern Region including Sikkim, Jammu & Kashmir, Himachal Pradesh, hill districts of Uttar Pradesh, Lakshadweep and Andaman & Nicobar Islands and Darjeeling District of West Bengal. Identified promotional institutions which transact business on behalf of small, village and cottage industries are also eligible for transport subsidy. Transport subsidy is paid on the transport costs of industrial raw materials which are brought into and finished goods which are taken out of these areas to identified rail heads/ports. In the North Eastern region subsidy is available at the rate of 90% and for Himachal Pradesh, hill districts of Uttar Pradesh and Darjeeling District of West Bengal, it is 75%. It is also available at the rate of 90% for movement of raw materials within the N.E. region and at the rate of 50% for movement of finished goods in this region from one state to another state. For airlifting of electronic components/products from

Kolkata airport to the airport nearest to the locations of the industrial units in this region subsidy is allowed at the rate of 75% and vice versa.

## ***Central Assistance for Infrastructural Development in No-Industry Districts under the Old Scheme***

To assist State Governments in taking up infrastructural development in one or two identified growth centers in each no-industry district, the centre gives financial assistance which is limited to one-third of the total cost of infrastructural development, subject to a maximum of Rs. 2 crore per district. Two types of patterns have been laid down for the purpose:

### ***Pattern I***

Rs. 2 crore as subsidy from the Central Government.

Rs. 2 crore as share of the State Government.

Rs. 2 crore as loan from IDBI on concessional terms.

### ***Pattern II***

Rs. 2 crore as subsidy from the Central Government.

Rs. 4 crore as share of the State Government.

Rs. 5 crore as loan from IDBI on concessional terms after the shares of State and Centre are spent.

For States in the N.E. region, the scheme has been further liberalised. In a total project of Rs. 4 crore, the Centre's shares would be 50%, i.e., Rs. 2 crore per district and the State Governments have the option to fund the balance of Rs. 2 crore either from their own funds or by raising a loan from IDBI. Construction of sheds, subject to a ceiling of 25% of the total cost, has been allowed in the case of this region only.

So far 51 growth centres in 44 districts of the States of Rajasthan, Orissa, Karnataka, UP, Bihar, Maharashtra, West Bengal, Tripura, Nagaland, AP and Mizoram have been approved by the Government for development of infrastructural facilities. A sum of Rs. 15.42 crore has been released for creating infrastructural facilities in the States of Rajasthan, Orissa, UP, Karnataka, MP, Maharashtra, Mizoram, Bihar and West Bengal till December 1988.

## ***New Scheme for Growth Centres***

The Government has announced on June 3, 1988, the decision to set up 100 growth centres throughout the country over the next five years or so. These growth centres, would be endowed with infrastructural facilities on par with the best available in the country, particularly in respect of power, water, telecommunication and banking. Each growth centre would be provided with funds of the order of Rs. 25-30 crore in order to create infrastructural facilities of a high order.

The States/Union Territories have been asked to identify double the number of growth centres allocated to them but the final selection of these will be done by the Centre. The State Governments are also free to include any of the growth centres already approved under the erstwhile scheme for developing such centres in the 'No-industry districts.'

The growth centres shall not be located within 50 kms of the boundary of 7 cities with a population of above 25 lakh, 30 kms from the boundary of 2 cities with a population of above 15 lakh but below 25 lakh and 15 Kms from the boundary of 12 cities with a population of 7.5 lakh but below 15 lakh.

The growth centres shall be located close to district sub-divisional/block/taluk/headquarters or developing urban centres.

The broad financing pattern for development of infrastructure in the selected growth centres will be as follows:

1. Central Government (Equity)	
2. State Government (Equity)	Rs. 10 crore
3. All India Financial Institutions (including Rs. 2 crores as equity)	Rs. 5 crore
4. Nationalised Banks	Rs. 4 crore
	Rs. 1 crore
5. Market borrowings	Rs. 20 crore
Total	Rs. 10 crore
	Rs. 30 crore

The growth centres selected under this scheme will be included in Category 'B' (unless it is already in Category 'A') of the list of backward areas and will be entitled to all incentives available from time to time for Category 'B' areas. The State Governments have been requested to make suitable provisions in their States/Union Territories Plan for the development of these growth centres.

## **INCENTIVES AND FACILITIES TO EXPORTERS**

### ***1. Duty Drawback***

For a product exported from India, the manufacturer would have paid duties as under:

- (i) Import duties on raw materials and components imported and
- (ii) Excise duty on the items manufactured in India.

The Customs and Central Excise Duty Drawback Rules, 1971 provide for refund of such duties to the exporter on the export being completed.

Duty drawback is allowed only in respect of all items wherein such raw materials and components have been used on which duty either of customs or excise has been paid. There are two types of rates of drawback: (i) all-industry rate and (ii) brand rate. All-industry rate is applied to all exporters alike. The brand rate is applicable only to particular manufacturers. The brand rate is fixed on application and furnishing of information to the authorities by the exporter. Brand rate can be so fixed where the all-industry rate does not exist, or where the existing rate of drawback is less than 80% of the duty paid.

For claiming the drawback, the exporter should file with the customs the triplicate copy of the shipping bill within 60 days after the customs officer at the port has given 'Let Export Order.' On a fortnightly basis, the drawback entitled to the exporter will be remitted to his account with his bank. If the rate of drawback is yet to be fixed, the exporter can make a provisional claim. The final disbursement will be made on fixation of the rates.

To help the exporter tide over the financial difficulty faced due to the delay in disbursement of the duty drawback, the Government has formulated the Duty Drawback Scheme, 1976. Under this scheme, the exporter can get interest-free finance from his bank on export eligible goods and producing a provisional certificate as to his entitlement of drawback. This has been detailed in the Chapter on 'Financing Exports.'

### ***2. Duty Exemption Scheme***

The scheme enables the exporter to import materials without payment of customs duty. The licence issued under this scheme is known as 'Advance Licence.' The items allowed to be imported under these licences are such as are to be used in the manufacture of goods to be exported from India.

The advance licences are issued to manufacturer-exporters subject to actual user condition. Generally, the scheme is applicable only to those export products in which there is a minimum value addition of 33%. The licence will bear a suitable export obligation.

The licensing authority issuing a licence under this scheme will also simultaneously issue a connected Duty Exemption Entitlement Certificate. Exempt materials imported against a licence under this scheme should be utilised for the manufacture of the resultant products specified in the Duty Exemption Entitlement Certificate. The licence holder should execute a bond with bank guarantee and lodge it with the licensing authority.

After exports, the Duty Exemption Entitlement Certificate duly completed by the customs will have to be surrendered to the licensing authority in fulfillment of the export obligation imposed.

No duty drawback will be allowed on the products exported/supplied under this scheme.

### ***Fiscal Incentives for SEZ Units***

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100 per cent Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50 per cent for next 5 years thereafter and 50 per cent of the ploughed back export profit for next 5 years.
- Exemption from Minimum Alternate Tax under section 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units up to US \$500 million a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax, Service Tax, State Sales Tax and other levies as extended by the respective State Governments.

### ***Tax Exemptions to SEZ Developers***

- Exemption from Customs/Excise duties for development of SEZs for authorized operations approved by the board of Approval.
- Income Tax exemption on export income for a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from Minimum Alternate Tax under Section 115JB of the Income Tax Act.
- Exemption from Dividend Distribution Tax under Section 115 O of the Income Tax Act.
- Exemption from Central Sales Tax (CST) and Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

### ***3. Excise Rebate***

Finished goods which are subject to excise duty for home consumption are exempt from the duty when they are exported. The scheme is also applicable where exported goods contain excisable goods in their manufacture.

The exporter can avail of this facility in either of the following methods, where finished goods are excisable:

(i) **Export under bond:** Under this method, the exporter has to execute a bond in favour of Central Excise Authorities. The amount of the bond will be equal to the duty on the estimated maximum outstanding of goods leaving the factory without paying the duty and pending acceptance of their proof of export by excise authorities. No excise need be paid by the exporter.

(ii) **Refund of duty:** If the duty is already paid, after export is made, the exporter should make a claim with the Central Excise authorities. After verification of the claim, the excise authorities will arrange for the refund of the duty.

Where the excisable materials have been used in the manufacture, similar to the above arrangement, the exporter can avail of the facility of manufacturing under bond or he can claim refund after the duty is paid.

## **4. Marketing Development Assistance**

The Government of India has instituted a Marketing Development Fund for providing grants-in-aid for the development of markets for Indian products abroad, for compensatory support for export commodities and for other export promotion efforts. The fund gets its resources from the allocation of General Budget.

The fund is administered by a committee consisting of the Secretaries of the Departments of Economic Affairs and Expenditure and Commerce. Various schemes (i.e., export promotion activities) falling under the grants-in-aid are processed by different sub-committees.

Assistance under MDF is available to organisations like Export Promotion Councils, Commodity Boards, India Trade Promotion Organisation, etc., and individual exporters approved by such organisations.

The extent of assistance differs depending upon the scheme. Generally it ranges between 50% and 60%. Some of the schemes eligible for assistance under the Fund are:

- (a) Commodity survey/study within the country for determining export potential;
- (b) Market survey abroad;
- (c) Publications for issue within the country or abroad;
- (d) Participation in exhibitions abroad;
- (e) Setting up showrooms, warehouses, after sales service establishments;
- (f) Research and Development;
- (g) Consultancy services;
- (h) Setting up foreign offices.

The application for assistance should be sent to the Marketing Department Assistance Committee at the Ministry of Commerce through the approved organisation like Export Promotion Council and Commodity Board.

## **5. Supply of Raw Materials**

Units engaged in exports are given priority in the allotment of scarce raw materials such as steel. In certain cases, the raw materials are arranged to be supplied at international prices, much below the internal prices.

**IPRS:** The International Price Reimbursement Scheme for steel and pig iron provides for reimbursement to the exporter of the difference in international and domestic price of specified categories of iron and steel used in export of engineering goods. The reimbursement is made through the Engineering Exports Promotion Council.

## **6. Export Oriented Units/Export Processing Zone**

Units undertaking to export their entire production of goods may be set up under the Export Oriented Units Scheme. Such units may be engaged in manufacture, production of software, horticulture, agriculture, aquaculture, animal husbandry or similar activity. Units engaged in service activities may also be considered on merits.

Free Trade Zone or Export Processing Zone is an industrial estate, cordoned off from domestic tariff area, where trade barriers applicable to the rest of the economy do not apply and where export oriented units can operate free of import duties or quantitative restrictions and are given other advantages including tax exemptions. Seven free trade zones have been set up in India at Santa Cruz (Mumbai), Kandla, Chennai, Cochin, Noida, Falta (Kolkata), and Visakhapatnam.

Units in the free trade zone and export oriented units (outside the zone) are similarly placed with regard to conditions and benefits bestowed on them.

### **Facilities for Units in the Export Processing Zone**

- ♦ Developed plots/ready-buildings to suit Project requirements.
- ♦ Single-point clearance of new projects within 40-65 days.

- ◆ Automatic approvals of proposals by the Development Commissioner on certain conditions.
- ◆ No licence required for import of capital goods, raw materials, consumables, spares etc.
- ◆ Dutyfree import of capital goods and equipments from preferred sources.
- ◆ Second-hand capital goods allowed to be imported.
- ◆ Sourcing of capital goods from domestic manufacturing/leasing companies allowed.
- ◆ Exemption from Central Excise Duty and other levies on products manufactured within the zone.
- ◆ Complete exemption from Income Tax on profits for a period of five years.
- ◆ Foreign equity participation upto 100% permissible.
- ◆ Remittance of profits and dividends by foreign investors/NRIs allowed fully after payment of taxes.
- ◆ Upto 25% production and 5% rejects can be sold in Domestic Market on payment of appropriate duties.
- ◆ Re-export of unused imported goods allowed, subject to certain conditions.
- ◆ Imported machinery becoming obsolete allowed to be disposed of, subject to payment of custom duty on depreciated value.
- ◆ Sub-contracting part of Job Work to units in the Domestic Market may be allowed.
- ◆ Concessional finance available for investment and working capital.
- ◆ Assured power supply, preferential power connection.
- ◆ Supplies from Domestic Market to the units in the Zone, treated as Deemed Export.
- ◆ Export finance Banks or special concessional rate of interest.
- ◆ Green card to units for getting facilities like telephone, telex, cement, steel, etc. on priority basis.
- ◆ Containers loaded by units in SEPZ not to be inspected or other points, so long the seals are intact.
- ◆ Private bonded warehouses permissible for stack and sale of duty-free materials, components, etc. to SEPZ units.
- ◆ And many more ....

### ***Other Facilities/Provisions being made available in SEPZ***

- ◆ Security as per norms laid down by the customs for SEPZ.
- ◆ Paved internal roads, street lights, water supply, etc.
- ◆ Container space on rental basis.
- ◆ Customs clearance centre within the Diamond Industrial Park.
- ◆ Railway Station within 1 Km. Surat Airport, Magdalla Sea Port & Highway within 15 Km.
- ◆ Office premises available in the International Trade Centre of the park.
- ◆ Health centre, school, recreation club, theatre coming soon.
- ◆ Hotel by an international Chain of Hotels soon to come up.
- ◆ Excellent green and clean environment.
- ◆ Administrative support by the Promoters to users in preparing their application for units in the zone.

### ***Export Houses, Trading Houses and Star Trading Houses***

A registered exporter is a person holding valid registration certificate issued by an Export Promotion Council, Commodity Board or other registering authority designated by Government for the purpose of export promotion.

The exporter may be registered as an *Export House* or a *Trading House* or a *Star Trading House* if the average FOB value of physical exports during the preceding three licensing years is not less than Rs. 10 crores, Rs. 50 crores and Rs. 250 crores respectively. The registration may also be granted if the FOB value of exports during the preceding

licensing year was not less than Rs. 15 crores (export house), Rs 75 crores (trading house) and Rs. 300 crores (star trading house).

These houses are entitled for special import licences for import of such items included in the Negative List of Imports, under a scheme notified in this behalf. They are also eligible for opening of foreign currency accounts in India and abroad, Marketing Development Assistance and to execute legal undertaking in lieu of bank guarantee to cover the export obligation.

## **8. Export Promotion Capital Goods Scheme**

Under the EPCG scheme capital goods may be imported at a concessional rate of customs duty of 25% of CIF value with an export obligation of 3 times CIF value to be achieved within 4 years. The duty will be further reduced to 15% of CIF value where the export obligation undertaken is 4 times the CIF value within a period of 5 years.

A manufacturer-exporter for a period not less than 3 years is eligible for this scheme. Other exporters may also be considered on merits.

## **9. Foreign Currency Accounts for Exporters**

Exporters with a net foreign earnings of Rs. 4 crores and over during the preceding year may be permitted by Reserve Bank to maintain foreign currency accounts in US dollar or sterling pound, with SBI, public sector banks and foreign banks operating in India.

Only one account shall be maintained which will have no cheque facility. No overdraft can be granted in the account. The exporter availing this facility should route all export documents through the designated branch of the bank. Credit to the foreign currency account will be approved method of liquidation of postshipment advances. RBI will fix ceiling on balance to be maintained in the account. Excess over that shall be converted into rupees promptly.

If exports arrange foreign currency overdraft/revolving lines of credit from banks abroad for financing their imports RBI may consider their keeping foreign currency accounts abroad. Mirror account shall be maintained by a bank in India. They cannot avail preshipment/postshipment finance except to the extent of rupee expenditure.

## **10. Other Benefits**

Some of the other benefits available to exporters can now be listed.

- (a) Exemption from sales tax.
- (b) Exemption from income tax.
- (c) Training facilities in India and abroad.
- (d) Availability of concessional finance from banks and Exim Bank.
- (e) Credit insurance cover from ECGC.
- (f) Preshipment inspection facilities.
- (g) Foreign exchange for business visits abroad and for participation in trade fairs and exhibitions abroad.
- (h) Special import licences for items in negative list.

Thus, it may be seen that no efforts have been spared in providing all possible facilities and incentives to exports.

## **State Incentives**

All states in India recognised that small and medium industries continue to play a vital role in their socio-economic development. There is a major interest in state developing programmes to stimulate and encourage industrial development in their state. With a view to attract entrepreneurs to set up industries/business in their states, states offer varied incentives, subsidies and assistance. Major incentives and concessions offered by the selected states is presented here.

## Major Incentives and Concessions to SSI Units in Selected States

**Note:** Talukas in the State have been classified as A, B, C, D & D+ in the order of most to least developed areas.

<b>Gujarat</b>	<b>Category I Areas</b>	<b>Category II Areas</b>
<ol style="list-style-type: none"> <li>1. Capital Investment Subsidy Tiny Industries Small Scale Industries</li> <li>2. Sales Tax Incentives Tiny Industries Small Scale Industries</li> <li>3. Additional Sales Tax Benefits</li> <li>4. Sales Tax Benefits for 100% EOUs</li> <li>5. Other Incentives: to 100% EOUs</li> </ol>	<p>35% of eligible fixed capital investment 30% of eligible fixed capital investment with a maximum of Rs. 30 lakh 100% of eligible fixed capital investment for 9 years</p> <p>Available to employment oriented units 100% of fixed capital investment for 10 years Priority allotment of land and raw materials.</p>	<p>25% of eligible fixed capital investment 20% of eligible fixed capital investment with a maximum of Rs. 20 lakh 100% of eligible fixed capital investment for 6 years</p> <p>75% of fixed capital investment for 8 years</p>

### **Maharashtra**

1. Sales Tax incentive to new SSI units as Exemption/Deferral/Interest free unsecured loan
  2. Special capital incentive for SSI units only
  3. Refund of Octroi/Entry Tax in the form of a grant up to 100% of the admissible Fixed Capital Investment to New SSI units
  4. (a) Refund of electricity duty to new SSI units  
(b) Refund of electricity duty to new units in Electronic Hardware Technology Parks (EHTPs) and to 100% EOUs
- B. 100% of Fixed Capital Investment for 6 years  
C 110% of Fixed Capital Investment for 8 years  
D 120% of Fixed Capital Investment for 10 years  
D+ 130% of Fixed Capital Investment for 12 years  
B 15% of Fixed Capital Investment with a maximum of Rs. 7 lakh  
C 20% of Fixed Capital Investment with a maximum of Rs. 10 lakh  
D 25% of Fixed Capital Investment with a maximum of Rs. 15 lakh  
D+ 30% of Fixed Capital Investment with a maximum of Rs. 20 lakh  
B for a period of 5 years  
C for a period of 7 years  
D. for a period of 9 years  
D+ for a period of 12 years  
  
D Grant for a period of 7 years  
D+ Grant for a period of 10 years  
(A) Grant for a  
(B) period of  
(C) 5 years  
(D) Grant for a period of  
(D+) 7 years

### **Kerala**

1. Investment subsidy for thrust industries (electronics, rubber processing, food processing, light engineering, drugs & pharmaceuticals, leather, clay & silica based industries and garment manufacturing industries). 15% of Fixed Capital Investment subject to a maximum of Rs. 20 lakh. Also available to existing units undertaking expansion, diversification and modernisation.
2. (a) Sales Tax exemption/deferral to all new industrial units and existing units undertaking expansion diversification & modernisation  
(b) Additional option of SSIs only Exemption for 7 years/deferment for 10 years upto a ceiling of 100% of fixed Capital Investment
3. Concessions to ensure a market for products manufactured by SSI units in the State. To deposit the Sales Tax with the Government in the 'Tax for Growth Fund' A price preference of 15% for all departmental purchases, purchases made by State public sector enterprises and statutory corporations
4. Exemption from electricity duty and enhancement in power tariff. To all new units for the first five years

## **Jamil Nadu**

- |  |   |
|--|---|
| 1. State Capital Subsidy in most backward talukas<br>Other specified areas   | 20% of fixed assets with a ceiling of Rs. 20 lakh   |
| 2. Special Subsidy for select category of industry<br>(a) To encourage priority and sunrise industries   | 15% of fixed assets with a ceiling of Rs. 15 lakh<br>A sum not exceeding Rs. 15 lakh based on 10% of cost of fixed assets   |
| (b) For leader and electronic units  | Rs 20 lakh and<br>Rs 35 lakh respectively   |
| 3. Concessions in power tariff for three years for all units (except located in metropolitan areas)  | 1st year 40% of energy charges<br>2nd year 30%<br>3rd year 20%  |
| 4. Generator subsidy for certain industries  | 15% of the cost of generator subject to a maximum of Rs. 5 lakh   |
| 5. Liberalised Sales Tax waiver/deferral scheme up to a ceiling of total investment in fixed assets<br>(a) Full waiver for five years<br>(b) Deferral for 9 years                                      | New and existing units located in most backward talukas<br>New units located in 82 backward talukas and in government developed industrial areas<br>New industries in other areas |
| (c) Deferral for 5 years up to a maximum of 60%  | 5% additional capital subsidy up to a maximum of Rs. 5 lakh   |
| 6. Subsidies and concessions to women entrepreneurs<br>(a) For units where women constitute more than 30% of the workforce<br>(b) Reservation in the allotment of industrial sheds and developed plots | 30% reservation in all new Industrial Estates and Industrial Complexes developed by Government organisations.   |

## **West Bengal**

- |  |  |
|--|--|
| 1. One time subsidy on Investment in Plant & Machinery<br>(a) Valued up to Rs. 2 lakh<br><br>(b) Valued above Rs. 2 lakh | 40% for industries in B, C and D category and for specified industries in A category districts<br><br>15% for industries in A & B category districts, 20% in C and 30% in D category districts                         |
| 2. One time subsidy on cost of drawing power line and installation of transformer  | 20% in B, C & D category districts only  |
| 3. One time subsidy on cost of purchase & installation of Gen. Sets  | 25% irrespective of the location provided such cost is not borne by the Power Supply Agency  |
| 4. Waiver of Electricity duty w.e.f. the date of commencement of activities  | 100% for a period of 5 years in B, C & D category districts only   |
| 5. Exemption from payment of Octroi/Entry Tax w.e.f. the date of commencement of activities                              | 100% for a period of 3 years in B, C & D category districts only   |
| 6. Exemption of Sales Tax on purchase of Raw Material<br>(a) for new SSI units<br><br>(b) for expansion/modernisation    | 100% for 5 years for A, B & C category and 9 years for D category districts<br><br>100% for 4 years in A (specific industries only) and B category districts and 6 & 8 years for C & D category districts respectively |

### **Notes:**

- (i) The incentives are available for new SSI units as well as for units undertaking expansion/modernisation.  
(ii) Districts in the State have been classified as A, B, C & D in the order of most to least developed areas.

## **CONCLUSION**

Besides incentives and subsidies given by the Centre, the State Governments too offer fiscal and monetary incentives and subsidies help entrepreneurs setting up their industries in the States to overcome certain disadvantages. The entrepreneurs are attracted to some State for their package of incentives and subsidies. The foremost incentive is a stable government with excellent law and order situation followed by availability of disciplined, dedicated and skilled labour force. However, states do attract industries by giving incentives in regard to sales tax, octroi, and subsidised loan. These incentives have helped in large measure in attracting entrepreneurs to set up industries — and accelerate the process of industrialisation. State incentives and subsidies have helped entrepreneurs to locate their

projects and industrialise the State on a firm foundation. The innovations of these incentives and subsidies indicate their adaptivity and the vital role they have been playing in the process of industrial development, spanning rural and urban, backward and non-backward and organised and unorganised, large, medium and small sectors of the economy — each sector needing different approaches, strategies, skills and techniques.



## ANNEXURE - I

### *Facilities for and Incentives to Small-Scale Industries*

Land	States develop industrial areas with infrastructure facilities and allot, sell or lease on a no-profit-no-loss basis with 10 per cent to 12 per cent down payment and the balance in instalments at low rates of interest.
Investment Subsidy	Investment subsidy, ranging between 10 per cent to 15 per cent, subject to a ceiling is granted to industries to be set in backward and tribal areas.
Interest Subsidy	Interest subsidy at different rates is granted to industrial units set up by educated self-employed, technocrats, engineers, craftsmen and artisans, subject to the capital investment not exceeding the limit set by the different States.
Power Tariff	A subsidy on electricity tariff for a period of 3 to 5 years is granted according to use and on certain terms and conditions. This is made available for certain types of units whose power constitutes a major item of production cost. The type of product produced is also taken into consideration while granting this subsidy.
Financial Assistance	States grant financial assistance by way of interest-free loans, sales-tax loans and loans from State Financial Corporations. The amount of assistance varies according to the type of industry and is given against immovable property and personal security. Assistance to artisans and craftsmen ranges between Rs. 3,000, Rs. 5,000 and for others between Rs. 10,000 and Rs. 25,000 at an interest ranging between 7.5 per cent and 13.5 per cent. The repayment period is between 5 and 10 years or more. The grant of financial assistance depends on the type of industry, products produced and on merit.
Technical Assistance	The State's Directorate of Industries and the Industries Department provide technical guidance for the setting up and erection of machinery and also for expansion. All possible technical assistance is given to new entrepreneurs.
Feasibility Study	For industries having definite prospects, State Governments, through their own agencies conduct feasibility studies free of cost up to Rs. 1000 or grant 50 per cent to 75 per cent subsidy for the preparation of feasibility reports. This cost is converted into the share capital of the Government.
Price Preference	State Government and Local Boards give a price preference of 15 per cent to 20 per cent over the prices offered for the products of large and medium industries in all government purchases and on products for a certain period provided the quality is on par with that of similar products of bigger units.
Others	Octroi is exempted on capital equipment and raw materials for different periods for industries. Property tax is exempted for new industries for a certain period. Subsidy on transport cost and supply of water on a no-profit-no-loss basis. Housing schemes get 50 per cent loan and 25 per cent subsidy. Royalties on raw materials to Government considered on merit on an economic basis. Assistance to educated unemployed, engineers, technically qualified persons, etc., to set up own units.

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## CHAPTER

## SUCCESSFUL ENTREPRENEURS



*Climbing the leadership ladder : "Exemplary leaders believe they have a responsibility to extend people's growth and to create an environment where people constantly learn. Those are the surest ways to generate intellectual capital and to use that capital to create new value. In the next century, that will be every leader's ultimate task."*

— Warren Bennis, leadership expert

### PASSION WORKS WONDERS

Being a successful entrepreneur, some say, has a simple recipe. Spot an opportunity, Take Risk, Think Big, Sell the vision to various stakeholders and in between all this, Hire Great People. Then, Just Focus, Execute and of course correct when necessary.

This list of first-Generation Entrepreneurs have made it big only in the recent past; and they have managed to achieve it mostly on their own. What sets them apart is their passion to perform, their ability to sail through highs and lows, and their never-say-die attitude.

#### Cool Operator: Sunil Bharti Mittal

At age 14, Sunil Bharti Mittal had made up his mind to do something exceptional in life, though he didn't know what. But the second son of politician Sat Paul Mittal had decided he would be in business, not politics. That fire in the belly to do something different has been the driving force in Mittal's life.

Armed with a graduate degree from Punjab University, Mittal started his first business venture at 18 years of age in the manufacturing sector with a capital of Rs. 20,000. This was 1976, and his choices in Ludhiana were limited; so he tried his hand at manufacturing crankshafts and cycle parts. Then feeling the need for a bigger canvas, Mittal moved to New Delhi in 1978. With no big industrial family to fall back on, trading seemed to be the best option and he was soon importing portable generators. But in a turn of events, the government banned import of generators, and Mittal soon had nothing to fall back on. Six months later, Mittal happened to visit a trade fair in Taiwan where he was introduced to push-button telephones,



and he soon began importing them to India. It was this foray into the fringes of the telecom industry that got Mittal excited. And it was the listing on the bourses that brought Mittal into the limelight. Today his empire is a conglomerate (Rs. 72,000 crore by market cap, with a customer base of 18.5 million GSM subscribers and 1.3 million broadband and fixed line customers). His plans are now to diversify into the food retail sector, with an initial investment of Rs. 6000 crore.



### The Buzz in Biotech: Kiran Mazumdar-Shaw

One April morning in 2004, Bangalore's leading biotech player Biocon listed on the National Stock Exchange. Its market capitalisation was \$ 1 billion and its largest shareholder, Kiran Mazumdar-Shaw became a much richer woman in a matter of minutes. Starting out as a small enzyme maker in 1978, she built Biocon into a biopharmaceutical company of global reckoning, piece by piece. Luck no doubt had something to do with it, but mainly it was perseverance and plain old hard work that got her to where she is. Moreover, she had neither business background — her father was a brewmaster with the UB group — nor did she have a management degree. Mazumdar-Shaw like Azim Premji and N. R. Narayana Murthy, built her company by leveraging intellectual capital and creating a knowledge business. For the longest time, biotech was a black box which few people could fathom. So Biocon's business model was not widely understood. From making enzymes for an Irish partner, Mazumdar-Shaw progressed to developing proprietary manufacturing technology, moved into contract research and drug development, creating the building blocks for Biocon's future in biopharmaceuticals.



In a worldwide poll conducted by *Nature* magazine, Mazumdar-Shaw was voted as the most influential person who has distinguished herself in biotech outside the US and Europe. She is in the company of greats — the American nominee is Arthur Levinson of biotech giant Genentech and the European winner is Dan Vasella of Novartis. That Mazumdar-Shaw overtook Philip Yeoh of Singapore's EDB who is chairman, Agency for Science, Technology and Research as also Eli Hurvitz of Teva Pharmaceuticals, makes this a sweet victory indeed. Curiously, this biotech icon got fewer votes in India prompting *Nature* to comment that she seems to be more popular outside her home country. Mazumdar-Shaw takes that in her stride. "This is a huge recognition for Indian biotech," she declares modestly.

### No fills man: Captain G. R. Gopinath

Gorur Ramaswamy Gopinath came from a small remote village called Gorur in Karnataka. A graduate from the National Defence Academy, he started his career as a commissioned officer in the Indian army; but returned to his village with Rs. 6,000 in his pocket, saw an opportunity in agriculture, and later won a 'Rolex award for Enterprise', for breaking new ground in ecological silk farming.

In 1995 however, Gopinath moved to Bangalore to secure his children's education and it was here that he began his tryst with the airline industry; setting up Deccan Aviation, India's first private heli-charter company. Encouraged by its commercial success he set up Air Deccan in 2003 with one 48-seater ATR turboprop aircraft that connected low-traffic destinations. Not that Gopinath had it easy. A few seconds before the inaugural take-off, the aircraft engine caught fire and passengers had a miraculous escape. Then came in opposition from other airlines on parking rights, check-in counters and fight timings. Even today, with its balancesheet continuing to bleed, critics say the company is going about in a haphazard manner.

But despite the occasional skid or two, what cannot be dismissed is that Gopinath has led the no-frill and low-cost strategy in Indian air travel. And Air Deccan has grown to a fleet of 28 aircraft, its schedule has increased to 221 flights, its route network stretches to 51 airports, it has carried about three million passengers to date, and has an average load factor of 85 per cent.

### Riding the Bull Wave: Sameer Gehlaut

Unlike Gopinath, the 30-something Sameer Gehlaut did not start small. A mechanical engineer from IIT, Delhi, he had a successful earth-moving business — Mackenna Minerals and Equipment. With money saved from this, and from

his earlier jobs at oilfield services companies Schlumberger and Halliburton, he bought a seat on the Bombay Stock Exchange in 1998-99 through Inorbit Securities.

By year 2000 friends Rajiv Rattan and Saurabh Mittal, whom he had worked with at Schlumberger and Halliburton, joined in, and Inorbit was renamed Indiabulls. When the company listed on the bourses in 1999, it cost Rs. 19 a share. This mind you, was followed by the dot.com bust; and it wouldn't have been unreasonable for many to consider it part of just that.

But remarkably, the company diversified and is today a leader in retail financial services, with a network of over 270 offices in over 90 cities. Along with its subsidiary companies, it offers consumer loans, brokerage and depository services, mutual funds, personal loans and home loans.

#### Highs and Lows: Avnish Bajaj

It isn't easy being an entrepreneur at times, and Bajaj at 34, knows this well. A B.tech in computer science from IIT Kanpur, Bajaj moved to the US to further pursue education, and passed out as Baker scholar from Harvard Business School. He then went on to work with Goldman Sachs. In year 2000 he returned to India to form Baazee.com, along with fellow Harvard Business graduate Suvir Sujan. Like Gehlaut, he too survived the dot.com bust. In four years' time, Baazee.com established itself as the only auction Web site in India with a sound business model. Baazee.com was bought out eventually e-Bay for \$50 million.

But the lowest ebb in Bajaj's career was yet to come. In year 2004, accused of facilitating the sale of 'obscene material' through his web site, Bajaj was arrested and had to spend more than a week in a Tihar jail, just like any other under-trial would. The industry's strong reaction to his arrest is a known story, and it still stands by his side. There is an amendment in the IT Act that is being pushed for, which insists on equitable liability between the host and the uploader of content.

But even all the education in the world and the money made, do not guarantee an entrepreneur a smooth ride. For Bajaj it was quick recovery that was essential. "On average, life is fair," he says. "Yet, this happens when one takes a long enough period of time into consideration — over short periods it can swing either way."

Today Bajaj is on a short sabbatical in the US, but has not lost faith in the Indian story (he continues as chairman, e-Bay India). Meanwhile, he is building up his investments in the Indian stockmarkets as a small investor, and his bets are on the pharma sector.

## DREAMING BIG

Entrepreneur achievers who write their own success stories have, A Clear Vision; Desire to Excell; Clear-cut Strategy.

Ask venture capitalists what they look for in a company they like to fund and the first thing they say is the market they are in and vision; second: people; and third: a unique value proposition.

In India today few other sectors receive as much early- and mid-stage investment as information technology. The companies below are IT start-ups who've been through the initial struggle, and have managed to convince others to be big money on their small ventures. More importantly, as venture capitalist puts it, they have "their skin in the game."

This required many to give up cushy jobs, and risk it out in the hope of making it big. All have one problem in common: building a good team. Will they succeed? Watch this space.



## **Makemytrip.com, Delhi**

When Deep Kalra graduated from IIM Ahmedabad (1992) his career choice was obvious — the corporate sector — and he joined ABN Amro. Thereon, he moved to AMF Bowling (which introduced the concept of pool and bowling in many parts of the Indian subcontinent) after which he joined GE in business development. "Somewhere along the line I got restless and wanted to do something of my own. In 1998, I planned a trip to Thailand and the bookings were made on the net — which turned out to be 30 per cent cheaper and was also very convenient. That's when I decided to set up a travel portal of my own," says Deep Kalra, founder and CEO of MakeMyTrip.com.

E-Ventures invested close to Rs.10 crore in the business, from which he began to cater to the US market. "Subsequently, E-Ventures decided to close shop in India as the partners wanted to set out on their own overseas. We brought back our equity which was backed by a small group of investors," Says Kalra. Then came the next stage — of setting up a portal for the India-based customers.

Today Makemytrip has grown to from 42 people (when we started six years back) to over 200 people. "We will meet our projected revenue of Rs.190 crore by end March 2006. Besides, there is Rs.20 crore in cross commission that would come to our kitty," adds Kalra.

## **Ocimum Biosolutions, Hyderabad**

Anuradha Acharya, after studying physics for five years at IIT, Kharagpur, moved to the US to acquire a master's degree in management information systems and a master's in physics. "But when you know you can't be best in a field, it is important to move out at the right time," she says.

So Acharya, along with a friend, formed Ocimum Biosolutions (Ocimum in layman's terms means tulsi) in the US and then established a base in Hyderabad. What started out as a contract research firm in year 2000 has developed into a company with several products. In fact, Ocimum's product Optgene — a gene optimising tool — won an award from Nasscom: 'IT Innovation of Year award.'

She recently acquired a small company in Germany, and says that it is the company's customer base that has come of help the most. Ocimum is today a complete life science. R&D enabling company with focus areas in BioIT, microarrays and contract research. Acharya is close on the heels of raising \$5.5 million in private equity, money she wants to use for more inorganic growth.

## **Gridlogics, Pune**

Girish Sinha raised \$600,000 in 2006 in VC funding from IndiaCo Ventures. Sinha, an engineering graduate from Ranchi, worked with the erstwhile Hughes Software (now Flextronics) in New Delhi for three-and-a-half years before setting up Gridlogics in end-2003 to help companies and institutions meet their growing computing requirements. "I was looking around for incubators and came across IndiaCo," he says.

Grid computing, Sinha explains, is "binding multiple computers to act as one, with all their power combined." "There's whole lot of data which needs to be run every five seconds or so and evaluated for action," he says.

The money Sinha has just raised will help him enhance his products, develop marketing and sales operations and take a strategic interest in a couple of applications companies. "Our products don't have a direct route to the market," he points out. "We provide components for the grid infrastructure, which need to be bundled with an application for end users like banks, universities, R&D establishments, energy vendors."

## **Vegayan Systems, Mumbai**

Girish P. Saraph spent 13 years in the US after he decided to return to India to work as an associate professor with the Indian Institute of Technology, Mumbai, in the department of electrical engineering. Here he invented a routing technology that he claims improves significantly the flow of packets of data. Based on the MPLS (multi-protocol label switching) model, it gives network operators flexibility in diverting and routing traffic around link failure, congestion and bottlenecks.

Saraph calls this the VS routing scheme, and says it is highly scalable and dynamic. Despite it being a more expensive proposition, he has filed for international IP protection. Vegaysn recently raised \$75,000 as venture capital funding from the California-based Draper Fisher Jurvetson (it was one of two companies selected out of 125). "The

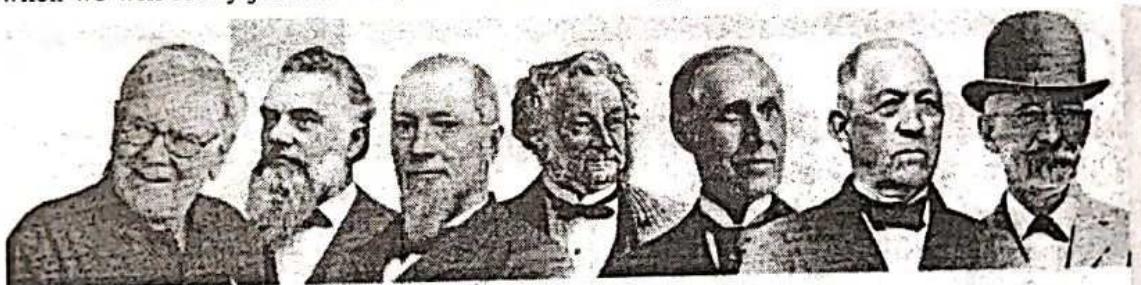
funding is most welcome," he says, "but a large part will go in building a team and paying high salaries, that even Indians are now getting used to."

A leader, Napoleon Bonaparte once said, is a dealer in hope. He couldn't have been more accurate. Leaders are the ones who envision great things and lead others to achieving them. They are the ones who, by appealing to a greater cause, bring vastly different people with often conflicting objectives to work together towards a common goal, and they are the ones who, when everyone else is lost, seem to know the right direction.

The entrepreneur leaders of the 21st century who have pioneered certain businesses, are relatively young, well educated, smarter, ambitious and highly motivated than most of their peers, are driven, or are simply dogged. They do not hesitate to take on seemingly impossible goals and inspire everyone else around them to help achieve those goals. Needless to say, India needs entrepreneurs in every sphere to do the job of inspiring all other young Indians in the 21st century. Further, fulfilling ambitions and dreams, breathing life into promising innovative business ventures, partnering enterprises on the move, till they reach the peaks of success, providing them with a long-term partnership for accelerated growth and encouraging foresight and drive are the principle tasks of business leaders.

## WORLD LEADERS IN BUSINESS TECHNOLOGY AND INNOVATION

There have been a large number of outstanding successes in the US. In India we are only now beginning to see the emergence of a culture of innovation in high tech. A lot can change if industry and the government put their minds to it. That's when we will really join the world leaders in technology and high tech.



**Warren E. Buffett**  
Created a stock market portfolio with spectacular results.

**James G. Fair**  
Was part of the largest find silver in history.

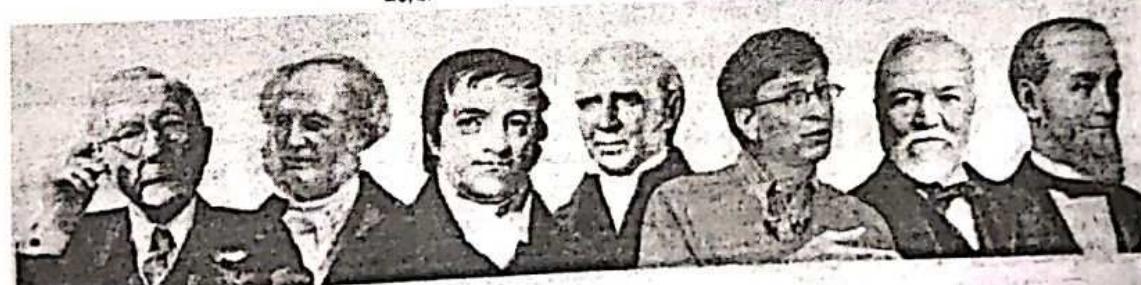
**William Weightman**  
Developed a new malaria drug and found new uses for citric acid.

**Moses Taylor**  
Controlled the bank that would become Citibank.

**Russell Sage**  
Was a financier who invested in railroads and public transit.

**John L. Blair**  
Built a railroad network in the Midwest.

**Edward Henry Harriman**  
Turned around poorly performing railroads.



**John D. Rockefeller**  
Once controlled 90 percent of the nation's oil business.

**Cornelius Vanderbilt**  
Undercut competitors' steamboat prices; bought railroad lines in his late 60s.

**John Jacob Astor**  
Sold his fur business to invest in New York City real estate.

**Stephen Girard**  
Used his shipping fortune to enter banking; helped finance the War of 1812.

**Bill Gates**  
Co-founder of Microsoft.

**Andrew Carnegie**  
Built a steel empire, then gave most of his money away.

**A.T. Stewart**  
Founded the first department store in New York, on lower Broadway.