

## 1. Cash flow management

**The challenge:** Cash flow is essential to small business survival, yet many entrepreneurs struggle to pay the bills (let alone themselves) while they're waiting for checks to arrive. Part of the problem stems from delayed invoicing, which is common in the entrepreneurial world. You perform a job, send an invoice, then get paid (hopefully) 30 days later. In the meantime, you have to pay everything from your employees or contractors to your mortgage to your grocery bill. Waiting to get paid can make it difficult to get by — and when a customer doesn't pay, you can risk everything.

**The solution:** [Proper budgeting](#) and planning are critical to maintaining cash flow, but even these won't always save you from stressing over bills. One way to [improve cash flow](#) is to require a down payment for your products and services. Your down payment should cover all expenses associated with a given project or sale as well as some profit for you. By requiring a down payment, you can at least rest assured you won't be left paying others' bills; by padding the down payment with some profit, you can pay your own.

Another strategy for improving cash flow is to require faster invoice payments. Invoice clients within 15 days, which is half the typical invoice period. This means if a customer is late with a payment, you have two weeks to address it and get paid before the next month's bills are due. In addition, more and more companies are requiring immediate payment upon project completion — and in our digital age when customers can pay invoices right from their mobile phones, it's not a stretch to request immediate payment.

You can also address cash flow management from the other side of the equation by asking your own vendors to invoice you at 45, 60 or even 90 days to allow ample time for your payments to arrive and checks to clear. If you can establish a good relationship with vendors and are a good customer, they'll be willing to work with you once you explain your strategy.

And if you're looking for an easier way to pay bills and save money, [consider sending checks via email](#).

## 2. Hiring employees

**The challenge:** Do you know who dreads job interviews the most? It's not prospective candidates — it's entrepreneurs. The hiring process can take several days of your time: reviewing resumes, sitting through interviews, sifting through so

many unqualified candidates to find the diamonds in the rough. Then, you only hope you can offer an attractive package to get the best people on board and retain them.

**The solution:** Be exclusive. Far too many help wanted ads are incredibly vague in terms of what qualifications candidates must have, what the job duties are, what days and hours will be worked, and what wages and benefits will be paid. You can save yourself a ton of time by pre-qualifying candidates through exclusive help wanted ads that are ultra-specific in what it takes to be hired at your firm, as well as what the day-to-day work entails. Approach your employee hunt the same way you would approach a customer-centric marketing campaign: through excellent targeting.

Once you have a pool of prospects, arrange for a “walking interview” in which you take candidates on a tour of their working environments. Ask questions relevant to the job and to candidates’ experiences, expectations, dedication, and long-term goals. Don’t act like an overlord determining which minion gets to live another day; rather, behave as though you’re seeking a partner to help you operate and grow your business.

Take the time to seek real references: not the neighbor lady your candidates grew up with, but people who can honestly attest to their work ethic and potential. Once you’ve picked a candidate and before you’ve made a job offer, ask them specifically what it will take to keep them employed with you for the long haul. Tell them to be honest with their expectations. Provided they do a good job for you, you’ll know what kind of rewards they’re seeking, and you can make adjustments accordingly: Do they want more vacation? The opportunity for advancement? More pay? Freedom from micromanagement?

This isn’t to say you have to bend backwards for your employees; however, it stands to reason that if you make expectations clear for both parties you can lay the foundation for a long-term, mutually-rewarding client-boss relationship.

### 3. Time management

**The challenge:** Time management might be the biggest problem faced by entrepreneurs, who wear many (and all) hats. If you only had more time, you could accomplish so much more!

**The solution:** Make time. Like money, it doesn’t grow on trees, of course, so you have to be smart about how you’re spending it. Here’s how:

- Create goal lists: You should have a list of lifetime goals, broken down into annual goals, broken down into monthly goals, then broken down into weekly goals. Your weekly goals, then will be broken down into specific tasks by day. In this manner, what is on your task list in any given day is all you need to do to stay on track with your lifetime goals
- If any tasks do not mesh with your goals, eliminate them
- If any tasks do not absolutely have to be completed by you, [delegate them](#)
- Consistently ask yourself: “Is what I’m doing right now the absolute best use of my time?”

#### 4. Delegating tasks

**The challenge:** You know you need to delegate or outsource tasks, but it seems every time you do something gets messed up and you have to redo it anyway.

**The solution:** Find good employees (see above) and good outsourced contract help, for starters. You might have to pay a little more for it, but the savings in time (and the resulting earning potential) more than make up for it.

Next, be ultra-specific as to what you want done. It will take a little more time at first, but write down detailed steps listing exactly what you want your help to do. Don’t make assumptions, and don’t assume your help will be able to think for themselves (they can, but they will complete the job verbatim because that’s what they’re trained to do). So, don’t say “list stats in a spreadsheet” when you can say “alphabetically list XYZ in the right spreadsheet column, then list statistic A in the next column.” It might seem like overkill, but take the time to be specific once, and your help will get it right every time thereafter.

#### 5. Choosing what to sell

**The challenge:** You know you could make a mint if you just knew what products and services to sell. You’re just unsure how to pick a niche.

**The solution:** Admit that you’re weak in identifying prosperous niches, and delegate the task to someone who is strong in this area. You don’t have to hire a huge, expensive marketing firm; rather, recruit a freelance researcher who has experience in whatever type of field you’re considering entering (retail e-commerce, service industry, publishing, etc.). Have them conduct market research and create a report with suggested niches, backed by potential profit margins and a complete SWOT analysis: Strengths, Weaknesses, Opportunities and Threats.

This isn't to say you should have someone else decide for you; however, if you're not good at identifying niches it's a good idea to have someone who is make suggestions. You can then analyze the suggestions for yourself to determine if you agree. Taking this step now can save you a lot of time, money and hassles later — and it can save your entire business and livelihood.

## 6. Marketing strategy

**The challenge:** You don't know the best way to market your products and services: print, online, mobile, advertising, etc. You want to maximize your return on investment with efficient, targeted marketing that gets results.

**The solution:** Again, if you're not adept at [creating marketing plans](#) and placing ads, it's a good idea to outsource your marketing strategy to someone who is. At this point, all you need is a core marketing plan: what marketing activities will you undertake to motivate purchases? Give your planner a budget and tell them to craft a plan that efficiently uses that budget to produce profits.

This is not the time for experimentation. You can do that later, on your own or with the advice of your marketing strategist, after you've established a baseline that works.

## 7. Capital

**The challenge:** You want to start or grow your business, but you have little capital to do it with.

**The solution:** There are many [ways to earn funding](#), from traditional bank loans to family and friends to Kickstarter campaigns. You can choose these routes, certainly, but I prefer the self-fueled growth model in which you fund your own business endeavors.

Instead of trying to launch a multi-million dollar corporation overnight, focus on your initial core customers. Continually work to find new customers, of course, but consistently strive to be remarkable to those customers you already serve. Word-of-mouth will spread, and more customers will come looking for you. As they do, develop systems and business processes that allow you to delegate tasks without sacrificing quality. Your business will grow slow and steady, and you'll be able to solve problems while they're small.

Think about where you want to be five years from now. Can you get there without help, even if you have to delay growth a bit while you're doing it? This is the best strategy to adopt for small business entrepreneurs. If you do feel you need funding, however, be sure to consult an attorney to make sure you're not giving up too much of your business to get it.

## 8. Strapped budget

**The challenge:** Even though cash flow is fine, it seems you never have enough in your budget to market your company to its full potential.

**The solution:** Unless you're one of the *Fortune* 500 (and even if you are), every entrepreneur struggles with their budget. The key is to prioritize your marketing efforts with efficiency in mind — spend your money where it works — and reserve the rest for operating expenses and experimenting with other marketing methods.

Keep a close eye on your money, too: chances are, there are areas you can skim to free up more funds. Unless an expense is absolutely critical to your business and/or represents an investment with an expected return, cut it. In fact, do this exercise: See how lean you can run your business. You don't have to actually do it, but cut everything you can and see if you still feel you can run your business (save for what you have to delegate and market with). Somewhere in between your leanest figure and your current budget is a sweet spot that will allow you to be just as effective and leave funds leftover to fuel growth.

## 9. Business growth

**The challenge:** We're assuming you are growing, not that you can't grow, and you've come to the point at which you can't take on any more work in your current structure.

**The solution:** Create new processes that focus on task delegation. Many entrepreneurs, used to wearing all the hats, find themselves in this position once they've achieved a modicum of success. Because you're doing everything, your growth halts to a stop when it hits a self-imposed ceiling. The only way to break through is to delegate tasks to others to take yourself out of the production end, and segue into management and, finally, pure ownership.

## 10. Self-doubt

**The challenge:** An entrepreneur's life is not enviable, at least in the beginning. It's extremely easy to get discouraged when something goes wrong or when you're not growing as fast as you'd like. Self-doubt creeps in, and you feel like giving up.

**The solution:** Being able to overcome self-doubt is a necessary trait for entrepreneurs. Having a good support system will help: family and friends who know your goals and support your plight, as well as an advisory board of other entrepreneurs who can objectively opine as to the direction of your business.

One of the best ways to deal with self-doubt is to work on your goals and tasks lists. When you're down and lack motivation, look at your lists and know that the tasks you do today are contributing to your lifetime goals. By doing them, you're one step closer, and you can rest assured that you are, indeed, on the path to business success.

Entrepreneurs face many challenges, and volumes have been written about how to overcome them. Perseverance and intelligence are your allies; use them to your advantage to keep working toward your goals. Understand that you're not the first to struggle. Because of that, there are many resources available to help you get through your darkest days as an entrepreneur, so you can reap the immeasurable rewards that come with building your own successful business.

### **Small, Large and Medium scale entrepreneurship**

The Small-Scale Industries (SSI) have a crucial role in a developing economy like India. They play a strategic role in the progress of the country. These industries by and large represent a stage in economic transition from traditional segments to modern segments. The traditional nature of this process is reflected in the diversities of these industries. Some small scale units employ simple skills and mechanism while many other units use modern and sophisticated technology. Now, our economy is facing a challenge of economic growth. It has to accelerate the productivity of many important areas like agriculture and industry by improving their techniques of production. SSIs have been assigned to fulfil these expectations in more economic and diversified way. SSIs constitute an important part of the Indian economic structure. They integrate a continuing element in the scheme of national planning. They are a strategic part of the Indian economy as well as a progressive and effective decentralized sector, which is closely related with agriculture and medium and large-scale industries. The whole scheme of a

socialistic pattern of society with employment for all rests on the decentralisation and wide distribution of economic activity, entrepreneurship and economic advantages. The basic social philosophy underlying Indian Planning is to develop medium and large scale sector only to take advantage of modern technology. Over the rest of the field, SSIs will be encouraged to play their active role. If there is change in scale, 2 that has to be developed with the help of mutual co-operation, both horizontal and vertical. Thus, small and large-scale industries are two legs of industrialisation process of a country. Hence, small-scale industries are found in existence in every country. Small-scale industries have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. Today, India operates the largest and oldest programmes for the development of small-scale industries in any developing country. As a matter of fact, small sector has now emerged as a dynamic and vibrant sector for the Indian economy in the recent years. Before we discuss various aspects of small industry development, it seems pertinent to begin with an introductory framework of small industries in India.

## 1.2 MEANING AND DEFINITIONS OF SMALL SCALE INDUSTRY

Small-scale industry comprises of a variety of undertakings. The definition of small-scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Government Policy and administrative set up of the particular country. As a result, there are nearly 50 different definitions of SSIs found and used in 75 countries. All these definitions either relate to capital or employment or both or any other criteria. We trace here the evolution of the legal concept of small-scale industry in India. There can be two bases for defining small business and these are: I. Scale of Business: The size or scale of business can be measured in various ways like : (i) Investment on plant and machinery (ii) Employment generation. 3 (iii) Investment and Employment. (iv) Volume and/or value of production. (v) Volume and/or value of sales. II. Qualitative Aspects: These can be:- (i) Ownership of small business is in the hands of an individual or a few individuals. (ii) Management and control of small-scale firm is with the owner or owners. (iii) Technology adopted in small-scale unit is normally labour intensive. (iv) Small-scale business is normally carried on in a limited or local area. Before Second World War a small concern was defined as a unit having capital invested upto Rs. 30,000 and those concerns having capital in excess of that amount were classified as largescale units. The definition of small-scale enterprise has undergone changes over years with the ceiling raised to take into account the rising cost of machinery as well as falling value of rupee. Various definitions of small-scale unit are as under: According to Fiscal Commission, 1950 “A unit operating mainly with hired labour usually 10 to



50 hands.” According to Small Scale Industries Board, 1955 “A unit employing less than 50 persons if using power and less than 100 persons without the use of power and with a capital investment not exceeding Rs. 5 lakhs.” According to Ministry of Commerce and Industry, 1960 “An industrial unit with a capital investment of not more than Rs. 5 lakhs irrespective of the number of persons employed.” 4 According to Ministry of Commerce and Industry, 1966 “An undertaking having an investment in plant and machinery of not more than Rs. 20 lakhs and 25 lakhs in case of ancillary units.” According to Government of India, 1985 “An undertaking having an investment in plant and machinery of not more than Rs. 35 lakhs and not more than Rs. 45 lakhs in case of ancillary units.” According to Government of India, 1991 “An undertaking having an investment in plant and machinery of not more than Rs. 60 lakhs and not more than 75 lakhs in case of ancillary units.” According to Government of India, 1997 “An undertaking having an investment in plant and machinery of not more than Rs. 3 crores.” According to Government of India, 2000 “An undertaking having an investment in plant and machinery of not more than Rs. 1 crores.” It is evident from the above definitions that there was upward revisions in the investment limit on plant and machinery in small scale sector from Rs. 5 lakhs to Rs. 3 crores over years but this limit has been reduced to Rs. 1 crore in the year 1999-2000. Tiny Industries : Very small industries with an investment of less than Rs. 25 lakhs are included in the category of Tiny industries. Capital investments for this purpose means investment in plant and machinery. The location restrictions or the setting up of Tiny Units have been removed by Small Industries Policy of 1992. The number of persons employed in these units must be less than 50. These units are normally operated under sole proprietorship form of ownership. These units are managed by family members and not professionals which result in lower profit generation. 5 Ancillary Units: Industrial units having an investment in plant and machinery, whether held on ownership or by lease or by hire purchase does not exceed Rs. 1 crore and engaged or is proposed to be engaged in the manufacture or production of parts, components, sub assemblies, tooling and intermediaries, or the rendering of service and supply or render at least 50 per cent of its production or services as the cases may be to one or more other industrial undertakings. Cottage Industries: These are also called household industries. They are organised by individuals’ and with the help of members of the household (including family labour) and are pursued as full time or part time occupation. The capital investment is small and the components used are simple. These industrial units normally use local resources and local skills. The output produced in each industrial unit is generally sold in the local market.

### 1.3 FEATURES OF SMALL SCALE INDUSTRIES



The following are the features of small scale industries:

1. **Ownership:** Ownership of small-scale unit is with one individual in sole proprietorship or it can be with a few individuals in partnership.
2. **Management and Control:** A small scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and rest are generally sleeping partners. These units are managed in a personalised fashion. The owner is actively involved in all the decisions concerning business.
3. **Gestation Period:** Gestation period is that period after which teething problems are over and return on investment starts.
6. **Gestation period of small-scale unit is less as compared to large-scale unit.**
4. **Area of Operation:** The area of operation of small scale unit is generally localised catering to the local or regional demand. The overall resources at the disposal of a small-scale units are limited and as a result of this, it is forced to confine its activities to the local level.
5. **Technology:** Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore these units are more suited for economies where capital is scarce and there is abundant supply of labour.
6. **Resources:** Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.
7. **Dispersal of Units:** Small-scale units use local resources and can be dispersed over a wide territory. The development of smallscale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.
8. **Flexibility:** Small-scale units as compared to large-scale units are more change susceptible and highly reactive and responsive to socio-economic conditions. They are more flexible to adopt changes like new method of production, introduction of new products etc.

#### 1.4 OBJECTIVES OF SMALL SCALE INDUSTRIES

The small scale sector can stimulate economic activity and is entrusted with the responsibility of realising the following objectives:-

1. To create more employment opportunities with less investment.
2. To remove economic backwardness of rural and less developed regions of the economy.
3. To reduce regional imbalances.
4. To mobilise and ensure optimum utilisation of unexploited resources of the country.
5. To improve standard of living of people.
6. To ensure equitable distribution of income and wealth.
7. To solve unemployment problem.
8. To attain self-reliance.
9. To adopt latest technology aimed at producing better quality products at lower costs.

#### 1.5 SMALL BUSINESS AS A SEEDBED OF ENTREPRENEURSHIP

Seedbed refers to the preparing of soil for the sowing of seeds so that we may have good crop. Small business is regarded as a seedbed for entrepreneurship as it

provides conducive conditions for the emergence and growth of entrepreneurs. Small-scale units employ available technology and can be started with less investment. They are going to use local resources and cater mainly to local demand. These units normally revolve round one individual who is called upon to perform various roles. He is the owner, manager and risk bearer and hence can be called an entrepreneur. The emergence, growth and success of entrepreneurs are linked with the growth of small business. The Government of India too has given small-scale industry an important place in the framework of economic planning for economic and ideological reasons. Thus setting up of more small scale units will create more opportunities for entrepreneurial development and more and more educated & unemployed will come forward for setting up their own enterprises. It will usher in an era wherein enterprising persons will assume entrepreneurial career in future. Small enterprises are called seedbed of entrepreneurship due to the following reasons: 1. Small-scale enterprises can be started with lesser investment, which can be contributed by the promoter or arranged from friends and relatives. 2. Small-scale units carry on business on a small scale and as such the element of risk is less. 3. Small-scale units are generally based on local resources and as such there is no problem regarding their availability. 4. Small-scale entrepreneur adopts labour intensive technology. Thus he generates employment for himself as well as for others. 5. Small-scale units can be located anywhere and thus help in the development of backward areas of the country. 6. Small-scale units generally cater to local demand and necessary modifications can be made in the products keeping in mind the changing demand of people. 7. Small-scale units provide ample opportunities for creativity and experimentation. 8. Small-scale units have shorter gestation period and hence waiting period for getting return on investment is less. 9. These units are relatively more environmental friendly. 10. Small-scale units help in building achievement motivation amongst entrepreneurs. 11. Small-scale units are viewed favorably by the government and society because these help in equitable distribution of income and wealth. Keeping in mind the above potentials of small scale industry as a developer of entrepreneurial talent, the government of India has facilitated this sector by providing it with various concessions and incentives.

## 1.6 RELATIONSHIP BETWEEN SMALL AND LARGE INDUSTRIES

After going through the distinct characteristics of small-scale industries, one should not assume that the both small and large, are antithetic to each other. In other words, the both cannot sustain in an economy. But, fact is that one is complementary to each other. The relationship between the small and the large industrial units can be seen in various respects, which are stated below: 1.

Supplementary: Small industry can fill in the gaps between large production and standard outputs caused by largescale industries. This is due to this supplementary role of small industries that a small tricycle factory sustained and flourished alongside a large cycle factory in Chennai city. 2. Complementary: Apart from supplementary relationship, small industry has been a complementary to its large counterparts. In the real world, many small units produce intermediate products for large units. Such subcontracting relationship between the small and large was particularly marked in the economic history of today's industrially developed Japan. As industrialisation proceeds, small firms seem naturally to shift from activities that compete with large firms to complementary ones. Similarly, China too continues to rely on Mao's aphorism of "walking on two legs" – one being 10 small and the other large. Under complementary relationship, small units function under the tutelage of the large units and enjoy the advantage of protected market for their products then, the flourishing of such small units remains beyond doubt. 3. Competitive: Though Small-scale industry cannot compete with large industry in certain circumstances and in selected products, but they have comparative advantage in some products. Example of such industries are bricks and tiles, fresh baked goods and perishable edibles, preserved fruits, goods requiring small engineering skill, items demanding craftsmanship and artistry. 4. Servicing: Small industries do also install servicing and repairing shops for the products of large units. In the case of India, such small servicing units can be seen proliferating in respect of large industries like refrigerators, radio and television sets, watches and clocks, cycles and motor vehicles. 5. Initiative: Attracted by the high profits of large units, small units can also take initiative to produce the particular product. If succeeds, the small unit grows to large over a period of time. Staley quotes such initiation that many of the automobile factories started this way in the United States of America. In our country too, the electronic industry looks like following to this initiative pattern of development.

## 1.8 IMPORTANCE OF SMALL SCALE INDUSTRIES

Small-scale industries play an important role in industrial development of a country. It is all the more important in case of developing countries like India. The socio-economic transformation of India cannot be achieved without the development of small-scale industries. It has been estimated that the small-scale industries contribute about 47 per cent of gross value of output manufactured in the country. Their importance can be further highlighted by noting that SSIs provided nearly five times the employment as compared to the large-scale sector. SSI is an important segment of the economy contributing substantially in the form of production, employment and export. Let us now discuss the various 14 advantages of small-scale industries to highlight the importance of this sector. The main

advantages are as follows:

1. **Generation of Employment:** The small-scale industries are labour intensive i.e. the ratio of labour to investment is very high in their case. A given amount of capital invested in a smallscale industry provided more employment than the same amount of capital invested in a large-scale industry. Since capital is scarce and labour abundant in India, the generation of employment is the advantage that can be put forward for the support of small-scale industries in India. Moreover, these industries can be set-up at the very doorstep of workers and, thereby, provide work for the unemployed, more work for the underemployed and supplementary work for the seasonally unemployed workers.
2. **Self Employment:** The small-scale industries offer almost limitless opportunities for self employment and hence are particularly suited to a developing country like India where there is a big problem of unemployment and underemployment.
3. **Lesser Capital Requirement:** Another advantage of smallscale industries is that they need relatively lesser amount of capital than that required by large-scale industries. As capital is very scarce in an underdeveloped country like India, it may be used to greater advantage in small-scale sector.
4. **Mobilisation of Capital:** Small-scale industries not only make economies in the use of capital but also mobilise capital that would not otherwise have come into existence. Large-scale industries cannot mobilise the savings from rural areas, while this task can be effectively accomplished by setting up a network of small-scale industries in such areas.
5. **Mobilisation of Entrepreneurial Skill:** Another advantage of small-scale industries is the lesser requirement of skill and expertise, which is also scarce in a developing country like India. Further, large-scale industries cannot utilise a number of entrepreneurs who are spread over small towns and villages of the country. On the other hand, small-scale industries can effectively mobilise such entrepreneurial skills.
6. **Equitable Distribution of Income:** Small-scale industries secure a more equitable distribution of income and wealth. They are particularly suitable for the fulfillment of the objective of social justice. This is ensured because the ownership of small-scale industries is more widespread and they offer a much longer employment potential as compared to the large-scale industries. The development of large-scale industries tends to concentrate large incomes and wealth in a few hands.
7. **Balanced Regional Development:** Small-scale industries utilise local resources, bring about dispersion of industries and promote balanced regional development. The growth of large-scale industries on the other hand have a tendency towards concentration of industries at a few places leading to many evil consequences such as overcrowding, pollution, creation of slums, etc. Concentration of industries at a few places is undesirable from the point of view of national defence also, as during war times, there is a greater risk of destroying different industries concentrated at one place.
8. **Saving in Foreign Exchange:** Another advantages of the small-scale industries are the savings they offer in the

scarce foreign exchange resources of the country. Firstly, small-scale industries do not require much foreign exchange resources for their 16 establishment and secondly, these industries can contribute to the foreign exchange resources of the country through adding to exports. 9. Quick Investment: The time lag between the execution of investment project and the start of production of goods is relatively short in case of small-scale industries. These quick investment type of industries are particularly suitable for developing countries like India. 10. Beneficial to large-scale industries: Large-scale industries can also prosper and develop, if small-scale industries manufacture and supply their small parts and semi-finished goods required by them. Infact, small-scale industries are a must for the development of large-scale industries. 11. Other advantages: These industries also confer certain other social and political benefits such as overcoming territorial immobility, reduction of pressure on land, relieving congestion in urban areas, self-employment, etc.

#### 1.10 PROBLEMS OF SMALL SCALE INDUSTRIES

Small scale industries plays a very vital role in the economic development of our country. This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives like generation of more employment opportunities with less investment, reducing regional imbalances etc. Small-scale industries are not in a position to play their role effectively due to various constraints. The various problems faced by small-scale industries are as under: (i) Inefficient Labour: Labour is major but active player in small-scale industries. But they lack training and developmental 20 opportunities in small-scale sector. So they are unable to contribute as expected from them. Since size of small units is not always optimal so they are also unable to understand the importance of training and development. Level of education of workers working in small-scale sector is also low and they fail to cope up with the challenges of modern production system. Professionals and technocrats are also not interested to join small scale as this sector is not ready to compensate them properly. So small entrepreneurs are facing the constraint of inefficient labour force and unable to improve their productivity. (ii) Defective System of Supply of Raw Materials: Smallscale industries are facing the problem of short supply of raw materials. Small size and weak financial position also force them to unutilize the services of middlemen to get raw materials on credit from suppliers. Canalising agencies like state level small industry corporations, STC, MMTC and Handloom Development Corporations are not providing much help in arranging adequate supply of raw materials at right price in right time. So they fail to utililse their full production capacity and it also increases their cost of production which adversely affect their competitive strength in the

market. (iii) Absence of Credit Facility: Historically, SSIs have had privileged access to bank finance through cheap priority sector lending. Since interest rates were fixed lower for them than the market rates, they did not reflect the higher risks and costs of investing in small borrowers. SSIs also benefited from the subsidies implicit in the tax standards for provisioning for bad and doubtful debts. The deregulation of interest rates in present scenario forces them to pay more. The bench mark rate of interest for banks is the 21 price lending rates – a higher rate reflects the risks of lending to individual borrowers. Consequently, interest rates have risen sharply for small-scale units. The priority sector lending scheme hardly softens the burden since not more than Rs. 2 lakh can be borrowed under this scheme. Besides, SSIs are also unable to generate resources as they lack systematic way to communicate their work to the capital markets and muster support from the intermediaries. Due to poor financial image, they generally fail to get their credit facility at reasonable costs. (iv) Lack of Machinery and Equipment: SSIs are also facing the problem of inferior supply of machinery and equipments etc. Most of companies which are engaged in production of plants and machineries are meant for medium and large scale companies. Only selected companies or few producers are engaged in the production of plant, machineries and equipments for small-scale sector. So they generally charge high price for their capital goods supplies from small-scale units. Besides, bargaining power of SSIs is not so much and they have to work with available machinery and equipments in the market. They have also been forced to use second-hand machines. It also affects the production performance of SSIs. (v) Huge Number of Bogus Small Firms: Government policy favours SSIs in terms of concessions, subsidy and incentives. This has prompted the so-called entrepreneurs to develop bogus firms on paper to avail government subsidies and incentives. It makes impossible for the genuine firms to get due concessions, subsidies etc. from the Government. They indirectly help the medium and large-scale enterprises in availing raw materials etc. at reduced 22 rates. Availability of cheap finance also encourages the bogus firms to operate in the small-scale sector. (vi) Unsuitable Location: Selection of location for the development of plants etc. also creates problem before the SSIs. The choice of location is generally governed by different consideration like availability of infrastructural facility, the cost and tenure of acquisitions, availability of labour and the proximity of markets. Small entrepreneurs are not properly trained in deciding about suitable location. Actually, they select their location due to other consideration like availability of cheap land, family business, sentimental attachment to their traditional ancestral property etc. (vii) Competition from Large Scale Units: SSIs are facing the problem of competition from their other counterparts – medium and large scale industries. Since 1991, a large number of items reserved for small industries are now freely importable. The Government has

also announced that it is considering a phased removal of quantity restrictions on consumer goods imports over a period of five years. Medium and large-scale industries are also producing goods, which are competing with the goods being produced by the SSIs. So in practice, SSIs are unable to compete with large-scale units as their size is small and products are not cost effective. (viii) Obsolete Technology: SSIs lack latest technology as they do not have any technological support from the Government and other technological institutes and laboratories. But in practice, technology alone can ensure quality and high level of productivity. R & D efforts are costly venture and SSIs do not have resources to finance these programmes individually and internally. Small 23 enterprises have a very limited choice with regard to foreign collaboration and technological support too. Their potential partners overseas have a better reputation for innovation but the investment climate in India is not yet hospitable enough to attract them in small-scale sector. Special steps have not yet been taken to address the issues of collaboration between Indian and overseas small industries. (ix) Absence of Organised Marketing Facility: Small-scale industries are unable to spend huge amount on the development of marketing facilities as they lack resources. Lack of standardisation, poor design and quality, lack of precision and proper finish, absence of after-sale service, ignorance about potential market, financial weakness are some of the problems in their selling process. (x) Poor Recoveries: It is general practice for buyers to avail credit facility from sellers. SSIs lack bargaining power in dictating their terms to the potential buyers for their products. Provision for credit facility with regard to sales is forced upon the SSIs by potential purchasers. Initially, credit period ranges between one month to three months. But purchasers generally avoid timely payments. A situation has now developed in which buyers do not pay their dues to SSIs for more than 12 months. It created working capital problems before the SSIs.