UNIT-1

Indian Industrial Environment – competence, Opportunities and Challenges. Entrepreneurship and Economic growth. Small Scale Industry in India, Objectives, Linkage among small, medium and heavy industries. Types and forms of enterprises.

Indian Industrial Environment-Competence Opportunities and Challenges

Immediately after our country became independent, Government of India felt the need for developing industries in a planned manner in the national interest.
The government adopted an industrial policy 1956 with the objectives of

1. To Accelerate rate of economic growth through speedy industrialization
2. To develop heavy industries and machine building industries
3. To expand the public sector
4. To build up a large and growing cooperative sector
5. To reduce disparities in income and wealth
6. To prevent private monopolies

Main features:

1. Classification of industries in to Schedule A, B and C
2. Sect oral interdependence
3. Role of small-scale and cottage industries
4. Reduction of regional disparities
5. Assistance to private sector
6. Sound industrial relations and incentives for labor
7. Management of public undertakings

Due to the changing conditions, amendments to the industrial policies have been made during 1973, 1977, 1980, 1991, until the recent reforms of 1992-93.In the Indian business scene, many changes have been introduced in the liberalization process of economy which began in 1990 and still continues.

The major changes are:

1. Industrial policy changes
    - Very few industries requiring licenses
    - Liberalizations in FERA
    - Almost no control under MRTP act
    - Role of PSUs getting diluted

- Liberalizations of foreign direct investment
- More freedom in capital market- abolition of CCI

2. International trade policy changes
    - Globalization of economy
    - Lowering down of import tariffs
    - More items under OGL
    - Emphasis on export but not through financial incentives
3. Structural adjustment
    - Phasing out of subsidies
    - Gradual dismantling of administrative price mechanism
    - Public sector disinvestment
    - Exit policy for business
    - Smother way of merger and acquisition

The present industrial environment in India:

Environment can be broadly classified into the following categories

1. Economic environment
    - Economic system
    - National income and its distribution
    - Monetary policy
    - Fiscal policy
    - Natural resources
    - Infrastructural facilities
    - Raw materials and supplies
    - Plant and equipment
    - Financial facilities
    - Man power and productivity
2. Political-legal environment
    - Political stability
    - Provision various incentives and support
    - Rules and regulations
    - Defense expenditure
3. Technological environment
    - Technology developed within India
    - Import of technology
    - Research & Development facilities
4. Socio-cultural environment
    - Expectations of society from the business
    - Attitude towards business
    - Customs , Traditions and conventions
    - Level of education
    - Life style of people

5. Competitive environment

- Industry setting
- Industry attractiveness
- Industry structure

Business environment is the sole determinant of economic development of a country. In order to attain higher level of economic development, the business environment in the country should be very much conducive towards development. The path of economic development in an under-developed country like India is full of hurdles and impediments.

Attaining higher level of economic development is a function of level of technology. Economic development is thus a process of raising the rate of capital formation, i.e., both physical capital and human capital. Moreover, the task of economic development is influenced by a number of factors such as economic, political, social, technological, natural, administrative etc.

Regarding the determinants of economic growth Prof. Ragner Nurkse observed that, "Economic development has much to do with human endowments, social attitude, political condition and historical accidents." Again, Prof. PT. Bauer also mentioned that "The main determinants of economic development are aptitude, abilities, qualities, capacities and facilities."

Thus economic development of a country depends on both economic and non-economic factors. The following are some of the economic and non-economic factors determining the pace of economic development in a country like India.

A. Economic Factors:
Economic environment is working as an important determinant of economic development of a country. Economic environment can determine the pace of economic development as well as the rate of growth of the economy. This economic environment is influenced by the economic factors like— population and manpower resources, natural resources and its utilization, capital formation and accumulation, capital output ratio, occupational structure, external resources, extent of the market, investing pattern, technological advancement, development planning, infrastructural facilities, suitable industrial relations etc.

1. Population and Manpower Resources:
Population is considered as an important determinant of economic growth. In this respect population is working both as a stimulant and hurdles to economic growth. Firstly, population provides labour and entrepreneurship as an important factor service.

Natural resources of the country can be properly exploited with manpower resources. With proper human capital formation, increasing mobility and division of labour, manpower resources can provide useful support to economic development.

On the other hand, higher rate of growth of population increases demand for goods and services as a means of consumption leading to increasing consumption requirements, lesser balance for investment and export, lesser capital formation, adverse balance of trade, increasing demand for social and economic infrastructural facilities and higher unemployment problem.

Accordingly, higher rate of population growth can put serious hurdles on the path of economic development. Moreover, growth of population at a higher rate usually eats up all the benefits of economic development leading to a slow growth of per capita income as it is seen in case of India.

But it has also been argued by some modern economists that with the growing momentum of economic development, standard of living of the general masses increases which would ultimately create a better environment for the control of population growth.

Moreover, Easterlin argued that population pressure may favourably affect individual motivation and this may again lead to changes in production techniques. Thus whether growing population in a country practically retards economic growth or contributes to it that solely depends on the prevailing situation and balance of various other factors determining the growth in an economy.

2. Natural Resources and Its Utilization:
Availability of natural resources and its proper utilization are considered as an important determinant of economic development. If the countries are rich in natural resources and adopted modern technology for its utilization, then they can attain higher level of development at a quicker pace. Mere possession of natural resources cannot work as a determinant of economic development.

In spite of having huge variety of natural resources, countries of Asia and Africa could not attain a higher level of development due to lack of its proper utilization. But countries like Britain and France have modernized their agriculture in spite of shortage of land and the country like Japan has developed a solid industrial base despite its deficiency in natural resources. Similarly, Britain has developed its industrial sector by importing some minerals and raw materials from abroad.

However, an economy having deficiency in natural resources is forced to depend on foreign country for the supply of minerals and other raw materials in order to run its industry. Thus in conclusion it can be observed that availability of natural resources and its proper utilization is still working as an important determinant of economic growth. As India is having sufficient natural resources, thus it has helped the country to maintain economic environment for attaining development.

3. Capital Formation and Capital Accumulation:
Capital formation and capital accumulation are playing an important role in the process of economic development of the country. Here capital means the stock of physical reproducible factors required for production.

The increase in the volume of capital formation leads to capital accumulation. Thus it is quite important to raise the rate of capital formation so as to accumulate a large stock of machines, tools and equipment by the community for gearing up production.

In an economy, capital accumulation can help to attain faster economic development in the following manner:
(a) Capital plays a diversified role in raising the volume of national output through changes in the scale or technology of production.

(b) Capital accumulation is quite essential to provide necessary tools and inputs for raising the volume of production and also to increase employment opportunities for the growing number of labour force.
(c) Increase in capital accumulation at a faster rate results increased supply of tools and machinery per worker.
Various developed countries like Japan have been able to attain higher rate of capital formation to trigger rapid economic growth. Normally, the rate of capital formation in under-developed countries like India is very poor.

Therefore, they must take proper steps, viz., introduction of compulsory deposit schemes, curtailing the conspicuous consumption, putting curbs on imports of consumption goods, inflow of foreign capital etc. In order to attain a rapid economic growth, the rate of domestic savings and investment must be raised to 20 per cent.

Naturally, in the initial period, it is not possible to step up the rate of capital formation at the required rate by domestic savings alone. Initially, to step up the rate of investment in the economy, inflow of foreign capital to some extent is important.

But with the gradual growth of domestic savings in the subsequent years of development, the dependence on foreign capital must gradually be diminished. Being a technologically backward country, India has decided to permit foreign direct investment in order to imbibe advanced technology for attaining international competitiveness under the present world trade and industrial scenario.

4. Capital-Output Ratio:
Capital-output ratio is also considered as an important determinant of economic development in n country. By capital-output ratio we mean number of units of capital required to produce per unit of output. It also refers to productivity of capital of different sectors at a definite point of time. But the capital output ratio in a country is also determined by stage of economic development reached and the judicial mix of investment pattern. Moreover, capital-output ratio along with national savings ratio can determine the rate of growth of national income.

This is a simplified version of Harrod-Domar Model. This equation shows that rate of growth of GNP is directly related to savings ratio and inversely related to capital-output ratio. Thus to achieve a higher rate of growth of national income, the country will have to take the following two steps, i.e., (a) to raise the rate of investment and (b) to generate necessary forces for reducing capital-output ratio.

5. Favourable Investment Pattern:

Favourable investment pattern is an important determinant of economic development in a country. This requires proper selection of industries as per investment priorities and choice of production techniques so as to realize a low capital—output ratio and also for achieving maximum productivity.

Thus in order to attain economic development at a suitable rate, the Government of the country should make a choice of suitable investment criteria for the betterment of the economy. The suitable investment criteria should maximise the social marginal productivity and also make a balance between labour intensive and capital intensive techniques.

6. Occupational Structure:
Another determinant of economic development is the occupational structure of the working population of the country. Too much dependence on agricultural sector is not an encouraging situation for economic development. Increasing pressure of working population on agriculture and other primary occupations must be shifted gradually to the secondary and tertiary or services sector through gradual development of these sectors.

In India, as per 1991 census, about 66.0 per cent of the total working population was absorbed in agriculture. As per World Development Report 1983, whereas about 45 to 66 per cent of the work force of developed countries was employed in the tertiary sector but India could absorb only 18 per cent of the total work force in this sector.

The rate of economic development and the level of per capita income increase as more and more work force shift from primary sector to secondary and tertiary sector. As A.G.B. Fisher writes, "We may say that in every progressive economy there has been a steady shift of employment and investment from the essential 'Primary activities' … to secondary activities of all kinds and to a still greater extent into tertiary production."

Thus to attain a high rate of economic development, inter-sectoral transfer of work force is very much necessary. The extent and pace of inter-sectoral transfer of work force-depend very much on the rate of increase in productivity in the primary sector in relation to other sectors.

7. Extent of the Market:
Extent of the market is also considered as an important determinant of economic development. Expansion of the scale of production and its diversification depend very much on the size of the market prevailing in the country.

Moreover, market created in the foreign country is also working as a useful stimulant for the expansion of both primary, secondary and tertiary sector of the country leading to its economic development. Japan and England are among those countries which have successfully extended market for its product to different foreign countries. Moreover, removal of market imperfections is also an important determinant of economic development of under-developed countries.

8. Technological Advancement:
Technological advancement is considered as an important determinant of economic environment. By technological advancement we mean improved technical know-how and its broad-based applications.

It includes:
(a) Use of technological progress for economic gains,

(b) Application of applied sciences resulting in innovations and inventions and

(c) Utilisation of innovations on a large scale.

With the advancement of technology, capital goods become more productive. Accordingly, Prof. Samuelson rightly observed that "High Invention Nation" normally attain growth at a quicker pace than "High Investment Nation".

There may be three forms of technological advancement, i.e.,
(a) Capital saving,

(b) Labour saving or

(c) Neutral.

The following three conditions must be satisfied for attaining technological advancement in a country:
(a) Making provision for large investments in research,

(b) Ability to realize the possibilities of using scientific inventions and innovations for commercial purposes and expansion and diversification of the market for its product.

As the underdeveloped countries like India have failed to fulfill these conditions thus their development process is neither self-sustaining nor cumulative. Thus in order to attain a higher rate of development, the under-developed countries should adopt only that type of technology which can suit their requirements.

9. Development Planning:
In recent years, economic planning has been playing an important role in accelerating the pace of economic development in different countries. Economic development is considered as an important strategy for building various social and economic overhead or infra- structural facilities along with the development of both agricultural, industrial and services sectors in a balanced manner.

Planning is also essential for mobilization of resources, capital formation and also to raise the volume of investment required for accelerating the pace of development. Countries like former U.S.S.R. and even U.S.A. and West Germany have achieved a rapid development through the adoption of economic planning.

10. External Factors:
The present situation in the world economy necessitates the active support of external factors for sustaining a satisfactory rate of economic growth in under-developed economies. Moreover, domestic resources alone cannot meet the entire requirement of resources necessary for economic development.

Therefore, at certain levels, availability of foreign resources broadly determines the level of economic development in a country.

The external factors which are playing important role in sustaining the economic development include:

(a) Growing export earnings for financing increasing import bills required for development,

(b) Increasing flow of foreign capital in the form of direct foreign investment and participation in equity capital and

(c) International economic co-operation in the form of increasing flow of foreign aid from advanced countries like U.S.A., Japan etc. and also increased volume of concessional aid from international institutions like I.M.F., I.B.R.D. (World Bank) and other regional bodies on economic co-operation like ASEAN, OPEC, E.E.C. etc.

11. Infrastructural Facilities:
Development of infrastructural facilities is also an important component of economic environment in a country like India.

12. Suitable Industrial Relations:
Suitable industrial relations are also an important determinant economic development in a country like India. Healthy trade union activities and cordial relations between employer and employee promote such economic environment for development.

B. Non-Economic Factors:
Economic factors alone are not sufficient for determining the process of economic development in a country like India. In order to attain economic development, proper social and political climate must be provided. In this connection, United Nations Experts observed, "Economic Progress will not occur unless the atmosphere is favorable to it. The people of a country must desire progress and their social, economic, legal and political situations must be favorable to it."

Emphasizing the role of non-economic factors Prof. Cairn-cross observed, "Development is not governed in any country by economic forces alone and the more backward the country, the more this is true. The key to development lies in men's minds, in the institutions in which their thinking finds expression and in the play of opportunity on ideas and institutions."

Again Prof. Macord Wright writes, "The fundamental factors making economic growth are non-economic and non-materialistic in character. It is spirit itself that builds the body." Prof. Ragnar Nurkse has further observed, "Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents."

Under-developed countries are facing various socio-political hurdles in the path of economic development. Thus in order to attain economic growth, raising the level of investment alone is not sufficient rather it is also equally important to gradually transform the out dated social, religious and political institutions which put hindrances in the path of economic progress.

Thus following are some of the important non-economic factors determining the pace of economic development in a country:
(a) Urge for Development:
It is the mental urge for development of the people in general that is playing an important determinant for initiating and accelerating the process of economic development. In order to attain

economic progress, people must be ready to bear both the sufferings and convenience. Experimental outlook, necessary for economic environment must grow with the spread of education.

(b) Spread of Education:

Economic progress is very much associated with the spread of education. Prof. Krause has observed that, "Education brings revolutions in ideas for economic progress." Education provides stimulus to economic growth as it teaches honesty, patriotism and adventure. Thus education is working as an engine for economic development.

In this connection, Prof. H.W. Singer has rightly observed, "Investment in education is not only highly productive but also yields increasing returns. So, education plays pioneer role for the creation of human, capital and social progress which in turn determines the progress of the country."

(c) Changes in Social and Institutional Factors:

Conservative and rigid social and institutional set up like joint family system, caste system, traditional values of life, irrational behaviour etc. put severe obstacle on the path of economic development and also retards its pace. Thus to bring social and institutional change as per changing environment and to realize the modern values of life are very much important for accelerating the pace of economic development in a country.

(d) Proper Maintenance of Law and Order:

Maintenance of law and order in a proper manner also helps the country to attain economic development at a quicker pace. Stability, peace, protection from external aggression and legal protection generally raises morality, initiative and entrepreneurship. Formulation of proper monetary and fiscal policy by an efficient government can provide necessary climate for increased investment and also can stimulate capital formation in the country.

Thus in order to accelerate the pace of economic development the government must make necessary arrangement for the maintenance of law and order, defence, justice, security in enjoyment in property, testamentary rights, assurance to continue business covenants and contracts, provision for standard weights and measures, currency and formulation of appropriate monetary and fiscal policy of the country.

But the economies of under-developed countries like India are now facing serious threat from large scale disorder, terrorism, disturbances in the international border etc. All these have led to diversion of resources and initiatives from developmental to non-developmental ends.

Moreover, under such a chaotic situation, capital formation process, business initiatives and enterprise of private firms are seriously suffered and distorted leading to a stagnation of economy in these countries. In this connection, Prof. Arthur Lewis has rightly stated, "No country has made progress without positive stimulus from intelligent government." Thus to attain economic development at a quicker pace', proper maintenance of law and order and stability are very important.

(e) Administrative Efficiency:

Economic development of a country also demands existence of a strong, honest, efficient and competent administrative machinery for the successful implementation of government policies and programmes for development. The existence of a weak, corrupt and inefficient administrative machinery, leads the country into chaos and disorder.

Prof. Lewis has rightly observed, “The behaviour of the government plays an important role in stimulating or discouraging economic activity.” Therefore, maintenance of proper administrative set up is a determinant of economic development of a country.

(f) Cultural Set Up:
Sound cultural set up also build up a better non-economic environment which are conducive towards economic development. Cultural activities improve the mental set up of the people in general and develop simultaneously a sense of bond-ness among various sections of people living in the society. All these create a belter environment for development.

(g) Politico-Legal Environment:
The politico-legal environment of the country is also an important determinant of economic development. Political stability and legal support for developmental activities creates a better environment for development. Reforms in the form of industrial policy reforms, labour reforms etc. should be enacted through proper legislation.

Side by side, the judicial system in the country should be developed in such a manner so that it can maintain wide network to serve for the course of development. The legislature and the judiciary in the country should work hand in hand to create a better investment-friendly environment for development.

Such politico-legal environment can play an important role towards creating a better business environment in the country. The politico-legal environment in India has not yet been developed to the accepted level. Accordingly, the Chambers of Commerce, foreign investors are demanding various changes in the politico-legal environment in the country so as to reap maximum benefit from economic reforms.

(h) Natural Environment:
Suitable natural environment is also an important component of non-economic environment determining the business environment in the country. Thus the business environment in the country needs a natural support which includes suitable climate, balanced wealthier, suitable natural environment, i.e., free from flood and draught etc.

Moreover, the maintenance of eco- friendly, atmosphere is also quite important for the promotion of developmental activities in an economy. In a country like India, the natural environment always promotes the developmental activities. But in certain exceptional situations, the country usually faces extreme natural environment resulting flood, draught etc. which disturbs the developmental process of the country.

Thus three is a great importance of both economic as well as non-economic factors on the maintenance of business environment in a country. Moreover, in a vast country like India having a large land and population, the economic and non-economic environment are playing a very important role for maintaining a sound business environment within the country.

Competence:

- Investment capabilities are enhanced to a great extent
- Infrastructural facilities like land, buildings, power, fuel, transport, communication network etc. are vastly improved
- Technology can be obtained easily. Various R & D laboratories are available for developing process and products
- Skilled labor, technical experts and professional managerial skills are available.
- Capability of meeting international quality standards
- Governmental support and encouragement

Opportunities:

- A number of institutions and organizations are engaged in the development of entrepreneurship.

  District Industries centre DIC)

  Indian investment centre (IIC)

  Small Industries Development Organization (SIDO)

  Small Industries Service Institutes (SISI)

  National research Development Corporation of India (NRDC)

  National Small Industries Corporation Ltd. (NSIC)

  National Alliance of Young Entrepreneurs (NAYE)

  Technical Consultancy Organizations (TCO)

  APITCO, KITCO etc.

- A number of financial institutions are assisting the entrepreneurs in meeting their capital requirements.

  State Financial Corporations (SFCs)

  IDBI, IFCI, ICICI, etc.

- Availability of highly skilled labor, Engineers, managerial experts
- Large population creating vast and diversified market
- Government support and encouragement by way of incentives and subsidies.
- Availability of research and development laboratories both in public and private sector.

  CSIR, CITD, CIPET, ETDC, ERTL etc.

- Availability of Communication network and Information technology
- Availability of land, Industrial estates and infrastructural facilities

Challenges:

- Competing in the global market both in terms of quality and cost of production
- Concentration on promising areas ensuring high quality, attractive packaging, acceptable delivery, adequacy of supplies, strong home market
- Increasing the capacity of borrowing on commercial terms. (Increasing credit worthiness)
- Emphasis on knowledge management
- Acquiring high technology and improved processes and constant updating

The economic development of a Nation depends on its industrial development. The industrial development is based on the entrepreneurial competencies of the people. Hence, the concept of building entrepreneurship Promotion is need of the hour.

The term **"entrepreneurship**" comes from the French verb "**entreprendre**" and the German word "***unternehmen***", both means to "undertake". Bygrave and Hofer in1891 defined the entrepreneurial process as „involving all the functions, activities, and actions associated with perceiving of opportunities and creation of organizations to pursue them . In simple, entrepreneurship is the act of being an entrepreneur, which can be defined as "one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods".

At the time of Independence, the Indian economy was facing severe problems of illiteracy, poverty, low per capita income, industrial backwardness, and unemployment. After India attained its Independence in 1947, a sincere effort was made to begin an era of industrial development. The government adopted rules and regulations for the various industries. This industrial policy introduction proved to be the turning point in Indian Industrial history. With the introduction of new economic policies, the main aim of the government was to free the Indian industry from the chains of licensing. The regulatory roles of the Indian government refer to the policies towards industries, their establishments, their functioning, their expansion, their growth as well as their management. Industrial Policy of 1948

<u>India's Industrial Policy</u>

<u>Meaning</u>

- Government action to influence the ownership & structure of the industry and its performance. It takes the form of paying subsidies or providing finance in other ways, or of regulation.

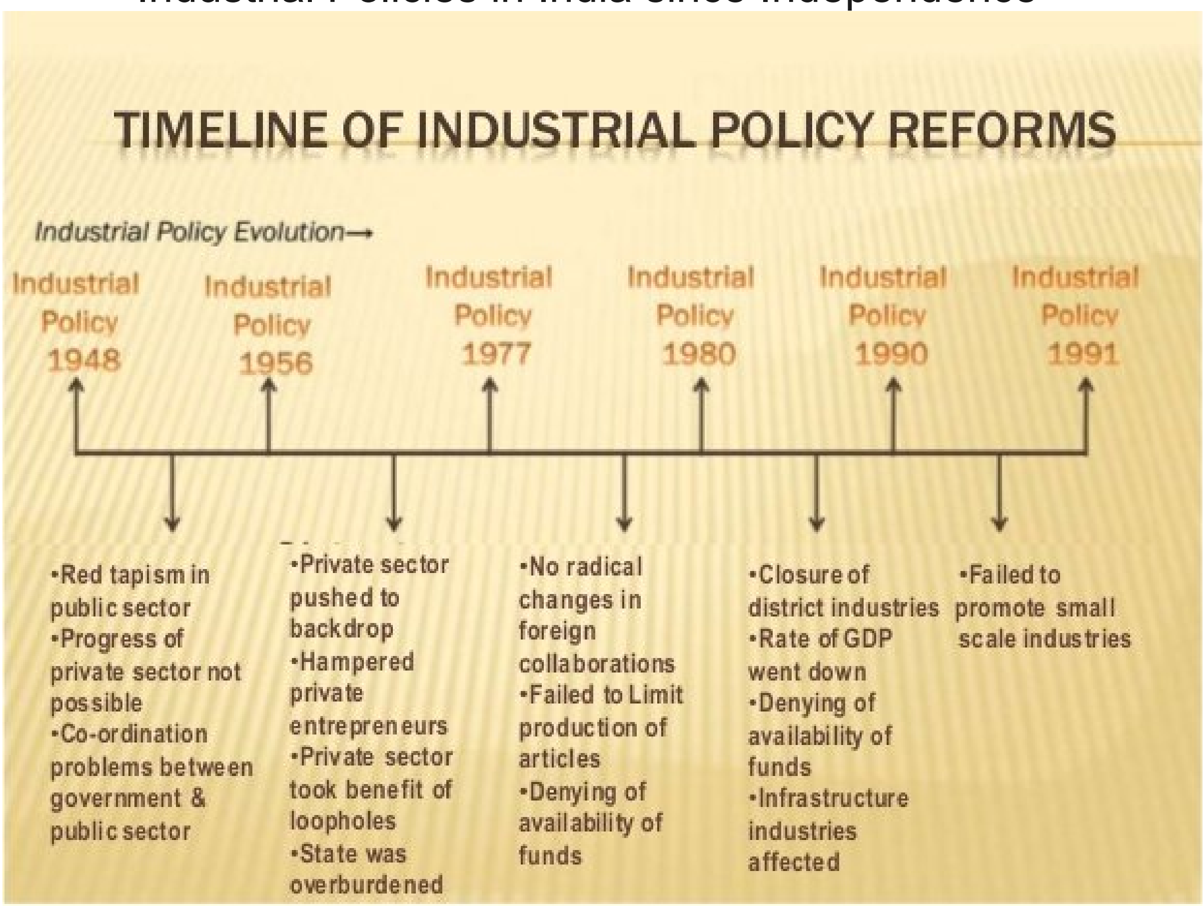
- It includes procedures, principles (i.e., the philosophy of a given economy), policies, rules and regulations, incentives and punishments, the tariff policy, the labour policy, government's attitude towards foreign capital, etc.

Objectives

The main objectives of the Industrial Policy of the Government in India are:

- to maintain a sustained growth in productivity;
- to enhance gainful employment;
- to achieve optimal utilisation of human resources;
- to attain international competitiveness; and
- to transform India into a major partner and player in the global arena.

Industrial Policies in India since Independence



Industrial Policy Resolution-1948

The first industrial policy after independence was announced on **6th April 1948.** It was presented by Dr. Shyama Prasad Mukherjee then Industry Minister. The main goal of this policy was to accelerate the industrial development by introducing a mixed economy where the private and public sector was accepted as important in the development of the economy. It saw the Indian economy in socialistic patterns. The large industries were classified into four categories:

It defined the broad contours of the policy **delineating the role of the State in industrial development** both as an entrepreneur and authority.

It made clear that India is going to have a **Mixed Economic Model.**

- **<u>It classified industries into four broad areas:</u>**

Strategic Industries (Public Sector): It included three industries in which Central Government had monopoly. These included Arms and ammunition, Atomic energy and Rail transport.

Basic/Key Industries (Public-cum-Private Sector): 6 industries viz. coal, iron & steel, aircraft manufacturing, ship-building, manufacture of telephone, telegraph & wireless apparatus, and mineral oil were designated as "Key Industries" or "Basic Industries".

These industries were to be set-up by the Central Government.

- However, the existing private sector enterprises were allowed to continue.

Important Industries (Controlled Private Sector): It included 18 industries including heavy chemicals, sugar, cotton textile & woollen industry, cement, paper, salt, machine tools, fertiliser, rubber, air and sea transport, motor, tractor, electricity etc.

These industries continue to remain under private sector however, the central government, in consultation with the state government, had general control over them.

Other Industries (Private and Cooperative Sector): All other industries which were not included in the above mentioned three categories were left open for the private sector.

The **Industries (Development and Regulation) Act** was passed in 1951 to implement the Industrial Policy Resolution, 1948.

<u>II. Industrial Policy Resolution-1956</u>

Government revised its first Industrial Policy (i.e.the policy of 1948) through the Industrial Policy of 1956.

It was regarded as the **"Economic Constitution of India" or "The Bible of State Capitalism".**

The 1956 Policy emphasised the need to expand the public sector, to build up a large and growing cooperative sector and to encourage the separation of ownership and management in private industries and, above all, prevent the rise of private monopolies.

It provided the basic framework for the government's policy in regard to industries till June 1991.

IPR, 1956 classified industries into three categories

Schedule A consisting of 17 industries was the exclusive responsibility of the State. Out of these 17 industries, four industries, namely arms and ammunition, atomic energy, railways and air transport had Central Government monopolies; new units in the remaining industries were developed by the State Governments.

Schedule B, consisting of 12 industries, was open to both the private and public sectors; however, such industries were progressively State-owned.

Schedule C- All the other industries not included in these two Schedules constituted the third category which was left open to the private sector. However, the State reserved the right to undertake any type of industrial production.

The IPR 1956, stressed the **importance of cottage and small scale industries** for expanding employment opportunities and for wider decentralisation of economic power and activity

The Resolution also called for **efforts to maintain industrial peace;** a fair share of the proceeds of production was to be given to the toiling mass in keeping with the avowed objectives of democratic socialism.

Criticism: The IPR 1956 came in for sharp criticism from the private sector since this Resolution **reduced the scope for the expansion of the private sector significantly.**

The sector was **kept under state control through a system of licenses.**

III. Industrial Policy Resolution-1973

Indian Policy Statement of 1973 identified high priority industries with investment from large industrial houses and foreign companies were permitted. Large industries were permitted to start operations in rural and backward areas with a view to developing those areas and enabling the growth of small industries around. And so the basic features of Indian Policy Statement were:

- The policy was directed towards removing the distortions, it provided for closer interaction between agriculture and industrial sector.
- Priority was given towards generation and transmission of power.
- The list of industries reserved for the small-scale sector was expanded.
- Special legislation was made to protect cottage and household industries were introduced.

IV. Industrial Policy Resolution-1977

In December 1977, the Janata Government announced its New Industrial Policy through a statement in the Parliament.

The main thrust of this policy was the effective **promotion of cottage and small industries** widely dispersed in rural areas and small towns.

In this policy the **small sector was classified into three groups—**cottage and household sector, tiny sector and small scale industries.

The 1977 Industrial Policy prescribed **different areas for large scale industrial sector-** Basic industries,Capital goods industries, High technology industries and Other industries outside the list of reserved items for the small scale sector.

The 1977 Industrial Policy restricted the scope of large business houses so that no unit of the same business group acquired a dominant and monopolistic position in the market.

It put emphasis on reducing the occurrence of labour unrest. The Government **encouraged the worker's participation in management** from shop floor level to board level.

The highlights of this policy are:

A] Target on the development of small-scale and cottage industries.

- Household and cottage industries for self-employment.
- Tiny sector investment up to 1 lakhs.
- Smallscale industries for investment up to 1-15 lakhs.

B] Large-scale sector

- *Basic industries:* infrastructure and development of small-scale and village industries.
- *Capital goods industries:* meeting the requirement of cottage industries.
- *High technological industries:* development of agriculture and smallscale industries such as petrochemicals, fertilizers and pesticides.

C] Restrict the control of big business houses.

D] Role of the public sector:

- Development of ancillary industries.
- To make available expertise in technology and management in small and cottage industries.

E] Revival and rehabilitation of sick units.

Criticism: The industrial Policy 1977 was subjected to serious criticism as there was an absence of effective measures to curb the dominant position of large scale units and the policy **did not envisage any socioeconomic transformation of the economy** for curbing the role of big business houses and multinationals.

IV. Industrial Policy Resolution-1980

The congress Govt. announced the Industrial Policy of 1980 which sought to promote the **concept of economic federation,** to raise the efficiency of the public sector and to reverse the trend of industrial production of the past three years and reaffirmed its faith in the **Monopolies and Restrictive Trade Practices (MRTP) Act** and the **Foreign Exchange Regulation Act (**FERA).

The features of this policy are:

- Promotion of balanced growth.
- Extension and simplification of automatic expansion.
- Taking over industrial sick units.
- Regulation and control of unauthorized excess production capabilities installed for industrial houses.
- Redefining the role of small-scale units.
- Improving the performance of the public sector.

V. Industrial Policy Resolution-1991

The long-awaited liberalised industrial policy was announced by the Government of India in 1991 in the midst of severe economic instability in the country. The objective of the policy was to raise efficiency and accelerate economic growth.

Features of New Industrial Policy

De-reservation of Public sector: Sectors that were earlier exclusively reserved for public sector were reduced. However, pre-eminent place of public sector in 5 core areas like arms and ammunition, atomic energy, mineral oils, rail transport and mining was continued.

Presently, only two sectors- Atomic Energy and Railway operations- are reserved exclusively for the public sector.

De-licensing: Abolition of Industrial Licensing for all projects except for a short list of industries.

There are only 4 industries at present related to security, strategic and environmental concerns, where an industrial license is currently required-

- Electronic aerospace and defence equipment
- Specified hazardous chemicals
- Industrial explosives
- Cigars and cigarettes of tobacco and manufactured tobacco substitutes

Disinvestment of Public Sector: Government stakes in Public Sector Enterprises were reduced to enhance their efficiency and competitiveness.

Liberalisation of Foreign Investment: This was the first Industrial policy in which foreign companies were allowed to have majority stake in India. In 47 high priority industries, upto 51% FDI was allowed. For export trading houses, FDI up to 74% was allowed.

Today, there are numerous sectors in the economy where government allows 100% FDI.

Foreign Technology Agreement: Automatic approvals for technology related agreements.

MRTP Act was amended to remove the threshold limits of assets in respect of MRTP companies and dominant undertakings. MRTP Act was replaced by the Competition Act 2002.

Limitations of Industrial Policies in India

Stagnation of Manufacturing Sector: Industrial policies in India have failed to push manufacturing sector whose contribution to GDP is stagnated at about 16% since 1991.

Distortions in industrial pattern owing to selective inflow of investments: In the current phase of investment following liberalisation, while substantial investments have been flowing into a few industries, there is concern over the slow pace of investments in many basic and strategic industries such as engineering, power, machine tools, etc.

Displacement of labour: Restructuring and modernisation of industries as a sequel to the new industrial policy led to displacement of labour.

Absence of incentives for raising efficiency: Focussing attention on internal liberalisation without adequate emphasis on trade policy reforms resulted in **'consumption-led growth' rather than 'investment' or 'export-led growth'.**

Vaguely defined industrial location policy: The New Industrial Policy, while emphasised the detrimental effects of damage to the environment, failed to define a proper industrial location policy, which could ensure a pollution free development of industrial climate.

New Industrial Policy, 2018

The Government of India will be introducing a New Industrial Policy that will replace the 27-year-old existing policy and pave the way for the promotion of new technology and reduced regulations.

- The policy aims to create jobs over the next two decades, promote foreign technology transfer and attract $100 billion FDI annually.

Why the need for a new industrial policy?

- It is time to shift from a policy of continuity to radical and accelerated reforms for greater strategic engagement with the world, i.e., it is time to Reform, Perform and Transform.
- A comprehensive, actionable, outcome-oriented industrial policy will enable Industry to deliver a larger role in the economy; to fulfil its role as the engine of growth and to shoulder the responsibility of adding more value and jobs.

Constraints to Industrial Growth

- **Inadequate infrastructure:** Rapid growth of the economy has put further stress on infrastructure. Lack of quality industrial infrastructure has resulted in high logistics cost and has in turn affected cost competitiveness of Indian goods in global markets.
- **Restrictive labour laws:** The labour laws have been overly protective of the labour force in the formal sector. Though labour protection and security are required, the flipside is that it discourages employers from hiring workers on a regular basis. It has probably also led to entrepreneurs choosing to stay away from labour-intensive sectors.
- **Complicated business environment:** Complex and time taking business processes and clearances have been a disincentive for businesses.
- **Slow technology adoption:** Indian industry has been a slow adopter of new and advanced technologies. Inefficient technologies led to low productivity and higher costs adding to the disadvantage of Indian products in international markets.
- **Low productivity:** Workers in India are overwhelmingly employed in low productivity and low wage activities. Productivity as measured by value added per worker and average wages in manufacturing in India are only one-third of that in China.
- **Challenges for trade:** Manufacturing sector especially exporters are facing challenges of stagnant/shrinking global demand and rising protectionist tendencies around the world. Indian MSME sector is particularly facing tough competition from cheap imports from China and FTA countries.
- **Inadequate expenditure on R&D and Innovation:** Investments in these areas is essential to ensure growth in the industry. Public investments have been constrained and private investment is not forthcoming as these involve long gestation periods and uncertain returns.

Opportunities

Free entry into world trade

- **Improved risk taking ability**. Governments of nations withdrawn some restrictions Technology and inventions spread into the world. Encouragement to innovations and inventions. Promotion of healthy completions among nations Consideration increase in government assistance for international trade. Establishment of other national and international institutes to support business among nations of the world. Benefits of specialization. Social and cultural development. Oppurtunity to create ones own destiny.Oppurtunity to make a difference ,opportunity to reach ones full potential,oppurtunuity to reach ones full potential , opportunity to do what one enjoys (Few examples Dhiru Bhai Ambani , Dr Karsan Bhai patel ,Lakshmi Mittal ,Kiran Mazumdar **shaw.**

INDIA SPECIFIC ENTREPRENEURSHIP CHALLENGES ARE:

Family Challenges: Convincing to opt for business over job is easy is not an easy task for an individual. The first thing compared is – Will you make more money in business of your choice or as a successor of family business. This is where it becomes almost impossible to convince that you **can generate more cash with your passion than doing what your Dad is doing.**

Social Challenges: Family challenges are always at the top because that is what matter the most but at times social challenges also are very important. Let us say you and your friend graduated at the same time. You opted for entrepreneurship and your friend opted for a job. He now has a flat, car and what not because he could easily get those with a bank loan but you still have nothing to show **off and this is where challenge comes.**

Technological Challenges: Indian education system lags too much from the Job industry as a whole but then it lags even more when it comes to online entrepreneurship. What technology would be ideal and how to use that technology effectively?

Financial Challenges: (Difficulty in borrowing fund): Financial challenges are a lot different in India especially for online entrepreneurs. When you are starting out as an entrepreneur you don topt for venture funding but try to go with funding from small to medium business people. Many such non technical business people don t understand the online business models as a whole and so getting an initial business funding from them becomes challenging. The other option you can think of is loan but bank loan is not at all an option in India for new online entrepreneurs.

Policy Challenges: Now and then there is lot of changes in the policies with change in the government.

Problems of raising equity capital

Problems of availing raw-materials. Problems of obsolescence of indigenous technology

Increased pollutions Ecological imbalanced.

Exploitation of small and poor countries, etc.

Need for Creating Indian Entrepreneurs- A Snapshot: A recent Mckinsey& Company-Nasscom report estimates that India needs at least 8,000 new businesses to achieve its target of building a US$87 billion IT sector. In the next 10 years, 110-130 million Indian citizens will be searching for jobs, including 80-100 million looking for their first jobs.

Today's knowledge based economy is fertile ground for entrepreneurs, in India. It is rightly believed that India has an extraordinary talent pool with virtually limitless potential to become entrepreneurs. Therefore, it is important to get committed to creating the right environment to develop successful entrepreneurs.

To achieve this, India must focus on the following area.
Create the Right Environment for Success
Ensure that Entrepreneurs have access to the Right Skill
Ensure that Entrepreneurs have access to „Smart Capital
Enable Networking and Exchange
Government Support: Both the Central and State Governments should take more interest in promoting the growth of entrepreneurship.

2) Entrepreneurship and Economic growth

The entrepreneur' has been defined in many ways and various senses and for the convenience
broadly classified into three groups. namely. risk-bearer, organizer. and innovator

Entrepreneur as Risk-Bearer
Richard Cantillon. an Irishman living in France, was the first Who introducedthe term •entrepreneur' and his unique risk-bearing function in economics inearly 18" Century. He defined entrepreneur as an agent Who buys factors of production at certain prices in Order to combine them into a product with aview to selling it at uncertain prices in future
He illustrated a farmer who pays out contractual incomes which are 'certain' to the landlords and labourers and sells at prices that are 'uncertain'

Entrepreneur as Organizer or Coordinator
Jean-Baptiste Say (1827: 285-286). the French political economist, With hisunpleasant practical experiences developed the concept Of entrepreneur a littlefurther Which survived for almost two centuries. His definition associates
entrepreneur with the functions of coordination, Organization and supervision.
According to Say. an entrepreneur is One who combines the land of One, thelabour of another and the capital of yet another, and thus, produces a product.
By selling the product in the market he pays interest on capital, rent on land,wages to labourers and what remains is his/her profit,

Entrepreneur as Innovator
Joseph A. Schumpeter for the first time in 1934, assigned a crucial role of 'innovation' to the entrepreneur in his magnum opus •Theory of Economic Development.' Schumpeter considered economic development
as a discrete dynamic change brought by entrepreneur by instituting new combinations of factors of production which he called 'innovation'. In other
Words, entrepreneur is, according to a schumpetera 'creative destructor' Whocreates or causes a dynamic disequilibrium in the economy by taking innovation to commercialization bv embedding it in an environment where it did not exist previously.
The 'innovation', i.e. introduction oi combination of factors of production, according to him, may occur in any of the following five forms:

Introduction of a new product;
Introduction of a new method of production;
Opening Of a new market;
Discovery Of a new source of supply of raw materials; and
Carrying out of the new form of organization of any industry

The economic history of the presently developed countries, for example, America, Russia and Japan tends to support the fact that the economy is an effect for which entrepreneurship is the cause. The crucial role played by the entrepreneurs in the development of the Western countries has made people Of underdeveloped countries too much conscious of the significance of entrepreneurship for economic development. Now, people have begun to realize that for achieving the goal of economic development. it is necessary to increase entrepreneurship both qualitatively and quantitatively in the country.

It is only active and enthusiastic entrepreneurs Who fully explore the potentialities Of the country's available resources • labour. technology and capital.

It is also opined that development does not occur spontaneously as a naturalwhen economic conditions are in some 'right': a catalyst oragent is always needed. and this requires an entrepreneurial ability. It is this ability that he perceives Opportunities which either others do not see or care about.

Essentially. the entrepreneur searches for change, Sees need and then brings together the manpower. material and capital required to respond to the opportunity what he sees.

Akio Morita, the President of sony who adopted company's products to create Walkman Personal Stereo and India's Gulshan Kumar of T-Series who skimmed the audio-cassette starved vast Indian market are the clearest examples of such able entrepreneurs.

01 entrepreneurship in economic development varies from economy to economy depending upon its material resources, industrial climate and the responsiveness of the political system to the entrepreneurial function, The entrepreneurs contribute more in favourable opportunity conditions than in the economies with relatively less favorable opportunity conditions.

Viewed from the opportunity conditions point of view. the underdeveloped regions, due to paucity oi funds, lack of skilled labour and non-existence of minimum social and economic Overheads, are less conducive to the emergence particularly of innovative entrepreneurs. In such regions, entrepreneurship does not emerge out of industrial background with well developed institutions to support and encourage it. Therefore, entrepreneurs in such regions may not bean "innovator" but an "imitator" who would copy the innovations introduced by the "'innovative entrepreneurs of the developed regions .

In these areas, according to Mc CeIland's (1961) concept of personality aspect of entrepreneurship, some people with high achievement motivation come forward to behave in an entrepreneurial way to change the stationary inertia, as they would not satisfied. With the present Status that they have in the society.

Under the conditions of paucity of funds and the problem of imperfect market in underdeveloped regions, the entrepreneurs are bound to launch their enterprises on a small-scale. As imitation requires lesser funds than innovation,it is realized that such regions should have more imitative entrepreneurs. And, it is also felt that imitation of innovations introduced in developed regions on a massive scale can bring about rapid economic development in underdeveloped regions also.

Further, India which itself is an underdeveloped country aims at decentralized industrial structure to militate the regional imbalances in levels Of economic development, small-scale entrepreneurship in such industrial structure plays an important role to achieve balanced regional development

It is unequivocally believed that small-scale industries provide immediate large scale employment. ensure a more equitable distribution of national income and also facilitate an effective resource mobilization Of capital and skill which might otherwise remain unutilized.

Entrepreneurship and Economic growth:

Entrepreneurship is a creative activity or an innovative function and can be seen in the form of

1. Introduction of a new product
2. Use of new method of production
3. Opening a new market
4. Conquest of new source of supply of raw materials
5. New form of organization

All these factors are contributive to the economic growth. Entrepreneur acts as an agent of production bringing together all factors of production and providing management and control for the survival and growth of the production unit.

Economic development consists of employing resources in a different way, bringing in a new combination of means of production. The entrepreneur looks for ideas and put them into effect for economic development.

Economic growth depends on the rate of innovation and the rate of technical progress in the economic field.

Entrepreneurs, with high level of achievement, accelerate the process of economic development.

Entrepreneurship is a process of creating wealth by bringing together the resources in a new way to start a venture that benefits the customers and rewards the founders.

All the developed nations have been benefited from the entrepreneurs in building the economy.

Entrepreneurship leads to industrialization which has better linkages to the other sectors of economy like generation of electricity, exploitation of natural resources, network of transport and communication systems, and expansion of markets.

Industrial development provides vast employment opportunities.

It gives the advantage in international trade.

It is an effective instrument to the growth and welfare.

Industry being an important component of national income, augments not only the taxable capacity of the people in the country, but also contributes effectively to the revenue by paying more and more direct and indirect taxes which can be used by the government for the welfare of its citizens.

Thus the entrepreneurship plays a very important role in accelerating the economic growth.

The important role that entrepreneurship plays in the economic development of an economy can now be put in a more systematic and orderly manner as follows:

1) Entrepreneurship promotes capital formation by mobilising idle saving of the public.
2) It provides immediate large-scale employment. Thus, it helps reduce unemployment problem in the country, the root of all socio-economic problems
3)It promotes balanced regional development
4)It helps reduce the concentration of economic power
5) It Stimulates the equitable redistribution of wealth ,income and even political power in the interest of the country..
6) It encourages effective resource mobilisation of capital and skill which might otherwise remain unutilized and idle.
7) Jt also induces backward and forward linkages which stimulate the process of development in the country.
8) Last but not the least; it also promotes country's export trade i.e„ an important ingredient to economic development.
Entrepreneurship plays an influential role in the economic growth and standard of living of the country.
Top 7 important roles an entrepreneur plays in the economic development of a country are

1.Wealth Creation and Sharing
2.Create Jobs
3.Balanced Regional Development
4.GDP and Per Capita Income: India's MSME sector, comprised of 36 million units that provide employment for more than 80 million people, now accounts for over 37% of the country's GDP
5.Standard of Living: Increase in the standard of living of people in a community is yet another key goal of economic development
6.Exports: Any growing business will eventually want to get started with exports to expand their business to foreign markets. This is an important ingredient of economic development since it provides access to bigger markets.
7. Community Development: Economic development doesn't always translate into community development. Community development requires infrastructure for education and training, healthcare, and other public services

3) Small Scale Industry in India

Small Scale Industries (SSI) are those industries in which the manufacturing, production and rendering of services are done on a small or micro scale. These industries make a one-time investment in machinery, plant, and equipment, but it does not exceed Rs.10 crore and annual turnover does not exceed Rs.50 crore. Essentially the small scale industries are generally comprised of those industries which manufacture, produce and render services with the help of small machines and less manpower. These enterprises must fall under the guidelines, set by the Government of India The SSI's are the lifeline of the economy, especially in developing countries like India. These industries are generally labour-intensive, and hence they play an important role in the creation of employment. SSI's are a crucial sector of the economy both from a financial and social point of view, as they help with the per capita income and resource utilisation in the economy.

SMALL SCALE UNIT: - A unit where investment in fixed assets in plant and machinery is only up to Rs. 5 Crores (in case of ancillary units the limit is up to Rs. 5 Crores and 25 Lakhs) is defined as a small scale unit, whether held on ownership terms or by lease or by hire-purchase. These should not be subsidiaries of large units.

ANCILLARY UNIT: - Small scale industries producing items for large industries needed costly machinery and equipment. These industries were producing standardized goods of high precision to suit the requirements of big and reputed large scale units and installation of costly testing equipments was also necessary, at least 50% of the annual production is meant for a large scale industry, is termed as Ancillary industry. A unit which produces parts, components sub-assemblies for supply against known or anticipated demand of one or more large units manufacturing or assembling complete products and which not a subsidiary to or controlled by any large unit in regard to the negotiation of contracts for supply of its goods to any large unit.

Large scale industries: - Earlier all those industries which require Letter of Intent (LOI) and industrial license are termed as large scale industries. These industries had to register with Directorate General of Technical Development (DGTD). As per the latest Government definition, all industries with investment in plant and machinery more than RS. 100 crores come under large scale industries.

TINY UNIT: - Units with investment in machinery and equipment up to Rs. 25 Lakhs and situated in towns which have a population below 50 thousand is defined as a tiny unit.

Self-employment opportunities are available for tiny units, for ex-servicemen, technicians etc. Annual turn over of tinyunit will be less than Rs. 50 lakhs. Prices of the goods manufactured by a tiny unit are fixed higher than that of a small scale unit.

Examples and Ideas of Small Scale Industries

- Bakeries
- School stationeries
- Water bottles
- Leather belt
- Small toys
- Paper Bags
- Photography
- Beauty parlours

Characteristics of SSI

Ownership

SSI's generally are under single ownership. So it can either be a sole proprietorship or sometimes a partnership.

Management

Generally, both the management and the control is with the owner/owners. Hence the owner is actively involved in the day-to-day activities of the business.

Labor Intensive

SSI's dependence on technology is pretty limited. Hence they tend to use labour and manpower for their production activities.

Flexibility

SSI's are more adaptable to their changing business environment. So in case of amendments or unexpected developments, they are flexible enough to adapt and carry on, unlike large industries.

Limited Reach

Small scale industries have a restricted zone of operations. Hence, they can meet their local and regional demand.

Resources utilisation

They use local and readily available resources which helps the economy fully utilise natural resources with minimum wastage.

Role in the Indian Economy

Employment

SSI's are a major source of employment for developing countries like India. Because of the limited technology and resource availability, they tend to use labour and manpower for their production activities.

Total Production

These enterprises account for almost 40% of the total production of goods and services in India. They are one of the main reasons for the growth and strengthening of the economy.

Make in India

SSI's are the best examples for the Make in India initiative. They focus on the mission to manufacture in India and sell the products worldwide. This also helps create more demands from all over the world.

Export contribution

India's export industry majorly relies on these small industries for their growth and development. Nearly half of the goods that are exported from India are manufactured or produced by these industries.

Public Welfare These industries have an opportunity to earn wealth and create employment. SSI's are also important for the social growth and development of our country.

4) Objectives: The objectives of the small scale industries are:

- To create more employment opportunities.
- To help develop the rural and less developed regions of the economy.
- To reduce regional imbalances.
- To ensure optimum utilisation of unexploited resources of the country.
- To improve the standard of living of people.
- To ensure equal distribution of income and wealth.
- To solve the unemployment problem.
- To attain self-reliance.
- To adopt the latest technology aimed at producing better quality products at lower costs

SSI registration is a registration provided by the Ministry of MSME. A business should obtain SSI registration in order to be eligible for a number of schemes, subsidies and other incentives provided by the Government to such SSI's. SSI registration can be obtained online too.

Eligibility Criteria for SSI Registration

SSI registration can be obtained for enterprises that are considered as micro and small enterprise under the MSME Act, 2006.

A micro enterprise is an enterprise whose investment in plant, machinery and equipment does not exceed Rs.1 crore, and turnover does not exceed Rs.5 crore.

A small enterprise is an enterprise whose investment in plant, machinery and equipment does not exceed Rs.10 crore, and turnover does not exceed Rs.50 crore.

Linkage among small, medium and heavy industries.

As in many other papers, small, medium-sized and large businesses are defined by their employment size: Small businesses are businesses with 1 to 99 employees; Medium-sized businesses are businesses with 100 to 499 employees; Large businesses are businesses with 500 employees or more

The importance of linkages

Linkages, defined as channels through which enterprises influence each other's economic performance, between large and small companies are crucial to the success of a market economy. Linkages between MNEs and SMEs could be particularly important in the context of investment for development. As demonstrated by the Investment Committee's publication Foreign Direct Investment for Development – Maximising Benefits, Minimising Costs, the potential benefits of an MNE's presence in a developing economy go beyond the direct impact of its operations.

The so-called "spillovers" (***The spillover effect is when an event in a country has a ripple effect on the economy of another, usually more dependent country. ... Some countries experience a cushion from the spillover effect because they are considered "safe haven" economies, where investors park assets when downturns occur.)*** of know-how and technology from foreign-invested enterprises to the incumbent business sector is often one of the main benefits of FDI to development. If the linkages between the two categories of enterprises are strengthened, the benefits of direct investment in the host economy will most likely be boosted as well. In developing countries (as well as OECD countries), the incumbent business sector is largely comprised of SMEs. (For a discussion of how to define "SME", see Annex 1.) In other words, overcoming the obstacles to linkages between large and small enterprises becomes a particular developmental priority. At the same time, linkages alone are not conclusive evidence that spillovers have occurred or that local SMEs have benefited. For example, MNE affiliates may act as monopsonists in which case it is far from certain that their local suppliers benefit.

Recent business sector developments, especially the increasing reliance on "outsourcing", have both increased the importance of linkages and affected their sectoral composition. Much of the outsourcing has consisted of industrial companies hiving off non-core activities and sourcing them from outside service. providers.

The relation ship between large scale, medium scale and small scale industries should be mutually beneficial and helping each other rather than competing and conflicting.

Large scale industries undertake the manufacture of much bigger and complex machines or systems which demand high technology involving large number of components and sub-systems. Often it may not be economical and possible to manufacture every item with in the organization. These items can be profitably outsourced to either medium or small scale industries. Thus many SSI or ancillary industries can be developed to meet their production requirements.

As the overheads of small scale industries are nominal, the cost of production will be much lower compared to the cost of production in the large scale units.

With the guidance and support rendered by the big industries, the quality of the products can be improved to the levels required.

If a number of sources are developed for a product, it is possible to increase the quantity of output as required and uninterrupted supplies can be maintained.

For the over all economic growth of a nation, the development of all the three sectors is equally essential.

Consequently, the linkages between large industrial enterprises and smaller service vendors, including in the developing world, have gained prominence.

<u>The nature of linkages</u>

Linkages with competitors: foreign investors may set new standards for local firms to compete with.

Forward linkages with customers*.* Marketing outlets, such as petrol stations or restaurants, may be outsourced, and affiliates may form linkages with industrial buyers through value added aftersales services.

Backward linkages with suppliers*.* New market opportunities for local firms are created when the foreign investor purchases components, materials and services locally. Such linkages range from arm's-length market transactions to deep, long-term inter-firm relationships.

• ***Linkages with technology partners****.* Some MNEs may initiate common projects with indigenous SME partners, including joint ventures, licensing and strategic alliances which are a potential source of technology and know-how for firms in the host economy.

• ***Other spillover effects***. Inward investors may demonstrate new and better ways of doing things or trained personnel may leave the investor to work for a local firm or set up their own SME, thus creating human capital spillovers.

small	medium	large
Equity held by founder/ family	*Mostly Private held-family? P-E ,few with public.*	*Mostly public investor –held equity*
Owner-managed	*Owners and professionals play key roles*	*Professional management*
Decision-making largely by owner	*Decision –making by owner/CEO and some key leaders (single/dual)*	*Distributed decision making by organisational hierarchy*
Shor term	*Some long-tern planning mostly by owner /key executives*	*Extensive long-term planning horizon by dedicated teams*
Limited personnel development	*Personnel development limited*	*Multiple career development*

Small Scale Industries in India:

- The role of SSI units is significant in overall growth of the economy in our country.
- SSIs are especially important in the context to employment potentials, equitable distribution of wealth, balanced regional growth and preservation and development of ancient art and craft.
- At present in our country the small scale sector contribute nearly 55% of the total industrial output and 40% of the total exports.
- SSI has also achieved a high degree of sophistication and has been making significant progress in quality up gradation and standardization.
- Small enterprises are able to successfully adapt to the changing situations and possess creative strength.
- SSI has low capital intensity and high labor orientation.
- Although the prospects of SSI are plenty, the new industrial policy is hampering their sustained growth in the nineties. The new policy is more favorable to the multinational companies.
- The rapid and diversified growth of small-scale units has been contributing to the nation's economic development.

Various reasons for lack of development are:

1. Lack of capital

. Lack of political unity
2. Network of custom barriers
3. Existence of innumerable systems of currency
4. Regional markets plagued by arbitrary political authority
5. Taxation policies
6. Low prestige of businessmen in the society.

Agency Houses introduced new methods of production, new sources of raw materials and new products and markets.

These houses entered business, trade, banking in Calcutta, Bombay and Madras. Parsees and Marwaries dominated the business and industry from 1st world war period and 2nd world war period.

TYPES OF ENTERPRISES:

For a business owner first and the most important decision is to decide how the business organization should be structured. There are many factors that decide the choice of business structure:

- Size and nature of the business.
- Control level
- The level of "structure".
- Willingness to take risks for any legal suits if any.
- The implication of tax
- Profit (or loss) of the business.
- Access to cash.

What is an Enterprise?
Enterprise refers to a for-profit business started and run by an entrepreneur. And we will often say that people running such businesses are enterprising. The roots of the word lie in the French word *entreprendre (from prendre),* meaning 'to undertake', which in turn comes from the Latin "*inter prehendere*" (seize with the hand).Firms start when entrepreneurs organise resources and take risks in the expectation of earning a profit. More specifically, enterprises tend to be set up for one or more of the following reasons:

- **To solve a problem: Some** firms originate to solve a problem faced by consumers, by other firms, or by government. For example, internet comparison websites solve the problem faced by consumers of having limited time to research the whole market for the best current deals.
- **To exploit an idea:** Many firms start in order to exploit an original idea or an invention. If the invention can be turned into a good or service which adds value, it can command a price, and earn a profit. For example, *Dyson plc (Dyson Group plc)* was

established by James Dyson to exploit his inventions and designs created and produced when he was in his early twenties.

- **To fill a gap: Some** firms start because the entrepreneur identifies a gap in an existing or emerging market, such as online delivery businesses, like Amazon.
- **Because it can produce at lower cost**: Many firms enter a market because to produce an existing product more cheaply, or more effectively, than existing firms in the market. For example, *Tesco plc* started in 1919 when co-founder Jack Cohen sold cheap groceries from a single stall in London's East End.
- **To exploit knowledge:** Many firms exploit information that is not readily available, such as estate agents and travel agents, like *Kuoni*.

In all cases, entrepreneurs anticipate that they will be successful and earn themselves a profit for their personal risk-taking and entrepreneurial skill. Private firms can only survive if they satisfy consumer demand effectively.

Financing enterprise:

Entrepreneurs need finance to test, produce, and distribute their products. Finance can be obtained from a number of sources, including:

- The entrepreneur's own funds, called private equity
- Selling shares in their business, called share capital
- Borrowing from individuals, banks via loans and mortgages, or from other firms
- Credit from suppliers, which is similar to a loan in its effect

There are different types and different forms of ownership of a business organization.

1] Service Business

Service type firm provides the professional which are skilled in nature, expertise people which have experiences, advice and suggestions and other similar products. For example salons, repair shops, schools, banks, accounting firms, law etc.

- Sole Proprietorship
- Joint Hindu Family Business
- Cooperative Society
- Partnership
- Partnership Deed and Registration
- Types of Companies
- Joint Stock Company
- Forms of Organising Public Sector

2] Merchandising Business

This type of business buys products in a bulk which helps to get the product at low cost at wholesale price and then sells the same at a higher rate or maximum retail price, which are known as buy and sell the business. Thus the profit is generated by purchasing the product at lower cost and then selling it to the market at the maximum retail price.

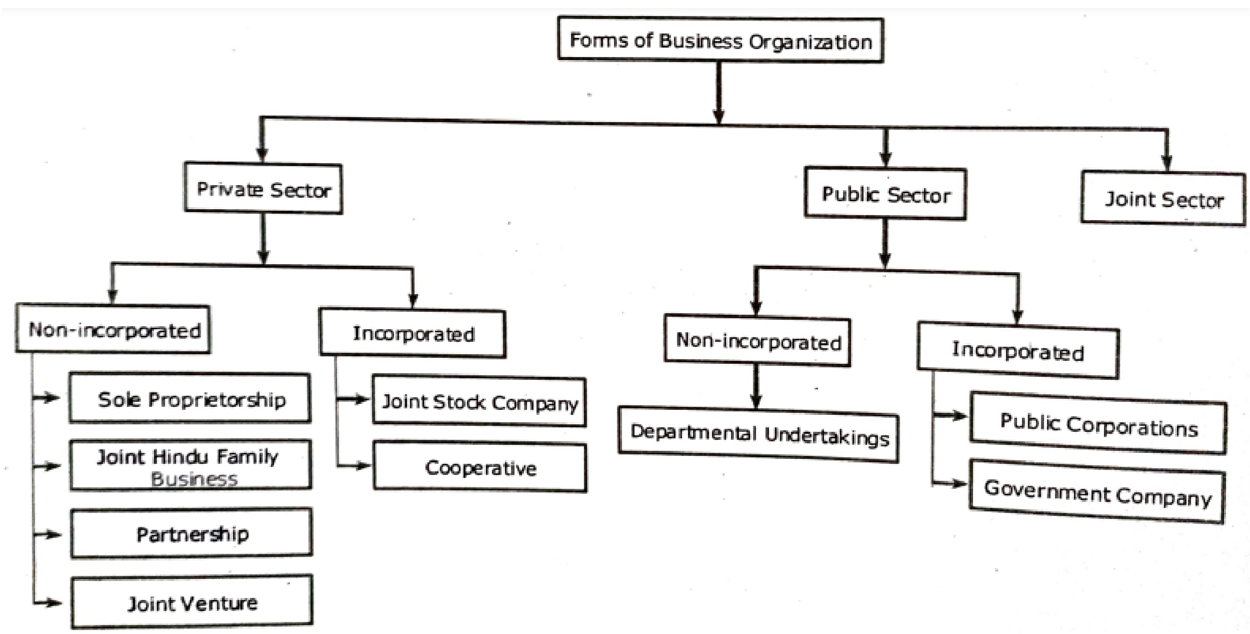
3] Manufacturing Business

A manufacturing business buys the product with the intention of using them as materials in making a new product. A manufacturing business is a combination of raw material, labour and factory overheads in its production process. The manufactured goods will then be sold to the customers.

4] Hybrid Business

Hybrid businesses are companies that may be classified in more than one type of business. Nonetheless, these companies may be classified according to their major business interest.

Forms of Business Organization



Sole Proprietorship

Sole Proprietorship in simple words is a one-man business organisation. Furthermore, a sole proprietor is a natural person(not a legal person/entity) who fully owns and manages this type of entity. In fact, the business and the man are the same, it does not have a separate legal entity.In addition, a sole proprietorship usually does not have to be incorporated or registered. Thus, it is the simplest form of business structure and the ideal choice to run a small business or medium scale business. Let us look at some important features of a proprietorship.

Features of Sole Proprietorship

1] Lack of Legal Formalities

A sole proprietorship does not have a separate law to govern it. And so there are not many special rules and regulations to follow. Furthermore, it does not require incorporation or registration of any kind. In fact, in most cases, we need only the license to carry out the desired business.And just like in its formation, there is hardly any legal process involved in its closure. All in all, it allows for ease of doing business with minimum hassles.

2] Liability

Since there is no separation between the owner and the business, the personal liability of the owner is also unlimited. So if the business is unable to meet its own debts or liabilities, it will fall upon the proprietor to pay them. For instance, he may have to sell all of his personal assets (like his car, house, other properties etc) to meet the debts or liabilities of the business.

3] Risk and Profit

The business owner is the only risk bearer in a sole proprietorship. Since he is the only one financially invested in the company. As a result, he must also bear all the risk. In other words, if the business fails or suffers losses he will be the one affected.However, he also enjoys all the profits from the business. He does not have to share his profits with any other stakeholders since there are none. So he must bear the full risk in exchange for enjoying full profits.

4] No Separate Identity

In legal terms, the business and the owner are one and the same. No separate legal identity will be bestowed upon the sole proprietorship. So the owner will be responsible for all the activities and transactions of the business.

5] Continuity

As seen above the business and the owner has one identity. So a sole proprietorship is entirely dependent on its owner. The death, retirement, bankruptcy. insanity, imprisonment etc will have an effect on the sole proprietorship. In such situations, the proprietorship will cease to exist and the business will come to an end.

Advantages of Sole Proprietorship

- A proprietor will have *complete control of the entire business.* Thus this will facilitate quick decisions and freedom to do business
- Law does not require a proprietorship to publish its financial accounts or any other such documents to any members of the public. As a result, there is enough *confidentiality* which is important in the business world
- The business owner derives *the maximum incentive* from the business. Because he does not have to share any of his profits. So the work he puts into the business is completely reciprocated in incentives
- Being your own boss is a great sense of *satisfaction and achievement*. Moreover, you are answerable only to yourself. Hence it is a great boost to your self-worth as well

Disadvantages of Sole Proprietorship

- One of the biggest limitations of a sole proprietorship is the *unlimited personal liability of the owner*. If the business fails it can wipe out the personal wealth of the owner as well as affect his future business prospects too
- Another problem is that a sole proprietor has access to *limited capital*. The money he can borrow from his own personal savings may not be enough to expand the business. Moreover, banks and financial institutions are also wary of lending to proprietorships.
- The life cycle of a sole proprietorship is undecided and attached to its owner. An incapacitated owner may have a negative effect on the business, and it may even lead to the closure of the business. A sole proprietorship cannot carry on without its proprietor.
- A sole proprietor also has *limited managerial ability*. He cannot be an expert in all the fields of the business. Furthermore, limited resources may mean that he cannot hire competent people to help him out. As a result, the business may suffer from mismanagement and poor decisions.

Joint Hindu Family Business

The Joint Hindu Family Business or the Hindu Undivided Family (HUF) is a unique form of business organisation found only in India. Nowhere else in the world is this a legal form of business entity.

Hindu Undivided Family (HUF)

The Joint Hindu Family Business or the Hindu Undivided Family (HUF) is a unique type of business entity. It is governed and dictated by the Hindu Law, which is one of the several religious laws prevalent in India.Well, any person born into the family (boy or girl) up to the next coming three generations is a part of the HUF. These members are the co-parceners. The head of such a Joint Family Business is the eldest member of the family.

Formation: To begin a Hindu Undivided Family there must be a minimum of two related family members. There must be some assets, business or ancestral property that they have inherited or will eventually inherit. The formation of a HUF does not require any documentation and admission of new members is by birth.

- ***Liability:*** The liability of all the various co-parceners is only up to their share of the property or business. So they have limited liability. But the Karta being the head of the HUF has unlimited liability.
- ***Control***: The entire control of the entity lies with the Karta. He may choose to confer with the co-parceners about various decisions, but his decision can be independent. is actions will be final and also legally binding.
- ***Continuity:*** The HUF can be continued perpetually. At the death of the Karta, the next eldest member will become the Karta. However, keep in mind a Hindu Undivided Family can be dissolved if all members mutually agree.
- ***Minority:*** As we saw earlier the members are eligible to be co-parceners by the virtue of their birth into the family. So in this case, even minor members will be a part of the HUF. But they will enjoy only the benefits of the organisation.

Advantages of the HUF

- A Hindu Undivided family is comprised of family members running a business. Like any other organisation, there is scope for disagreements and conflicts. But since the Karta has absolute power and takes all decisions by himself, it will lead to effective management.
- Just like a company, the existence of a HUF is perpetual. The death or retirement of one member of even the Karta will not affect it, and it will continue on.
- Since the co-parceners do not have any effective control over the management of the HUF, and all power lies with the Karta, the liability of the members has also been limited to only their share of the property. This keeps the balance between power and responsibility.
- Also since all members of the HUF are relatives and members of the same family, there is a sense of loyalty and cooperation. The trust among members is also there and leads to overall cooperation.

Disadvantages of the HUF

- No outside members other than family members can be introduced to the HUF. This makes it very difficult to get additional capital from the market. With limited capital, the chances of expansion are very low. It limits the scope of the business.
- While the Karta has all the power he also has the burden of unlimited liability. This may make him overly cautious and timid in his business dealings. In turn, the business could

suffer. Another factor is that he may even be held responsible for the actions of other members.

- Also, the absolute dominance of the Karta overall business and financial decisions make cause conflict among the HUF. His decisions and business acumen may be questioned by other members, and cause issues within the HUF.
- Another issue may be that the Karta may not be the most qualified person to lead the business. The position is given to the senior most family member, whether he is the most qualified or not is not taken into consideration.

There are two systems of the HUF, namely

- Dayabhaga System: Here both male and female members will be co-parceners in the Hindu Undivided Family
- Mitakashara System: Here only the male family members are admitted into the HUF, the female members have no share.

But the government of India has amended the Hindu Succession Act to make sure both male and female members have equal rights on ancestral properties.

Partnership

A partnership is an arrangement where parties, known as business partners, agree to cooperate to advance their mutual interests. The partners in a partnership may be individuals, businesses, interest-based organizations, schools, governments or combinations.

In India, we have a definite law that covers all aspects and functioning of a partnership, The Indian Partnership Act 1932. The act also defines a partnership as "the relation between two or more persons who have agreed to share the profits from a business carried on by either all of them or any of them on behalf of/acting for all"

So in such a case two or more (maximum numbers will differ according to the business being carried) persons come together as a unit to achieve some common objective. And the profits earned in pursuit of this objective will be shared amongst themselves.The entity is collectively called a "Partnership Firm" and all the individual members are the "Partners".

Features of a Partnership

1] Formation/Partnership Agreement

A partnership firm is not a separate legal entity. But according to the act, a firm must be formed via a legal agreement between all the partners. So a contract must be entered into to form a partnership firm.

Its business activity must be lawful, and the motive should be one of profit. So two people forming an alliance to carry out charity and/or social work will not constitute this form of organisation. Similarly, a partnership contract to carry out illegal work, such as smuggling, is void as well.

2] Unlimited Liability

In a unique feature, all partners have unlimited liability in the business. The partners are all individually and jointly liable for the firm and the payment of all debts. This means that even personal assets of a partner can be liquidated to meet the debts of the firm.

If the money is recovered from a single partner, he can, in turn, sue the other partners for their share of the debt as per the contract of the partnership.

3] Continuity

A partnership cannot carry out in perpetuity. The death or retirement or bankruptcy or insolvency or insanity of a partner will dissolve the firm. The remaining partners may continue the partnership if they so choose, but a new contract must be drawn up. Also, the partnership of a father cannot be inherited by his son. If all the other partners agree, he can be added on as a new partner.

4] Number of Members

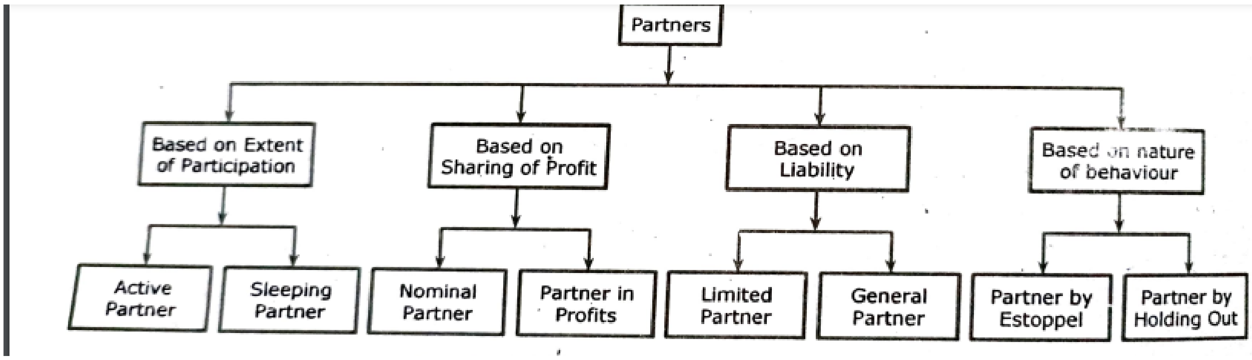
As we know that there should be a minimum of two members. However, the maximum number will vary according to a few conditions. The Partnership Act itself is silent on this issue, but the Companies Act, 2013 provides clarity.For a banking business, the number of partners must not exceed ten. For a business of any other nature, the maximum number is twenty. If the number of partners increases it will become an illegal entity or association.

5] Mutual Agency

In this type of organisation, the business must be carried out by all the partners together. Or alternatively, it can be carried out by any of the partners (one or several) acting for all of them or on behalf of all of them. So this means every partner is an agent as well as the principal of the partnership.He represents the other partners in some cases so he is their agent. But in other circumstances, he is bound by the actions of any of the other partners aking him the principal as well.

Types of Partners

Not all partners of a firm have the same responsibilities and functions. There can be various types of partners in a partnership. Let us study the types of partners and their rights and duties.



- **Active Partner**: As the name suggests he takes active participation in the business of the firm. He contributes to the capital, has a share in the profit and also participates in the daily activities of the firm. His liability in the firm will be unlimited. And he often will act as an agent for the other partners.

- **Dormant Partner**: Also known as a sleeping partner, he will not participate in the daily functioning of the business. But he will still have to make his share of contribution to the capital. In return, he will have a share in the profits. His liability will also be unlimited.

- **Secret Partner**: Here the partner's association with the firm is not public knowledge. He will not represent the firm to outside agents or parties. Other than this his participation with respect to capital, profits, management and liability will be the same as all the other partners.

- **Nominal Partner**: This partner is only a partner in name. He allows the firm to use the name of his firm, and the attached goodwill. But he in no way contributes to the capital and hence has no share in the profits. He does not involve himself in the firm's business. But his liability too will be unlimited.

- **Partner by Estoppel**: If a person makes it out to be, through their conduct or behaviour, that they are partners in a firm and he does not correct them, then he becomes a partner by estoppel. However, this partner too will have unlimited liability.

There can be general partnership with general partners, limited partnerships (or limited liability partnership) etc.

Private Company:

This is a type of company that finds mention in the Companies Act, 2013. The purpose of private companies is when the business is not very large, but the owners/management still want to opt for a company over a partnership or proprietorship. Let us look at some of the features/characteristics of a private company.

- Minimum numbers of members required to incorporate a private company are 2. There is also a maximum limit of 200 members. However, joint members of shares are counted as one member.

- The minimum paid-up capital for a private company has been kept at one lacs. There is no maximum limit in this case.
- Transferability of shares by its members is restricted. Such transfers are not absolutely prohibited, but there are certain restrictions put by the Companies Act. This is to avoid takeovers by larger companies and multinationals and ensure the sanctity of private companies
- Private companies under no circumstances can accept deposits from the public. It cannot invite members of the public to subscribe to its shares either.
- The number minimum of directors to be appointed are 2. No independent directors are required.

Privileges of a Public Company

Now a private company under the Companies Act enjoys certain privileges over a public company. Since a private company does not take deposits from the public, certain rules have been relaxed in their favour. Let us take a look at all the privileges that private companies enjoy.

- The minimum number of members are restricted to 2. So it does not require many promoters to start a private company.
- Since the members of the public are not invited to subscribe shares there is no need to issue a prospectus on any such similar document.
- There is no need to wait for a minimum subscription amount to be received. The members can allot shares within themselves and immediately incorporate the company.
- While incorporation with the registrar of companies is compulsory, there is no commencement certificate in the case of private companies. The business can start functioning immediately after receiving the certificate of incorporation.
- In case of a private company, there is no need to maintain a register of shareholders.
- It can allot any type of shares to its members. even shares with differential voting rights which are prohibited for public companies.
- Its financial accounts are not accessible by any member of the public. It can maintain some secrecy in the matter.
- The directors need not retire by rotation and there is no limit on their remuneration as well.

Joint Stock Company

When you think of all the largest companies in the world, these are not proprietorships or partnerships. These companies are all joint stock companies. When dealing with business on a fairly large scale, a joint stock company is the most suitable form of business organisation.The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as "*a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company*." Studying the features of a joint stock company will clarify its structure.

Features of a Joint Stock Company

1] Artificial Legal Person

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.

However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2] Separate Legal Entity

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3] Incorporation

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4] Perpetual Succession

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

5] Limited Liability

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

6] Common Seal

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7] Transferability of Shares

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Advantages of a Joint Stock Company

- One of the biggest drawing factors of a joint stock company is the *limited liability of its members*. their liability is only limited up to the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies
- The shares of a company are *transferable.* Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.
- *Perpetual succession* is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.
- A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the *best talent and professionals*.

Disadvantages of a Joint Stock Company

- One disadvantage of a joint stock company is the complex and lengthy procedure for its *formation*. This can take up to several weeks and is a costly affair as well.
- According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete *lack of secrecy* for the company.
- And even during its day to day functioning a company has to follow a numerous number of laws, *regulations*, notifications, etc. It not only takes up time but also reduces the freedom of a company
- A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees. the debenture holders etc. All these stakeholders look out for their benefit and it often leads to a *conflict of interest.*

Cooperative Society

A business organization can take many forms. One such form is that of a cooperative society. Such societies have unique features of joint ownership and democratic leadership. A cooperative society is not a new concept. It prevails in all the countries, this is almost a universal concept. The cooperative society is active in all countries worldwide and is represented in all the sectors including agriculture, food, finance, healthcare, etc.To protect the interest of weaker sections, the co-operative society is formed. It is a voluntary association of persons, whose motive is the welfare of the members.

Features of a Cooperative Society

- As it is a voluntary association, the membership is also voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. Irrespective of their religion, gender & caste, membership is open to all.
- It is compulsory for the co-operative society to get registration. The co-operative society is a separate legal identity to the society.
- It does not get affected by the entry or exit of its members.
- There is limited liability of the members of co-operative society. Liability is limited to the extent of the amount contributed by members as capital.
- An elected managing committee has the powers to take decisions. Members have the right to vote, by which they elect the members who will constitute the managing committee.
- The cooperative society works on the principle of mutual help & welfare. Hence, the principal of service dominates it's working. If any surplus is generated, it is distributed amongst the members as a dividend in conformity with the bye-laws of the society.

Types of Cooperative Society

1] Producer Cooperative

To protect the interest of small producers, these societies are set up. The co-operative society members may be farmers, landowners, owners of the fishing operations. To increase the marketing possibilities and production efficiency, producers decide to work together or as separate entities.

They perform several activities like processing, marketing & distributing their own products. This helps in lower costs and strains in each area with a mutual benefit to each producer.

2] Consumer Cooperative

These businesses are owned and governed by consumers of a particular area for their mutual benefit. Their view is to provide daily necessary commodities at an optimum price. Rather than earning a pecuniary profit, their aim is towards providing service to the consumers.

3] Credit Unions

Credit unions are generally member-owned financial cooperatives. Their principle is of people helping people. They provide credit and financial services to the members at competitive prices. Each and every depositor has the right to become a member. Members attend the annual meeting and are given rights to elect a board of directors.

4] Marketing Cooperative Society

With an aim of helping small producers in selling their products, these societies are established. The producers who wish to obtain reasonable prices for their output are the members of this society.For securing a favourable market for the products they eliminate the middlemen and improve the competitive position of its members. It collects the output of individual members. Various marketing functions like transportation, packaging, warehousing, etc are performed by the cooperative societies to sell the product at the best possible price.

5] Housing Cooperative Society

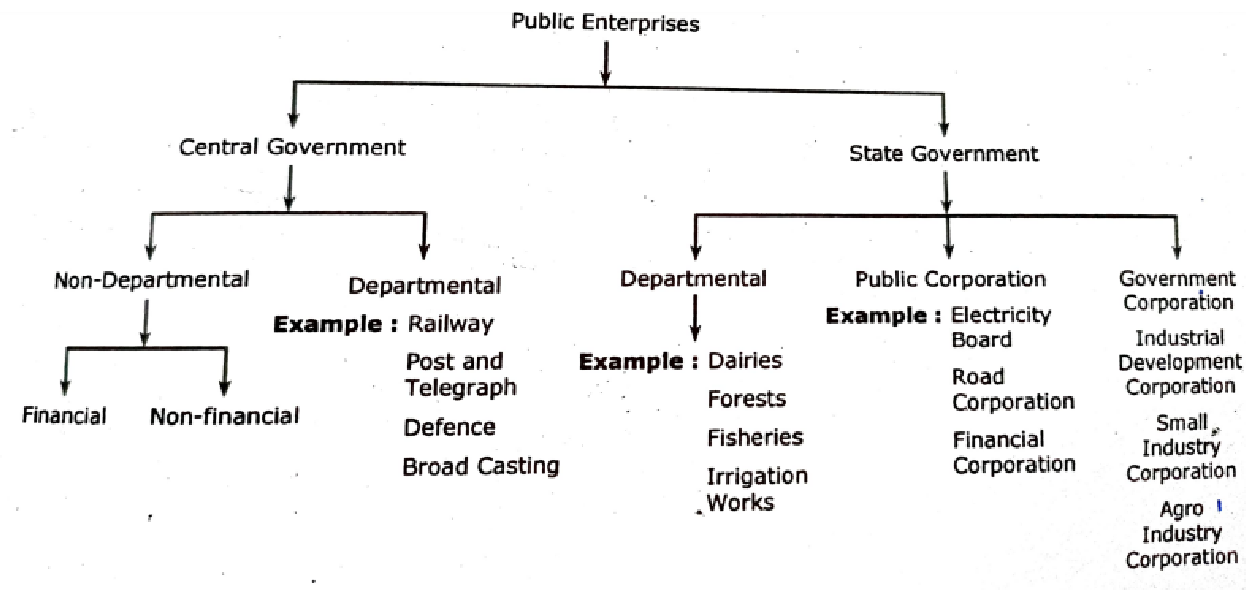
To help people with limited income to construct houses at reasonable costs, these societies are established. Their aim is to solve the housing problems of the members. A member of this society aims to procure the residential house at lower cost.They construct the houses and give the option to members to pay in installments to purchase the house. They construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

Public Enterprise:

Commonly known as public undertakings.It is owned, managed and controlled by the Central Government or any State Government or any Local authority.

i.Departmental Undertaking: It is a public enterprise which is organized ,controlled and financed by the government in the same way as the Government department.

ii.Public Corporation : It is a body created by an Act of parliament or legislature .Its name is notified in the official gazette of the Central or State Government .It is an artificial person with the flexibility of the private sector and the powers of the government.It is also known as Statutory Corporation.



iii.Government Company: According to Section 617 of companies act ,1956 ":A government company in which at least 51% of paid up share capital is held by the central government ,any state government or Governments ,partly by Central Government and partly by one or more State Governments and includes a company which is subsidiary of a company thus defined.

Advantages Of Public Enterprise:
1.Independent and Flexible
2.Easy Formation
3.Increase Economy

Disadvantages Of Public Enterprise:
1.Bureaucratic Management
2.Delayed Decisions
3.No clear cut price policy

1. **Sole Proprietorship**:

Definitions:

It is the form of business organization on the head of which stands an individual as the one who is responsible, who directs its operations, who alone bears the risk of failure.

A sole trader is a person who sets up the business with his own resources, manages the business himself employing persons for his help and alone bears all the gains and risks of the business.

A sole trader is a person who carries on the business exclusively by and for himself. He is the supreme judge of all matters pertaining to his business subject only to the general laws of the land.

Characteristics of Sole Proprietorship:

1. Individual initiative
2. Unlimited liability
3. Full managerial control
4. Motivation
5. Secrecy
6. Proprietor and proprietorship are one
7. Owner and business exist together
8. Limited area of operations

Advantages:

1. Easy formation
2. Better control
3. Flexibility in operations
4. Retention of business secrets
5. Easy to raise finance
6. Direct motivation
7. Promptness in decision making
8. Direct accessibility to consumers
9. Inexpensive management
10. No legal restrictions
11. Socially desirable
12. Self employment
13. Good relations with employees
14. Benefit of inherited good will

Disadvantages:

1. Limited resources
2. Limited managerial ability
3. Unlimited liability
4. Uncertain continuity
5. Limited scope for employees
6. No large scale economies
7. More risk involved

Suitability:

1. Small scale of operations
2. Local market
3. When personal contact with customers is needed
4. Speculative business

Examples: Retail traders, Small Engg. Firms, Repair shops

2 Partnership:

Definitions:

The relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all. - As per Partnership act 1932(sec.4)

A partnership firm is a group of two or more persons who have joined capital or services for the prosecution of some enterprise.

Characteristics:

1. Association of two or more persons
2. Contractual relation
3. Earning of profits
4. Existence of business
5. Implied authority
6. Unlimited liability
7. Principle and agent relationship
8. Utmost good faith
9. Restriction of transfer of shares
10. Common management
11. Partners and partnership are one
12. Capital contribution
13. Protection of minority interests
14. Continuity

Advantages:

1. Easy to form
2. Moderately large resources
3. Greater managerial talent
4. More credit standing
5. Promptness in decision making
6. Sharing of risk
7. Relationship between work and reward
8. More possibility of growth and expansion
9. Close supervision
10. Flexibility of operations
11. Secrecy
12. Protection of minority interest
13. Easy dissolution
14. Democratic administration
15. Less managerial expenses

Disadvantages:

1. Unlimited Liability
2. Limited resources
3. Instability
4. Mutual distrust
5. Limitation on transfer of shares
6. Burdon of implied authority
7. Lack of public faith
8. Lack of speed in decision making
9. Cautious approach

Suitability:

1. Small and medium scale operations
2. Higher managerial skill and capital requirement
3. Direct contact with consumers

3. Joint stock company:

Definitions:

A joint stock company is a voluntary association of individuals for profit having a capital divided into transferable shares, the ownership of which is the condition of membership.

A company is an association of many persons who contribute money or money's worth to a common stock and employs it in some trade or business and who share the profit or loss, as the case may be, arising there from.

A company means a company formed and registered under the act.

– Sec.3 of Indian companies Act-1956

Characteristics:

1. Association of persons
2. Independent legal Entity
3. Limited liability
4. Common Seal
5. Transferability of shares
6. Separation of ownership and management
7. Perpetual Existence
8. Corporate finance
9. Centralized and delegated management
10. Publication of Accounts

Merits:

1. Accumulation of Resources
2. Limited liability
3. Continuity of existence
4. Efficient management
5. Economics of large scale production
6. Transferability of shares
7. Ability to cope up with changing business environment
8. Diffused Risk
9. Democratic set up
10. Social benefits

Demerits:

1. Difficulty in formation
2. Separation of ownership & management
3. Fraudulent management
4. Lack of secrecy
5. Delay in decision making
6. Evils of factory system
7. Speculation in shares
8. Concentration in economic power
9. Excessive State regulations

4. Cooperative Societies:

Definitions:

The cooperative form of organization is a democratic set up run by its members for serving the interests of themselves.

- Self help through mutual help. All for each and each for all.

It is a society which has its objectives the promotion of economic interests of its members in accordance with the Cooperative Principles.

- Sec. 4 of The Indian cooperative societies Act- 1912

Principles of Cooperatives:

1. Voluntary membership
2. Political & Religious Neutrality
3. Democratic management
4. One man One vote
5. Cash trading
6. Service motive
7. Distribution of surplus
8. Limited interest on investment
9. State Control
10. Cooperative Education & Training

Types:

1. Consumer's cooperatives
2. Producer's cooperatives
3. Marketing cooperatives
4. Housing cooperatives
5. Credit cooperatives
6. Cooperative farming societies

Advantages:

1. Open membership
2. Service motto
3. Supply of goods at cheaper rates
4. Democratic management
5. Low managerial cost
6. Surplus shared by members
7. Check on other businesses

Limitations:

1. Lack of capital
2. Lack of unity among members
3. Cash trading
4. Political interference