MODULE 1: ENTREPRENEURSHIP

1

INTRODUCTION TO ENTREPRENEUR AND ENTREPRENEURSHIP

Unit Structure

1.0 LEARNING OBJECTIVE

Entrepreneurship is the key to economic growth. A Country that fosters innovation and Entrepreneurship will emerge the strongest in the future.

On completion of this chapter you should be able to

- Concepts: entrepreneur and entrepreneurship
- Distinguish between the entrepreneur and entrepreneurship
- Understand the role and function of entrepreneurs in economic development

1.1 CONCEPT OF ENTREPRENEURS AND ENTREPRENEURSHIP

1.1.1 Entrepreneur:

Entrepreneurship introduces a critical element of dynamism into the economic system. The word 'entrepreneur' has been taken from the French language where it cradled and originally meant to designate an organizer of musical or other entertainments. Oxford English dictionary(in 1897)Also defined an entrepreneurs. Any similar way as " the director or a manager of a public musical institution, one who gets up entertainment, space musical performances". It was only in the beginning of the eighteenth century that the word was used to refer to economic aspects. In this way the evolution of the concept of entrepreneurs is considered over more than four centuries. Since then the term interpreter is used in various ways and various views. These views are broadly classified into three groups namely risk bearer organiser and innovators.

Richard cantillon, an Irish man Living in France, was the first who introduced the term 'entrepreneur, And his unique risk bearing function in Economics in in the early 18th century. He defined entrepreneur as an agent who by factors of production at certain prices in order to combine them into a product with a view to selling it in it uncertain prices in future.

Knight also described Entrepreneur to be a specialised group of persons who wear uncertainty. Uncertainty is defined as a risk which cannot be insured against and is incalculable .He thus, Draws a distinction between ordinary risk and uncertainty. are risk cannot be reduced through the insurance principle where the distribution of the outcome in a group of instances is known full stop on the contrary, Uncertainty is the risk which cannot be calculated. The entrepreneur, According to Knight ,is the economic functionary Who undertakes such responsibilities of uncertainty which by its very nature cannot be insured nor capitalised nor salaried too.

Jean-Baptiste Say, an aristocratic industrialist ,with his unpleasant practical experiences developed the concept of Entrepreneurs .His definition Associates Entrepreneurs With the function of coordination, organisation and supervision .

Joseph A Schumpeter ,For the first time in 1934 , assigned a crucial role of innovation to the entrepreneurs in his magnum opus' theory of economic development' Schumpeter Considered economic development as a discrete dynamic Change bought by the entrepreneurs by instituting new combination of production i.e. Innovation. The introduction of new combination of factors of production, according to him, MI roca in any one of the following five forms:

1. The introduction of new products in the market.

2. The instituting of a new production Technology which is not attested by experience in the branch of manufacture concerned.

3. The opening of a new market into which the specific product has not previously entered.

4. The discovery of a new source of supply of raw material.

5. The carrying out of the new form of organisation of any industry by creating a Monopoly position for the breaking up of it.

In some the concept of entrepreneur is intimately associated with the three elements- wrist wearing, organising and innovating. Thus, an entrepreneur can be defined as a person who tries to create something new, organizes products and undertakes risk and handles economic uncertainty involved in Enterprise.

1.1.2 Entrepreneurship:

In a Conference on entrepreneurship held in the United States, the term entrepreneurship was defined as follows;

Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity, and through the communicative and management skill to mobilize human, financial and material resources necessary to bring a project to fruition.''

In the opinion of A.H. Cole," Entrepreneurship is the purposeful activity of an individual for a group of associated individuals, undertaken to initiate, maintain or aggrandize Profit by production distribution of economic goods and services.''

According to Schumpeter,''Entrepreneurship is based on purposeful and systematic innovation . it included not only the independent businessman but also company directors and manager who actually carry out innovative functions.''

In all above definitions, entrepreneurship refers to the functions performed by entrepreneurs in establishing an enterprise. Just as management is regarded as what managers do, entrepreneurship may be regarded as what entrepreneurs do. In other words, entrepreneurship is the act of being and intrapreneur. Entrepreneurship is a process involving various actions to be undertaken to establish an enterprise .It is ,thus, the process of giving birth to a new enterprise.

Innovation and risk taking are regarded as the two basic elements involved in entrepreneurship. lyrics understand what these terms actually mean.

Innovation- innovation means doing something new or something different in a necessary condition to be called a person entrepreneur.

Risk--Bearing-Starting a new enterprise always involves this and trying for doing something new indifferent is also risky. An Entrepreneur needs To be bold enough to assume the risk involved in the Enterprise. Infect he needs to be a risk-taker, not a risk-avoider. is the risk-taking ability and enable him even if he fails in one time or one venture to persist on and on which ultimately helps him succeed. the Japanese proverb applies to him'' fall seven-time, stand up eight '.

1.1.3 Relationship between Entrepreneur and Entrepreneurship:

The term entrepreneurs is often used interchangeably With entrepreneurship but conceptually they are different, they are just like the two sides of a coin. Entrepreneurs and entrepreneurship are correlated. An entrepreneur is a person and Entrepreneurship is a verb or action we can easily understand the difference between these two concepts by the following table:

Table No. 1.1

SR No.	Entrepreneur (PERSON)	Entrepreneurship (ACTION, ACTIVITY)
1	Administrator	administration
2	able	ability
3	Aimer	Aim
4	analyzer	analyst
5	adopter	adopting
6	accelerator	accelerating
7	accountant	accounting
8	Builder	building
9	balanced	balancing
10	Believer	belief
11	brilliant	brilliance
12	Bold	Boldness
13	creator of value and trust	creativity
14	character	values
15	Considerator	consideration
16	Courageous	courage
17	Communicator	communication
18	competitor	competitive
19	capitalist	capital venture
20	confident cultured	collaborative culture
21	dreamer	dreams
22	designer	designs
23	director	direction
24	decision maker	decision making
25	delegator	delegation
26	dominant player	focused
27	educator	education
28	empowerer	empowerment
29	excellor	excelling
30	ethical	ethics
31	Facilitator	facilitating
32	foresighter	foresight
33	Futurist	futuristic
34	goal setting	goal setting
35	growth fixer	growth oriented
36	humble	humanity
37	honest	honesty
38	human	humanity
39	initiator	initiating
40	investor	investing
41	innovator	innovation
42	inspirer	inspiring
43	integrator	integrity
44	ignitor	igniting

45	Imaginator	Imagination
46	Intellectual	intelligence
47	informar	information
48	knowledged	knowledge
49	leader	leadership
50	leverager	leveraging
51	learner	learning
52	mentor	confidence building
53	motivator	motivation
54	marketier	marketing
55	net-worker	Net-working
56	nurturer	nurturing
57	Organiser	organisation
58	opportunist	Opportunities
59	planner	programming
60	producer	production
61	Performer	Performance
62	partner	partnership
63	positioner	Positioning
64	packager	packaging
65	promoter	promotion
66	passion- player	passinate
67	Risk bearing	risk taking
68	responsible	responsibility
69	reinventor	Re-Inventing
70	Re-engineer	Re-engineering
71	skilled	skills
72	Striver	starving
73	Strategist	Strategy
74	salesman	selling
75	talented	talent
76	trainer	training
77	trendsetter	trendsetting
78	technologist	Technology
79	transformer	transforming
80	venturist	venturing
81	visionary	vision
82	Visualizer	visualisation
83	wealth creator	wealth creation
84	wizard	specialist

1.2 QUALITIES OF SUCCESSFUL ENTREPRENEUR

The characteristics of an entrepreneurship that contribute to success are the result of his achievement and motivation and entrepreneurs who has a higher level of Administrative capability, Flair and ability for decision making, computational skill, delegation skill, good at communication and has a sound technical knowledge stands a much better chance of success than his counterpart who process is done or lower level of these basic qualities.The entrepreneurial qualities are-

1. Mental ability:

Mental ability consists of Intelligence and creative thinking. Entrepreneurs must be reasonably intelligent, and should have creative thinking and must be able to engage in the analysis of various problems and situations in order to deal with them.

2. Clear objectives:

In entrepreneurs should be a clear objective was to the exact nature of the business, the nature of his goods to be produced and subsidiary activities to be undertaken. A successful entrepreneur may have the objective to establish the product, to make profit or to render social service.

3. Business secrecy:

An entrepreneur must be able to guard business secrets. leakage of business secrets to trade competitions is a serious matter which should be carefully guarded against by entrepreneurs .An entrepreneur Should be able to make a proper selection of his assistants.

4. Human Relationship ability:

The most important personality factors contributing to the success of entrepreneurs are emotional stability, personal relations, consideration and tactfulness. in entrepreneur must maintain good relation with his customers if he has to establish relations that will encourage them to continue to patronise this business.

5. Communication ability:

This ability pertains to communicating effectively. Good communication also means that both the sender and receiver understand each other and are understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the Entrepreneur who does not.

6. Technical knowledge:

An entrepreneur must have a reasonable level of technical knowledge. This is the one ability that most people are able to acquire if they try hard enough.

7 .Hard working:

Willingness to work hard distinguishes successful entrepreneurs from unsuccessful one. The Entrepreneur with his tedious, sweat -filled hours and perseverance revive their business even from on verge of failure. Most successful entrepreneurs work hard endlessly.

8. Highly optimistic:

The successful entrepreneurs are not disturbed by the present problems faced by them. They are optimistic that the situation will become favourable to business in the future. Thus they can run their Enterprise successfully in future.

9. Good organizer:

Different resources required for production are divorced from each other. It is the ability of the entrepreneurs that bring together all resources required for starting up an enterprise and then produce goods.

10. Innovative:

Innovation in production is the main source of attraction for consumers. In view of the changing taste of customers from time to time, entrepreneurs initiate Research and innovative activities to produce goods to satisfy the customers, changing demand for the products. The research institutions established by Tata Birla Kirloskar,etc. are examples of innovative activities taken by the successful entrepreneurs in our country.

11. Self discipline:

Self discipline is the single most important quality for success in life and business. If you can discipline yourself to do what you should do, whether you feel like it or not, your success is Virtually guaranteed. self discipline requires self mastery, self control, self responsibility and self direction

12. Persistence:

Persistence is the iron quality of character. Persistence is the character of a man as carbon is to Steel. and indispensable qualities that go hand in hand in hand with all great success in life. Here is one of the great secrets to persistence and success. program your subconscious mind for persistence well in advance of the setback and disappointment that you are going to have on your upward Quest towards success.

There is a never ending debate on whether entrepreneurs are born or made. What we can say that Successful entrepreneurs are never satisfied and have the habit of work long hours. Entrepreneurs are usually pretty disciplined about getting things done on their own terms.

1.3 ROLE AND FUNCTION OF ENTREPRENEURS IN ECONOMIC DEVELOPMENT

Entrepreneurship has been identified by many economists as an important force in the process of industrialization in particular and economic development in general. Economic development essentially means a change but at the same time, it is very difficult to define precise economic development should be realized that the term economic development does not express the idea of the total development of society. It focuses on only one aspect. And a dimension of general development. Economic development can be defined as a step towards even more efficient and differentiated ways of supplying people with requirements for survival and improvement. The entrepreneur is the key to the creation of new enterprises. Activate the economy and rejuvenate established enterprises that make up the economic structure. Entrepreneurs initiate and sustain the process of economic development in the following ways:

1. Wealth Creation and Sharing:

By establishing the business entity, entrepreneurs invest their own resources and attract capital (in the form of debt, equity, etc.) from investors, lenders and the public. This mobilizes public wealth and allows people to benefit from the success of entrepreneurs and growing businesses. This kind of pooled capital that results in wealth creation and distribution is one of the basic imperatives and goals of economic

2. Create Jobs:

Entrepreneurs are by nature and definition job creators, as opposed to job seekers. The simple translation is that when you become an entrepreneur, there is one less job seeker in the economy, and then you provide employment for multiple other job seekers. This kind of job creation by new and existing businesses is again is one of the basic goals of economic development. This is why the Govt. of India has launched initiatives such as Startup India to promote and support new startups, and also others like the Make in India initiative to attract foreign companies and their FDI into the Indian economy. All this in turn creates a lot of job opportunities, and is helping in augmenting our standards to a global level.

3. Balanced Regional Development:

Entrepreneurs setting up new businesses and industrial units help with regional development by locating in less developed and backward areas. The growth of industries and business in these areas leads to infrastructure improvements like better roads and rail links, airports, stable electricity and water supply, schools, hospitals, shopping malls and other public and private services that would not otherwise be available.

Every new business that locates in a less developed area will create both direct and indirect jobs, helping lift regional economies in many different ways. The combined spending by all the new employees of the new businesses and the supporting jobs in other businesses adds to the local and regional economic output. Both central and state governments promote this kind of regional development by providing registered MSME businesses various benefits and concessions.

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. Each new addition to these 36 million units makes use of even more resources like land, labor and capital to develop products and services that add to the national income, national product and per capita income of the country. This growth in GDP and per capita income is again one of the essential goals of economic development.

5. Standard of Living:

Increase in the standard of living of people in a community is yet another key goal of economic development. Entrepreneurs again play a key role in increasing the standard of living in a community. They do this not just by creating jobs, but also by developing and adopting innovations that lead to improvements in the quality of life of their employees, customers, and other stakeholders in the community. For example, automation that reduces production costs and enables faster production will make a business unit more productive, while also providing its customers with the same goods at lower prices.

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, and leads to currency inflows and access to the latest cutting-edge technologies and processes being used in more developed foreign markets. Another key benefit is that this expansion that leads to more stable business revenue during economic downturns in the local economy.

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. For example, you need highly educated and skilled workers in a community to attract new businesses. If there are educational institutions, technical training schools and internship opportunities, that will help build the pool of educated and skilled workers.

8. Backward and Forward link:

An entrepreneur initiates change in which there is a chain reaction. There are many backward and forward linkages in establishing an enterprise. For example, the setting up of a steel plant creates many ancillary units, and the demand for iron ore, coal, etc. expands. There are backward relationships. By increasing the supply of steel, the plant facilitates machine manufacturing, tube making, vessel manufacturing, and the development of other such units.

Entrepreneurs create an atmosphere of enthusiasm and express a sense of purpose. They give an organization its momentum. Entrepreneurial behavior is critical to the long-term vitality of every economy. The practice of entrepreneurship is as important for established firms as it is for newcomers.

9. Reducing tension and unrest among youths:

Many problems associated with youth unrest and social tension are rightly considered to be due to youth not being engaged in productive work. In the changing environment where we are faced with the problem of recession in wage employment opportunities, the alternative to a wage career is the only viable option. the country is required to invert the youth with latent entrepreneurial traits from wage careers to self-employment careers. Such an alternate path through entrepreneurship could help the country in defusing social tension and unrest amongst youth.

10. Innovation in Enterprises:

Business enterprises need to be innovative for their survival and better performance. It is believed that smaller firms have a relatively higher necessity and capability to innovate. The smaller firms do not face the constraints imposed by a large investment in existing technology. Thus they are both free and compelled to innovate. The National Science Foundation, an organization in the USA found that small companies produce four times more innovations per research dollar than do bigger companies. Entrepreneurship development programs are aimed at accelerating the pace of the small firm's growth in India. an increased number of small firms is expected to result in more innovations and make the Indian industry compete in the international market.

11. Reduces Concentration of Economic Power:

Economic power is the natural outcome of industrial and business activity. Industrial development normally leads to concentration of economic power in the hands of a few individuals which results in the growth of monopolies. In order to redress this problem a large number of entrepreneurs need to be developed, which will help reduce the concentration of economic power amongst the population.

12. Wealth Creation and Distribution:

It stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas, thus giving benefit to larger sections of the society. Entrepreneurial activities also generate more activities and give a multiplier effect in the economy.

13. Facilitates Overall Development:

Entrepreneurs act as catalytic agent for change which results in chain reaction. Once an enterprise is established, the process of industrialization is set in motion. This unit will generate demand for various types of units required by it and there will be so many other units which require the output of this unit. This leads to overall development of an area due to increase in demand and setting up of more and more units. In this way, the entrepreneurs multiply their entrepreneurial activities, thus creating an environment of enthusiasm and conveying an impetus for overall development of the area.

1.4 SUMMARY

Entrepreneurship Is an attitude of the mind can take risks but calculate ones, A true entrepreneur is one who can see possibilities in a given situation Where others see none and has the patience to work out the idea into a scheme to which financial support can be provided.

1.5 QUESTIONS

Q1. Explain the concept of entrepreneurs and differentiate between entrepreneur and entrepreneurship.

Q2. What are the main qualities of successful entrepreneurs?

Q3. What is the role and function of an entrepreneur in the economic development of a country?

Q4. Give short notes on:

A. Concept of entrepreneurs

B. Concept of entrepreneurship

C. Main qualities of entrepreneurs

D. Role of entrepreneur

E. Functions of entrepreneurs.

1.6 REFERENCES

- Dr. Desai Vasant, Small Scale Industries and Entrepreneurship, HIMALAYA PUBLISHING HOUSE, New Delhi Second Edition -2008. Page-332-505.
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2

FACTORS AND CHALLENGES OF ENTREPRENEURSHIP

Unit Structure

2.0 OBJECTIVES

- Discuss factors influencing entrepreneurship
- Describe challenges faced by women for entrepreneurship development.

2.1 FACTORS INFLUENCING ENTREPRENEURSHIP

Entrepreneurship Development makes a powerful impact on the economic development of the country. The success of the entrepreneur depends on the environmental factors such as social, economic, legal, political and technological factors which influence their activities thus leading to successful entrepreneurship. The socio-economic factors are the major key factors influencing the entrepreneurial behavior and operation of the business and thus the need for the study and the due influence.

Emergence and development of entrepreneurship is not a spontaneous but a dependent phenomenon of Economics, social, political and psychological factors Aur treated as supporting condition to entrepreneurship development. These conditions may have positive and negative influence on the emergence of entrepreneurship whereas negative influences create inheritance due to the emergence of entrepreneurship. For Analytical purpose These factors are grouped under two categories-

1. Economic factors

2. Non economic factors

1. Economic factors:

The factors which promote economic development account for the emergence of entrepreneurship from economic point of view are following

A. Capital:

Capital is one of the most important prerequisites to establish an enterprise availability of capital facilitates the entrepreneurs to bring together the land of one machine to another and from itself off at another to combine them through them to produce goods. Capital is therefore regarded as lubricant to the process of production.

B. Labour:

Quality that point of labour is another factor which influences the emergence of entrepreneurship. Adam Smith also considered division of labour as an important element in economic development.According to him, division of labour which itself depends upon the size of the market leads to improvement in the productive capacity of labour due to an increase in the dexterity of labour.

C. Raw material:

The necessity of raw material hardly needs any emphasis on establishing any industrial activity and, therefore, its influence in the emergence of entrepreneurship. In the absence of raw material, neither any enterprise can be established nor entrepreneurs can emerge. Of course in some cases technological innovation can compensate for raw material inadequacies.

D. Market:

The fact remains that the potential of the market constitutes the major determinant of probably rewards from entrepreneurial function.The size and composition of market both influence entrepreneurship in their own way. Practically, monopoly in a particular product in a market become more influential for entrepreneurship than a competitive market .Whether or not the market is expanding and the rate at which it is expanding is the most significant characteristics of the market for entrepreneurial emergence.

E. Lack of basic infrastructure:

Basic infrastructure facilities like transportation, communication, banks, insurance, water, electricity, raw materials, stock exchange, Marketing Services, capital market, organised marketing etc. have not been up to the mark in India.

F. Unproductive expenditure:

The Indian capital has always been Sahi. Indian people either keep their savings head and or spend it for unproductive purpose ,Like on marriages, religious festivals, and occasions feast on death, birthday celebration fix property, luxury goods and likewise .As a result capital resourcesRequired for the establishment of new and industries are not sufficiently available and it blocks the entrepreneurship development.

G. Lack of education training facilities:

Education and training facilities related to entrepreneurship skills lack in India. Although some training Institutions and Technical Education institution have been established a private and government sector after independence these are not any adequate to prepare a new entrepreneurs, Because the type of Education and Training provided there in is like that of degree providing institutions .

H. Deficiency of capital:

As compared to the people Western countries Indian people at large are not capable of maintaining their living standard due to price rise only the capitalist class has the courage to establish industries. The contribution of the banks and Financial Institutions in establishment and expansion of industries in India has also been insufficient. Loans given to the establishment of industries are not easy terms and conditions, interest rates are also very high.

I. Competition with big industrial houses:

In India business activities are centralized in the hands of few industrial houses. They have a Monopoly in business, similarly priorities are being accorded only to public sector industries in the country, Hence the entrance of new entrepreneurs remains Limited.

J. Lack of technostructure:

Professional managers, experts and trained employees are required for efficient operation of the companies and public sector enterprises it termed as technostructure, in India lack of technostructure makes the entrepreneurs feel hesitation of taking risk of the big business.

K. Low expenditure on research and development:

The entrepreneurs regard expenditure on research and investigation is unnecessary. As a result Innovations do not get encouraged. The Indian entrepreneurs incur Expenditure on research and development only for strategy formation for competitions, whereas expenditure incurred on research and development is a long term investment in the real sense.

L. Insufficient government facilities and incentives:

In India the development of infrastructure facilities is quite inadequate, in backward areas the entrepreneurs are unable to establish Industries because sufficient incentives are not being provided by the government to the entrepreneurs in the form of allotment of suitable land sources of energy and other required infrastructure facilities.

M. Competition with big industrial houses:

In India business activities are centralised in the hands of few industrial houses. They have a Monopoly in business, similarly priorities are provided only to big business houses. The new entrepreneur does not think of establishing a new industry, the reason being that he is not in a position to compete with the big industrial houses hence the entrance of new entrepreneurs remains Limited.

2. Non-Economic factors:

Sociologists and psychologists advocate that economic factors may be necessary conditions, but they are not sufficient conditions for the appearance of entrepreneurship. The influence of economic factors on entrepreneur emergence largely depends upon the existence of non-economic factors i. E., Social and psychological factors in society. some major non-economic factors are listed to influence the emergence of entrepreneurship can be listed as follows-

A. Social conditions:

Legitimacy of entrepreneurship in the degree of approval or disapproval granted entrepreneurial Behaviour influences its emergence and characteristics if it does not emerge. While Schumpeter Recognises the importance of such legitimacy in terms of appropriate social climate for entrepreneurship. The social status of those playing Entrepreneurial roles has been considered one of the most important contents of entrepreneur les

B. Social mobility:

Social mobility involves the degree of mobility, both social and geographical, and the nature of the mobility channel within a system. The opinion that social mobility is a procedure for entrepreneur emergence is not unanimous send holds the view that a high degree of mobility is conducive to entrepreneurship.

C. Social Marginality:

A group of Scholars holds I strongly believe that social marginality also promotes entrepreneurship. We believe that individuals or groups on the perimeter of a given social system or between the two social systems provide the person to assume the entrepreneurial roles. They may be drawn from religious, cultural, ethnic, or migrant minority groups, and their marginal social position is generally believed to have psychological effects which make entrepreneurship particularly attractive for them.

D. Cultural values:

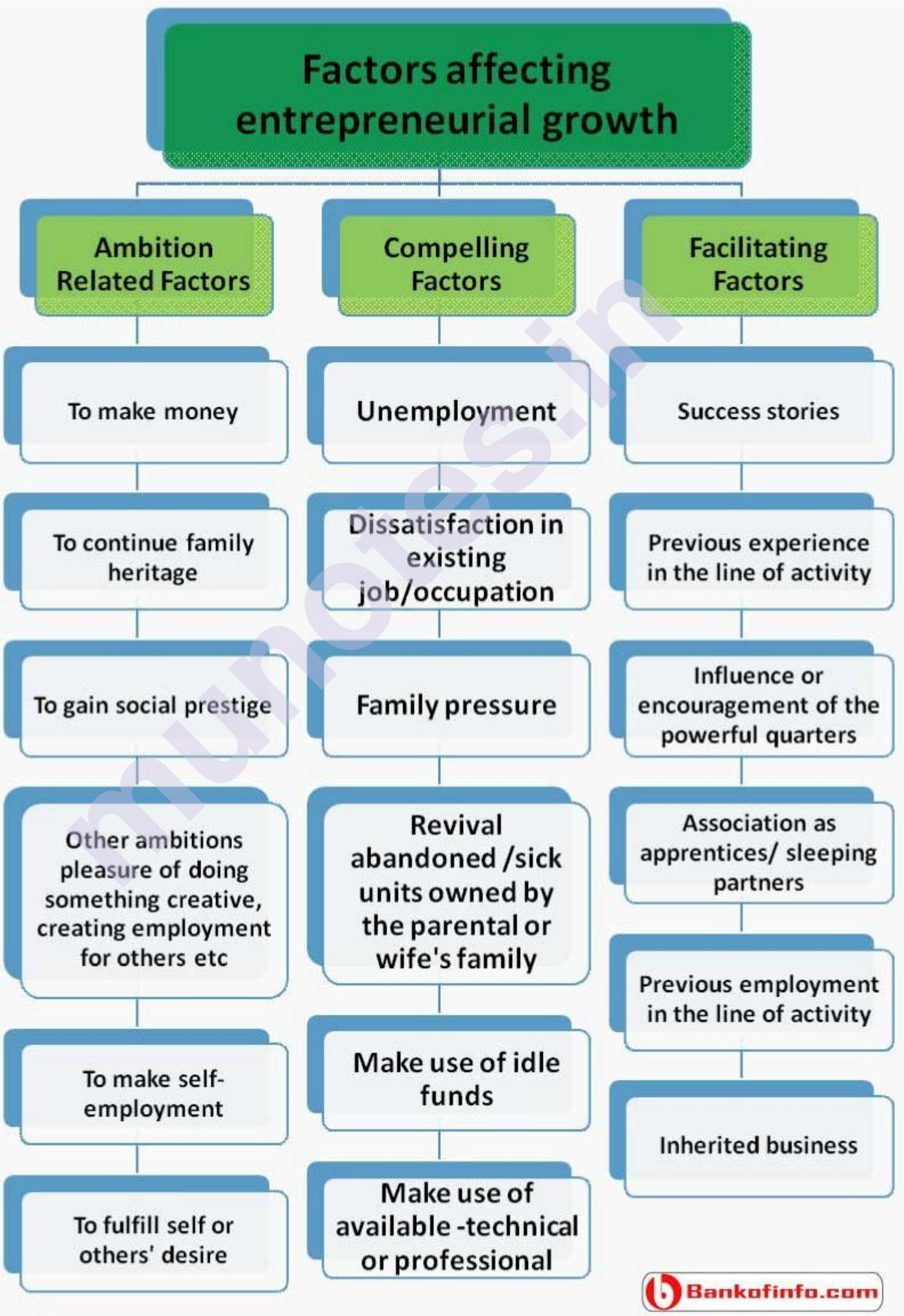
The cultural values have negotiated the entrepreneurship development and growth. in Indian culture most IMP faces has not been given on material gains, personal wealth, economic changes and high living standard and hence Our ideal has always been simple living and high thinking. It has proved to be an obstacle for entrepreneurship development.

Psychological factors:

Many Entrepreneurial theories have pronounced theories of entrepreneurship that concentrate especially on psychological factors be considered this theory separately for that reason-

Need Achievement:

To the best of our knowledge, the best known primary psychological theory is David McClelland's Theory of need achievement. according to David McClelland,



2.2 CHALLENGE BEFORE WOMEN ENTREPRENEURS

In 1988, for the first time, the definition of women entrepreneurs, enterprise was evolved that turned age small scale industry unit managed by one or more women entrepreneurs in proprietary concerns, in which sea individually or jointly have a share capital of not less than 51 % as partners/ Shareholders/ directors of a private limited company/ members of a cooperative society as a women Enterprise.

Women entrepreneurs have been on the Indian business scene for quite some time now and have achieved remarkable success. women entrepreneurs as a group come into prominence in the late 1970 is. the information contained in the second all India SSI Census,19 87-88 shows that about 7.7% Of the small Enterprises were owned by women. Industry group -wise, The most popular activity of women entrepreneurs was food processing followed by garment making. Realising the great untapped potential, The government has been making concerted efforts to channelize the skills and talent of women towards economic and business generating activities. But woman faces a lot of challenges to start their own business.

The emergence of entrepreneurs in a society Depends to a great extent on the economic, social, religious, cultural, and psychological factors prevailing in the society. Women entrepreneurs have been making a significant impact in all segments of the economy in Canada, Great Britain, Germany, Australia, and the United States. The areas where women participate are retail trade, restaurants, hotels, education, culture, cleaning, insurance, and manufacturing. I have made their marks in business for the following reasons:

I. They want new challenges and opportunities for self-fulfillment.

II. They want to prove their mettle in innovation and competitive jobs.

III. They want the change to control the balance between their family responsibilities and their business lives.

Although Some women entrepreneurs have excelled in their Enterprise, the fear of success on women in general. Some psycho-social factors impeding the growth of women related in shape are as follows-

1. The problem of finance
2. The poor self-image of women-
3. Inadequate motivation
4. Discriminating treatment
5. Faulty socialization
6. Role conflict
7. Cultural value
8. Lack of courage and self-confidence

9. Inadequate encouragement
10. lack of social acceptance
11. Unjust social, economic, and cultural system
12. Afraid of failure and criticism
13. Lack of freedom of expression
14. Susceptible to the negative attitude
15. Non-persistent attitude
16. No dignity of labor
17. Lacking in leadership qualities

The new industrial policy of the Government of India has especially highlighted the need for a special entrepreneurship development program for Women entrepreneurs in the nature of product process-oriented courses to enable them to start small-scale industries. It further adds that the objective of this course is to give a representation of two women in the field of small industry development with a view to uplifting their status in the economic and social field. Adequate infrastructural support by one single coordinating or nodal agency to facilitate the flow of advocate working capital, Technology, electricity, land, and marketing for rural women entrepreneurs may be helpful and mobile training centers should be opened. Post-training follow-up is vital for the success of entrepreneurship development programs.

2.3 CONCLUSION

Today, there is a great awakening among women. given an opportunity, they will deliver the results. In education, we have not only excelled but also become top makers. Likewise, in office and industry, many have shown brilliant results. Even in rural India with education, Women have shown better performance. Educating women is absolutely essential in straightening her personality. The need of the hour is to provide an opportunity in a conductive atmosphere free from gender differences. The need for awareness, motivation to be an active member of society, and courage to correct the faults of male counterparts are great challenges today.

2.4 QUESTIONS

1. What are the economic factors affecting entrepreneurship development in India?
2. What are the non economic factors affecting entrepreneurship development in India?

3. What are the main challenges faced by women in India to start entrepreneurship?

2.5 REFERENCES

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MODULE 2 : STARTING A NEW VENTURE

3

PROJECT IDENTIFICATION AND REGISTRATION OF SMALL SCALE ENTERPRISE

Unit Structure

3.1 OBJECTIVES

After going through this chapter you will be able to understand the following features:

By the end of this unit you will be able to:

- Understand the importance of small scale industries for Indian Economy
- Understand the process of project identification and the steps involved in project selection and formulation
- Understand the process of how to start a small scale business and get it registered with the concerned authorities
- Understand how business organizations raise funds for operations and expansion of business.

3.2 INTRODUCTION

Small scale industries are playing a vital role in the economics growth and development of our nation. For a developing country like India with a vast population; small scale industries are very essential as it provides employment to many people and has potential to fulfill demand for various goods and services in the market. Currently India needs job providers more than job seekers and hence this chapter will help students to get insight about how to identify, select and formulate a feasible project. Further this chapter also discusses about the procedure that one can follow to register and start his own small scale business. Information regarding how funds can be raised to start, operate and expand a business organization is also discussed in this chapter.

3.3. SMALL SCALE ENTERPRISE: MEANING AND DEFINITION

According to the MSME Act 2006, a small scale enterprise is a business unit in which investment in capital should not be less than Rs.25 lakhs and should not exceed Rs.5 crore if involved in manufacturing business. If the small-scale enterprise is not a manufacturing unit but rather a service provider then its investment in capital should not be less than Rs.10 lakhs and should not exceed Rs.2 crore.

However as per the revised classification of the MSME act 2006 w.e.f. 1st July 2020 the distinction between service provider and manufacturing unit is removed. According to the revised classification; a small-scale enterprise should have more than Rs.1 crore invested in capital but not exceeding Rs.10 crore. Also the annual turnover should be more than Rs.5 crore but should not exceed Rs.50 crore.

3.4 PROJECT IDENTIFICATION - SELECTION AND FORMULATION

Project identification necessitates the steps involved in acquiring knowledge about the project and identifying the same. The way a project is to be formulated and the format for preparing a detailed report of the project are also to be developed in a proper manner. The identification of the project is done through analysing the problem which is being discussed in the project, also by examining the feasibility and scrutinizing the framework. The process of project identification means the findings related to the practicality and readiness of the project. Some of the important factors which help in project identification would include:

Analysis of the situation:

This plays an important role in understanding the problem or situation for which the project is being proposed and whether the outcome of the project would help in solving the problem or the situation that prevails therein.

Feasibility:

According to Bisht and Pattanaik, feasibility of the project is whether the company can work out into something which would be financially and logistically suitable for them or not. This involves analysing and inspecting the physical locations, layout plans, logistics, finances and many other factors that are available. Besides this, checking whether the project would be suitable as per the requirements and available resources.

Potential:

It is also pertinent to find out whether the raw materials, manpower, human resources and other energy would be available for the project to be potentially successful.

Verification of reports:

There are reports from various organizations, researchers, government and non-government organizations and these reports have to be taken into account while identifying the project so as to ensure that the project does not become futile and also to examine the benefits the said project would ensure to address the situation or problems.

The major issues related to the policy-making of the project and the outcome of it have to be recognised and made sure that they cater to as the most suitable solution. Thereafter the costs and other financial aspects have to be finalised and in case of any future delay, probable issues which might cause delay of the finalisation of the project should also be approximately analyzed. Lastly, scrutiny has to be made as to whether the project would face any political or bureaucratic hurdles and how to come out from such problems giving a sense of relief to the beneficiaries and other stakeholders involved in the project.

Project formulation requires the drafting of a proposal for the project in order to approach the sponsors for the said project, the said proposal shall consist of the project ideas, the strategies behind working out the project, the related activities which shall be involved and the results which are being expected after the successful completion of the project.

The preparation and formulation of the project involve the fulfilment of the various essential requisites of the various stakeholders, beneficiaries and other agencies related to the said project. In short, the project formulation involves the cumulative test of the feasibility of the factors which include economic, technical, institutional and environmental factors.

Economic factors involve the testing of the marketability of the project, the competitors prevailing in the markets who would adopt the same project, the potential sources of revenue and future markets and sales projection. According to Kurosaki, the technical factors would be the physical location, availability of raw materials, human resources and effective management. Institutional factors are that of the development schedule, delivery timings, business culture etc. Lastly, the environmental factors like the resources required, sustainable modes of development, reasons of pollution etc.

Thus, while incorporating a project all these factors and situations are to be kept in mind, especially in a populous country like India wherein the economic, social and political factors play an important role in determining the selection and formulation of a project.

3.5 PROJECT REPORT

A business requires a complete analysis and documents that provide a complete understanding of its business plan. It gives an account for project reports and ensures the procedure of a proposed business. In India, around 63.4 million SMEs are stimulating business which contributes around 30% of GDP. It has been seen that project reports follow a basic structure that incorporates the fundamental knowledge regarding an organization.

There are a few things that need to be included while making a project report. First, giving general information regarding the purpose of the report is essential. Afterwards, having a summary of overall findings can provide a briefing which is highly essential for readers. A project report particularly based on an MSME, which must be introduced in the initial part of the writing. Then it is essential to describe the project, including its location, promotional strategy, resources, and others. The marketing plan description is also essential, incorporating target audience, segmentation, budget, target market, and others. Denoting operating costs is also important as it showcases an estimated budget of the project.

It should also consist of financial aspect of the proposed plan by an SME. Such as cash flow statement and fund flow statement. This keeps preparing a company for the next 2 to 3 years. In addition, an implementation plan of project brief after considering all factors of a project.

3.6 REGISTRATION OF A NEW SMALL SCALE ENTERPRIS

In a developing economy like India, MSME plays an important part as it contributes highly to the economic growth and development. In India, it has been identified that MSME has become operational in the year 2006 and develops, facilitates, and promotes competitiveness in business. There are many benefits of getting registered under the MSME act like, it provides loans with rates of 1% to 1.5%. It allows a credit of "Minimum Alternate Tax (MAT)" for 15 years with several concessions for new businesses. It also helps acquire government tender easily, barcode facilities and exemption scheme for direct tax.

Nearly 460 million people are employed in MSMEs that produce around 33.4% of India's total output. Currently, MSME follows an online registration process found in the Indian governmental portal, which is "Udyam portal (udyamregistration.gov.in)". There are mainly two categories of registration. First one is for new entrepreneurs who are not registered yet. They need to go to the online portal and register themselves to click "generate One Time Password (OTP) button." Then it generates the "Permanent Account Number (PAN)" verification page and needs to write the organisation type and validate the PAN. Later, entrepreneurs are required to fill up their details as well as brief regarding their organisation. Some of the documents required for the registration are Aadhaar Card of the entrepreneur, PAN card of the organization that counts as a proof record for business registration. Other than that, PAN needs to be linked with "Goods and Services Tax (GST)" for registering it. However, GST registration is not a mandatory for registering an MSME business. In India, the Udyam portal is completely free for registering new entrepreneurs' businesses to promote start-up culture among people. After completing this registration, getting an online registration certificate is another significant part of starting a business. Entrepreneurs are required to open a portal and log in by entering their credentials to get the certificate for future facilities.

3.7 SOURCES OF FINANCE FOR A BUSINESS

The major sources of finance for a business in India can be classified into:

1. Loans from Banks:

The banking sector acts as the major source offinance for a business organization. The commercial Banks in India provide funds to the businesses against any mortgage like guarantee of Government securities, company stocks etc. it is found that banks also invest in purchasing debentures from the companies, but the banks are very less inclined to invest in company shares because these debentures can be sold by the banks at the time of need to recover the said money left to the business. These loans are given on the basis of credit or sometimes through overdraft facilities. Bank loans are very much helpful for the business enterprise to lay a strong foundation and once it gets a good holding in the market, then the credit facilities and overdraft limits are also enhanced by the banks depending upon the repayment structure and credit score of the business.

2. Self-finance:

The smartest and easiest way of investing by the business enterprise is self-funding. The funds are not only limited to what these enterprises can invest on their own but also includes money lent from banks and other financial institutions. Sometimes Governments fund certain businesses. By using self-finance there is every possibility of savings and smart investments. According to a study conducted by a researcher named Srikanth, there is substantial cost reduction and cost-cutting by the business which relies heavily on self-financing. The main disadvantage of this source is that there is every possibility that the enterprise would fall short of the investment opportunities and there are bound to be shortages of funds for expansion of the business.

3. Equity and Bonds:

For fixed investments in assets like buildings, machinery, equipment etc the businesses rely heavily upon equity shares, preference shares or bonds. These shares can be ordinary, cumulative or non-cumulative preference shares. The shares are issued on very low face value so as to ensure that a large number of people could participate in providing finance to the business. The investment of promoters in the company depends upon its performance in the market, and thereby the industries are not overburdened with interest. Those who are buying these debentures and bonds are actually providing credit facilities to the company, and they also get fixed interest for their investments in the business.

4. Foreign Investments:

Yadav in his study conducted in 2020 found that along with domestic investments and credit facilities, businesses these days rely heavily upon foreign capital. There are often investments from foreign governments through Indian Government aided projects and also investments from institutions like the World Bank, International Monetary Fund etc. Apart from these many Multinational Companies have invested in their Indian counterparts through mergers and collaborations, thus providing financial aids to the businesses in India. Also, the Non-Resident Indians (NRIs) are often investing in the Indian economy through business enterprises. Provisions for loans from foreign banks and markets are also available these days thus providing an impetus to the domestic industries to expand their business opportunities

5. P2P Lending:

The peer-to-peer lending platforms are very much in the market these days. These platforms are making sure that the investors can invest by lending money to business enterprises via digital platforms. The credit worthiness of the prospective lenders is assessed by taking into account various risk factors involved therein and on the basis of such assessment, the business enterprises can outsource funds in the way of investment. This medium is easy, hassle-free and decisions can be taken quickly hence approvals are generally quick for the loans. These loans are mainly required to ensure the availability of working capital for small-scale business enterprises.

6. Other Finance Institutions:

These institutions have been established by the Government to cater to the needs of the small and medium scale industries in India. These include the Industrial Development Bank of India, Small Industrial Development Bank of India, Industrial Finance Corporation of India, Industrial Reconstruction Bank of India, State Financial Corporations, and State Industrial Development Corporations etc. which provide industrial finance to the business enterprises in India. The modern concept of industrial development is what these institutions thrive to ensure and they contribute significantly to the economic development of the industrial sectors by providing large sums of loans to the Small Scale and Medium Scale Industries. Not only do these institutions provide them with money but also monitor the expenditures of the businesses so that the industrial development norms remain intact.

7. Crowd funding :

This concept is pretty new in the Indian economic scenario, mostly the start-ups and other projects rely on this source of finance for the business. Herein the individuals who are interested in the new idea of the start-up generally start investing in it to provide money. Such crowdfunding can be categorised into equity-based, wherein the investor gains a share in the business by investing; debt-based, wherein the investors invest money with an assurance of getting it paid back along with some interest; reward-based, wherein the investors invest with an interest of getting some rewards like a prototype of the final products or free services or other incentives.

7. Individuals/ Money lenders:

Though this particular source is in decline these days from the Indian economic scenario, there are still cases of finances being made available by individual money lenders to business enterprises. The reason for the decline is that these are unsecured loans with high rates of interest being charged by the moneylenders. This is in no way advantageous for business enterprises, so this particular model of business finance in India has been largely replaced by non-banking financial institutions. The small-scale industries are the ones that have relied on individuals or other money lenders to provide the funds at times of crisis, both in terms of fixed as well as working capital.

3.8 QUESTIONS

Q1. Write a short note on project identification, selection and formulation.

Q2. Explain the steps involved in registration of a new small-scale enterprise.

Q3. Explain various sources of finance available to business organization.

Q4. Write a short note on project report.

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4

TRENDS AND CHALLENGES OF SMALL SCALE INDUSTRIES IN EXPORT TRADE

Unit Structure

4.1 OBJECTIVES

After going through this chapter you will be able to understand the following features:

- Significance of export trade for India and trends in export of small enterprises.
- Limitations and obstacles in improving export performance of small enterprises.
- Export procedures and documents.

4.2 INTRODUCTION

According to the revised classification of MSME act 2006 which came in force w.e.f. July 2020, manufacturing or service enterprises having investment of not more than ₹ 10 crore in plant and machinery and/or having an annual turnover of not more than ₹ 50 crore will be classified as small enterprises. An increase in the export trade helps the country to earn more foreign currency which further helps in improving our country's Balance of Payment condition and also increases the foreign exchange reserve. Small scale industries in India have a great potential in export trade especially in the export of manufactured goods. In this chapter we will discuss in detail what are the trends in export of small enterprises, constraints faced by the small enterprises in export trade performance and export procedures & documents that are essential for one to know about to work in export business.

4.3 EXPORT TRADE

4.3.1 Definition of Export Trade:

Export trade refers to an economic transaction, where goods produced in one nation is sold into another nation or a service rendered in one nation for a citizen of another nation such as insurance, communication services, financial consultancies, information technology support etc. The service renderer or the seller of the good is called as "exporter" and the buyer located in some distant foreiountry is called as "importer".

4.3.2 India's Export as a percentage of GDP:

Export as a percentage of GDP refers to the contribution of export trade to the overall GDP of the country in a given financial year. In the table 2.3.2(a) the data of export as a percentage of GDP along with the GDP at current prices from F.Y.2016 to 2020 is given. Because of the global pandemic India's GDP took a hit from \$2870.5 billion US dollars in 2019 to \$2660.24 US billion dollars in 2020, however the export as a percentage of GDP has almost remained unaffected at 18%. In the F.Y. 2020 the highest value of export as a percentage to GDP was in Luxembourg (214.53%) and Burundi recorded the lowest value of 4.98%. Our neighboring country, China's export as a percentage of its GDP was 18.50% in 2020 whereas as that of Bangladesh and Pakistan was 12.18% and 9.58% respectively.

Table no. 4.1

India's Export as a percentage of GDP

Sr. No.	Year	India's Export as a Percentage of GDP	India's GDP in current prices (in billion US dollars No.)
1.	2016	19.16%	2,294.12
2.	2017	18.79%	2,651.47
3.	2018	19.94%	2,701.11
4.	2019	18.43%	2,870.5
5.	2020	18.08%	2,660.24

Source: *GDP of India 1986-2026| Statista (www.statista.com) and Exports, percentage of GDP- Country rankings (http://www.theglobaleconomy.com)*

4.3.3 Importance of Export Trade in India's Economic Growth:

a. To improve foreign exchange reserve:

Most of the developing countries including India are facing the problem of high import bills which need to be paid. Also these countries borrow heavily from international finance institutions for various development projects like transportation, telecommunication, social infrastructure etc. It is therefore imperative that all these expenses and liabilities to be paid in terms of foreign exchange and export is one of the most sustainable ways of earning foreign exchange.

b. To Correct Balance of Payment Deficit:

Balance of Payment refers to the systematic recording of economic transactions between citizens of one country with the rest of the world. Whenever in the BOP, payments exceed receipts, the BOP is in deficit. Exports help in earning more foreign exchange i.e. the receipts increases which in turn helps to correct the BOP deficit situation to some extent. If the BOP deficit is not corrected for a longer time it will increase the fiscal deficit and indebtedness of the concerned country which can further lead to an economic crisis.

c. To Repay Foreign Loans:

Till march 2009 foreign loans amounting to ₹ 11,42,618 crore has been contracted by India for it economic and industrial development projects. These loans have to be repaid along with interest in terms of foreign exchange in the near future. Therefore it is very important that India's policy makers should focus on export promotion to earn foreign exchange so that these loans can be repaid without defaulting.

d. To Strengthen Defense:

It is a known fact that India imports essential war equipment, arms and ammunition etc. from the advanced countries. For example in 2016 central government of India bought 36 Rafale fighter jet airplanes from Dassault Aviation, a France based aviation company for ₹ 59,000 crore (approx.). Therefore, to meet the cost of such purchases for the purpose of strengthening our national security, India needs foreign exchange, this can be earned by export trade.

e. Diversifying Market Opportunities:

Sometimes the domestic economy begins to slow down due to various reasons. It is very important for a developing country like India to have a good hold over export trade to face such situations. At such difficult times Indian enterprises can sell more goods in other countries and maintain their annual turnover. This will also prevent the workers from losing their jobs due to recession in the home country.

4.4 TRENDS IN EXPORT OF SMALL ENTERPRISES

India's major export comes from the "micro, small and medium enterprises", which is known as (MSME)". It has been analyzed that the MSME industry has significantly contributed to export which is nearly 5.7%. As a trend, collaboration with global transitional cooperation is a vital process. In modern times, export business used to carry a portfolio of the E-business to manifest the economic growth and merchandise growth of business in India. It is outlined that regional export is known as a trend as it used to work as an urgent action in the Indian economy. The use of indigenous technology has led to growth in the export business of India. It can be suggested that government needs to provide more funding to the export paradigm of small and medium companies.

Nearly 400 billion USD (in US economy) has been achieved by the Indian SME, thus the manufacturing base of the country is improved. The holistic trend in trade and export has manifested the manufacturing powerhouse of India in an innovative way. As per the government report of India, it is outlined that, MSME has a contribution of 40% in the Indian economy.

As a suggestion, it can be said that the internalization of a small and medium enterprises needs to be reduced to improve the number of small and medium companies. In India, there are nearly 50 million SMEs, which need to be expanded globally. It is outlined that, trends in the export of SME needs to follow a goal which is “think local, act global”. Thus, rural as well as urban development can be improved in this lower-medium economic country. Besides this, Sahoo and Ashwani found that in 2018 the economic growth was calculated to be 8.1% which resulted in an income of $538.64 billion. However, in 2019 there was a decline in the growth by 1.79% which resulted in a total income of $529.02 billion. The MSME industry has contributed to 29% of the GDP growth of the country through the import and export operations. During 2020 the export industry suffered a huge loss due to the ongoing pandemic and it resulted in an income of $474.15 billion which was a 10.73% decline.

4.5 MAJOR CONSTRAINTS IN EXPORT TRADE PERFORMANCE

Even tough India’s export performance has improved significantly since the post liberalization period; India’s share in total world trade is relatively scanty. According to the WTO data released in April 2019, for the year 2018 the share of India’s merchandise export was recorded around 1.71% of total global exports and the share of commercial service export of India amounted to 3.52%.

Several factors are responsible for hindering the trade potentials of India in the global trade:

1. Internal issue of the country:

There are different set of challenges in the trade and export plan of India, such as the lack of warehouse planning and logistics, Lack of adoption in the export strategy, Non-price competition etc. which needs to be taken into consideration. In addition to this due to Covid pandemic, the economy is going through stagnation, which has decreased the export performance. It has been analysed that India’s lagging economic performance is responsible for the poor export performance because, in this case, there is a need for the investment which is not sufficiently fulfilled. The rate of growth is lower than the planed target by 5%.

2. Lack of policy effect:

Lack of internal economic stabilization creates issues that dampen the trade rate of the Indian economy. Along with this, poor cross border relationship is also a major limitation. The "Foreign Trade Policy, EXIM Trade policy" has an impact on the performance of the trade growth. Foreign policy is often considered to be evil by many exporters as it imposes many restrictions on them. It has been outlined that in export plan, financial risk is a major limitation that may shorten the graph of business.

3. Lack of governmental action:

As per the report of NITI AAYOG, 70% of the export of India is dominated by five major countries. In that case, the government has taken a strategy which is a "one-size-fit-all policy" that is not working now; it needs to be reshaped as per the modern trend. The lack of an "export ecosystem" is not good and needs to be addressed for the better growth of the country in export performance. As per the report of the Reserve bank of India, in the trade rate, there is a deficit that needs to be covered up. It can be recommended that the manufacturing sector needs to concentrate exclusively on production of various goods for the purpose of export taking into account the nature of demand by foreign buyers. Small and medium size of companies and their lack of ability towards adoption of technology acts as a constraint in the export industry.

4. Poor trade rate:

The number of trade partners needs to be expanded in an effective way to make the trade plan effective. High cost of the product used to be a reason of the trade deficit in the developing and underdeveloped countries. The Un-Favorable Terms of Trade is a reason for the poor trade performance of India. The lack of an effective export promotional program is also a reason for the poor trade performance of India, which needs to be resolved through different strategies. The lack of export diversification is another limitation faced by many developing countries including India. It can be outlined that, global regulation needs to be reshaped to reduce all these challenges. As per the report of, OECD, the export trend needs to be verified in an authentic way to solve all the above-mentioned challenges in the export and trade of India

4.6 EXPORT DOCUMENTS

1) Proforma Invoice:

The proforma invoice forms the basis of all export-import trade transactions. Whenever a potential foreign buyer (importer) inquires about the description of product and channel of delivery, the information is provided by the exporter through proforma invoice. In simple words it is a quotation given by the exporter to the foreign costumer as a reply to their inquiry. Proforma invoice is the beginning point of export contract also the importer can use to obtain import license or foreign exchange.

2) Commercial Invoice:

The commercial invoice is also called as 'Document of Contents' because it consists of all the relevant information required for preparing other export documents. It is a very important document as it is needed in various export formalities like pre-shipment inspection, excise and customs procedures, negotiation of documents for collection of export proceedings, claim of incentives etc. The exporter prepares commercial invoice after execution of export order, in which all details related to goods shipped is mentioned precisely. The commercial invoice acts as a prima facie evidence of the contract of sale/purchase and hence it needs to be prepared strictly in accordance with the contract of sale and also the document should bear the name of buyer or consignee same as mentioned in the letter of credit.

3) Packing List:

It is prepared by the exporter to enable the buyer(importer) to check the shipment. Important information such as quantity and description of goods packed in each case/box, their net weight, gross weight etc. is mentioned in the packing list. The exporter prepares ten copies of packing list. Two copies are sent to the importer in advance, one is sent with shipping documents, one is given to shipping agent and remaining six are retained by the exporter.

4) Mate's Receipt:

The Commanding Officer of the ship issues Mate's receipt and hands it over to the Port Trust Authority after loading the cargo on to the ship. The exporter or his agent first has to clear the payment of all port dues to collect the Mate's receipt from the Port Trust Authority. Further the exporter or his agent has to submit the Mate's receipt to concerned shipping company to obtain the bill of lading. In simple words Mate's receipt is a prima facie evidence that the goods are loaded on the ship.

There are two types of Mate's receipt issued by the Commanding Officer on the basis of quality of packing viz.

a) Clean Mate's Receipt:

It is issued by the Commanding Officer when he is satisfied with the packing of goods and believes that there are no defects in the packing of the cargo

b) Qualified Mate's Receipt:

It is issued by the Commanding officer when he is not satisfied with the packing of the cargo and believes that there can be damage caused to the goods in transit. In this case the shipping company takes no responsibility of damage to the concerned goods of any kind during the transit.

5) Bill of Lading:

It is an acknowledgement of receipt of goods on board by the shipping company. The bill of lading issued by the shipping company is also an undertaking where the shipping company agrees to deliver goods in the best condition as received to the consignee at the prescribed destination provided that the freight and other shipping related charges are dully paid. Last but not the least, it also serves as a document of title of the goods and, as such, is freely transferable by endorsement and delivery.

Following are the types of Bill of Lading:

a) Clean Bill of Lading:

A bill of lading which acknowledges receipt of goods in good condition and contains no negative remarks regarding the quality of goods and packaging is called clean bill of lading

b) Claused Bill of Lading:

In case the goods are improperly packed or the packing of cargo is not in accordance with the Carriage of Goods by Sea Act, the shipping company issues a claused bill of lading which contains negative remark about the condition of goods.

c) Transhipment Bill of Lading:

It is issued when the carrier(shipping company) uses other transport facilities such as road, rail or another steamship in addition to its own. It is also called as through Bill of Lading.

d) Stale Bill of Lading:

The bill of lading is considered to be a very important document because the exporter needs to pass it on to the bank for negotiation of documents in order to claim his export proceedings as will as to claim export incentives. However if the bill of lading is held too long before submitting it to the bank, it is called as stale bill of lading.

e) Freight Paid Bill of Lading:

If the freight and other charges are either paid in advance or at the time of shipment of cargo, the shipping company issues a freight paid bill of lading

f) Freight Collect Bill of Lading:

Sometimes the freight is not paid by the exporter at the time of shipment but by the importer/consignee on arrival of goods. In such cases the shipping company issues freight collect bill of lading, because the freight of the shipment is to be collected on arrival of the goods to its final destination.

6) Certificate of Origin:

The Certificate of origin is a document required to comply with the rules and regulations framed under the foreign trade policy of the importing country. For example a given importing country may have strictly banned import of goods from a specific country or a specific group of countries. Also it can be possible that goods produced in a particular country are subject to preferential tariff rates. In such cases it is important for the port authorities of importing country to know the country of origin of the goods being imported. The certificate of origin serves the above purpose as it clearly states that the goods exported are originally manufactured in the country whose name is mentioned on the certificate.

Following are the types of certificate of origin:

a) **Non-Preferential Certificate of Origin:** It is issued by the authorized Chamber of Commerce or the Trade Association of exporting country. It is generally required by all countries for clearing of goods by the importer and no preferential tariff is applicable here.

b) **Certificate of Origin for availing concessions under GSP:** Certain countries like France, Italy, Germany, Australia, UK, USA Japan etc. extend concessions under generalized system of preference (GSP). The GSP programme promotes economic growth of least developed and developing countries by encouraging these countries to boost up their export trade. As a part of GSP programme, additional benefits and preferential tariffs are given to product coming from least developed and developing countries. This certificate can be issued from:

- Export inspection agencies
- Commodity Boards and their regional offices
- Development Commissioners of EPZs
- Jt. Director General of Foreign Trade
- Textile committees for Textile products
- Marine Products Export Development Authority for marine products

c) **Certificate for availing concessions under Commonwealth Preferences (CWP):** In order to claim concession under Commonwealth Preferences, the certificate of origin needs to be submitted in a special format as prescribed by the High Commission of the concerned country. It is also called as 'Combined Certificate of Origin and Value'.

d) **Certificate for availing concessions under other systems of preference:** India grants and receives tariff concessions on import and export under various trade preferences such as Global System of Trade Preferences (GSTP), Bangkok Agreement (BA), SAARC

Preferential Trading Agreement (SAPTA) etc. for which certificate of origin is required. The sole authority to print blank certificates of origin under BA, SAARC and SAPTA is with Export Inspection Council (EIC).

7) Shipping Bill:

Shipping Bill is the most important customs document. The exporter needs to submit shipping bill to the customs authorities for obtaining permission for the shipment of goods. Until the shipping bill is certified and duly stamped by the customs authorities, the cargo cannot be moved inside the dock area. Normally the shipping bill is prepared in five copies viz.

- Customs copy
- Drawback copy
- Export promotion copy
- Port trust copy
- Exporter's copy

The customs authority has introduced three types of shipping bill based on incentives offered by the government. Following are the three types of Shipping Bill:

a) **Drawback Shipping Bill:**

This document is used to claim customs drawback against exported goods

b) **Dutiable Shipping Bill:**

It is required for goods which are subject to export duty

c) **Duty-free Shipping Bill:**

It is used for exporting goods on which no export duty is levied.

For the purpose of easy recognition and fast processing, following colors are allocated to different kinds of shipping bill.

Types of Goods	By Waterways	By Airways
Drawback Shipping Bill	Green	Green
Dutiable Shipping Bill	Yellow	Pink
Duty Free Shipping Bill	White	Pink

8) Consular Invoice:

The consular invoice is required by the authorities of importing country to collect information related to the volume, quantity, value, grade, source etc. of the goods imported. This information is further used to calculate and levy appropriate import duties and also to maintain statistical data. The consular invoice is mainly required by the Latin American countries like Kenya, Uganda, Tanzania, Mauritius, New Zealand, Myanmar, Iraq, Australia, Fiji, Cyprus, Nigeria, Ghana etc.

In order to obtain the consular invoice the exporter has to submit three copies of invoice to the consulate of he concerned importing country. After certifying the invoice, the consulate sends one copy to the exporter and remaining two copies are sent to customs of the importing country for calculation of import duty. The copy of consular invoice with the exporter is then sent to the importer along with other shipping documents. Once the consular invoice is certified by the consulate of the importing country, the exporter gets assurance that his payment will be made by the importing country and the importer gets assurance that the goods being imported by him are not banned.

9) Bill of Entry:

The importer or his agent prepares the bill of entry in a prescribed form given by the Bill of Entry Regulations 1971. The clearance of the imported goods is done on the basis of bill of entry.

When goods are imported, the customs authority levies import duty on the importer. In order to calculate the appropriate import duty the customs authority need to have precise information about the quantity, volume, grade, value of the goods being imported, this necessary information is furnished in the bill of entry by the importer. The bill of entry is a document which claims that goods of specified quantity, description and stated value have entered the country from abroad. The bill of entry is drawn in triplicate. Sometimes the customs authority may ask the importer to submit other documents like invoice, insurance policy etc. to cross verify the information provided in the bill of entry.

In order to provide information in the bill of entry form, goods are classified into three categories:

a) Free Goods:

No custom duty is levied on goods falling in this category

b) Goods for home consumption:

These goods are imported strictly for home consumption and not for reselling or any other commercial purpose.

c) Bonded Goods:

These goods attract import duty and will be kept in bond until the import duty is paid.

Generally the importer has to fill separate bill of entry form for different goods based on above classification. However in India the all entries are recorded in the same bill of entry and filling of separate form is not required.

10) GR Form:

GR form is an exchange control document required by the RBI. According to the export control regulations, the exporter has to realize the proceeds of goods exported by him within 180 days of shipment of goods from India. Therefore in order to ensure that the exporter realizes his sales proceeds the RBI introduced the GR procedure.

According to the GR procedure, the exporter is required to submit an original and a duplicate copy of GR form at the port of shipment along with the shipping bill. The customs authority will verify and certify the GR form. After certification the customs authority will retain the original copy of the GR form to further transmit it to RBI and send the duplicate copy to the exporter.

Then the exporter is required to lodge the duplicate copy of GR along with the relevant shipping documents with the authorized dealer whose name is mentioned in the GR form for negotiation of export bill within 21 days from shipment of goods.

The authorized dealer will report the transaction to the RBI after the documents have been negotiated. The duplicate copy of the GR form along with the copy of invoice will be retained by the authorized dealer until the exporter realises full export proceeds and thereafter the submit it to RBI.

However due to digitalization and introduction of Electronic Data Interchange (EDI) the use of GR form is considerably reduced as it is now replaced by a declaration in form SDF (Statutory Declaration Form) in some customs offices where shipping bills are processed electronically.

4.7 EXPORT PROCEDURES

Export procedure includes several commercial and regulatory formalities to be completed by the exporter during the course of export trade transaction. These formalities include considerable documentation which makes the process very complicated and time consuming. The exporter must ensure that all the documents are prepared and submitted to concerned authorities also he must take care that the trade rules and regulations of not only the exporting country but also of the importing country is complied.

An export procedure can be further studies in following steps:

1) Registration Stage:

It is essential that the exporter should register his business organization with several institutions and authorities. Registration of business organization facilitates smooth conduct of export trade. The registration stage includes:

i. Registration of the organization:

Depending on the form of the organization the exporter must get it registered under the appropriate act of the country for example if it is a joint stock company then it must be registered under Companies Act 1956, a partnership firm must be registered under the Indian Partnership Act 1932 etc.

ii. Opening Bank Account:

It is essential that the exporter should open an current account in a scheduled commercial bank that also deals in foreign exchange. Opening current account in a bank which is authorized by RBI to deal in foreign exchange will also act as source finance for pre-shipment and post-shipment.

iii. Obtaining Importer-Exporter Code Number (IEC No.):

From 1st January 1997 it is obligatory for every exporter to obtain IEC number. The IEC no. is issued by the Director General for Foreign Trade (DGFT). The exporter can put an application to the DGFT along with a fee of Rs.1000/- for obtaining IEC number. Prior to 1st January 1997 the exporter needed to obtain a CNX number from the RBI which was replaced by IEC number.

iv. Obtaining Permanent Account Number (PAN):

The income earned from export trade enjoys several tax exemptions and deductions under different sections of Income Tax Act. In order to claim these exemptions and deductions the exporter needs to register his organization with the Income Tax Authorities by obtaining PAN. Also PAN has been made compulsory by the government from 2007.

v. Obtaining Sales Tax Number:

Exportable goods are exempted from sales tax if the exporter has registered his organization with the sales tax authorities. In order to claim the exemptions the exporter needs to have a sales tax number which is given to him by the Sales Tax Officer (STO) after registration and verification of documents.

vi. Registration with Export Promotion Council:

It is mandatory for every exporter to get his organization registered with the appropriate Export Promotion Council (EPC) and obtain RCMC (Registration-cum-Membership Certificate). Only the exporters having a valid RCMC can enjoy benefits provided in the current EXIM policy.

vii. Registration with ECGC:

Export trade is risky business as export proceedings (payments to be made by the importer) is subject to various political and commercial risks. Therefore it is advisable for the exporter to get registered with Export

Credit and Guarantee Corporation of India (ECGC) in order to secure foreign payment receivable against political and commercial risks.

2) Pre-Shipment Stage:

Pre-Shipment stage consists of the following steps:

i. Approaching Foreign Buyers:

An exporter can approach foreign buyers to get orders by using one or more marketing and promotion techniques such as participation in trade fairs and exhibitions, advertising in international media, public relation, publicity etc.

ii. Inquiry and Offer:

When an exporter conducts a marketing campaign many foreign buyers come to know about the product and the interested ones raises inquiry to know some additional information or confirm the conveyed information in the advertisements. The exporter should grab this opportunity and try to convert the inquiry into sales by providing accurate information about size, weight, quantity, terms of payment and channel of delivery of the product by making an offer in the form of proforma invoice.

iii. Confirmation of Order:

Once the negotiations are done and the deal is finalized the exporter sends 3 copies of proforma invoice to the importer for conformation. The importer is required to sign all the copies and send 2 copies back to the exporter as a proof of confirmation of order.

iv. Opening Letter of Credit:

When the export contract is finalized the importer opens a letter of credit in favor of the exporter, if doing such is agreed upon by both the parties in the contract. The letter of credit is considered to be the safest mode of payment to settle international transaction.

V. Arrangement of Pre-shipment Finance:
After receiving the letter of credit from the importer, the exporter can approach his bank for pre-shipment finance. This loan mount can be used for production or procurement of goods, packaging and transportation of goods to the port for shipment.

vi. Production or Procurement of Goods:

The exporter either manufactures the goods or procures it from the domestic market as per the description given to the importer. For the producing or procurement of goods the exporter can either use his own funds or can also apply for pre-shipment finance on the basis of letter of credit.

vii. Packing and Marking:

After the procurement/production of goods, the exporter should ensure that goods are properly packed and marked with necessary information like port of shipment, destination, net weight, gross weight, country of origin etc. only if the goods are packed properly, the Commanding Officer will issue a clean bill of lading at the time of loading the cargo on to the ship. If the Commanding Officer of the ship finds that packing is improper a claused bill of lading is used under which the shipping company takes no responsibly of any damage caused to goods in transit.

viii. Pre-Shipment Inspection:

Exportable goods are subject to compulsory quality control inspection as well as pre-shipment inspection. Before shipment the exporter should contact the Export Inspection Agency (EIA) for the inspection of goods. After the inspection EIA will issue an inspection certificate.

ix. Central Excise Clearance:

Exportable goods are fully exempted from payment of central excise duty. However the exemption should be claimed either under 'Export under Rebate' or "Export under Bond' which is further discussed in detail.

x. Obtaining Insurance Cover:

The exporter must take ECGE policy to cover the credit risk and marine policy to cover the risk of loss in transit.

xi. Appointment of C&F Agent:

Since export procedure is a complex and time consuming activity, the exporter has an option to appoint a Clearing and Forwarding agent (C&F) for the smooth clearance of goods from customs and flawless documentation.

3) Shipment Stage:

Goods can be exported to foreign buyers by sea, air, or land. However shipment by sea is mostly preferred as it is comparatively cheaper and due to the ship's large loading capacity makes it perfect for transportation of bulky goods. On the other hand airways is generally used for the transportation of light weight and expensive articles like gold, diamonds, silver etc.

Following are the steps included in shipment stage:

i. Reservation of Shipping Space:

After the export contract is finalized the exporter approaches any shipping company of his choice and reserves the required space in vessel. Once the shipping company accepts the request of exporter, a shipping order is issued in duplicate. The original copy of the shipping order is sent to the exporter and the other copy is sent to the Commanding Officer of the ship.

The Shipping order acts as an instruction to the Commanding Officer to load goods of the prescribed specification on to the vessel for shipment.

ii. Arrangement of Internal Transportation up to the port of Shipment:

After receiving the Shipping order from the shipping company the exporter makes arrangement for transportation of goods from his place to the port of shipping by road or by rail. If goods are transported by railway, the railway authority issues a Railway Receipt which serves as a title of the goods. The exporter can endorse the Railway Receipt in the name of his C&F agent so that he can receive the delivery of goods at the port of shipment.

iii. Preparation and processing of shipping documents:

The exporter should convey all the necessary instructions along with necessary document to his C&F agent before he takes the delivery of goods at the port of shipment. Following are the documents needed to be given to the C&F agent by the exporter:

- Copy of Export Contract
- Letter of Credit
- Two copies of Commercial invoice
- Packing list
- GR Form (Both original and Duplicate)
- ARE-I Form
- Certificate of Inspection
- Marine Insurance Policy

iv. Customs Clearance:

In order to clear the cargo from the customs and load it on to the ship, all the above mentioned documents along with 5 copies of shipping bill have to be submitted to the Customs Appraiser. After verification the Customs Appraiser retains original GR, Original copy of shipping bill, and one copy of commercial invoice rest all other documents are returned to C&F agent.

v. Obtaining 'Carting Order' from Port Trust Authorities:

After customs clearance the C&F agent goes to the concerned Port Trust Authority to obtain the carting Order. Once the Carting Order is received the goods can be physically moved inside the port area and stored till shipment.

vi. Issue of Let Export Order:

The Customs examiner physically examines the goods and seals the packages I his presence. If the Customs Examiner is satisfied he issues a Let Export Order which is a formal permission for loading of cargo on the ship.

vii. Obtaining Let Ship Order from Customs PO:

The 'Let Export Order' must be supplemented by the 'Let Ship Order'. The 'Let Ship Order' is issued by the Customs Preventive Officer (PO). The C&F agent submits the duly endorsed (by Customs Examiner) duplicate copy of the shipping bill to the Customs Officer, who further endorses it with the 'Let Ship Oder'

viii. Obtaining Mate's Receipt and Bill of Lading:

Once the goods are loaded on the ship the Commanding Officer of the ship issues a Mate's receipt and hands it over to the port trust authorities. After clearing the port charges and other charges the port superintendent hands over the Mate's receipt to the C&F agent. Now the C&F agent submits the Mate's receipt to the shipping company for obtaining the bill of lading.

4) Post-Shipment Stage:

The post Shipment Stage consists of the following steps:

i. Submission of Documents by C&F Agent to the Exporter:

The C&F agent submits the following documents to the exporter after completion if export process

- A copy of invoice dully attested by the customs
- Drawback copy of the shipping bill
- Export promotion copy of the shipping bill
- A full set of negotiable and non-negotiable copies of bill of lading
- The original export contract
- Duplicate copy of ARE-I form

ii. Shipment Advice to Importer:

After the shipment of goods the exporter updates necessary information to importer such as date of shipment, name of vessel, destination of arrival etc. The exporter is also expected to send one copy of non-negotiable bill of lading to the importer.

iii. Presentation of Documents to the Bank for Negotiation:

“Negotiation of Documents” refers to the process of submission of below listed documents to the bank for getting the payment credited from the bank.

The documents that are presented to the bank for aforesaid purpose is called “Negotiable Set of Documents” which include:

- Bill of Exchange
- Full set of Bill of Lading
- Original Letter of Credit
- Customs invoice
- Commercial invoice including one copy duly certified by the Customs
- Packing list
- GR form
- Exchange control copy of Shipping Bill
- Certificate of Origin
- Marine Insurance Policy.

iv. Dispatch of Documents:

The Exporter’s bank verifies the documents to check if all formalities have ben complied with and all documents are complete. After verification these documents are negotiated to the importers bank in a manner specified in the L/C. the bank then sends the bank certificate and attested copies of commercial invoice to the exporter.

v. Acceptance of Bill of Exchange:

The bill of exchange which is accompanied by other export transaction related documents is called ‘Documentary Bill of Exchange’ which is of two types viz.:

a) Documents against payment (Sight Draft):

In case of sight draft, the importer can get the documents only after making the full payment to the bank.

b) Documents against Acceptance (Usance Draft):

In case of Usance Draft the importer can collect the documents from the bank just by accepting the bill of exchange i.e. full payment at the time of receiving documents is not required.

vi. Letter of Indemnity:

In case the exporter cannot wait for the importer to honor the bill of exchange and needs urgent money, he can get it from his bank by signing the letter of indemnity. By signing this letter the exporter indemnify the bank in the event of default of payment by the importer along with accrued interest.

vii. Realization of Export Proceeds:

Depending on the type of bill of exchange the exporter's bank receives payment from the importers bank and then the money is credited to the exporter's account. In case of Sight Draft the importer has to make the full payment in order to receive the export documents hence the money is received immediately. However in case of Usance Draft the money will be received at a future date of the maturity of the bill of exchange.

viii. Processing of GR Form:

The exporters bank intimates RBI about receipt of payment from the importer's bank by recording the detail on the duplicate copy o the GR form. RBI who has already received the original copy of the GR form from the customs cross verifies it with the copy sent by the exporter's bank. If no discrepancies is found, RBI declares the transaction as completed.

ix. Realization of Export Incentives:

The exporter is eligible for many export incentives as per the foreign trade policy of India. In order to realise the incentives the exporter is required to claim for the same to the concerned authorities along with bank certificate.

4.8 QUESTIONS

Q.1. Discuss the importance of export trade in India's economic development.

Q.2. What are the major constraints in development of export trade of India

Q.3. Write a note on export procedure.

Q.4. Write a short note on export documents.

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MODULE 3: SMALL SCALE INDUSTRIES

5

INTRODUCTION TO SMALL SCALE INDUSTRIES

Unit Structure

5.0 OBJECTIVES

- To know the meaning and scope of small scale industries.
- To know the problems faced by small scale industries.
- To study the SWOT analysis of small scale industries.
- To study the forms of business organization.

5.1 MEANING OF SMALL-SCALE INDUSTRIES

To define a small-scale industry effectively, it is imperative to first learn about the meaning of industry. The term industry refers to a group of companies that are related to each other, based on the primary business activities they undertake. Small scale industries, thus, refer to those partnerships, corporations, or sole proprietorships that function on a lower scale, employing a smaller workforce and generating less revenue than that by normal-sized industries or businesses.

Small scale enterprises can also refer to those businesses that apply for government support or avail preferential tax policies, depending on their **area** of operation.

Small Scale Industries (SSI):

These 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 crores. These industries work on a medium resource platform. They have limited labour, capital, as well as machinery. Small Scale Industry are those industries in which start business on a small scale or micro scale as a manufacturing, providing, servicing etc.

Small Scale Industries play an important role in social and economic development of India. They are a very important sector of the economy from a financial and social point of view.

These are generally labor-intensive industries, so they create much employment.

Examples and Ideas of Small-Scale Industries:

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

5.2 SCOPE OF SMALL-SCALE INDUSTRIES

In accordance with the small-scale business meaning, such industries are characterized by the following points

1. Ownership:

Generally, such businesses are sole proprietorships or, in some cases, partnerships. It means that the ownership of the business rests on a single individual, in most cases.

2. Labor Requirements:

Since capital investment in such industries is comparatively lower than that of the large-scale ones these mostly rely on manpower, to carry out production activities.

3. Management:

One of the most significant characteristics of SSI is that both the control and management of such businesses lie with owners. The owner, thus, participates actively in the day-to-day business conduction.

4. Flexible:

Since they operate on a smaller scale, these industries are more privy to sudden and unforeseen developments on the business front. They are more adaptable to changes in the business environment.

5. Optimal Usage of Resources:

Since they do not have excess resources at their disposal, small-scale industries make optimal usage of the available resources without wastage.

6. Operation Restrictions:

Most small-scale businesses are limited in their area of operation. As a result, they only operate either locally or regionally. These are a few of the characteristics of a small business that helps to effectively gauge its operation, administration, and scope.

The scope of small-scale industries is quite vast covering a owed range of activities. These characterized by labour intensive, need less capital and require less sophisticated technology. Among them are important activities are :

- Manufacturing activities
- Servicing/repairing activities
- Retailing activities
- Financial activities
- Whole-sale activities
- Construction activities
- Infrastructural activities like transport, communication etc.

The Government of India has announced reservation policy for small sector in the country.It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries.

According to J.C. Sandesara has found that **"the easy entry into SSI sector has intensified competition within the sector, and resulted in excess supply, and thus, a fall in profitability."**

Government SSI policy Framework- Latest Amendment:

In line with new economic policies, a policy document for SSI was announced on 6th August 1991.

- It continued priority sector lending to SSI by banks/Financial Institution
- Excise exemption scheme.

- Reservation of items for exclusive production
- Price and purchase preference.
- Uniform package of incentives of the entire sector

It introduced new measures like:

- Removal of location restrictions
- Enhancement of coverage, limits
- Shift towards infrastructural development support
- Inclusion of services in this sector
- Allowing equity investment in SSI
- Shift from protection/regulation to promotion of equality, technology and deficiency
- Substantial de-regulation and simplification of rules and procedures.

At last words, the small-scale industries sector plays a vital role in the growth of the country. These industries are usually started by the lower or middle-class public. They have an opportunity to earn wealth and employee other people. It helps with income distribution and contributes to social progress.

5.3 IMPORTANCE OF SSI

1. SSI Increases Production:

India is one of the world's fastest growing economies in the world. Consequently, its production output is massive. It is pertinent to note that SSIs contribute almost 40% of India's gross industrial value.

These industries produce goods and services worth over Rs. 40 lakhs for every investment of Rs. 10 lakhs. Furthermore, the value addition in this output increases by over 10%.

Here is another interesting statistic about Small scale industries. The number of Small Scale Industries in India increased from around 8 lakhs in 1980 to over 30 lakhs in 2000.

This figure has grown even more in recent years owing to the government's 'Ease of Doing Business' policies.

As a result of this, the total industrial production output rose tremendously in the last few years. SSIs are, therefore, strongly responsible for the growth of India's economy.

2. SSI Increases Export:

Apart from producing more goods and services, SSIs have been able to export them in large numbers as well.

Almost half of India's total exports these days come from small-scale businesses.

35% of the total exports account for direct exports by SSIs, while indirect exports amount to 15%.

Even trading houses and merchants help SSIs export their goods and services to foreign countries.

3. SSI Improves Employment Rate:

It is important to note firstly that Small Scale Industries employs more people than all industries after agriculture.

Almost four persons can get full employment if Rs. 10 lakhs are invested in fixed assets of small-scale sectors.

Furthermore, SSIs employ people in urban as well as rural areas.

Consequently, this distributes employment patterns in all parts of the country and prevents unemployment crisis.

4. SSI Open New Opportunities:

Small-scale industries offer several advantages and opportunities for investments.

For example, they receive many tax benefits and rebates from the government. The opportunity to earn profits from SSIs are big due to many reasons.

Firstly, SSIs are less capital intensive. They even receive financial support and funding easily.

Secondly, procuring manpower and raw materials is also relatively easier for them. Even the government's export policies favour them heavily.

5. SSI Advances Welfare:

Apart from providing profitable opportunities, Small Scale Industries play a large role in advancing welfare measures in the Indian economy as well.

A large number of poor and marginalized sections of the population depend on them for their sustenance.

These industries not only reduce poverty and income inequality but they also raise standards of living of poor people. Furthermore, they enable people to make a living with dignity.

5.4 PROBLEMS FACED BY SMALL SCALE INDUSTRIES

The following are the problems faced by Small Scale Industries

1. Poor capacity utilization:

In many of the Small Scale Industries, the capacity utilization is not even 50% of the installed capacity. Nearly half of the machinery remains idle. Capital is unnecessarily locked up and idle machinery also occupies space and needs to be serviced resulting in increased costs.

2. Incompetent management:

Many Small Scale Industries are run in an incompetent manner by poorly qualified entrepreneurs without much skill or experience. Very little thought has gone into matters such as demand, production level and techniques, financial availability, plant location, future prospects etc. According to one official study, the major reason for SSI sickness is deficiency in project Management i.e., inexperience of promoters in the basic processes of production, cash flow etc

3. Inadequate Finance:

Many Small-Scale Industries face the problem of scarcity of funds. They are not able to access the domestic capital market to raise resources. They are also not able to tap foreign markets by issuing ADR's (American Depository Receipts) GDR's (Global Depository Receipts) etc because of their small capital base. Banks and financial institutions require various procedures and formalities to be completed. Even after a long delay, the funds allocated are inadequate.

Bank credit to the small-scale sector as a percentage of total credit has been declining. It fell from 16% in 1999 to 12.5% in 2002. Small Scale Industries are not able to get funds immediately for their needs. They have to depend on private money lenders who charge high interest. Finance, as a whole, both long and short term, accounts for as large as 43% of the sector's sickness.

4. Raw material shortages:

Raw materials are not available at the required quantity and quality. Since demand for raw materials is more than the supply, the prices of raw materials are quite high which pushes up the cost. Scarcity of raw materials results in idle capacity, low production, inability to meet demand and loss of customers.

5. Lack of marketing support:

Small Scale Industries lack market knowledge with regard to competitors, consumer preferences, market trends. Since their production volume is small and cannot meet demand for large quantities their market is very restricted. Now with the process of liberalization and globalization they are facing competition from local industries as well as foreign competitors who sell better quality products at lower prices. For e.g. heavily subsidized but better quality imports from China has made most of the Indian SSI units producing toys, electronic goods, machine tools, chemicals, locks and paper etc., unviable.

6. Problem of working capital:

Many Small-Scale Industries face the problem of inadequate working capital. Due to lack of market knowledge their production exceeds demand, and capital gets locked in unsold stock. They do not have enough funds to meet operational expenses and run the business.

7. Problems in Export:

They lack knowledge about the export procedures, demand patterns, product preferences, international currency rates and foreign buyer behavior. Small Scale Industries are not able to penetrate foreign markets because of their poor quality and lack of cost competitiveness. In countries like Taiwan, Japan etc. products produced by Small Scale Industries are exported to many foreign countries. But in India not much thought and focus has gone into improving the export competitiveness of Small-Scale Industries.

8. Lack of technology up-gradation:

Many Small-Scale Industries still use primitive, outdated technology leading to poor quality and low productivity. They do not have adequate funds, skills or resources to engage in research and development to develop new technologies. Acquiring technology from other firms is costly. Therefore, Small Scale Industries are left with no choice but to continue with their old techniques.

9. Multiplicity of labour laws:

One of the merits of Small Scale Industries are that they are labour intensive and can provide employment to a large number of people. But the multiplicity of labour laws, need to maintain several records (PF, ESI, Muster Rolls etc.), fines and penalties for minor violations etc. place Small Scale Industries at a great disadvantage.

10. Inability to meet environmental standards:

The government lays down strict environmental standards and Courts have ordered closure of polluting industries. Small Scale Industries which are already facing shortage of funds to carry out their business are not able to spend huge sums on erecting chimneys, setting up effluent treatment plants etc.

11. Delayed payments:

Small Scale Industries buy raw materials on cash but due to the intense competition have to sell their products on credit. Buying on cash and selling on credit itself places a great strain on finances. The greater problem is payments are delayed, sometimes even by 6 months to one year. It is not only the private sector but even government departments are equally guilty. Delayed payments severely impact the survival of many Small-Scale Industries.

12. Poor industrial relations:

Many Small-Scale Industries are not able to match the pay and benefits offered by large enterprises, because their revenues and profitability are low and also uncertain. This leads to labor problems. Employees fight for higher wages and benefits which the SSI is not able to provide. This may lead to strikes, resulting in damage to property in case of violence by employees, production losses etc.

13. Strain on government finances:

Marketing of products manufactured by Small Scale Industries is a problem area. The government has to provide high subsidies to promote sales of products produced by Khadi and Village Industries. This places a great strain on government finances.

14. Concentration of industrial units:

There is high concentration of small-scale industrial units in a few states. Of the estimated 1.37 million registered units as on 2020-21, nearly 35% were located in three states. Uttar Pradesh, Tamil Nadu and Kerala alone account for 35% of Small-Scale Industries. Due to concentration, there is high competition among them to procure raw materials and other industrial inputs. This leads to high costs and scarcity of raw materials and other inputs affecting their production and increasing costs.

15. Inadequate dispersal:

One of the objectives of the government in promoting Small Scale Industries was to increase industrial development and employment opportunities throughout the country. Since nearly 60% of the Small-Scale Industries are concentrated in few states, the objective of balanced regional development and promotion of backward areas has not been achieved. Further majority of Small-Scale Industries are located in urban areas and the aim of industrial development in rural areas has also been defeated.

16. Widespread sickness:

Sickness among Small Scale Industries is widespread. Sickness is not detected in the initial stages and large amount of funds are locked in them. Due to these new entrepreneurs are not able to get loans, workers in the sick units lose their jobs and industrial and economic development is affected.

17. Lack of awareness:

The government has set up many organizations to support and provide assistance to Small Scale Industries. But, many of the entrepreneurs running Small Scale Industries are not aware of the various support services.

18. Government interference:

Small Scale Industries have to maintain a number of records and there are endless government inspections. A lot of time, money and effort is wasted in complying with various inspections and records verification. This prevents Small Scale Industries from fully concentrating on their business activities.

5.5 SWOT ANALYSIS OF SMALL-SCALE INDUSTRIES

5.5.1 MSMEs sector are enormous due to the following factors:

- MSMEs can be started at a very low cost. Adapting to change is crucial in these sectors; not being tied to any bureaucratic inertia, it is typically easier to respond to the marketplace quickly.
- Good customer relation results in greater accountability and maturity. Customers who are treated like family are more likely to return to that business in the future.
- Independence to work for own firm is another advantage of these sectors.
- Ability to innovate and create new products and services more rapidly and creatively than larger companies that are delayed in bureaucracy.
- A small firm has also the ability to modify its products or services in response to unique customer needs.
- The average entrepreneur or manager of a small business knows his customer base far better than in a large company.
- Cater to customer needs. If a modification in the products or services offered or even the business's hours of operation would better serve the customers, it is possible for a small firm to make changes.
- The people involved – the entrepreneur, any partners, advisers, employees, or even family members – have a passionate, almost compulsive, desire to succeed. This makes them work harder and better.

5.5.2 Weaknesses:

i. It can be difficult to reach enough potential customers to establish a successful base of customers.

ii. Potential customers might be less likely to do business with a small business that does not offer a well known brand of products or services. •

iii. One of the largest weaknesses for small business owners is to raise finance.

iv. Many business owners invest their own money at the start of a business or if the business falls upon hard times because institutional lenders like banks and government financial corporations are generally reluctant to advance money to these small units

v. Small business owner has to bear high cost of production, which acts as one of the weakness for the small businesses.

vi. Most of small scale businesses do not have skilled personnel.

vii. Due to which these businesses lack in identification of industrial projects for development consultancy and counseling services and providing industrial training and skill formation .

viii. Small businesses do not use Information technology and its applications such as the designing of prototype machines for product identified according to country resources and requirements.

ix. Many times it becomes very difficult to obtain the permission of and licence from, the Industrial Development of the state, local bodies etc.

x. Marketing is one of the weaknesses for small businesses. ’” Besides these, the entrepreneurs face many problems in marketing due to ’” Lack of standardization ’” Poor designing ’” Poor quality ’” Lack of quality control ’” Lack of precision ’” Poor finish ’” Poor bargaining power ’” Lack of service after sales ’” Scale of production ’” Brand preferences ’” Distribution contacts ’” Lack of knowledge of marketing ’” Competitive marketing ’” Ignorance of potential market

5.5.3 Opportunities:

i. Major Policy Initiatives by Government of Odisha towards enhancing the opportunity for growth of MSMEs are: • ! Government of Odisha formulated Odisha Industrial Policy in March 2007 which aimed at reinforcing and further expanding for industrial promotion and investment facilitation in the State, including creation of an enabling environment.

ii. In March 2009, Government of Odisha announced the “Odisha MSME Development Policy, 2009” to broad base the growth of MSMEs.

iii. The policy aimed at the development of infrastructure to support the sector, to facilitate the flow of credit (like Odisha MSME Venture

Capital Scheme), assistance to improve the marketing facilities, technology up gradation and sourcing of raw materials.

iv. The policy also emphasized on the rehabilitation and revival of sick units with enabling institutional arrangements.

v. It also emphasized on single window mechanism, entrepreneurship development, skill development, and promotion of clusters etc., for the comprehensive development of the sector. • ! Government of Odisha in February 2010 notified that Common Facility Centres (CFCs) set up by Special Purpose Vehicles (SPVs) of MSME clusters shall be entitled for allotment of land on free of cost basis at locations earmarked for the purpose by IDCO which shall be treated as the StateGovernment's share. • ! Government of Odisha has issued guidelines (in 2013) for procurement of goods from local MSEs with a price preference of 10 per cent vis-à-vis local medium and large as well as outside industries. Local MSEs having ISO/ISI certifications are given additional 3 per cent price preference.

vi. It was also notified to undertake a comprehensive district wise drive for identification and rehabilitation of potentially viable units on a fast track mode.

vii. Recently, Government of Odisha released Draft Industrial Policy 2014 with an objective of making Odisha a favorable destination for the investors by providing infrastructure and institutional support and pre and post-production incentives.

viii. The policy has sought to provide institutional mechanism in the form of single window clearance, simplification and rationalization of regulatory mechanisms; financial support measures by means of incentives, interest subsidy at 7% per annum for term loans availed by MSEs, reimbursement of VAT for new units (for a period of five years), stamp duty exemption for land leased by Government / IDCO, certain exemption from payment of electricity duty, employment cost subsidy etc.

ix. This policy intends to encourage linkage between MSME and large industries and make focused efforts for development of ancillary and downstream industries.

5.5.4 Threats:

i. Some of the threats related to MSMEs are: Slow Payment : While large corporations and banks have been fortified with ample low-cost cash to buy small businesses products and services, they continue to pay slowly, bargain harder and demand more concessions from powerless small businesses who are selling their souls "where the money is." ! New costs, taxes and compliance.

ii. As social causes like sustainability, diversity, healthcare and fair taxation are being legislated by governments and lobbied into favorable terms for corporations, small business is getting choked. Now, the new costs, taxes and compliance rules are sapping the will of owners to believe that they should risk, invest and remain confident in their businesses.

iii. "Approved" vendor programs force buying solely on price : ! To shift responsibility and outsource their liability, corporations and governments are hiring third party sourcing companies whose objective is to reduce small business vendor power and commoditize their products and services.

5.6 FORMS OF BUSINESS ORGANISATION

Business organizations, as known, are the places where the businesses are conducted. What is probably not known is – there can be a varied type of 10 business structures! While the most prevalent six to seven forms of business organizations will be prioritized in this discussion.

Business Organisation is an entity that is formed for the purpose of carrying on the commercial enterprise of selling and buying. These organisations are based on the systems of law that governs contract and this exchange, property rights, and incorporation.

The Business Organisation system is concerned with the management and planning of different activities. This is an accumulation and coordination of the resources such as men, material, money, machine to produce the goods and services, the business organisation works to coordinate and control all these factors of production.

5.6.1 Meaning of Business Organisation:

Business organisation is defined as an entity which is structured for the purpose of carrying on the commercial system of enterprise. The organisation is governed under principles and laws governing contract and exchange of goods and services.

Knowing about the business organization is the utmost for a business aspirant student as this is the basic fundamental by which he or she may decide to structure his or her own business. Thus, let us delve into the subject matter and know the various forms of business organizations.

5.6.2 Factors affecting the Business Forms:

Business organizations can be of different types, depending upon factors like their nature, the extent of operation, ownership, legalities, terms, financial structure, liabilities, etc. The form of a business is likely to have long-term impacts on the company. Thus, the members of an organization must choose wisely as to which sort of business would be ideal for them.

The primary aspect, based on which forms of business organizations are decided, is its characteristics. Various factors determining the character of business include:

1. Ease of Formation
2. Capital or Financial Requirements
3. Nature of Liability
4. Control
5. Stability and Continuity
6. Flexibility to Conduct Operations.
7. Secrecy
8. Legal Aspects

5.6.3 The Types of Business Structures:

Depending on the factors mentioned above, there can be seven different forms of business organizations. They are as follows:

1. Sole Proprietorship
2. Hindu Undivided Family
3. Company
4. Partnership
5. Corporations or Statutory Bodies
6. Co-operative Societies
7. LLP (Limited Liability Partnerships)

But if we are to consider the three major forms of business organizations, it would include sole proprietorship, corporations, and partnerships.

The One Who goes Solo - Sole Proprietorship:

The sole proprietorship of a company suggests that the complete ownership of that organization lies with a single person. This is one of the primary forms of business organizations where an individual not only owns the company wholly but also manages it single-handedly. Here, the business organization and the owner are a single entity.

A sole proprietorship is among the simplest forms of business organization, which is why it has minimal or no registration formalities. This is the ideal form of organization for small or medium-scale businesses. The biggest advantage of these business organizations is that the owner gets to access the entire incentive. He is not liable to share the profits with anyone else. However, a huge amount of personal liability can be seen as a setback in these business organizations.

The Bodies Formed By The Parliament Of India - Corporations Or Statutory Bodies:

A statutory body means any such authority or organization which is non-constitutional. Such bodies have been set up by the parliament, and hold power to take decisions on behalf of an entire nation. Some notable examples of statutory bodies in India are:

- National Green Tribunal
- National Commission for Women
- National Human Rights Commission
- National Commission for Backward Classes
- National Law Commission
- Armed Forces Tribunal

On the other hand, corporations are such forms of business organizations that consist of many shareholders. A corporation has the legal authority to act as a single entity. It usually has a board of directors (elected by all the shareholders), led by a president. The board of directors is authorized to make management decisions. To set up this legal form of business organization requires proper paperwork and lawful proceedings.

The Partners Business – Partnerships:

If we consider the corporate scenario in India, companies set up on partnership deals are the most popular and basic form of business organization. A partnership is a mutual agreement between two or more parties that agree to carry out a common business. Parties entering into a partnership could include individuals, companies, schools, governments, etc.

This form of business organization has to follow the norms specified under the Indian Partnership Act of 1932. Such entities are known as partnership firms. Here, the partners work towards the common goal of business, which is profit.

Businesses run on charitable or non-profit causes cannot be considered partnership firms. Partnerships happen to be among the 3 main forms of business organizations, and their nature is determined by the types of partners included.

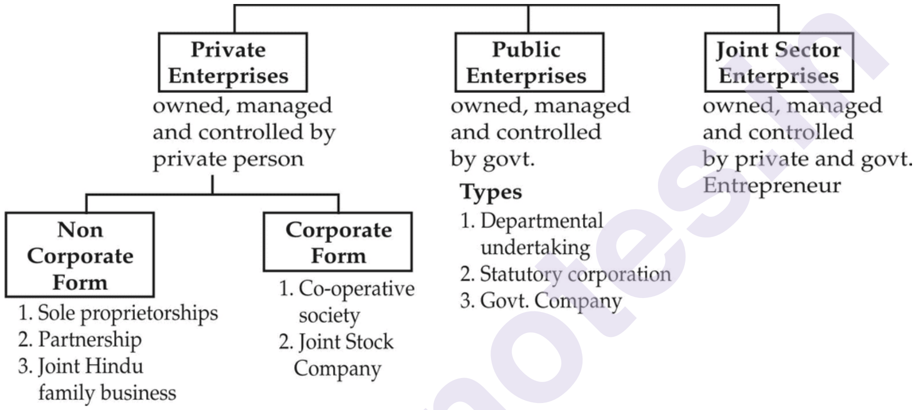
Exists Only in India - HUF or Hindu Undivided Family Business:

This is a special form of business entity that is limited only to India. Such forms of business organizations are governed by the Hindu law prevalent in the country. Any member of a Hindu Undivided Family can co-own the business owned by that family. These members will be known as coparceners in the business. The head of a Joint family Business in India is called the ‘Karta’. He usually holds full control of the management and finance of the business.

Sharing the Bread - Companies:

“Com” means ‘together’ and “Panies” means ‘bread’. The Indian Companies Act of 2013 defines different types of companies as different forms of business organizations. It is not mandatory for a company to be multinational or operate in different locations. It can be a small-scale business or even a start-up initiative.

As per the Indian Companies Act, a company can either be private or public. Private companies are the ones in which the minimum paid-up share capital has to be Rs.1 lakh. On the other hand, public companies are separate legal entities that must have a paid-up share capital of at least Rs.5 lakh. The shares of these companies can be owned by members of the public



5.8 QUESTIONS

Q.1. Explain the meaning and scope of small scale industries.

Q.2. Give the meaning of small scale industries

Q.3. What are the problems faced by small scale industries.

Q.4. Explain the forms of business organization.

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6

BASIC CONCEPTS RELETES SMALL SCALE INDUSTRIES

Unit Structure

6.0 OBJECTIVES

- To know the advantages and disadvantages of sole proprietorship.
- To study the types and features of sole proprietorship.
- To study the advantages and disadvantages of partnership.
- To study the joint stock companies.
- To study about the cooperative society.

6.1 INTRODUCTION

A sole proprietorship business venture is one of the most typical and easiest commercial forays not only in India but also across the world. Some of India's largest existing enterprises, including Flipkart, started operating as solely-owned firms.

Globally, some of the most famous names in business started with a single owner. Familiar names like Coca-Cola, Amazon, the Walt Disney Corporation and toy-major Mattel are excellent sole proprietorship examples. Historically, these are some of the oldest businesses that have been owned and operated by a lone individual, making them sole proprietorship ventures.

This chapter will help you understand what these types of businesses mean, what their characteristics are and some of the advantages and disadvantages of a sole proprietorship.

Defining Sole Proprietorship:

Such a firm is a one-person operation. "Sole" means only and "proprietor" refers to the owner. When any natural person, and not a 'legal' person or another entity, is in charge of an organization, it becomes a sole proprietorship enterprise. Both the owner and his/her business are the same.

They have no separate legal bearing.

A sole owner is automatically the custodian of all profits of the organization. However, he is also liable to suffer the most should the business nosedive in perilous economic times, making risk-taking a part of owning a business entity.

A one-person operation allows the owner to employ whoever he desires. Termination of employment is also his executive domain, provided the terms and conditions laid out during hiring are maintained. His authority and discretion are also final.

Of all the various types of business organizations, this is the simplest. A solely-owned entity need not always be registered or even incorporated. However, registering a business venture has certain advantages which have been mentioned later.

Most of the small-scale businesses we see around us in our day-to-day lives are businesses with single owners. These can range from spas and beauty parlors to a medicine outlet and any local grocery store.

For advanced commerce students: Walt Disney was a struggling artist before his Mickey Mouse line of animated characters took off, and his name became globally known. You can research his failures, how he dealt with them, and how he later developed a global reputation for himself and his company.

6.2 SOLE PROPRIETORSHIP

6.2.1 Types of Sole Proprietorship Businesses:

These are the existing types.

1. An Independent Contractor:

A contractor is hired by business houses or other, more prominent contractors at predetermined income levels or profit-sharing margins. But this does not make an independent contractor an employee, for he has the freedom to say ‘no’ to an engagement.

2. Self-Employed Owner:

Someone who acts both as the owner and an employee of his business is a self-employed owner. In this digital age, someone who sells goods on an E-commerce firm is self-employed. He owns an enterprise but also has to look after his day-to-day operations like an employee. Other examples can be a painter and a shopping assistant.

3. Franchise:

A franchise is also considered a form of a sole proprietorship. The owner decides to rent a franchise from a leading brand and pours in the requisite capital. Note that the franchisee has to pay royalties to the franchisor. This type of business is an excellent starting point for first-time business owners, as he does not have enough experience to run a full-fledged firm but can still bank on the reputation of his franchisor.

6.2.2 Features of Sole Proprietorship:

1. Lack of prison Formalities:

A sole proprietorship does not have a separate regulation to govern it. And so there are not many special policies and rules to comply with. moreover, it does no longer require incorporation or registration of any kind. In reality, in maximum instances, we want only the license to perform the desired enterprise.

2. Liability:

On the grounds that there is no separation among the proprietor and the enterprise, the private liability of the proprietor is likewise unlimited. So if the enterprise is unable to satisfy its very own debts or liabilities, it'll fall upon the proprietor to pay them. As an example, he may additionally sell all of his private property (like his car, house, other properties and many others) to fulfill the money owed or liabilities of the enterprise.

3. Threat and income:

The enterprise owner is the simplest threat bearer in a sole proprietorship. given that he's the simplest one financially invested within the enterprise. As a result, he ought to additionally undergo all of the danger. In different words, if the enterprise fails or suffers losses he might be the one affected.

But, he also enjoys all the earnings from the business. He does not must proportion his income with some other stakeholders in view that there are none. So he ought to endure the overall threat in trade for playing full profits.

4. No Separate identification:

In prison terms, the commercial enterprise and the proprietor are one and the same. No separate criminal identity will be bestowed upon the sole proprietorship. So the proprietor can be chargeable for all the sports and transactions of the commercial enterprise.

5. Continuity:

As seen above the commercial enterprise and the owner have one identity. So a sole proprietorship is totally dependent on its owner. The loss of life, retirement, bankruptcy. madness, imprisonment and so forth may have an impact on the sole proprietorship. In such conditions, the proprietorship will give up to exist and the enterprise will come to an end.

6.2.3 Advantages of Sole Proprietorship:

- A proprietor will have the entire manager of the complete enterprise. consequently this could facilitate quick selections and freedom to do commercial enterprise

- Law does not require a proprietorship to put up its economic debts or other such files to any members of the public. As a end result, there is sufficient confidentiality that is critical inside the commercial enterprise world

- The enterprise owner derives the maximum incentive from the business. because he should not share any of his earnings. So the work he puts into the business is absolutely reciprocated in incentives

- Being your very own boss is an extraordinary experience of pleasure and fulfillment. Furthermore, you're answerable only to yourself. consequently it's far a super improve to your self esteem as nicely

6.2.4 Negative aspects of Sole Proprietorship:

- One among the largest limitations of a sole proprietorship is the limitless personal legal responsibility of the owner. If the enterprise fails it could wipe out the personal wealth of the owner as well as affect his future business possibilities too

- Every other problem is that a sole proprietor has to get entry to a confined capital. The cash he can borrow from his own private savings may not be sufficient to enlarge the enterprise. Moreover, banks and financial establishments are also wary of lending to proprietorships.

- The existence cycle of a sole proprietorship is not sure and connected to its proprietor. An incapacitated proprietor may have a terrible impact on the business, and it is able to even cause the closure of the enterprise. A sole proprietorship can't keep on without its proprietor.

- A sole proprietor additionally has restrained managerial potential. He can not be a professional in all the fields of the business. Furthermore, limited resources may additionally mean that he can not hire able humans to help him out. As a result, the commercial enterprise might also suffer from mismanagement and bad selections.

6.3 PARTNERSHIP

A partnership is a kind of business where a formal agreement between two or more people is made who agree to be the co-owners, distribute responsibilities for running an organization and share the income or losses that the business generates.

In India, all the aspects and functions of the partnership are administered under 'The Indian Partnership Act 1932'. This specific law explains that partnership is an association between two or more individuals or parties who have accepted to share the profits generated from the business under the supervision of all the members or behalf of other members.

6.3.1 Indian Partnership Act 1932:

Most of the businesses in India adopt a partnership business, so to monitor and govern such partnership The Indian Partnership Act was established on the 1st October 1932. Under this partnership act, an agreement is made between two or more persons who agrees to operate the business together and distribute the profits they gain from this business.

6.3.2 Partnership Examples:

Few co-branding partnership examples are listed below:

- Red Bull and GoPro
- Spotify and Uber
- Levi's & Pinterest
- Maruti Suzuki
- Hindustan Petroleum

6.3.3 Features of Partnership:

The Essential Features And Characteristics Of A Partnership Are:

1. **Agreement:** The partnership arises out of an agreement between two or more persons.
2. **Profit sharing:** There should be an agreement among the partners to share the profits of the business.
3. **Lawful business:** The business to be carried on by a partnership must always be lawful.
4. **Membership:** There must be at least two persons to form a partnership. The maximum number is 20. But in case of banking business the maximum is 10 members.
5. **Unlimited liability:** The liability of every partner is unlimited, joint and several.
6. **Principal-agent relationship:** Every partner is an agent of the firm. He can act on behalf of the firm. He is responsible for his own acts and also for the acts done on behalf of the other partners.
7. **Collective management:** The firm and the partners are one. When a contract is made in the name of the firm all the partners are responsible for it individually and collectively.

8. **Non-transferability of shares:** A partner cannot transfer his share of interest to others without the consent of the other partners

6.3.4 Advantages of Partnership:

The following are the advantages of partnership business:

1. **Easy to form**: A partnership firm can be formed without any legal formalities and expenses. Even if the fum is to be registered, the expenses are not much compared to company form of organization.

2. **Access to more capital**: A firm consists of more than one person. Therefore it can secure more capital from combined resources.

3. **Skill and talent**: Talented persons may be taken as partners. More skill and talent will be available..

4. **Division of labor**: Division of labor can be introduced which increases the efficiency in the management. One partner may take care of purchases, another sales, a third accounts and so on.

5. **Contact with customers**: All the partners in a firm may take part in the management of the business. So, they get in touch with the customers during the course of the business. It enables them to study the tastes and needs of the customers.

6. **Borrowing capacity**: The creditors will lend Loans not only on the basis of the firm's assets but also based on the personal properties of the partners. So the borrowing capacity of a firm is more.

7. **Incentive to work hard**: Every partner is liable for the debts of the firm. Also every partner has a share in the profits. This makes them to work hard for the success of the business.

8. **Expansion of business**: Due to the availability of sufficient finance and skill the business can be expanded very easily.

9. **Wise decisions**: In partnership, decisions are taken with the consultation of all the partners. So naturally the decisions are wiser and more beneficial.

10. **Co-operation between partners**: The partnership enables partners to provide mutual help to each other. Partners behave as members in a joint family.

11. **Flexibility**: Changes in the business can be adopted easily. There are no legal restrictions.

12. **Economy in operation**: If there is co-operation among the partners the firm can be run efficiently. A good number of economies in management can be derived.

13. **Division of risks**: All losses and risks of the business are shared by all the partners. So risky ventures can also be taken up.

14. **Maintenance of secrets**: Business secrets can be maintained easily if the number of partners in a firm are limited.

15. **Incidence of tax**: Compared with company form of organization the tax payable on the incomes of the partners will be less.

6.3.5 Disadvantages of Partnership:

The following are the disadvantages of a partnership firm:

1. **Division of responsibility:** In a partnership the management is divided. As such responsibilities are also divided. Every partner might try to shift the burden on to the shoulders of others; finally none takes the responsibility properly.

2. **Delay in decisions:** Sometimes the partners may not agree with one another in taking decisions. As a result partners will not be in a position to take quick decisions.

3. **Lack of continuity:** A partnership gets dissolved on the death, insolvency, insanity or retirement of any partner. So, there is no guarantee for the continuity of the firm.

4. **No transferability of share:** In a firm the partner cannot transfer his share of interest to others without the consent of the other partners.

5. **Lack of secrecy:** It may not be possible to maintain secrecy in partnership because of the number of partners.

6. **Unlimited liability:** The creditors of a firm can recover their loan amounts from the personal properties of the partners when the firm's sources are not enough. Therefore the personal properties of the partners are not safe..

7. **Joint and several liability:** Every partner is jointly and separately liable for the firm's debts. In case of insolvency of partners, the solvent partners have to pay the debts of the insolvent partners also.

8. **Internal conflicts:** Differences and disputes among the partners are very common. These conflicts harm the firm as a whole.

9. **Misuse of assets:** The partners may use the assets of the firm for their personal purposes. Misuse of assets is harmful to business interests.

10. **Lack of public confidence:** A partnership firm is purely a private organization. It is not controlled or regulated by the Government. As such public may not have confidence in the firm.

6.4 JOINT STOCK COMPANY

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.

6.4.1 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.

6.4.2 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.

6.4.3 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.

6.5 CO-OPERATIVE SOCIETY

A co – operative society is a voluntary association of persons of moderate means, who unite together to protect and promote their common economic and social interests. It is based on the principles of collective effort, mutual self – help, equality, democracy, distributive justice and freedom. It represents an attempt by poor and weaker persons to protect themselves against the exploitation and oppression of the economically strong . The term cooperation is derived from the Latin word 'co-operari', where the word "co" means 'with' and "operari" means 'to work'. Thus, the term cooperation means working together. So those who want to work together with some common economic objectives can form a society, which is termed as cooperative society

6.5.1 Features Atures of Cooperative Societies:

1. Voluntary Association:

The membership of cooperative societies is voluntary. A person can join cooperative society anytime or leave as per his desire. Religion, gender & caste do not matter in cooperative society. Membership is open to all the people.

2. Number of Members:

A minimum of 10 members are required to form a cooperative society. In multi-state cooperative societies the minimum numbers of member is 50 from each state in case the member are individuals. The Cooperative Society act does not specify the maximum numbers of the cooperative society members.

3. Registration of The Cooperative Society:

In India the cooperative societies registered under Cooperative Societies Act 1912 or the state Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-State Cooperative

Societies Act 2002. Once the society registered, the Society becomes a separate legal entity.

4. State Control:

Since registration of cooperative societies became compulsory. From that period the every cooperative society came under the control and supervision of the government.

5. Return on Capital Investment:

The members get return on their capital investment in the form of dividend. When the new member joins the society he/she needs to give some registration fees and needs to deposit some mandatory amount every month. At the end of financial year members get some return on their capital investment.

6. Democratic Management:

The management of co-operative society is based on democratic lines. A body of members is elected to conduct and control the business. The body is elected through 'one-man-one-vote-system'. Members can give their suggestions, opinions and problems.

7. Service Motive:

The formation of co-operatives is based on service motive rather than a profit motive. Its objects to serve their members and not to maximize the profits. These societies provide different types of service to their members.

8. Equality of Voting Rights:

The main principle of co-operative society is "one man one vote". Irrespective management of a co-operative society is democratic. All important decisions are taken by majority.

6.5.2 Types of Co-Operative Societies:

1. Consumers' Co-Operative Societies:

Such Societies are organised by the consumers to avoid exploitation by the middleman and to ensure steady supply of consumer goods and services at fair prices. A consumer's co – operative store purchase the consumers good either from the manufacturers or the wholesalers and then sells them to its members at reasonable prices. The profits made by the society during a year are utilized for strengthening the reserve fund of the society, for declaring a moderate rate of dividend and for declaring a bonus to members according to the purchases made by them from the cooperative store.

2. Producers' Co-Operative Societies:

The societies are by the small producers to fight against the big producers. It assists the member who needs capital, materials and equipment to use their skills for the production of goods and services. The society supplies these things to the members and takes over their purchases for sale. Thus, a producers ‘society not only provides money and materials to the small artisans but also undertakes to sell their products.

3. Co-Operative Marketing Societies:

Co-operative marketing societies are voluntary associations of small producers, who find it difficult to individually sell their products at a profit. The main purpose of such a society is to ensure a steady and favourable market for the output of its members. The output is pooled together and sold at the best price. The sale proceeds are distributed in proportion to the contribution of the members to the pool. Marketing co-operatives eliminate middleman and ensure honest trading practices in weighing, measuring and accounting.

4. Credit Co-Operative Societies:

Such societies are formed to provide financial help in the form of loans to members. The funds of these societies consist of share capital contributed by the members and the deposits made by them and outsiders. The funds are used in giving loans to needy members on easy terms. Thus, the members are protected from the exploitation of money lenders, who charge exorbitant rates of interest Another important purpose of creditco – operatives is to encourage the habit of thrift among their members.

5. Farmers’ Co-Operative Societies:

In co-operative farming societies, small farmers join together and pool their resources for cultivating the land collectively. Their object is to achieve economies of large scale farming and maximising agricultural output. Such societies are particularly important in the case of countries like India, where agriculture suffers from excessive sub – division and fragmentation of land. Co – operative farming makes it possible for members to use modern tools and equipments good seeds, fertilizer and irrigation facilities in order to achieve higher production.

6. Cooperative Housing Societies:

Cooperative housing societies are established to help people with limited income to construct houses or flats at reasonable costs. The members of these societies consist of people want residential accommodation at lower costs. The aim is to solve the housing problems of the members by constructing and giving the option of paying in installments. These societies procure land from the government and construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

6.5.3 Advantages of Co-Operative Societies:

1. Ease of Formation:

A co – operative society is a voluntary association and may be formed with a minimum of ten adult members. Its registration is very simple and can be done without much legal formalities.

2. Open Membership:

Membership in a co-operative organisation is open to all having a common interest. A person can become a member at any time he likes and can leave the society by returning his shares without affecting its continuity.

3. Democratic Management:

A co-operative society is managed in a democratic manner. It is based on the principle of one – man-one-vote. All members have equal rights and can have a voice in its management.

4. Limited Liability:

The liability of the members of a co – operative society is limited to the extent of capital contributed by them. They do not have to bear personal liability for the debts of the society.

5. Stability:

A co – operative society has a separate legal existence. It is not affected by the death, insolvency, lunacy or permanent incapacity of any of its members. It has a fairly stable life and continues to exist for a long period.

6. Promotion of Social Values:

The cooperative societies promote social justice and mutual cooperation. They promote self help, moral value among the members. They also help to prevent concentration of economic power in few hands.

6.5.4 Disadvantages of Co-Operative Societies:

1. Limited Capital:

The cooperative organisation is formed by the people who have limited resources and there is no compulsion to buy more than one share by each member.

2. Inefficiency in Management:

Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on voluntary basis are generally not professionally equipped to handle the management functions effectively.

3. Lack of Motivation:

In cooperative organisation, there is no direct link between efforts and reward. Hence, members are not inclined to put their best efforts . There is no incentive for working efficiently.

4. Conflicts among Members:

The members are from different sections of society. They may have difference of opinion and if any member follows rigid attitude, it can lead to conflicts. Generally, the selfish motive of members starts dominating and they forget the service motive

6.7 QUESTIONS

Q.1. What is the meaning of sole proprietorship? What are the types of sole proprietorship.

Q.2. What are the advantages and disadvantages of sole proprietorship ?

Q.3. Explain the types of partnership

Q.4. Write down advantages and disadvantages of partnership

Q.5. What are the features of joint stock companies?

Q.6. What are the advantages and disadvantages of joint stock companies

Q.7. Write detail note on cooperative societies.

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MODULE 4: MANAGEMENT AND INCENTIVES FOR SMALL SCALE INDUSTRIES

7

MANAGEMENT FOR SMALL SCALE INDUSTRIES

Unit Structure

7.0 OBJECTIVES

After going through this unit, you must be able to:

- Explain the fundamentals of management
- Describe the functions of management
- Explain the concept of production
- Describe the scope of production & operations management
- Explain the concept of working capital management
- Explain the concept of marketing management

7.1 INTRODUCTION

In today's challenging time it has become a quiet difficult task to develop business. The need of existence of management has increased tremendously.

Let us take the example of a school teacher who is given the responsibility of taking children for picnic. The teacher has to decide number of things like- where to go(place), when to go(time), total number of students and total number of teachers are going for picnic, how much money is required(budget), where to get such money(resources), Time schedule, how to collect students from home & drop them & so on. Then teacher has to assign the task to other for arranging a bus for conveyance, collecting money from students, make a group for food arrangement & its distribution & so on. Again, every school teacher if assigned a similar exercise may handle it in his/her own way depending upon the capability & interest of the teacher as well as a number of other factors.

Management plays a vital role not only for business concerns but also for banks, schools, colleges, hospitals, hotels, Charitable trusts, etc. Every business unit has some objectives of its own. These objectives can be achieved with the coordination & efforts of several persons.

There are four factors of production, namely, land, labour, capital and entrepreneurship. Without these factor co-ordination & combination, there is no possibility for production. Production is the outcome of their combined efforts. Thus, the success of production depends upon the success of their effective combination & co-operation.

To develop a business in current global competitive world, it requires a special skill & knowledge as well as how to seek their fullest co-operation to achieve the objectives set by an enterprise. Such skills /knowledge is called ‘management’.

7.2 FUNDAMENTALS OF MANAGEMENT

Management refers to the process of using men, machines, money, material & processes through proper direction, coordination & integration of several activities. So as to produce desired results & attain predetermined goals.

Management plays very important role in economic life of man, which is an organized group activity. It is considered as the indispensable institution in the modern social organization marked by scientific thought and technological innovations.

One or the other form of management is important wherever human efforts are to be undertaken collectively to satisfy wants through some productive activity, profession or occupation. Management has achieved an enviable importance in recent times.

Management is the integrating force in all organized activity. Whenever two or more than two people work together to attain a common goal/ objective, they have to coordinate their activities. They also have to organize & utilize their resources in such a way as to optimize the results.

Thus, management is not only unique and important for business organizations but common to all kinds of social organizations.

Management is not only important for business but it is important for all organizations. To run any organization, management is important It is the specific organ of all kinds of organization. Since they all need to utilize their limited resources most effectively & efficiently for the achievement of their goals.

The emergence of management in modern times may be regarded as a significant development as the advancement of modern technology.

Western countries have reached the stage of mass consumption societies through the achievements of modern management.

We can improve the quality of life of our people through more effective management of our economic & social institutions.

7.2.1 Definition of Management:

Management, unlike other social science subjects such as economics, philosophy, political science, is of a recent origin & a relatively new subject. It is still in its developing stage.

Many management experts have tried to define management.

According to Henry Fayol, who is considered the father of principles of management, ''To manage is to forecast, to plan, to organize, to command, to co-ordinate & to control.''[1]

Peter F. Drucker defines, ''Management is a multi-purpose organ that manages a business, manages manager, & manages workers & work.''[2]

According to George R. Terry, ''Management is a distinct process consisting of planning, organizing, actuating & controlling performance to determine & accomplish the objectives by the use of people & resources.''

Frederick Winslow Taylor, ''Management is knowing exactly what you want men to do & then seeing that they do it in the best & cheapest way.''[3]

Having gone through the above definitions of management, it can be defined as getting things done through subordinates/others.

Management is the sum total of all those activities that:

(i) Determine objectives, plans, policies & programmes;

(ii) Secure men, material, machinery cheaply.

(iii) Put all these resources into operations through sound organization

(iv) Direct & motivate the men at work,

(v) Supervises & control their performance &

(vi) Provide maximum prosperity & happiness for both employer & employees & public at large.

7.2.2 Features / Characteristics of Management:

1) Management is Goal-oriented.

2) It is a distinct process.

3) It is a fast developing profession.

4) Management is a dynamic concept which adapts itself to changing business situations.

5) Management is multi-disciplinary subject.

6) Management is an integrating process.

7) Management is both science as well as an art.

8) Management relates to decision-making.

9) Management is universal in application.

7.2.3 Functions of Management:

In 1916, Henri Fayol provided a 'functional approach to management' in his book. ''Industrial and General Management.''

Fayol's list of managerial functions include planning, organizing, commanding, coordinating & controlling.

In 1930s. Luther Gullick states the seven functions of management in one word-POSDCORB-Planning, Organizing, Staffing, Directing, Co-ordinating, Reporting & Budgeting.

The important functions of management are explained as follows: -

1] Planning:

Planning is the most basic/primary function of all management functions. Planning is always pre- determined course of action to accomplish the desired objectives, Planning is concerned with 'What', 'How', & 'When' of performance. It is deciding in the present about future objectives & the course of action for their achievements. E.g. Your own study time-table is the best example to explain the importance of planning.

The Main Stages/Steps in planning are stated as follows:-

1) Determination of Short-term & Long-term objectives.

2) Setting rules & procedure.

3) Determining projects.

4) Setting procedures.

5) Policies & Strategies.

6) Budgeting, etc.

Every Manager has to perform all these planning functions, or contributes to their performance. It is performed in all kinds of organizations by all managers at all levels of hierarchy.

2] Organizing:

After the planning have been completed, management has to organize the activities. Organizing also includes bringing together the executive personnel, workers, capital, machinery, materials , physical resources &

other things to execute plans. Every manager has to decide what activities have to be undertaken in his department for the achievement of the goals entrusted to him.

Organizing function involves the following Steps:

1) Identification of activities required for the achievement of objectives & implementation of plans.

2) Collaborating of the related activities of various positions into departments.

3) Assigning different positions to the managers.

4) Delegating authority to each manager to accomplish the work in a planned manner.

5) Coordination of activities in the organization.

Organizing aims at combining employees & interrelated tasks in an orderly manner so that organizational work is performed in a coordinated manner & all efforts & activities pull together in the direction of organizational goals.

3] Staffing:

Staffing play a very important role & it needs to be given manpower planning & manpower management. A major aspect of staffing is to select the right person for the right job. The objective of staffing is to ensure that suitable people have been appointed for different positions. Staffing function is performed by every manager of the enterprise. Staffing function is a challenging & difficult function as it concerned with selection of those persons who are properly qualified & mentally rich for business requirement.

Staffing also involves:

1) Placing the right person at right job

2) Periodic appraisal

3) Motivation of employees

4) Promotion & transfer

5) Training & development

6) Retention of employees

4] Directing:

The directing deals with guiding, teaching, stimulating, & actuating the members to work efficiently. Directing is the function of guiding the employees to perform efficiently, & contribute their best to the achievement of organizational objectives.

Directing involves telling the employees what work & how they have to do. Once the employees are oriented to jobs, they need continuous guiding, communicating, motivating & leading.

5] Co-ordination:

Co-ordination is the process of tying together all the organizational decisions, operations, activities & efforts so as to achieve unity of action for the accomplishment of organizational objectives. There is need for coordination at all levels of management. E.g. The Top level coordinates planning & controlling activities of middle level managers. Middle level (Production manager) coordinates activities of the lower level (Factory supervisors) at different shifts or units. The lower-level managers coordinate the activities of the subordinates.

6] Controlling:

In controlling, manager has to monitor actual performance, & takes corrective measures if needed.

Controlling involves the following steps:

1) Determination of Objectives or goals
2) Measurement of actual performance
3) Composition of actual performance with the objectives set
4) Taking corrective measures so that the objectives are attained

All the above mention management functions tends to grow together, & it sometimes becomes difficult to separate one from the other. For e.g., When the top-level manager is discussing work problems with one of his/her subordinates, it is difficult to say whether he is communicating, guiding or doing all these things simultaneously. Moreover, top level managers perform more than one function simultaneously.

7.3 PRODUCTIONS & OPERATIONS MANAGEMENT

Production is the creation of goods & services. It is transformation of physical input into output.

Production is done in factories which have manufacturing processes. The basic inputs of production process are men, machines, plant, services & methods.

Production involves the step-by-step conversion of raw materials into finished products through processing to create the utility of the product or services.

7.3.1 Meaning Of Production & Operation Management:

Production Management refers to the application of principles of management in the production function in a production plant. It refers to the job of controlling & coordinating the activities required for making a product, which involves control of cost, schedule, performance, quality & waste requirements.

Production Management means planning, organizing, directing & controlling of production activities. It involves application of planning, organizing, directing & controlling in the production process.

7.3.2 Definitions:

According to A.W. Field, “Production Management is the process of planning & regulating the operations of that part of an enterprise which is responsible for actual transformation of materials into finished products.’’

According to H. A. Harding, “Production Management is concerned with those processes which convert the inputs into outputs. The inputs are various resources like raw materials, men, machines, methods, etc., & outputs are goods & services.’’

7.3.3 Objectives Of Production & Operation Management:

1) Optimum utilization of resources & available production capacity.
2) Improve productivity of all inputs.
3) Produce goods at right quality, right quantity, right time, & at minimum cost.
4) Flexible working conditions.
5) Produce required quantities at a required quality.
6) Ensure maximum capacity utilization.
7) Minimum raw-material, labor cost & maintenance cost.
8) Minimum storage, material handling & inspection.

7.3.4 Scope of Production & Operation Management:

Production & Operation management are concerned with the conversion of inputs into outputs, so as to provide the desired utilities to the customer while meeting the other organizational objectives of effectiveness, efficiency & adoptability.

Following are the activities which are listed under production & operation management functions:

1) Location of facilities
2) Plant layouts & material handling
3) Product design
4) Process design

5) Production & planning control

6) Quality control

7) Material management:

1) Location of facilities:

It is an important strategic level decision-making for an organization. The selection of location is a key-decision as large investment is made in building plant & machinery. An improper location of plant may lead to the waste of all the investment made in the plant & machinery equipment. The reason of location is to find the optimal location that will result in the greatest advantage to the organization.

2) Plant layout & material building:

Plant layout refers to the physical arrangement of facilities. The overall objective of the plant layout is to design a physical arrangement that meets the required output quality & quantity most economically. Material handling is defined as 'the art & science of moving, packing & storing of products in any form'.

3) Product design:

It deals with conversion of ideas into reality. Every business organization has to design, develop & introduce new products as a survival & growth strategy. Developing the new products & launching them in the market is the biggest challenge faced by the organization.

4) Process design:

It is a macroscopic decision-making of an overall process route for converting the raw-materials into finished goods. These decisions encompass the selection of a process, choice of technology, process flow analysis & layout of the facilities.

5) Production planning & control:

Production planning & control can be defined as the process of planning the production in advance, setting the exact route of each item, fixing the starting & finishing data's for each item, to give production orders to shops & to follow up the progress of products according to orders. Main functions of production planning & control includes planning, routing, scheduling, dispatching & follow-up.

6) Quality control:

Quality control may be defined as 'a system that is used to maintain a desired level of quality in a product or service.' Quality control aims at prevention of defects at the source, relies on effective feedback system & corrective action procedures.

7) Material management:

It is that aspect of management function which is basically concerned with the acquisition, control & use of materials needed & flow of goods & services connected with the production process having some predetermined objectives in view.

7.3.5 Importance of Production & Operation Management:

1) Accomplishment of firm's objectives.

2) Enhances reputation, goodwill & image.

3) Helps to introduce new products.

4) Supports other functional areas.

5) Helps to face competition.

6) Optimum utilization of resources.

7) Minimizes cost of production.

8) Expansion of the firm.

Reasons for Production & Operation Management:

1) Helps in understanding the role played by the people in producing goods & services.

2) Helps in getting a clear picture about the factory.

3) Helps in selecting a career.

4) It has strategic use to the executives.

5) Helps to understand how important it is to nation.

7.4 WORKING CAPITAL MANAGEMENT

An enterprise requires two types of capitals- Fixed capital & Working capital. Fixed capital is needed to acquire fixed assets & working capital is that amount of funds which is required to carry out its day-to-day operations.

Working capital management is important for small scale industries owing to resource crunch. Working capital can be gross or net working capital. Gross working capital refers to the total amount of current assets whereas net working capital means current assets minus current liabilities.

7.4.1 Definition:

The Accounting Principles Board of the American Institute of Certified Public Accountants, U.S.A., has defined Working capital as follows: ‘‘Working capital, sometimes called net working capital, is represented by the excess of current assets over current liabilities & identifies the relatively liquid portion of total enterprise capital which constitutes a margin of buffer for maturing obligations within the ordinary operating cycle of the business.’’

7.4.2 Objectives of Working Capital Management:

A necessary pre-condition for successful financial management is the establishment of sound & consistent asset management policies, covering fixed as well as current assets.

An effective utilization of working capital results in the maximization of productivity & profits. There are two objectives of working capital management i.e., Profitability & Solvency & these can be achieved by trying to maintain a correct ratio between fixed & working capital. Such ratios will ensure a smooth & fast flow of funds & enhance the profitability & efficiency of enterprise.

A proper management of working capital synchronizes the cash receipt & cash expenditure, & a unit may function with minimum cash reserves.

The primary or fundamental objective of working management is to ensure a smooth operating cycle of the business. Secondary objective are to optimize the level of working capital & minimize the cost of funds.

The superior objective of financial management is wealth maximization & that can be gained by profit maximization accompanied by sustainable growth & development.

For sustainable growth & development, the objectives of all stakeholders including customers, suppliers, employees, etc. should be aligned to the growth of the organization.

Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring & using its current assets & liabilities to the best effect.

The basic purpose of working capital management is to enable the company to maintain sufficient cash flow to meet its short-term operating costs & short-term debt obligations

7.4.3 Factors Influencing the Amount/Quantity of Working Capital:

The working capital requirements of small-scale industries differ from one unit to another & from one type of unit to another type.

Small-scale units, which are located in rented premises & are engaged in processing works, need a larger amount of capital than other units.

The other important determinants influencing the amount of working capital are:

1) Size of the small-scale Unit:

The amount of working capital depends directly upon the volume of business. The bigger the size of a unit, the larger the amount of the working capital & so on.

2) Process of production:

Simple short-period processes of production require a smaller amount of working capital & so on.

3) Proportion of Raw materials to Total cost:

The price of raw materials & quantity determine the amount of working capital.

4) Terms of purchase & sales:

The amount of working capital changes directly with the use of credit & so on.

5) Turnover of inventories:

If inventories are large & their turnover is slow, a small scale industry will need a bigger amount of working capital. If they are small & their turnover is quick, the unit will require a smaller amount of working capital.

6) Importance of labor:

Small scale & Cottage industries are labor intensive units & therefore require a larger amount of working capital.

7) Cash requirement:

The amount of working capital required varies directly with cash requirement of a unit.

8) Seasonal variations:

Seasonal small scale industries require a large amount of working capital.

9) Banking facilities:

If a small scale unit has a good banking connection, it may have minimum margin of regular working capital over current liabilities.

10) The requirement of working capital changes directly in proportion to the growth & expansion of a small scale unit.

Working capital management is concerned with the problems that arise in attempting to manage the current assets, the current liabilities & the interrelationships that exist between them.

7.5 MARKETING MANAGEMENT

Marketing is very much integral to market. Market is a place where buyers & sellers come together to exchange their products for money & vice versa. The concept of marketing has also different from one point to another.

7.5.1 These concepts are broadly classified into two categories:

1) Traditional concept

2) Modern concept

1) Traditional concept:

This concept corresponds to the early production phase when there was a general scarcity of manufactured goods in the market. The major function of marketing was to make the products easily available to the customers at an affordable/cheaper price.

According to American Accounting Association, ‘‘Marketing is the performance of those business activities that direct the flow of goods & services from producers to consumer or user.’’[4]

Thus, the traditional concept of marketing is product-oriented.

2) Modern concept:

The modern concept of marketing can be understood in a better way by going through the following definitions.

Kotler opines, ‘‘Marketing is a social & managerial process by which individuals & groups obtain what they need & want through creating & exchanging products & values with other.’’[5]

The traditional concept of marketing focusses on the needs of the producers, i.e., the seller, the modern concept concerns the needs of the consumer, i.e., buyer.

7.5.2 Problems of Marketing:

Production has no meaning without market. The most important purpose of an enterprise is to produce what the buyer will buy. Each & every industry has to face problems in marketing their products or services. But small-scale enterprises has more marketing problems. There are two main reasons of marketing which small enterprises has to face. First, it is difficult for small enterprises to stand in the cut-throat competition with respect of quality, cost, standardization of the products with medium & large-scale enterprises. Second, the small enterprises of our country have recognition of the importance of marketing nor had they employed & implemented effective marketing techniques in their enterprises.

Small scale enterprises in backward area faces three major problems of marketing of products.

1) Competition with Modern sector:

The traditional distinctive feature of the small scale industries are slowly changing, but there is an assumption of poor quality for goods manufactured in small enterprises. This sector needs to cater to wide diversity & changing tastes & preferences of their buyers.

2) Lack of sales promotion:

Advertisement of the products through sales promotion methods such as posters, papers, magazines, advertisements in cinema halls & so on has become increasingly fashionable particularly in the case of medium & large scale industries. But, small-scale industries has less amount of resources as well as knowledge to practice the methods of sales promotion. In the case of the products of small-scale industries, at least at their initial stage, effective capacity of the dealer plays an important role in influencing their sales. In such cases dealers & producers are bound to pay a relatively higher rate of commission than those paid by the large-scale producers.

3) Weak in bargaining power:

In case of small scale enterprises, the price realized is usually better when the sales are made at the place of production itself than when these products are marketed in the fairs & exhibitions. The manufacturers are in a better bargaining position at home than in other locations like fairs & exhibitions where they take their products for selling.

Marketing is a process of discovering the consumer's needs, converting them into products or services & moving the product or services to the final consumer to satisfy his needs & wants. Thus, the concept of marketing is consumer-oriented, i.e., produce what consumers actually want or demands. Small scale enterprises face several problems in marketing their products.

7.6 QUESTIONS

1) Explain the functions of management.

2) Explain the scope of production and operation management.

3) What are the factors influencing quantity of working capital.

4) Write a note on marketing management.

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8

MANAGEMENT AND INCENTIVES FOR SMALL SCALE INDUSTRIES

Unit Structure

8.0 OBJECTIVES

After going through this unit, you must be able to:

- Explain the nature & scope of Human Resource Management (HRM).
- Describe the concept of Total Quality Management (TQM).
- Explain the need for TQM in small-scale enterprises.
- Explain the overview of Management Information System (MIS).
- Explain the components of Management Information System (MIS).
- Explain the advantages & problems of incentives to small scale industries.

8.1 INTRODUCTION

In this Unit Two we will be studying various concepts like Human Resource Management (HRM), Total Quality Management (TQM), Management Information System (MIS).We will be learning various incentives to small scale industries. Human Resource Management is very essential for an organization to place right person at right time. Quality is very important in today's competitive world. It is difficult to maintain quality for continuous improvement. It is easy to start small enterprises but difficult to make them survive without quality.

Management is primarily depended on information. Information is the most important source of Management Information system. An incentives or perks that motivates small-scale industries. An incentive is important for an entrepreneur to take right decisions & to act upon it.

8.2 HUMAN RESOURCE MANAGEMENT(HRM)

Human beings are social animals & they can not live alone & work in isolation. From childhood each & every individual acquire knowledge & experience on understanding others & how to behave in each & every situations in life.

The whole context of Human Resource Management depends on the core matter of managing relations at work place. Since mid-1980's HRM has gained acceptance in both academic & commercial circle. HRM is a multidisciplinary organization function that draws theories & ideas from various areas such as management, economics, psychology & sociology.

Effective HRM depends very much on the causes & conditions that an organizational setting would provide.

The goal of HRM is to maximize employees contributions in order to achieve optimal productivity & effectiveness, while simultaneously attaining individual objectives (such as legal compliance & demonstrating social responsibility).

HRM is the study of activities regarding people working in an organization. It is a managerial function that tries to match an organization's needs to the skills & abilities of its employees.

8.2.1 Definitions:

HRM is a management function deals with hiring, motivating & maintaining people in an organization. It focusses on people in an organization. HRM is designing management systems to ensure that human talent is used effectively & efficiently to accomplish organizational goals.

HRM is the personnel function which is concerned with development, procurement, compensation, integration & maintenance of the personnel of an organization for the purpose of contributing towards the accomplishments of the organization's objectives. Therefore, the personnel management is the planning, organizing, directing,& controlling of the performance of those operative functions
(Edward. B. Philips).

According to Dessler (2008) the policies & practices involved in carrying out the ''people'' or human resource aspects of a management position, including recruiting, screening, training, rewarding & appraising comprises of HRM.

HRM refers to the management of people in organizations. It consists of the activities, policies, & practices involved in obtaining, developing, utilizing, evaluating, maintaining & retaining the appropriate number & skill mix of employees to accomplish the organization's objectives.

The goal of HRM is to maximize employees contributions in order to achieve optimal productivity & effectiveness, while simultaneously attaining individual objectives (such as having a challenging job & obtaining recognition), & societal objectives (such as legal compliance & demonstrating social responsibility).

HRM can be defined as the art of procuring, developing & maintaining competent workforce to achieve the goals of an organization in an effective & efficient manner.

Small scale enterprises also need to draw plans to take various decisions & perform multifarious activities.

8.2.2 Nature of Hrm:

HRM is a management function that helps manager's to recruit, select, train & develop members for an organization. HRM is concerned with people's dimension in organizations.

The following constitute the core of HRM:

1] HRM involves the application of management function & principles.

2] Decision relating to employees must be integrated.

3] Decision made influence the effectiveness of an organization.

4] HRM functions are not confined to business establishments only.

HRM refers to a set of programmes, functions & activities designed & carried out in order to maximize both employee as well as organizational effectiveness.

8.2.3 Scope of HRM:

The scope of HRM is vast. All major activities in the working life of a worker from the time of his/her entry into an organization until he/she leaves it comes under the purview of HRM.

The major HRM activities include Human Resource Planning, job analysis, job design, employee hiring, employee & executive remuneration, employee motivation, employee maintenance, industrial relations & prospects of HRM.

American Society for Training and Development (ASTD) conducted fairly an exhaustive study

In this area & identified nine broad areas of activities of HRM.

These are as follows:

a) HR planning

b) Design of the organization & job

c) Selection & staffing

d) Training & Development

e) Organizational Development

f) Compensation & Benefits

g) Employee assistance

h) Union /labor relations

i) Personnel research & Information system.

a) HR Planning:

The objective of HR planning is to ensure that the organization has the right types of persons at the right time at the right place. HR planning develops strategies both long-term & short-term to meet the man-power requirement.

b) Design of the organization & job:

The task of laying down organization structure, authority, relationship & responsibilities. This is done by ''job description.'' Another step is ''Job specification'' Job specification means the attributes of persons who will be the most suitable for each job which is defined by job description.

c) Selection & Staffing:

It is the process of recruitment & selection of staff.

d) Training & Development:

Training of the individual is needed not only to perform current job but also to fulfill the future needs of the organization. Training improves knowledge & skill of an individual.

e) Organizational Development:

Healthy interpersonal & inter-group relationship within the organization.

f) Compensation & benefits:

Wages & compensations are fixed scientifically to meet fairness & equity criteria.

g) Employee assistance:

Each employee faces problems every day. Some are personal & some are official.

h) Union- labor relations:

Healthy union & labor relations are very important for enhancing peace & productivity in an organization.

i) Personnel Research & Information system:

Research in HR must also take care for improving exchange of information through effective communication systems on a continuous basis especially on moral & motivation.

8.2.3 Objectives of HRM:

The primary objective of HRM is to ensure the availability of competent & willing workforce to an organization.

The specific objectives are as follows:

1) Helping the organization in obtaining the right number & types of employees to fulfill its strategic & operational goals.

2) Helping to create a climate in which employees are encouraged to develop & utilize their skills to the fullest & to employ the skills & abilities of the workforce efficiently.

3) Helping to maintain performance standards & increase productivity through effective job design; providing adequate orientation, training & development; providing performance-related feedback; & ensuring effective two-way communication.

4) Helping to establish & maintain a harmonious employer/employee relationship.

5) Helping to create & maintain a safe & healthy work environment.

6) Developing programs to meet the economic, social & psychological needs of the employees & helping the organization to retain the productive employees.

7) To provide organization with well-trained & well-motivated employees.

8) To increase the employees satisfaction & self-actualization.

9) To develop & maintain the quality of work life.

10) To communicate HR policies to all employees.

11) To help maintain ethical policies & behavior.

12) To help the organization to reach its goals.

HRM is the management function that helps the managers to plan, recruit, select, train, develop, remunerate & maintain members of organization.

An organization have set policies; definite procedures & well defined principles relating to its personnel & these contribute to the effectiveness, continuity & stability of the organization.

8.3 TOTAL QUALITY MANAGEMENT(TQM)

The word Total means whole or aggregate, Quality means degree of excellence a product/ service provides, Management means act, art or manner of handling, controlling, directing, etc.

Therefore, Total Quality Management is the art of managing the whole to achieve excellence.

The golden rule is a simple but effective way to explain it: Do unto others as you have them do unto you.

In today's competitive & challenging time, only those businesses can survive & thrive who possess strengths to overcome the challenges faced by fast changing business world. Business strength do not happen incidentally. Instead, these are acquired through continuous efforts made for improving performance in all spheres of a business organization.

Improvement in performance corresponds to quality in goods produced & services offered by an organization.

As a matter of fact, quality, over the period, has become a hall-mark for business success. Total Quality Management has become a buzzword of the day in business organizations.

8.3.1 Meaning of Quality:

Quality has become so essential in today's competitive environment that ignoring the quality issue is parallel to corporate suicide.

The concept of quality is an evolutionary, not a revolutionary one. Quality indicates the level of commitment in doing our activity. Quality is a continuous improvement in performance to satisfy the customer's needs & expectations.

Quality is the degree to which the inherent capabilities of the product satisfy requirements. Quality is a customer's determination, not the manufacturer's determination. The concept of Quality has expanded to TQM.

According to Joseph M. Juran: ''Quality is fitness for use or purpose.''[1]

ISO has defined quality as, ''The totality of features and characteristics of a production or service that bear on its ability to satisfy stated or implied needs of customers.''[2]

8.3.2 Meaning of Total Quality Management:

TQM is known by various names, such as Total Quality Improvement (TQI) or Total Quality Control (TQC), or simply as total quality or as Strategic Quality Management (SQM), & so on. All these terms mean the same, i.e., continuous improvement in all parts of an organization with a view to satisfy customer needs.

British Quality Association defined TQM as ‘‘management philosophy & company practices that aim to harness the human & material resources of an organization in the most effective way to achieve the objectives of the organization.’’

8.3.3 Confederation of Indian Industry (CII) defined TQM as follows:

Meeting the requirements of the internal & external customers consistently by continuous improvement in the quality of work of all employees.

TQM can be conceptualized into the following three processes:

1] Quality Process:

It is for concerning who the customer is, what are his/her needs taking steps to completely satisfy the needs of this customer.

2] Management Process for Continuous Improvement:

The term management refers to managing continuous improvement & does not address any specific organizational level. The process consists of continuously developing policies, objectives & methods to achieve goals, education & training, implementation, checking causes, checking effects, taking appropriate action & preventing recurrence.

Management process addresses continuous improvement to keep pace with the:

a) Changing requirements

b) Competitive environment, &

c) Technological advances

3] People Process:

It is initiating & maintaining the TQM. It is carried out through involvement of all employees on the basis of all the three values, namely, intellectual honesty, self-control & respect for others.

TQM can be defined as an intensive, long-term effort to transform all parts of the organization in order to produce the best product & service possible to meet customer need.

8.3.4 Need For Tqm In Small Enterprises:

It is easy to start small enterprises but difficult to make them survive. It is more so in the context of ever-increasing competition in business brought by liberalization, globalization & privatization of the Indian economy.

Only those enterprises can survive possess strength to face the stiff & complex competition.

Small enterprises find it more difficult to face competition due to their small size in all respects such as finance, technology, managerial competencies, etc. Quality is conformance to requirements. According to David Kearns, the former CEO Xerox, quality has assumed so important that it has become the battlefield of nineties; only the fittest will survive beyond 2000.

Quality serves as competitive advantage & enables small enterprises to withstand the attack of competitive environment. As competition always keeps changing to more & more complex, so is required continuous improvement in quality to face such ever complex competition effectively.

TQM strengthens the competitive strength of small enterprises to conform to the changing requirements of business. The same underlines the need for TQM in small enterprises.

8.3.5 TQM offers the following advantages to small enterprises:

- Increased efficiency in processes.
- More time for innovation & creativity.
- Higher spirit of employees.
- Improvement in the quality of products & services.
- Increased customer satisfaction.
- Larger market share.
- Higher productivity.
- Higher profits.

8.3.6 TQM Process in Small-scale enterprises:

The purpose of TQM is to meet the requirements of customers consistently by continuous improvement in the quality of work of all employees. For this, TQM involves the following process:-

1) Customer satisfaction
2) Processes
3) Continuous improvement
4) Teamwork
5) Personal initiative

1) Customer satisfaction:

Customer is one who buys other's goods & services. Today, customer dictates production or market. The long-term success of any business, depends on customer satisfaction. This is especially true for small businesses where the impact of losing even a single customer can be serious. The first step in planning for customer satisfaction is to understand what customers expect from the product or service is to be provided to them.

For any business, there can be two types of customers: internal & external. Internal customers are those individuals or departments within an organization to whom another department provides their products & services. External customers are those who are the ultimate purchaser or end-user of product or service.

The following steps can be followed to understand customer requirements:

1) Document the results of the work performed.
2) Identify everyone (customer) who receives the outputs.
3) Pinpoint the output characteristics the customers want, require or expect.
4) Verify output requirements, determine requirement importance & understand current level of satisfaction.

2) Processes:

Processes can be defined as a series of interdependent tasks that produce results. This requires transformation of inputs into outputs. Processes exist in all parts of an organization. As every part of an organization performs work, all these should be systematically defined to include them in the process. The different parts of organization are administration, maintenance, billing, sales, recruitment, & training, etc. in which process exists.

The different steps that can help to define the processes that any organization performs are as follows:-

i) List team outputs (to document the results of the work performed.)
ii) Group similar outputs (to create an outline of the process.)
iii) Name the process (to allow it to be easily referenced.)
iv) Define process boundaries (to establish beginning & ending points).
v) List process activities (to provide examples of the tasks involved).
vi) Identify inputs (to determine the resources needed).

3) Continuous Improvement in Processes:

The third step involved in TQM is putting efforts for continuous improvement in performance/process. The first step in improving a process is to remove the waste related with process. There are techniques like value added assessment, minimize checks, & inspections, & minimize administrative tasks help reduce waste in process.

Process simplification is the second step involved in improving process. Simplification means to reduce complexity from the process. Experience suggests that if a process is simpler than it is easier to learn & perform consistently. To improve process, cycle time should be reduced. Cycle time means time required to deliver a good or service to customer. Cycle time consist of delays, processing time, time required to check & handover, & so on. Long cycle times not only prevent prompt deliveries to customers, but also increase costs. Thus, there is need for reduction in cycle time.

4) Teamwork:

The fourth step involved in TQM process is teamwork. A team is a group of individuals who work together on one or more common processes. These individuals may all be from the same department, represent several departments, or involve an external supplier or customer. The Four faculty members in the Department of Economics in the University responsible for teaching post-Graduate programme is an example of team.

Effective teamwork has its foundations on consensus. Consensus is general agreement by everyone involved. Consensus is arrived when all members of a team understand a decision, & even, if they do not completely agree with the decision, accept & support it.

5) Encouraging Personal Initiative:

TQM process completes with encouraging personal initiative in organizational functioning. Empowerment reproduces personal initiative. The key to preparing employees to take appropriate personal initiative is to train them in the concepts & techniques of TQM process. Such a training helps employees to manage the processes as they are responsible for performing.

The whole TQM process discussed above is diagrammatically presented as follows:

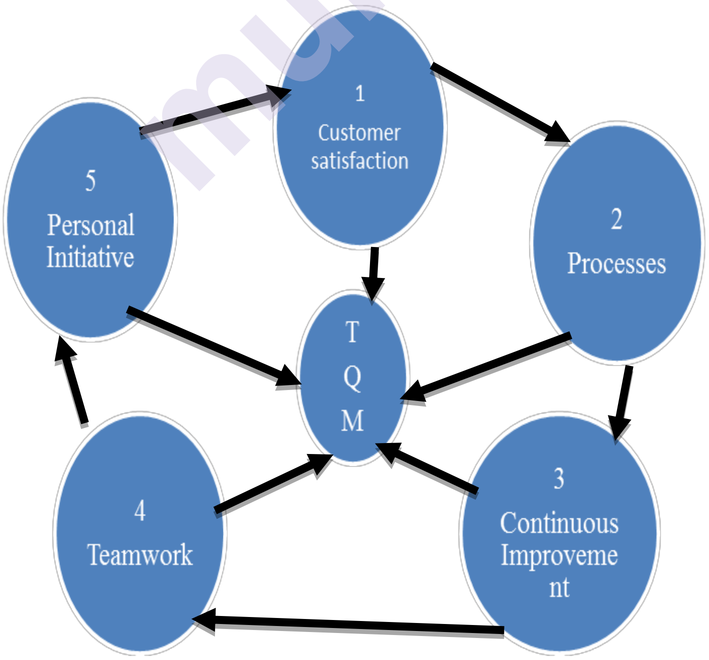

Fig. TQM Process

TQM is a continuous improvement in all parts of an organization with a view to consistently satisfy customer needs. TQM differs from ISO-9000 in the sense that it is a finish less race for improvement whereas ISO-9000 is only a milestone in this race. TQM is needed to satisfy 3Cs, i.e., Custom, Competition & Cost. The five elements involved in TQM process are customer satisfaction, processes, continuous improvement, teamwork & personal initiative.

8.4 MANAGEMENT INFORMATION SYSTEM (MIS)

Management is basically dependent upon information, which is an important component of any MIS. Information is the most critical resource of MIS.

MIS is a system consisting of people, machines, procedures, databases & data models, as its elements. The system gathers data from the internal & external sources of an organisation.

8.4.1 Definition:

H. Weihrich and H. Koontz define MIS as a ‘‘a formal system of gathering, integrating, comparing, & analysing, & dispersing information internal & external to the enterprise in a timely, effective & efficient manner.’’

8.4.2 Components of MIS:

MIS is an information system which process data & converts it into information.

A MIS is made up of six components- people, procedures, data resources, network resources, hardware & software. These six components integrate to perform input, process, output, feedback & control, so as to achieve organisational objectives.

1) People:

People are the most important component for the successful operation of all information system. People consist of End-users/ clients are people who use an information it produces. The end users can be customers, salespersons, engineers, clerks, etc. The end users use the processed data for decision making.

Computer system specialist works in a different types industries providing technical support for computer systems. He has complete technical knowledge of the system operations. He may provide training to the computer operators. A computer device operator is the employee of the organisation, who operates the computer device.

The support staff are responsible for the monitoring the computer system for smooth functioning. Support staff provide assistance to the computer device operators.

A network administrator/ systems administrator is responsible for keeping an organisations computer network up to date & running smoothly. Any company that uses multiple computers/software platforms needs a network administrator to co-ordinate the different systems.

2) Procedures/ Processes/Methods:

Procedure refers to set of guidelines for the use of a computer-based information system. Procedures can be laid down by the management either on their own or with the help of consultants. Procedure depends on the nature of the organization. Procedures are different for different organizations. Procedures may differ from one department to another as per their priorities. E.g., Sales department may need information on number of units to be sold, the market areas where the goods to be sold, etc., whereas, a production department needs information on raw-materials, availability of machinery, etc. Therefore, different departments have to lay down their procedures in different ways so that the MIS can help in retrieving the data as per need of a particular department.

3) Data resources:

It includes raw-data & processed data (database). Databases are processed & organized data. Knowledge in the form of facts, rules, & case examples about successful business practices. Data resources must meet the following criteria:

a) **Comprehensive:** All the data about the subject are actually present in the database.

b) **Non-redundant:** Each piece of data exists only once in the database.

c) **Structured Data:** The data are stored in a systematic way so as to minimize the cost of processing & storage.

4) Network resources:

Network resources consist of server computers, client computers, & communication/ transmission media, Internet, intranet & extranet. A server is a computer designed to process requests & deliver data to other computers over a local network/ the internet.

A client computer refers to computer hardware or software that accesses the data made available by a server.

Communication/ transmission media are the pathways used by servers & client computers in a network. They may include wired/ wireless media. The wired media include fibre optic & co-axial cables. The wireless media include Wi-Fi, & mobile networks.

5) Hardware:

It consists of all physical devices & materials used in information processing. The input devices are keyboard, mouse, scanners, sensors, etc. The output devices are monitor, printer, network devices, etc. The storage devices are the hard drives, cloud storage, etc., which stores files, directories, & other data. The processors (Intel Pentium, i5, i7, etc) speeds up the processing of data into information.

6) Software:

It consists of various programs & applications. The software is divided into two major groups, (where in all programs fit in)- system software & applications software.

System software:

It refers to the operating system, i.e., DOS, Windows, Mac OS, etc. The operating system is the most important program that runs on a computer. Every general computer must have an operating system to run other programs & applications.

Application software refers to specialized software for accomplishing specific tasks. Application software which are programs that direct processing for a particular use of computers by end users. E.g., Sales analysis program, a payroll program, & a word processing system.

MIS may comprise of only Four components- People, Hardware, Software & Data. Procedures can be a part of data, & network resources are a part of hardware & software.

8.5 INCENTIVES TO SMALL SCALE INDUSTRIES

An incentive is something that motivates or encourages one to do something or behave in a certain way. It is a motivational force which makes an entrepreneur take a right decision & act upon it. Incentives consists of concessions, subsidies & rewards.

Economic incentives- both financial & non-financial -push an entrepreneur towards decisive decision & action.

The objective/aim of incentives is to motivate an entrepreneur to set up a new venture in the larger interest of the nation & the society.

8.5.1 Need for Incentives:

The need for incentives are as follows:

1] To assess regional imbalances in development:

The usual package of incentives & concessions has been available in backward as well as developed regions. It has been, however the experience of industrial administration, department of industries, district level officers, development corporations, etc., that what is inadequate in the backward districts is the overall existing environmental growth.

One of the ways is to identify pockets of savings of different activity groups like traders, businessmen, agriculturists, professionals, etc., &

provide them with appropriate information as well as suitable incentives to offset the disadvantages prevailing in such places.

Industrial policy uses incentives both to correct the market imperfections & to accelerate the process of industrialization so as to drive the forces of supply & demand reach the equilibrium level. such a policy then aims at inducing some entrepreneurs or sections of the community (e.g., technicians) to locate their industrial units in areas selected by govt. rather than that of their own choice.

Regional imbalances can also lead to effective utilization of regional resources, removal of disparities in income & levels of living & contribute to a more integrated society.

2] To promote entrepreneurship by removing economic constraints:

As for the economic constraints, the new entrants in the field face many obstacles on account of inadequate infrastructures. The new entrepreneurs suffers because of distances separating central administrative organs from entrepreneurs & their projects, deficiency of various supporting services such as market intelligence, entrepreneurial guidance & training, technical consultancy & merchant banking facilities, etc.

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

3] To provide competitive strength, survival & growth:

Some of the incentives are concerned with the establishment of industries while others are concerned with the survival & growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period. Instances may be cited of the reservation policy for small scale industries due to which a small firm can hope to compete in the market to which entry by larger units is barred.

If these units are already established & are brought under the reservation policy later, it will be a case of incentive to support its competitive strength. For a newcomer, the reservation is an incentive to enter the industry itself. A price preference improves its competitive strength.

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

8.5.2 Advantages of Incentives:

a) They act as a motivational force which makes the prospective entrepreneurs to enter into manufacturing line.

b) They encourage the entrepreneurs to start industries in backward areas.

c) By providing subsidies & incentives the govt. can,

i) Bring industrial development uniformly in all regions.

ii) Develop more new entrepreneurs which leads to entrepreneurial development.

iii) Increase the ability of entrepreneurs to face competition successfully.

iv) Reduce the overall problems of Small-scale entrepreneurs.

8.5.3 Problems of Incentives:

1) Incentives are being highly misused.

2) Incentives turned out to be grounds for dishonesty.

3) They have given scope for favoritism & rampant corruption.

4) They have become the seeds of unethical business practices.

5) Resulted in financial drain on the exchequer.

6) The aim of providing incentives & financial help is hardly achieved.

The Small-scale industries play strategic role in the economic development & progress of the nation. These industries ensure equitable distribution of national income & wealth.

Small-scale industries are the base industries for the better utilization of local resources & self-sufficient village economy.

8.6 QUESTIONS

Q.1 Explain the nature & scope of HRM.

Q.2 Write a note on objectives of HRM.

Q.3 Describe the need for TQM in small enterprises.

Q.4 Explain the components of MIS.

Q.5 Write a note on incentives to small scale industries.

Q.6 Explain the advantages & problems of incentives to small scale industries.

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