



# **LECTURE NOTES**

## **Module-3**

**Prepared & Designed by**



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## **SYLLABUS (BPUT)**

### **7th Semester (All Branches)**

#### **PCP7H013: ENTREPRENEURSHIP DEVELOPMENT (3-0-0)**

##### **MODULE - I (10 LECTURES)**

Entrepreneurship: Concept of entrepreneurship and intrapreneurship, Types of Entrepreneur, Nature and Importance, Entrepreneurial Traits and Skills, Entrepreneurial Motivation and Achievement, Entrepreneurial Personality

##### **MODULE - II (10 LECTURES)**

Entrepreneurial Environment, Identification of Opportunities, Converting Business Opportunities into reality. Start-ups and business incubation, Setting up a Small Enterprise. Issues relating to location, Environmental Problems and Environmental pollution Act, Industrial Policies and Regulations.

##### **MODULE - III (10 LECTURES)**

Need to know about Accounting, Working capital Management, Marketing Management, Human Resources Management, and Labour Laws. Organizational support services - Central and State Government, Incentives and Subsidies.

##### **MODULE - IV (10 LECTURES)**

Sickness of Small-Scale Industries, Causes and symptoms of sickness, cures of sickness, Role of Banks and Governments in reviving industries.

##### **Reference BOOK**

1. Entrepreneurship Development and Management, Vasant Desai, HPH
2. Entrepreneurship Management, Bholanath Dutta, Excel Books
- 3 Entrepreneurial Development, Sangeeta Sharma, PHI
4. Entrepreneurship, Rajeev Roy, Oxford University Press

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**Entrepreneureship Development**

**MODULE – III (10 LECTURES)**

Need to know about Accounting, Working capital Management, Marketing Management, Human Resources Management, and Labour Laws. Organizational support services - Central and State Government, Incentives and Subsidies.

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## **LEGAL AND STATUTORY ENVIRONMENT FOR SMALL INDUSTRY**

### **Aims and Objectives**

After going through this unit, you will be able to understand :

- Constitution of small scale business
- Legal formalities in setting of SSIs
- Licensing system of SSIs
- The factories Act.
- Meaning and definition of small scale industry
- Rationales small scale industries
- Role of SSI in economic development
- Government policy towards small scale industry
- Government support to SSI during five year plan
- New policy initiative tips in 1999-2000 for small scale sector.
- Impact of globalization and liberalization on SSI.
- Impact of WTO / GATT on SSI
- Agencies of government for SSI
- Financial Institutions for small scale industry
- Social responsibility of business.

### **4.1 CONSTITUTION OF SMALL SCALE BUSINESS**

While deciding on the constitution of business i.e. whether the entrepreneur wants it in the form of sole proprietorship, partnership or a private limited company, he should base his decision on the size of the project and the degree of risk involved. He will have to undertake formalities such as registration of partnership or incorporation of a private limited company but, however, no such formalities are required in case of a sole trader.

Arrangement of Finance for Fixed Assets and Current Assets.

Once the entrepreneurs has obtained necessary clearances, he should apply for a term loan (for fixed assets) to state level financial institutions and/or to a commercial bank along with the business plan (detailed project report) and the documentary evidence required by them. After the loan is sanctioned, he has to execute the necessary legal documents mortgaging assets to them, as decided in the agreement.

The entrepreneur should keep in mind that disbursement of loan amount takes time. It generally begins after he has fulfilled all required conditions and after part of his own capital (margin money) has been raised and invested in the project. As far as the working capital is concerned, the bank would consider sanctioning of the same one after the term loan is sanctioned.

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After all the sanctions have been received, he can start with the actual implementation of his project. Therefore, he should lay emphasis on completion of all formalities otherwise the implementation would be delayed leading to cost over runs.

## **4.2 LEGAL FORMALITIES IN SETTING UP OF SSIs**

Various legal formalities are to be completed for setting up a small scale unit. These formalities are as under.

### **Registration with Director of Industries**

Registration of small scale industrial unit is not compulsory. However registration with the State Directorate of Industries or District Industry centre facilitates obtaining of assistance from the government.

The registration of small scale units is done in two stages i.e. :

- (i) Provisional registration
- (ii) Permanent registration

In case a small scale unit is a subsidiary of or owned by or controlled by any other undertaking, it is subject to the normal licensing provisions under the Industries Development and Regulation Act, 1951. Provisional registration is made before the setting up of unit and permanent registration is done after the unit commences production.

Small Scale and ancillary units (i.e. undertaking with investment in plant and machinery of less than Rs. 10 million) should seek registration with the Director of Industries of the concerned State Government.

### **Registering SSI Unit**

The main purpose of Registration is to maintain statistics and maintain a roll of such units for the purpose of providing incentives and support services.

States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by States. It must be noted that small industries is basically a state subject. States use the same registration scheme for implementing their own policies. It is possible that some states may have a SIDO registration scheme and a State registration scheme.

### **Benefits of Registering**

The registration scheme has no statutory basis. Units would normally get registered to avail some benefits, incentives or support given either by the Central or State Govt.

The regime of incentives offered by the Centre generally contains the following :

- Credit prescription (Priority sector lending), differential rates of interest etc.
- Excise Exemption Scheme

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- Exemption under Direct Tax Laws
- Statutory support such as reservation and the Interest on Delayed Payments Act.

(It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI).

States/UTs have their own package of facilities and incentives for small scale. They relate to development of industrial estates, tax subsidies, power tariff subsidies, capital investment subsidies and other support. Both the Centre and the State, whether under law or otherwise, target their incentives and support packages generally to units registered with them.

### **Objectives of the Registration Scheme They are summarized as follows :**

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and District levels to promote SSI.
- Features of the Scheme
- Features of the scheme are as follows:
- DIC is the primary registering centre
- Registration is voluntary and not compulsory
- Two types of registration is done in all States. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given
- PRC is normally valid for 5 years and permanent registration is given in perpetuity.

### **Provisional Registration Certificate (PRC)**

- This is given for the pre-operative period and enables the units to obtain the term loans and working capital from financial institutions / banks under priority sector lending.
- Obtain facilities for accommodation, land, other approvals etc.
- Obtain various necessary NOCs and clearances from regulatory bodies such as Pollution Control Board, Labour Regulations etc.
- Permanent Registration Certificate

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**Enables the unit to get the following incentives / concessions :**

- Income Tax exemption and Sales Tax exemption as per State Govt. Policy
- Incentives and concessions in power tariff etc.
- Price and purchase preference for goods produced.
- Availability of raw material depending on existing policy.
- Permanent registration of tiny units should be renewed after 5 years.

## **Procedure for Registration**

Features of the present procedures are as follows :

- A unit can apply for PRC for any item that does not require industrial license which means items listed in Schedule-II and items not listed in Schedule-I or Schedule-II of the licencing Exemption Notification. Units employing less than 50/100 workers with/without power can apply for registration even for those items included in Schedule-II.
- Units applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.
- PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.
- Once the unit commences production, it has to apply for permanent registration on the prescribed form.
- The following form the basis of evaluation :
- The unit has obtained all necessary clearance whether statutory or administrative e.g. drug license under drug control order, NOC from Pollution Control Board, if required etc.
- Unit does not violate any locational restrictions in force, at the time of evaluation.
- Value of plant and machinery is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.
- De-Registration

A Small Scale Unit can violate the regulations in the following ways which will make it liable for de-registration :

- It crosses the investment limits.
- It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.
- It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

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**Registration with DGS & D/NSIC.** A small scale unit can get itself registered with the Director General of Supplies & Disposal (DGS & D) or National Small Industries Corporation, if it wants to avail the benefit of purchases made for government office.

For this purpose application should be submitted on the prescribed form along with following documents :

- a. Copies of balance sheet and profit & loss account for the last three years.
- b. Income Tax clearance certificate
- c. Ownership document in respect of firm's factory and machinery
- d. Copies in form A, in case of partnership firm.
- e. Copies of Memorandum and Articles of Association, in case of a company.

### **Cancellation of Registration**

The registration of small scale unit can be cancelled on the following basis :

- a. The unit remained closed continuously for more than one year.
- b. The unit fails to give full and true information required by the registering authority at various intervals of time.
- c. The unit has mis-utilized the raw-material allocated to it.

The affected unit is at liberty to file appeal against cancellation of registration.

### **4.3 PROVISIONAL REGISTRATION (PROFORMA)**

The application is accepted for Provisional Registration as SSI/SSSBE unit for the manufacturer of items / activities as stated in the application form.

- 1. Provisional Registration No. :
- 2. Date of Issue
- 3. Category of Unit (S.No. 3) .....
- 4. Name & Address of unit .....
- 5. End Products .....

Signature Name & Designation of Registering Authority

- 1. The endorsed application form is a part of the certificate of registration.
- 2. The provisional registration is valid for a period of five years from the date of issue.
- 3. The provisional registration will automatically lapse at the end of the validity period or the date of commencement of production, whichever is earlier.
- 4. If an applicant/unit is unable to set up the unit within the validity period, the

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applicant/unit has the option to apply afresh for provisional registration using standard procedure.

5. The provisional registration is given to enable the unit to obtain all facilities / clearance etc. required in the production stage.
6. The provisional registration is subject to any or all condition that may be imposed by the Registering Authority.
7. Only the procurement of provisional Registration Certificate does not entitle you to any incentives which are otherwise admissible under the package of incentives, 1992 or any other policy of the Govt.

## 4.4 LICENSING SYSTEM OF SSIs

### (A) Exemption from Licensing

Section 11 of the Industries (Development and Regulation) Act (IDR) provides that no industrial undertaking shall be established without a license. After obtaining the license, the undertaking has to adhere to various rules as laid by the Central Govt. under section 30.

According to IDR Act, industrial licence would be required for :

1. establishment of a new undertaking;
2. substantial expansion;
3. production of a new product;
4. changing the location of an industrial undertaking

In order to maintain the viability and strength of small scale units/undertakings section 11B of IDR Act, SSI are exempted from licensing provisions of the Act.

Section 10, 11, 11A and 13 of the IDR Act would not be applicable to small scale units, subject to the following conditions :

- (1) The articles manufactured are not included in Scheduled I or Schedule II to the notification of new industrial police, dated 24.07.91 or
- (2) The articles manufactured are included in Schedule III to the notification dated 24.07.91.

- Schedule I. Schedule I of the notification relates to items which are reserved for manufacture by public section undertakings.
- Schedule II. Schedule II includes those industries which are kept under compulsory licensing.
- Schedule III. The small scale industries may manufacture those items which are included in Schedule III, which are exclusively reserved for such sector even if they happen to be included in Schedule II.

**Entrepreneuship Development****(B) Memorandum with SIA**

The small scale and ancillary units are not required to file the Memorandum with the Secretariat for Industrial Assistance (SIA) before any action for setting up of new project or substantial expansion and at the time of commencement of commercial production.

**(C) Carry on Business (COB) Licence**

All undertakings other than small scale industrial undertakings engaged in the manufacture of items reserved for exclusive manufacture in the small scale sector are exempted from the operations of Section 29B of IDR Act but subject to a condition. As per the condition, such undertakings have to export minimum of 50% of the new or additional production. The Government has decided to exempt export-oriented units (EOUs) from obtaining industrial licence, if they manufacture items reserved for small scale units. The exemption would be available even if they had a foreign equity component of over 24%.

If existing small scale and ancillary undertakings exceeds their investment ceiling in plant and machinery (which is 1 crore in case of small scale industry and ancillary industry) by virtue of natural growth needs to apply for and obtain a carry on business (COB) licence. No export obligation is fixed on the capacity for which the COB licence is granted.

**(D) Industrial Entrepreneur Memorandum (IEM)**

If any existing small scale or ancillary industry which is engaged in the manufacturer of items exempted from compulsory industrial licencing or items not reserved for small scale industries cross the investment limit prescribed for them, they are not required to obtain COB licence. Such industries, named as de-licensed industries, are required to file an IEM to the Secretariat for industrial Assistance (SIA), Deptt. of industrial Policy & Promotion, Ministry of Industry, New Delhi. They also have to obtain an industrial licence if they are manufacturing items covered under compulsory licensing.

**(E) Integration of Small & Large industries**

In order to improve the competitive strength of small scale industries, it is imperative to constantly improve and modernize the technique of production.

The entrepreneurs can conclude an agreement with a collaborator for import of technology or in respect of technical transfer without obtaining any clearance from the Govt. provided that royalty payment does not exceed 5 percent of domestic sales and 8 per cent on exports. If, however, lump sum payment is involved in the import of technology, the proposal would require government clearance.

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## **(F) State Regulations**

The state govt. in its executive capacity is entitled to lay down the policies and preferences in the interest of the economy. The state govt. has the right to grant fiscal benefits by way of exemption from sales tax, confessional tariff etc. having regard to the industrial policy of the govt. The govt. may modify its industrial policy and grant, withdraw or modify fiscal benefits and exemptions granted from time to time.

## **(G) Environmental Clearance**

Those items which are reserved for small scale sector and need investment of less than Rs. 1 crore, are exempted from obtaining environmental clearance from the Central Government. However, entrepreneurs are required to obtain necessary clearance from the environment angle before setting up an industrial project.

Small scale industries are also exempted from taking the prior approval of Pollution Control Boards before starting operations except for 17 heavily polluting categories. Exempted industries simply have to get acknowledgment of the application form by the Central Pollution Control Board. Such industries with a low pollution load would also not have to obtain periodic renewal consent until

the unit changes its process But these small scale industries which fall in the category of heavy pollution load will have to take the prior approval of Pollution Control Board and get their date scrutinized from time to time before the consent to operate is given. The Govt. also helps the small scale units in getting subsidized financial assistance to aid implementation of pollution standards by setting up common effluent treatment plants.

### **Heavily polluting categories include items :**

(i) Sugar (ii) Fertilizer (nitrogenous / phosphatic) (iii) Cement (iv) Fermentation and distillery (v) Aluminium (vi) Petrochemicals (vii) Thermal Power (viii) Caustic Soda (ix) Oil Refineries (x) Tanneries (xi) Copper Smelter (xii) Zinc Smelter (xiii) Iron and Steel (xiv) Pulp and Paper (xv) Dye and dye intermediaries (xvi) Pesticides manufacturing and formulation (xvii) Basic Drugs and pharmaceuticals.

## **(H) Regulation of Acceptance of Loan**

Section 58A of the Companies Act, 1956 and the Companies (Acceptance and Deposits) Rules prescribe the limits upto which, the manner in which and the conditions subject to which deposits may be invested or accepted by a company either from the public or from its members. In other words, the law lays down various ways in which deposits have to be invested or accepted by a company.



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Small scale industrial units registered under Companies Act, 1956 as companies are exempted from the above said provisions of Section 58A of the Companies Act, and the Acceptance of Deposit Rules provided the following conditions are fulfilled :

1. the paid-up capital of the company does not exceed Rs. 25 lakhs;
2. the company accepts deposits from not more than 100 persons;
3. there is no invitation to public for deposits;
4. the amount of deposit accepted by the company does not exceed Rs. 20 lakhs or the amount of its paid-up capital, whichever is less.

### **4.5 SSI EXEMPTION SCHEME AS PER BUDGET 2003-04**

1. Exemption for SSI goods has been raised to Rs. 3 crore. Value of exempted goods will be included (excluding exports) for calculating eligibility limit of Rs. 3 crores under SSI exemption with effect from 01.04.2003.
2. SSI exemption has been withdrawn on the following items w.e.f. 01.04.2003 :
  - a. Ceramic tiles, printed ceramic tiles made from duty paid tiles outside the factory will be exempted from excise duty;
  - b. Stainless steel patties / pattas used for manufacturing cycles.

### **Excise Exemptions and Concessions**

Taxes on commodities are generally called indirect taxes, for they are ultimately shifted completely or partially on to the consumer by the producer. Such indirect taxes are first collected from the dealers or producers by the Govt. but later the burden of tax is shifted to the ultimate consumer.

Taxes on commodities may take the following forms :

1. A tax on manufacture or production of a commodity is called excise duty;
2. A tax on the sale of a particular commodity is called general sales tax;
3. A tax on import or export of a commodity is called customs duty.

Excise duty (tax on production of a commodity) tends to raise the price of a commodity which is ultimately borne by the consumer. Excise duty on a commodity may be borne partly by the buyers and partly by the sellers. How much exactly ? It will depend on the degree of elasticity of demand and supply.

Excise exemptions and concessions are given by Govt. to manufactures as a part of fiscal assistance. These concessions are given to both registered and unregistered units. Every person has to undertake manufacturing of goods in accordance with the terms and conditions of licence issued.

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Small scale industries are required to fulfill certain conditions in order to avail of excise exemptions and concessions :

1. Small scale industrial units for the purpose of excise exemption must be a factory as defined in the Factories Act, 1948;
2. The unit shall be engaged in manufacture of goods;
3. Factory, including precincts thereof, should not have more than 49 workers working on any day of the preceding 12 months.
4. SSI unit must be a factory registered with the Directorate of industries.

*Exemptions. The excise exemptions of small scale industrial units are as follows :*

- 1) The small scale and tiny industrial units are not required to pay any excise duty of the value of clearance if excisable goods including value of clearances for export doesn't exceed Rs. 50 lakhs. The limit has been raised upto Rs. 1 crore from 01.09.2000. However, Govt. also exempts the small scale units from payment of duty with reference to value of clearance and in respect of goods from time to time.
- 2) If value of clearances (excluding completely exempted goods) is within 50 lakhs, no declaration need to be filed with the Central Excise.
- 3) No separate accounts are to be maintained by small scale industrial units for excise purpose.
- 4) No monthly return is required to be sent by SSI units to excise office. Only quarterly return needs be sent but only those manufacturers whose sales start exceeding Rs. 30 lakhs and they start paying duty. Those whose sales are already more than Rs. 30 lakhs and are paying duty also have to send a quarterly return.

It is important to know that the eligibility for excise concessions are based on annual turnover and not on registration because the latter is based on investment in plant and machinery.

### Rates of Excise Duty.

(A) The rates of excise duty applicable to manufacturer whose turnover doesn't exceed Rs. 3 crores in respect of clearances for home consumption (including export to Nepal or Bhutan) is as follows.

Value of Clearance	Rate of Duty	Remarks
Upto Rs. 100 lakhs	N. 1	Not to avail CENVAT
Rs. 100 – 300 lakhs	Normal rate of duty	Can avail CENVAT

(B) The rate of excise in respect of specific goods for home consumption (including exports to Nepal or Bhutan) and all clearances of specific goods for captive goods / consumption of the specified goods is as follows :

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Value of Clearance	Rate of Duty	Remarks
Upto Rs. 100 lakhs	60% of normal rate of duty	CENVAT credit available
Rs. 100 – 300 lakhs	Normal rate of duty	

Normal rate of duty means the duty of excise specified in the First Schedule of Central Excise Tariff Act and special duty means duty of excise specified in second schedule of the said Act. Central Excise Act 1944 also gives notification from time to time.

**Scheme for Excise Relief for Weak Industrial Unit.** The Govt. of India started a scheme in Oct. 1989 to help weak industrial units to regain their viability by providing a special type of loan named as excise loan. The loan would be available to the applicable industrial units through the designated financial institutions only.

The Scheme for excise relief in the form of excise loan would be available only to that industrial undertaking whose accumulated losses, as at the end of the financial year, have resulted in erosion of 50% or more of its maximum net worth during the immediately preceding five financial years.

Following financial institutions have been designated by the central Govt. to provide excise loans to weak industrial units :

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India (IFCI);
3. Industrial Reconstruction Bank of India (IRBI);
4. Such other finance institution which the central Govt. may specify in this behalf.

The amount of loan will be not more than 50% of the excise duty actually paid for three years subsequent to the date of approval of the rehabilitation package by the Empowered Committee. The total amount given by way of such excise loan shall not, in any case, exceed 25% of the overall cost of the Rehabilitation package.

The loan shall be interest free and shall be repayable in instalments in a period of seven years as determined after a moratorium of three years commencing from the date of last disbursement of excise loan.

### 4.6 RULES REGARDING THE FACTORIES ACT

The Factories Act, 1948 is a comprehensive piece of legislation which covers all aspects regarding factories, right from registration of factories, the inspecting authorities, provision regarding health, safety, welfare, working hours, employment of adult, adolescent, child, annual leave and penalties.

The main objective of the Factories Act is to ensure healthy and safe working conditions for workers. The Act protects the workers from being subject to undue bodily strain or manual labour.

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The Act extends to the whole of India including the State of Jammu and Kashmir. It applies to all the factories defined in the Act including small scale industries and factories belonging to Central or any State Government unless otherwise expressly excluded.

### **The main provisions of this act are as follows :**

1. **Definition of Factory.** U/S 2 (m) factory means any premises including the precincts where manufacturing process is carried on and the number of workers is ten or more if manufacturing process is being carried on with the aid of power and twenty or more if manufacturing process is being carried on without the aid of power. Some of the premises like saw mill, railway workshop, composing for the purpose of printing by letter press have been held to be factories.
2. **Health. Section 11 to 20 in the Factories Act, 1948** deals with the health of workers in a factory. The objective behind these provisions is to ensure healthy working conditions in the factories. Our constitution requires the respective state to make provisions for securing healthy conditions of work. The state is required to protect the interests of the workers. The act contains the following provisions to safeguard the health of workers :  
(a) Cleanliness (b) Disposals of wasteland effluents (c) Ventilation and temperature (d) Dust and fume (e) Artificial humidification (f) Overcrowding (g) Lighting (h) Drinking Water (i) Latrines and Urinals (j) Spittoons.
3. **Safety of Workers.** Safety is another basic and primary requirement in a factory. Unless the worker is ensured safety of work, smooth and proper working cannot be ensured.

### **The Act provides for the following provisions relating to safety of workers :**

- i. Fencing of machinery
- ii. Work on or near machinery in motion – only trained males wearing tight fitting clothing. No woman or young person is allowed to clean, lubricate or adjust any part of the machinery while it is in motion.
- iii. Prohibition of young persons to work at any dangerous machines.
- iv. Maintenance of striking gear and devices for cutting off power.
- v. Prohibition of employing women and children near cotton openers.
- vi. Proper hoists and lifts.
- vii. Safety on revolving machinery, lifting machines, chains, ropes etc.
- viii. Proper maintenance of floors, stairs and means of access.
- ix. Measures for protection of eyes.
- x. Precautions against dangerous fumes, gases etc.
- xi. Proper precautions in case of fire.
- xii. Safety of buildings and machinery.
- xiii. Appointment of safety officers.

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**4. Welfare of Workers.** Every factory has to adopt welfare measures to improve labour productivity, to keep up their morale and have cordial employer – employee relations.

Various provisions regarding welfare under the Act are :

(i) Working facilities (ii) Facility for storing and drying clothes (iii) Facilities for sitting (iv) First aid appliances (v) Canteen (where number of workers is 250 or more) (vi) Shelters, rest rooms and lunch rooms (vii) Creches (here 30 or more women are ordinarily employed) (viii) Welfare officers.

**5. Other Provisions.** It includes the rules as to the regulation of hours of work of adults in the factories on weekly and daily basis. It also provides for weekly holidays, compensatory holidays, rules regarding night shifts, prohibition of overlapping shifts, extra wages for overtime etc.

**6. Duties of the Employer.** Under the Act, the State Govt. is empowered to make it obligatory for every occupier to :

- i. obtain approval, licence and registration of factory; failure to apply for registration of the factory and a licence amounts to an offence.
- ii. the occupier is required to serve a notice at least 15 days before he begins to occupy or use any premises as a factory to the Chief Inspector. The notice must contain the details regarding name and address of the occupier and factory, the address for communication, total horse power installed, name of the manager of the factory etc.
- iii. ensure healthy, safety and welfare of all workers while they are at work in the factory.

### **4.7 MEANING AND DEFINITION OF SMALL SCALE INDUSTRY**

The definition of small scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

There are at least 50 different definitions of SSI's found and used in 75 countries. In some of the countries of the world, the criterion for defining small enterprise is related to the size of employment. For example, in USA a small enterprise is one which has employment of 500 people. In UK, it is less than 20 skilled labours, in Germany, less than 300 and in Italy less than 50 people. However, in most of the countries, the definitions of SSI are related to either investment or size of employment or both.

The definition of small scale industry is an important aspect of government policy as it identity the target groups. The first official criterion for small scale industry in India dates back to second five year plan when it was in terms of gross investment in land, building, plant, machinery and the strength of the labour force. On the recommendation of the Federal Association of Small Industries of India (FASI), only the investment in fixed assets in plant and machinery, whether held in ownership terms or by lease or hire

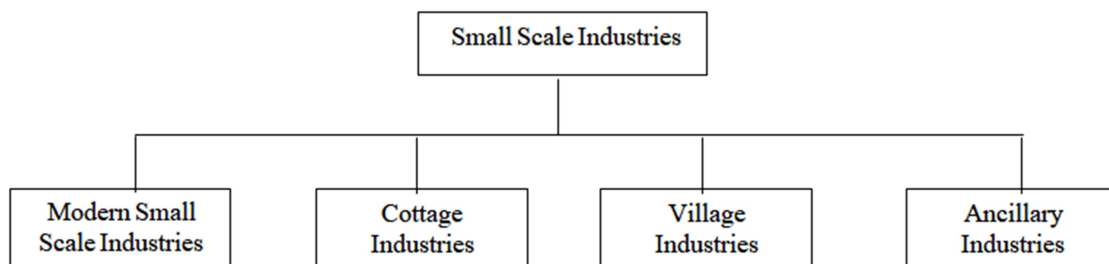
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purchase, is considered instead of fixing the limit on overall investment in plant and machinery. The evolution of legal concept of SSI is given in the Table 3.6. An ancillary unit is one which sells not less than 50% of its production of services to one or more industrial units.

However for small scale industries, the planning commission of India uses the terms village and cottage industries. These include modern small-scale industries and the traditional cottage and house-hold industries as shown in Fig. 4.2.

**Table 4.1**

1950	The fiscal commission for the first time defined an SSI as one which is operated mainly with hired labour usually 10 to 50 hands
1954-55	The Government of India set up Central Small Scale Industries Organisation (CSSIO) and Small Scale Industries Board (SSIB) to promote small scale industries.
1960	Employment criterion to define SSI was dropped and under investment criterion an industry having gross value of fixed assets up to Rs. 5 lakhs was called as SSI.
1975	The investment limit was raised to Rs. 10 lakhs (15 lakhs for ancillary units)
1980	The investment limit was rise to Rs. 20 lakhs (25 lakhs for ancillary units)
1995	The investment limit was raised to Rs. 60 lakhs (75 lakhs for ancillary units)
March 1997	The investment limit was raised to Rs. 3 crores
1999-2000	The investment limit was reduced to 1 crore
2007	Limit is 1 crore only



**Figure 4.2**

#### 4.8 CHARACTERSTICS OF SSI

“*Small scale industry is beautiful*” because of its following important characteristics :

1. Small unit is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors; the others act as sleeping partners.
2. In case of SSI, the owner himself or herself is a manager also and hence, an SSI is managed in a personalized fashion. The owner takes effective participation in all matters of business and decision making.
3. The scope of operation of SSI is generally localized, catering to the local and regional demands.
4. The gestation period i.e. the period after which return on investment starts is relatively lower when compared to large units.
5. SSI's are fairly labour intensive with comparatively smaller capital investment.
6. Small units use indigenous resources and therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
7. Using local resources small units are decentralized and dispersed to rural areas. Thus, small units promote balanced regional development and prevent the influx of job seekers from rural areas to cities.
8. Small scale units are more change susceptible and highly reactive and receptive to socio- economic conditions. They are more flexible to adopt changes like introduction of new products, new method of production, new materials, new markets and new form of organization etc.

#### 4.9 RATIONALE OF SMALL SCALE INDUSTRY

Emphasizing the very rationale of small-scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated:

“They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country”.

The rationale of small scale industries so established can broadly be classified into four arguments as discussed below :

1. **Employment Argument** : In view of abundant labour and scarce capital resources, the most important argument in favour of the SSI's is that thus have a potential to create immediate large scale employment opportunities. There are many research findings available which well establish that small scale units are more labour intensive than large

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units. Small units use more of labour per unit than investment. Studies have shown that the output employment ratio is the lowest in small sector, employment generating capacity of small sector is eight to ten times that of large scale sectors. Some scholars oppose this argument. They are of the opinion that employment should not be created for the sake of employment. According to them the important problem is not how to absorb surplus resources but how to make the best use of scarce resources. Then employment argument becomes output argument.

2. **Equality Argument** : An important argument in favour of small-scale industries is that they ensure a more equitable distribution of national income and wealth. This is based on two major considerations:
  - a. Compared to ownership of large scale units, the ownership of small scale units is wide spread.
  - b. Their more labour-intensive nature and decentralization and dispersal to rural and backward areas provide more employment opportunities to the unemployed.
3. Most of these small scale units are proprietary or partnership concerns, the relations between workers and employers are more harmonious in small-scale units than in large-scale units.
4. Dhar and Lydall do not agree with this argument and give statistical evidence that wages paid to workers in small-units are much lower when compared to the workers in large industries. Workers in small enterprises, due to non-existence of trade unions are unorganized and therefore, are easily exploited by the employers. But in an underdeveloped country like India, even if small-scale units provide low paid jobs, they would be of virtual importance in our economy where millions are already in search employment to eke-out their livelihood.
5. **Decentralization Argument** : Big industries are concentrated every where in urban areas, but small industries can be located in rural or semi-rural areas to use local resources and to cater to the local demands. Hence, it promotes balanced regional development in the country. Though it is not possible to start small-scale industry in every village, but it is quite possible to start small units in a group of villages. Decentralization will help tap local resources, idle savings and local talents and improves the standard of living even in erstwhile backward areas. The good example of this phenomenon is the economy of Punjab which has more small-scale units than even the industrially developed state of Maharashtra.
6. **Latent Resource Argument** : According to this argument, small enterprises are capable of mopping up latent and unutilized resources like hoarded wealth and ideal entrepreneurial ability etc. Dhar and Lydall feel that the real force of latent resources argument lies in the existence of entrepreneurial skill. According to them, there is no evidence of an overall shortage of small entrepreneurs in India. Hence, they doubt the force of this latent resource argument. Their assertion does not appear to be very sound simply because of the fact that if small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises ? The emergence of entrepreneurial class requires a conducive environment. The impressive growth in the number of small enterprises in the post independent period highlights the fact that, providing the necessary conditions such as power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.



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## **4.10 OBJECTIVES OF SSIs**

The various objectives of developing small-scale industries are in fact, implied in one way or other, in its rationale itself. However, an attempt has been made in this section to enumerate the the main objectives of developing small enterprises in India.

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too, in the main stream of national development.
5. To promote balance regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country.

## **4.11 SCOPE OF SSIs**

The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and requires less sophisticated technology. The activities which are found particularly amenable can be successfully operated in small scale are too many to mention. Among them the important ones are :

- Manufacturing activities
- Servicing / repairing activities
- Retailing activities. Financial activities
- Whole-sale business
- Construction activities
- Infrastructural activities like transportation, communication and other public utilities.

In order to strengthen the scope for small-scale industries, the Government of India has announced reservation policy for small sector in the country initiated in 1967, only 47 items were reserved for exclusive manufacture in small scale sector. In 1983, the reserved list included 836 items. Later Abid Hussain committee deserved 12 items and thus there are 824 items in the reserved list. The objective of this reservation policy is to insulate the small sector from unequal competition of large industrial establishments, so that the small firms can grow through expansion of existing units and the entry of new firms. Some of the important items reserved for exclusive development in the small sector are food and allied industries, textile products, leather and leather products, glass and ceramics, pressurestove, electric al appliances, boats and truck body building, auto parts components, bicycle parts, tricycles, survey instruments, sports goods, stationery items, clocks and watches etc.

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It is also important to note that the performance of reserved small-scale industries does not outshine that of non-reserved small industries. 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. He also adds that the reservation policy is calculated to keep 'infant' industry in a permanent state of infancy. However, the main objective of reservation policy has been insulate the small sector from unequal competition of powerful large scale units, so that the small sector can grow through expansion on one hand, and by the entry of new firms on the other hand seems to be achieved. Examples are many to support this view.

## **4.12 ROLE OF SSI IN ECONOMIC DEVELOPMENT**

Economic development is defined in a number of ways; the commonest definition could be an increase in real per capital income of a person resulting in improvement in the levels of living'. The development of small-scale industries contributes to the increase in per capital income. The roles of SSI in economic development is given below.

1. **Employment** : SSI use labour intensive techniques and therefore, provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector. SSI provides self-employment to artisans, technically qualified persons and professionals. These industries also offer employment to farmers when they are idle.
2. **Optimization of Capital** : SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period. Small scale units help to mobilize small and scattered savings and channelise them into industrial activities.
3. **Balanced Regional Development** : SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas. They also help to improve the standard of living in suburban and rural areas
4. **Mobilization of Local Resources** : SSI helps to mobilize and utilize local resources like small saving, entrepreneurial talent etc. which might otherwise remain idle and unutilized. These industries facilitate the growth of local entrepreneurs and self-employed professionals in small towns and villages.
5. **Export Promotion** : SSI helps in reducing pressure on the country's balance of payments in two ways. First, they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports. There has been a substantial increase in exports form the small scale sector
6. **Consumer Surplus** : SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector. About one-half of the output of manufacturing sector in India comes from small scale industries
7. **Feeder to Large Scale Industries** : SSI plays a complementary role to large scale sector. They provide parts, components, accessories etc, to large scale industries. They serve as ancillary units.
8. **Social Advantage** : Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth. They provide an honorable and independent living to people with limited resources. They facilitate wide participation of public in the process of development.

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9. Share in Industrial Production : SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.
10. Development of Entrepreneurship : Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.

### **4.13 ADVANTAGES OF SMALL SCALE INDUSTRIES**

- Small scale enterprises can be started as per convenience of the owner in terms of space, finance, product and man power.
- The setting up of the unit and starting of production requires a small gestation period of only 2 to 6 months and layout can be made as per convenience.
- Locally available skilled and semi-skilled people can be appointed at short notice and at a much lower wages compared to the medium and large industries.
- Wherever high technology is involved the parent company executive will help. Alternatively, consultants can be hired to sort out technology related problems.
- It is one of the best forms of self-employment as well as giving employment opportunities to own kith and kin, friends and relatives etc.
- In case of rural sector, the SSI units will be able to have cheaper labour especially in off seasons.
- In developing countries, the SSI units are a necessity to assist bigger industries and new projects. Thus, they not only contribute to the economy of the nation but also create employment opportunities to people around the project sites.
- In case of SSI units started by experienced and talented executives, there is abundant scope to develop high technology components for MNCs and also to organize exports.
- Due to increase in population there has been increase in production of consumer goods and Fast Moving Consumer Goods (FMCG). In view of this there is a bigger role for small industries to take up components production and even manufacture the product itself.
- The small units are exempted from excise duty upto 75 lakhs per annum turnover. In case of industries in the backward districts, waiver or concession is given for various statutory taxes. Thus, lot of paper work and formalities are avoided.
- Since employees are recruited based on contacts or relations there will be loyalty to the owner and hence, there will be no trade union activity.

### **4.14 GOVERNMENT POLICY : INDUSTRIAL POLICY RESOLUTION**

#### **Major Environment**

After attaining independence in 1947, India adopted economic planning as a method to achieve economic development. The pattern of planning that came to be accepted was of a mixed type meaning thereby that industrial units in the public and private sector will be operating in the economy. The mixed nature of the economy meant that on crucial areas the policy of the government was decisive and changes therein were in great relevance to

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industrial units. In the field of industry, government's objectives and intensions were announced through five Industrial Policy Resolutions (IPRs). These resolutions were announced in 1948, 1956, 1977, 1980 and 1990. We shall briefly state what each of the IPRs had stated about growth and development of SSI sector. It must be added that it is only recently that government policy and activities of the different interface institutions have covered SSE in addition to SSL. The earlier thinking was mostly addressed to SSI.

### **IPR 1948**

The industrial sector in 1948 was not different from the one existing in pre- 1947 days and hence the SSI sector meant mainly rural industrial units, small job-cum-repair shops, units making agricultural implements, a few urban small units and handloom units weaving clothes. The greatest economic significance of these units to the Indian economy was their employment potential. It was this potential which called for protection through policy and the main trust of IPR 1948 as far as the small scale sector was concerned was protections.

### **IPR 1956**

The second IPR was announced against the background of a bolder Second Five year Plan, with a long term strategy for industrial and economic development. As to the SSI sector, the resolution envisaged a dual role viz. (i) manufacture of consumer goods such as clothes and (ii) manufacture of components for the newly established industry as a part of the programme for long term industrial development. Thus, to the earlier emphasis of protection was added development. Industrial policy for SSI aimed at "Protection plus Development". IPR 1956 in a manner initiated the modern SSI in India.

### **IPR 1977**

The next IPR was announced a lapse of two decades. During the preceding decades, two major problems had been witnessed. First was the lopsided industrial development – large, medium and small scale industries had become more of an urban phenomena and the other was large scale unemployment – the issue of urban and rural, educated and uneducated unemployed had started becoming difficult.

This situation led to a renewed emphasis on promotion of typical employment generating small scale industry, located in rural areas and small towns. As a formula it was : scale of output should be small, location semi urban/rural and technology, labour intensive. This was the IPR which assigned a positive role to SSI in terms of wage employment of worker and self-employment of the entrepreneur. This was the IPR which, therefore, offered a wider perception to policies and programmes for SSI development. To the earlier trust of protection (IPR 1948), development (IPR 1956) this resolution added promotion. This SSI sector was thus, to be protected, developed and promoted.

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## **IPR 1980**

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment based key or basic industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wage and self-employment based opportunities in India.

## **IPR 1990**

This IPR was announced during June 1990. Its basic aim was to introduce measures of economic liberalization and simplified rules and procedures with a view to enhancing the technological base of industry and accomplishing higher levels of output. It gave a special emphasis on the SSI/SSE sector where employment opportunities are likely to be high. In order to enable the SSI units to update their technology, the investment limit of SSI has been raised to Rs. 60 lakhs.

## **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 (up to 24%).
- Shift from protection/regulation to promotion of equity, technology and efficiency.
- Substantial de-regulation and simplification of rules and procedures.

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**Table-4.2 : Industrial Policy Resolution a summary**

Year	Main Objective	Principal Measure	The SSI Universe
IPR 1948	Protection	Raw material, cheap power, technical advice, marketing of products, safeguarding against excessive competition from large units	Village-based small enterprises Repairs-cum- job shops  Units using local market, raw materials, labour. Hence locally self-sufficient.
1956	Protection plus development	Protect artisan based non-tech enterprise development. Modern SSI for industrial and consumer goods. Provide capital and skill.	Tiny/cottage rural units. Modern SSI units in urban areas. Units employing labour intensive technology.
		Develop export based units. Achieve regional balance through SSI. Package of assistance and incentives, infrastructure, technological up-gradation, Reservation of items for SSI.	New entrants to SSI new entrepreneurs. Ancillary units, Modern SSI.
1977	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs, decentralized production	-do-
1980	Protection plus development plus promotion	Protect labour intensive technology. Promote small tiny units, promote non-urban location, promote new first generation entrepreneurs decentralized production, nuclear plant for SSI growth, reservation products for SSI.	-do-
1990	Promotion of equality, technology and efficiency	Promotion of SSI and agro based industries reservation of products 836 & identified. Central investment subsidy rural and backward areas. Technology centers for modernization, Small Industry Development Bank (SIDBI) acclivities at KVIC and KVI board to be exported to help artisans in marketing. Ago processing industry receive high priority.	-do-

### 4.15 GOVERNMENT SUPPORT TO SSI DURING FIVE YEAR PLANS

Immediately after independence, government of India has given great importance to the development of small-scale sector in the successive five year plans.

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**First Plan :** In the first year plan Rs. 48 crores (constituting 47.8% of total plan expenditure on industry) was spent on small-scale sector alone. During this plan, six boards were constituted namely All India Handloom Board, All India Handicraft Board, All India Khadi and Village Industry Board, Small Scale Handicraft Board, Coir Board and Central Silk Board. The Boards were established to cover the entire field of small-scale and cottage industries.

**Second Plan :** As per the recommendations of Karve Committee, the second Five Year Plan focused on dispersal of industries. During this plan 60 industrial estates were established for providing basic facilities like water, power, transport etc. at one place. The total expenditure during this plan towards SSI was Rs. 187 crores. In addition some items were reserved for exclusive production in small-scale industries.

**Third Plan :** The third plan focused on extension of coverage of small scale industries. During this plan Rs. 248 crores were spent.

**Fourth Plan :** The programmes adopted during the third plan were extended during fourth plan also. As a result, small-sector witnessed significant diversification and expansion during the forth plan period, during which 346 industrial estates had been completed and small-scale sector provided employment to almost 82,700 persons.

**Fifth Plan :** The main thrust of the fifth plan was to develop small-scale industries to remove poverty and inequality stalking the land. During this plan the expenditure incurred is Rs. 592 crores.

**Sixth Plan :** Because of the massive development programmes initiated for the development of promising small-scale sector, the actual expenditure of Rs. 1945 crores surpassed the plan outlay 836 items were reserved for manufacturing in small scale industries and 409 items reserved for exclusive purchase from small scale industries. In addition, SIDO (Small Industries Development Organisation) was established for providing consultancy services in technical, managerial and marketing. In 1982, CART (Council for Advancement of Rural Technology) was established for providing necessary technical input to rural industries necessary technical input to rural industries. By the end of sixth plan, the production from small and cottage industries increased to Rs. 65,730 crores, exports touched Rs. 557 crores and employment in SSI sector reached 315 lakh persons. This accounts for 80% of the total industrial employment.

**Seventh Plan :** The main thrust of this plan was upgradation of technology to increase competitiveness of small sector. The new watch word was “competition” and “not reservation”.

**B. Seventh Plan :** The actual expenditure of Rs. 3249 crores surpassed the plan outlay of Rs. 2752 crores. The value of production increased from Rs. 57,100 crores to Rs. 91,681 crores.

**Eighth Plan :** The main thrust of the eighth plan was the employment generation as the motive force for economic growth. To achieve this, small and village industries have been assigned an extremely important role. The proposals of this plan are : (i) The plan reiterated that timely and adequate availability of credit is more important than concessional credit. For this purpose SIDBI was established, certain new initiatives like sanction of composite loans under ‘single window system’, concessional loans to state corporations for infrastructural developments were introduced, (ii) Eighth plan proposed to establish tool room and training institutions in order to upgrade technology (iii) Growth centre approach has been accepted and 70 growth centres were established. In addition establishment of functional industrial estates with agricultural vegetables and horticultural products was also proposed. (iv) Proposed to establish integrated infrastructure



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development centres for tiny units. For this the centre, the state governments and industry associations were also involved.

### **4.16 NEW POLICY INITIATIVES IN 1999-2000 FOR SMALL SCALE SECTOR**

The government of India has announced new policy initiatives for small scale sector in 1999- 2000. The features of new policy are listed below.

1. A national programme for Rural Industrialization has been announced, with a mission to set up 100 rural clusters every year, to give a boost to rural industrialization.
2. To coordinate the latest development with regard to the World Trade Organization (WTO), a cell has been set up in the office of DC (SSI) to disseminate information to SSI Association and SME units, regarding recent developments, prepare policies for SSIs in tune with the WTO agreements and organizing WTO sensitization seminars, workshops.
3. Cotton yarn has been included in the general excise exemption scheme for SSIs.
4. Small job workers, engaged in printing of glazed tiles, have been exempted from excise duty.
5. Announcement of a new Credit Insurance Scheme in the Budget (1999-2000) for providing adequate security to banks and improving flow of investment credit to SSI units, particularly export oriented and tiny units.
6. The working capital limit for SSI units is determined by the banks on the basis of 20 percent of their annual turnover. The turnover limit for this purpose has been enhanced from Rs. 4 crore to Rs. 5 crore.
7. To increase the reach of banks to the tiny sector, lending by banks of Non-Banking Financial Companies (NBFCs) or other financial intermediaries for purpose of on lending to the tiny sector, has been included within the definition of priority sector for bank lending.
8. Exemption from excise duty, as given to SSI units, will be extended to goods bearing a brand name of other manufactures in rural areas.
9. The investment limit for small scale and ancillary undertakings has been reduced from existing Rs. 3 crores to Rs. 1 crore.

### **4.17 IMPACT OF GLOBALIZATION AND LIBERALIZATION ON SSI**

Before the introduction of new economic reforms in 1991 following the inevitable globalization, the SSI sector was overprotected. The small-scale industry never had a strong desire to grow to medium and large scale because of the benefits of protection given to it. Many of the policies also discouraged the growth of small scale units into large ones and had a stunting effect on manufacturing, employment and output growth.

With the globalization, the SSIs are now exposed to sever competition both from large-scale sector, domestic and foreign and MNCs. The effect of globalization can be summarized as below.



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1. The new policies of the government towards liberalization and globalization without ensuring the interest or priority of small-scale sector resulted in poor growth rate of SSI sector. The SSI sector has suffered because of the lending institutions and promotional agencies, whose main agenda is to serve big units and multinationals.
2. The problems of SSI in liberalized environment have become multidimensional; delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.
3. Globalization resulted in opening up of markets leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs. India was also asked to remove quantitative restrictions on import by 2001 and all export subsidies by 2003. As a result every enterprise in India whether small scale or large scale has to face competition. The process was initiated for small scale units by placing 586 of its 812 reserved items on the open general license list of imports.
4. With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market. The 1990's witnessed the entry of multinational companies in areas such as automobiles, electronics and IT based sectors.

In the changed environment after globalization and liberalization, the policies and projects for the SSI sectors will have to be effective and growth oriented (not just protecting) so as to achieve competitiveness.

In order to protect, support and promote small enterprises, a number of protective and promotional measures have been undertaken by the central government. The promotional measures cover the following.

- Industrial extension services
- Institutional support in respect of credit facilities.
- Provision of training facilities.
- Supply of machinery on hire purchase terms.
- Assistance for domestic marketing as well as exports
- Special intensive for setting up enterprises in backward areas.
- Technical consultancy and financial assistance for technological upgradation.

### **4.18 IMPACT OF WTO/GATT ON SSI**

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred world wide in favour of the free market forces and tilt away from state regulation / intervention in economic activity. This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows.

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The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms. Increased market access to imports will mean opening up the domestic market to large flows of imports. The removal of quantitative restrictions on imports of these items will soon be freed from all restrictions as announced in the recent import-export policy.

Increased market access will also mean that our industries can compete for export markets in both developed and developing countries. But the expected surge in our exports can come about only if SSI sector is restructured to meet the demands of global competitiveness, which is the key to the future of small industries in present contest.

SSIs have to face threats and also avail opportunities owing to the WTO and its agreements. The main opportunities of the WTO are classified into three. Firstly, national treatment of exportable items across the countries all over the world, with better market access through the internet. Second, enlightened entrepreneurs have greater opportunities to benefit from their comparative advantages due to lowering of tariffs and dismantling of other restrictions. Finally, industries that are in constant touch with government, which in turn negotiates in their best interests in the on-going dialogue with the WTO, are going to benefit. India has real chance of becoming superpower in the service sector, particularly IT. It has already captured about 25 percent of world exports.

### **4.19 Meaning and Need of Support**

Finance is one of the essential requirements of any line of activity. Before actually setting up their units, small entrepreneurs need to know very clearly about the type and extent of their financial requirements. Integral to financial requirements is to know about the possible alternative sources from which finance can be availed of. Given the shortage of own funds, the Government of India as a part of its policy of promotion of small-scale sector in the country, has set up a host institutions to meet the financial requirements of small entrepreneurs.

Starting an industrial unit requires various resources and facilities. Small scale enterprises, given their small resources find it difficult to have these on their own. Finance has been an important resource to start and run an enterprise because it facilitates the entrepreneur to procure land, labour, material, machine and so on from different parties to run his/her enterprise. Hence, finance is considered as “life blood” for an enterprise. Recognizing it, the Government through her financial institutions and nationalized banks, has come forward to help small entrepreneurs provide them funds. Admittedly, finance is an important resource but not the only condition to run an enterprise. In order to start any economic activity, a minimum level of prior built up of infrastructural facilities is needed. Financial assistance and concessions cannot, in any case, adequately compensate for the

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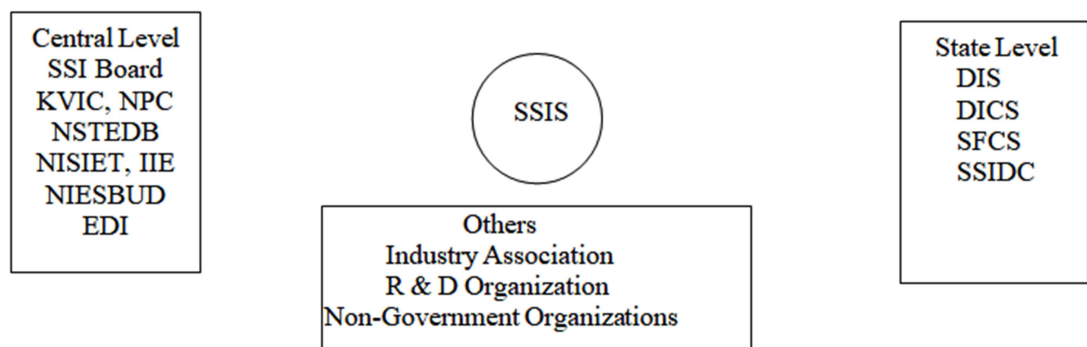
deficiencies of infrastructure such as transport and communication. This is one of the reasons why industries have not been developing in backward areas in spite of financial assistance and concessions given by the Government to the entrepreneurs to establish industries in backward areas. Creation of infrastructural facilities involves huge funds which the small entrepreneurs do lack. In view of this, various central and state government institutions have come forward to help small entrepreneurs in this regard by providing them various kinds of support and facilities. Availability of institutional support helps make the economic environment more conducive to business or industry.

### 4.20 AGENCIES OF GOVERNMENT FOR SSI

The ministry of small-scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small- scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country. It initiates appropriate policy measures, pogrammes and schemes for promotion of SSI. The policy measures include setting up of a network of institutions to render assistance and to provide a comprehensive range of services and common facilities for SSIs. The range of services cover consultancy in techno-economic and managerial aspects, training, testing facilities, and marketing assistance through the agencies created for the specified functions. These activities are supported by a host of other central/ state government departments, promotional agencies, autonomous institutions, non-government organizations and so on.

The implementation of polices, programmes and schemes for providing infrastructure and support services to small enterprises is undertaken through its attached office, namely Small Industries Development Organisation (SIDO), Khadi Village and Industry Commission (KVIC) and Coir Board, National Small Industry Corporation (NSIC) and various training institutes. The institutional network can be broadly classified as under.

- 1 Central level institutions / agencies
- 2 State level institutions / agencies
- 3 Other agencies



**Institutions supporting small scale industries**

**Entrepreneuship Development****4.22 NATURE AND TYPES OF SUPPORT****(i) Policy Support**

1. The investment limit for the tiny sector will continue to be Rs. 25 lakhs.
2. The investment limit for the SSI sector will continue to be at Rs. 1 crore.
3. The ministry of SSI and ARI will bring out of specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto Rs. 5 crore to admit suitable technology up-gradation and to enable them to maintain their competitive edge.
4. The Limited Partnership Act will be drafted quickly and enacted.

**(ii) Fiscal Support**

To improve the competitiveness of small scale sector the exemption for excise duty limit rose from Rs. 50 lakhs to Rs. 1 crore

1. The composite loans limit rose from Rs. 10 lakhs to Rs. 25 lakhs
2. The Small Scale Service and Business (Industry related) Enterprises (SSSBES) with a maximum investment of Rs. 10 lakhs will qualify for priority lending.
3. In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 25 lakhs to Rs. 50 lakh. The soft loan limit will be retained at 25 percent of the project cost subject to a maximum of Rs. 10 lakh per project. Assistance under the NEF will be provided at a service charge of 5 percent per annum.
4. The eligibility limit for coverage under the recently launched (August, 2000) Credit Guarantee Scheme has been revised to Rs. 25 lakh from the present limit of Rs. 10 lakh.
5. The Department of Economic Affairs will appoint a Task Force to suggest revitalization / restructuring of the State Finance Corporation.
6. The Nayak Committee's recommendations regarding provision of 20 percent of the project turnover as working capital is being recommended to the financial institutions and banks.

**(iii) Infrastructure Support**

1. The Integrated Infrastructure Development (IID) Schemes will progressively cover all areas in the country with 50 percent reservation for rural areas.
2. Regarding upgrading Industrial Estates, which are languishing, the Ministry of SSI and ARI will draw up a detailed scheme for the consideration of the planning commission.
3. A plan scheme for Cluster Development will be drawn up.
4. The funds available under the non-lapsable pool for the North-East will be used for Industrial Infrastructure Development, setting up of incubation centres, for cluster development and for setting up of IIDs in the North East including Sikkim.

**(iv) Technological Support and Quality Improvement**

1. Capital subsidy of 12 percent for investment in technology in selected sectors. An Inter- ministerial committee of Experts will be set up to define the scope of technology upradation and sectorial priorities
2. To encourage Total Quality Management, the scheme of granting Rs. 75,000/- to each unit for opting ISO-9000 Certification will continue for the next six years i.e. till the end of the 10th plan.
3. Setting up of incubation centers in Sunrise Industries will be supported.
4. The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET Programme) and APCTT.
5. SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R & D institutions in India and Abroad and circulate it among industry associations for the dissemination of the latest technology related information.
6. Commercial banks are being requested to develop schemes to encourage investment in technology upgradation and harmonize the same with SIDBI.
7. One-time capital grant of 50 percent will be given to Small-Scale, Associations which wish to develop and operate Testing Laboratories, provided they are of international standard.

**(v) Marketing Support**

1. SIDO will have a Market Development Assistance (MDA) programme, similar to one obtaining in the Ministry of Commerce and Industry. It will be a plan scheme.
2. The Vendor Development Programme, Buyer-Seller meets and Exhibitions will take place more often and at dispersed locations.

**(vi) Informational Support**

1. General information
2. Technical / Marketing expertise in specific areas
3. Technical and financial expertise
4. Implementation assistance for turn-key project

**(vii) Incentives and Subsidies**

1. Export-import subsidies.
2. Interest free loans.
3. Subsidy for R & D work

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4. Capital investment subsidy
5. Transport subsidy
6. Interest subsidy
7. Subsidy for power generation
8. Exemption from property tax
9. Incentives for NRI
10. Exemption from income tax
11. Sales tax exemption
12. Price preference to SSIs
13. Subsidy/assistance for technical consultancy
14. Exemptions from stamp duty
15. Provisional for seed capital
16. Allotment of controlled for subsidized raw materials.
17. Subsidy for cost of market study/feasibility study or reports.

**4.22 FINANCIAL INSTITUTIONS****1. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC)**

The National Small Industries Corporation (NSIC), an enterprise under the union ministry of industries was set up in 1955 in New Delhi to promote, aid and facilitate the growth of small scale industries in the country. NSIC offers a package of assistance for the benefit of small scale enterprises.

- **Single Point Registration** : Registration under this scheme for participating in government and public sector undertaking tenders.
- **Information Service** : NSIC continuously gets updated with the latest specific information on business leads, technology and policy issues.
- **Raw Material Assistance** : NSIC fulfils raw material requirements of small-scale industries and provides raw material on convenient and flexible terms.
- **Meeting Credit Needs of SSI** : NSIC facilitate sanctions of term loan and working capital credit limit of small enterprise from banks.
- **Performance and Credit Rating** : NSIC gives credit rating by international agencies subsidized for small enterprises upto 75% to get better credit terms from banks and export orders from foreign buyers.
- **Marketing Assistance Programme** : NSIC participates in government tenders on behalf of small enterprises to procure orders for them.

**2. SMALL INDUSTRIES DEVELOPMENT ORGANISATION (SIDO)**

SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the

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needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small

Industries Service Institutes), 31 extension centres of SISI and 7 centres related to production and process development.

The activities of SIDO are divided into three categories as follows :

### **(a) Coordination Activities of SIDO**

1. To coordinate various programmes and policies of various state government pertaining to small industries.
2. To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions
3. Implement and coordinate in the development of industrial estates.

### **(b) Industrial Development Activities of SIDO**

1. Develop import substitutions for components and products based on the data available for various volume-wise and value-wise imports.
2. To give essential support and guidance for the development of ancillary units.
3. To provide guidance to SSI units in terms of costing, market competition and to encourage them to participate in the government stores and purchase tenders.
4. To recommend the central government for reserving certain items to produce at SSI level only.

### **(c) Management Activities of SIDO**

1. To provide training, development and consultancy services to SSI to develop their competitive strength.
2. To provide marketing assistance to various SSI units.
3. To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.
4. To help them get updated in various information related to the small scale industries activities.

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### **3. SMALL INDUSTRIES SERVICE INSTITUTES (SISI)**

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

**The main functions of SISI include :**

1. To serve as interface between central and state government.
2. To render technical support services.
3. To conduct entrepreneurship development programmes
4. To initiate promotional programmes.

**The SISIs also render assistance in the following areas:**

1. Economic consultancy/information/EDP consultancy.
2. Trade and market information.
3. Project profiles
4. State industrial potential surveys
5. District industrial potential surveys
6. Modernization and in plant studies.
7. Workshop facilities
8. Training in various trade/activities

### **4. SMALL SCALE INDUSTRIES BOARD (SSIB)**

The government of India constituted a board, namely, Small Scale Industries Board (SSIB) in 1954 to advice on development of small scale industries in the country. The SSIB is also known as Central Small Industries board. The range of development work in small scale industries involves several departments / ministries and several organs of the central / state governments. Hence, to facilitate co-ordination and inter-institutional linkages, the small scale industries board has been constituted. It is an apex advisory body constituted to render advice to the government on all issues pertaining to the development of small-scale industries.

The industries minister of the government of India is the chairman of the SSIB. The SSIB comprises of 50 members including state industry minister, some members of parliament, and secretaries of various departments of government of India, financial institutions, public sector undertakings, industry associations and eminent experts in the field.



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## **5. STATE SMALL INDUSTRIES DEVELOPMENT CORPORATION (SSIDC)**

(Karnataka State Small Industries Development Authority KSSIDC in Karnataka State)  
The State Small Industries Development Corporations (SSIDC) were sets up on various states under the Companies' Act 1956, as state government undertakings to cater to the primary developmental needs of the small, tiny and village industries in the state / union territories under their jurisdiction. Incorporation under the Companies Act has provided SSIDCs with greater operational flexibility and wider scope for undertaking a variety of activities for the benefits of the small sector. The important functions performed by the SSIDCs include :

- To procure and distribute scarce raw materials.
- To supply machinery on hire purchase system.
- To provide assistance for marketing of the products of small scale industries.
- To construct industrial estates / sheds, providing allied infrastructure facilities and their maintenance.
- To extend seed capital assistance on behalf of the state government concerned and provide management assistance to production units.

## **6. DISTRICT INDUSTRIES CENTRES (DIC)**

The District Industries Centres (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DICs are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DICs are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government. The main functions of DIC are :

1. To prepare and keep model project profiles for reference of the entrepreneurs.
2. To prepare action plan to implement the schemes effectively already identified.
3. To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e. industrial sector, service sector and business sector.
4. To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of it supply and procedure for importing machineries.
5. To provide guidance for appropriate loan amount and documentation.
6. To assist entrepreneurs for availing land and shed equipment and tools, furnitures and fixtures.
7. To appraise the worthness of the project-proposals received from entrepreneurs.

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8. To help the entrepreneurs in obtaining required licenses/permits/ clearance.
9. To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
10. To conduct product development work appropriate to small industry.
11. To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.
12. To conduct artisan training programme.
13. To act as the nodal agency for the district for implementing PMRY (Primary Minister Rojgar Yojana).
14. To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.
15. To help the specialized training organizations to conduct Entrepreneur development programmes.
16. In fact DICs function as the torch-bearer to the beneficiaries / entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So, the role of DICs in enterprise building and developing small scale sector is of much significance.

### **7. TECHNICAL CONSULTANCY SERVICES ORGANIZATON OF KARNATAKA**

TECSOK is a professional industrial technical and management consultancy organization promoted by the government of Karnataka and other state level development institutions way back in 1976. It is a leading investor-friendly professional consultancy organization in Karnataka. Its various activities are investment advice, procedural guidance, management consulting, mergers and acquisition, process reengineering studies, valuation of assets for takeovers, impact assessment of socio-economic schemes, critical infrastructure balancing, IT related studies, detailed feasibility studies and reports. TECSOK with its pool of expertise in varied areas can work with new entrepreneur to identify a product or project. In addition to this TECSOK sharpens the project ideas though feasibility studies, project reports, market surveys, and sources of finance, selection of machinery, technology, costing and also providing turnkey assistance. To help entrepreneurs to face the global competition TECSOK facilitates global exposures, updated technology, market strategies, financial restructuring and growth to improve profitability of an industry.

TECSOK can identify sickness in existing industry and facilitate its turn around. TECSOK has expertise in rehabilitation of sick industries by availing rehabilitation packages offered by the government and financial institutions. In addition, it offers expert professional services to various institutions and departments of the state and central government. TECSOK undertakes the assignment in the field of

- Technical and market appraisal of projects.
- Industrial potential surveys
- Fact-finding and opinion reports

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- Corporate planning
- Collection and collation of information
- Impact assessment
- Evaluation of schemes and programmes
- Asset evaluation
- Infrastructure development project proposal
- Event management and publicity campaigns and
- Organizing seminar and workshops.

TECSOK has over 25 well-experienced agencies in different disciplines, MBAs, economists and finance professionals. It has business partnerships with reputed national and multinational consultants and out sources expertise for professional synergy. TECSOK has an exclusive women's cell which conducts training and education programmes, exhibitions for promotion of products and services provided by women entrepreneurs and offers escort services to women entrepreneur. TECSOK has many publications. "Kaigarika Varthe" a monthly is published by TECSOK. In addition it publishes "Guide to Entrepreneurs" "Directory of Industries" on a regular basis.

### Focused Consultancy Areas of TECSOK

**Promotion of Agro Based Industries :** TECSOK is recognized nodal agency by the Ministry of Food Processing Industries, Government of India, for project proposal to avail grant and loan assistance under the special schemes.

**Energy Management and Audit :** Thrust is given to use non-conventional energy sources for which both state and central governments are offering incentives. TECSOK has been recognized as a body to undertake energy audit and suggest energy conservation measures. TECSOK undertakes studies and project proposal for availing assistance from the Indian Renewable Energy Development Authority (IREDA).

**Environment and Ecology :** TECSOK undertakes assignments relating to environment education, environment impact assessment, environment management plan and pollution control measures. TECSOK has joined hands with Karnataka Cleaner Production Center (KCPC) to provide total consultancy support in the area of environment. Human Resource

**Development :** TECSOK designs and organizes business development progrmames, management development workshops, skill development programmes and in-house training packages. It undertakes programmes of empowerment of women entrepreneurs, organization of self-help groups. In order to encourage local entrepreneurs TECKSOK organizes awareness campaigns and motivation programmes in taluks and districts throughout Karnataka. Other TECSOK activities :

- Guidance in product selection and project identification.
- Market survey and market development advice.
- Consultancy for agro-based industries of a nodal agency of the government of India.
- Diagnostic studies and rehabilitation of sick industries.

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- Environment impact assessment studies environment management plans and propagation of cleaner production techniques.
- Energy management and audit.
- Valuation of assets for mergers and takeovers.
- Infrastructure development project reports.
- Port tariff study and related areas
- System study and software development
- Management studies, company formation, corporate plan, enterprise restructuring etc.
- Designing and organizing training programme.

### **8. SMALL INDUSTRIES DEVELOPMENT BANK OF IDIA (SIDBI)**

For ensuring lager flow of financial and non-financial assistance to the small scale sector, the government of India has set up the Small Industries Development Bank of India (SIDBI), under

Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector. The important functions of IDBI are as follows :

- To initiate steps for technological upgradation and modernization of existing units.
- To expand the channels for marketing the products of SSI sector in domestic and international markets.
- To promote employment industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas.

### **4.23 MEANING & DEFINITION OF SOCIAL RESPONSIBILITY**

Social responsibility means obligation of decision-makers to take actions which protect and improve the welfare of a society as a whole along with their own interests. Now-a-days the aim of business is no more only profit maximization. There has been growing acceptance of the view that business should be socially responsible which says the business enterprise which makes use of the resources of society and depends on society for its functioning should discharge its duties and responsibilities in improving the welfare of the society.

Social responsibility refers to the obligations and duties of business to the society. According to K.K. Andrew, “social responsibility may be taken to mean intelligent and objective concern for the welfare of the society.

H.S. Singhania classifies the nature of social responsibility of business into two categories

- (a) The manner in which a business carries out its own business activity and
- (b) The welfare activity that it takes upon itself as an additional function.

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Business is not merely a profit-making occupation but a social function which involves certain duties and requires that appropriate ethics are followed. Social responsibility indicates personal obligation of people, as they act in their own interest to ensure that the rights and legitimate interest of others are not sacrificed by their behaviour and action. The shareholders, the suppliers of resources, the consumers the employees, the local community and society are affected to a great extent by the way an enterprise functions. So it becomes very important for the business enterprise to be socially very responsive to maintain a social balance between the opposing interests of these groups.

### 4.24 RESPONSIBILITY OF BUSINESS TOWARDS DIFFERENT SECTIONS OF SOCIETY.

Business depends on society for inputs like money, men, skills and also for market where products have to be sold to the buyers. The business depends on society for existence, sustenance and encouragement. Being so much dependent on society, business also has definite responsibility towards different segments of the society. Though profit making is one of main objectives of business but it has to satisfy employees, consumer, government, community, shareholders also.

**A business is responsible to safeguard the interests of following sections :**

**1. Employees.** No organization can be successful without the whole-hearted cooperation of the employees. Responsibility of business towards employees is in the form of training, promotion, proper selection, fair wages, safety, health worker's education, comfortable working conditions, participation management etc. The employees should be taken into confidence while taking decisions affecting their interests. The workers should be offered incentives for raising their performance. Mental, physical, economic and cultural satisfaction of employees should be taken care of. If business looks after the welfare of employees then they will also work whole heartedly for the prosperity of business.

The committee that conducted 'social audit' of TISCO (Tata Iron and Steel Company) observes, "not only should the company carry out its various obligations to the employees as well as the larger community as a matter of principle, but this has also led to a higher degree of efficiency in TISCO works and an unparalleled performance in industrial peace and considerable team spirit and discipline which have all resulted in high productivity and utilization of capacity". Thus, by discharging its responsibility to employees the business advances its own interests.

TATAS have been the firsts to the enforcement of certain laws in favour of employees.

Similarly Godrej and Boyce, Shriram Industries and TVS groups are also good employers.

Financial position of company and economic conditions of nation should be taken into consideration while spending on labour welfare during performance of responsibility towards employees.

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**2. Owners.** Business is accountable towards owners as well as managing business profitably, ensuring fair and regular return on capital employed, consolidating financial position of business, guaranteeing capital appreciation so as to enable the owners to withstand any business contingencies.

**3. Consumers.** Responsibility of business towards consumer extends to :

**(i) Product.** Quality goods should be produced and supplied. Distribution system should make goods easily available to avoid artificial scarcities and after sales service should be prompt. Buying capacity and consumer preferences should be taken into consideration while deciding the manufacturing policies. Top care must be exercised in supplying the goods of quality which has no adverse effect on the health of consumers.

**(ii) Marketing.** To avoid being misled by wrong claims about products through improper advertisements or otherwise, the consumer should be provided full information about the products including their adverse effects, risks and care to be taken while using the products.

Consumers all over the world are, by and large, dissatisfied because the performance of businessman is far from satisfactory. Consumer is not the king of our country but a vehicle used by businessmen for driving towards the goal of profit maximisation. As a result of which the concept of 'consumerism' has come up to protect the rights of consumers. Even the government is interfering in a big way to protect the interests of consumers.

**4. Government.** A number of legislatives are formed from time to time by the government for proper regulation and control of business. Businessmen should comply with all legal requirements, execute government contracts, pay taxes honestly and in time, make services of executives available for government, suggest measures and send proposals to enact new laws for the business.

But series of raids conducted on business houses clearly show that businessmen have failed to discharge their responsibility towards government.

**5. Shareholders.** Shareholders who are the owners of business should be provided with correct information about company to enable them to give them true and fair position of the company to enable them to decide about further investments. Company should provide a fair return on the investment made by shareholders. If shareholders do not get proper dividend then they will hesitate to invest additional funds in the concern.

Shareholders should be kept fully informed about the working of the company for healthy growth of the business. The Companies Act 1956 also requires the company to give full disclosure in published statements. Company should strengthen the share prices by its growth, innovation and diversification. At the same time shareholders shall also offer wholehearted support and cooperation to the company to protect their own interests.

**6. Community.** Responsibility of business towards community and society includes spending a part of profits towards civic and educational facilities. Every industrial undertaking should take steps to dispose off industrial wastes in such a way that ecological balance is maintained and environmental pollution is prevented. Rehabilitating the population displaced by business units should also be part of responsibility of business. Business houses should set up units at those places

where sufficient space is available for housing colonies of workers. The promotion of small scale industries will help not only the nation but also help in building up a better society.

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**7. Environment.** Business should protect the environment which has acquired great importance all over the world. Business can discharge the responsibility of protecting environment in the following way :

**(i) Preservation of Natural Resources.** Scarce natural resources should be used very carefully as these are depleting at a very fast rate. The alternative sources can also be found out to save natural resources like to save forests alternative to wood and pulp can be found, the use, of coal can be reduced by alternative source of energy.

**(ii) Pollution Control.** Appropriate steps should be taken to prevent environmental pollution and to preserve ecological balance. The industrial waste should be disposed off carefully or if possible can be recycled to minimise pollution. The toxic of wastes, excessive noise, chemical pesticides, automobile exhaust etc. need to be checked from time to time.

### 4.25 ARGUMENTS FOR SOCIAL RESPONSIBILITY OF BUSINESS

1. **Public Requirements.** Business can exist only with public support and only if business fulfills needs of society. One of the main arguments for social responsibility is that public expectations from business have changed. Therefore, if business wishes to remain in existence in long term it must respond to society's needs and give society what society wants. The business must come upto expectations of public for its survival since the demand for products or services arises from customers who are a part of society. Since business is a part and parcel of society, it must think of its responsibilities.
2. **Favourable for Business.** Performance of social obligation by business will not only be in the interest of society but in its own interest also. The firm which is more responsive to improvement of community quality of life will as a result have better community in which to conduct its business. People with healthy environment, good health and education will make them good customers and employees. Recruitment of labour will be of higher quality. Turnover and absenteeism will be reduced. The society may reject an enterprise which does not care for social welfare. Crime rate will also decrease as a result of social improvements.
3. **Moral Justification.** Nowadays modern industrial society faces many serious social problems as a result of emergence of large companies. Therefore, these large corporations have a moral responsibility to solve these problems. Also business which is using so many resources of our economy, has responsibility to devote some of these resources in overall development of society.
4. **Socio-cultural Norms.** In a country like India where social and cultural values have long and rich heritage, a business promoting social equalities, healthy employer-employee relations, consumer service will enjoy better social position. A business working against traditional values will face criticism from society.
5. **Business can shoulder Responsibility.** Many people who feel frustrated with failure of other institutions in handling social problems are turning to the business for their solution to social problems. In such a situation, it becomes the duty of business to come upto expectation of public and fulfill its responsibilities towards society.
6. **Responsibility must Correspond with Power.** Business enjoys social power to a great extent. So they do affect economy, minorities and other social problems. Business should perform equal amount of social responsibility to match their social power. If



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they don't, then it will reflect their irresponsible behaviour, which will ultimately affect the natural growth.

7. **Public Image.** Only that firm can enjoy better reputation in public which supports social goals. Each firm seeks an enhanced public image so that it may gain more customers, better employees, more responsive money markets etc. It is possible only if business performs its responsibilities towards society whole-heartedly which will result in raising the value of shares and debentures held by the owners.
8. **Government Regulations.** If business does not respond positively to the needs of society, then it may be compelled to do so through government laws and regulations. Before government stretches its long arms, the business should discharge its obligations to society. It has to regulate the business in public interest.
9. **Indebted to Society.** Business units benefit from society. In return it also has certain debts that it owes to society. Business uses vast pool of resources in terms of men, talents, expertise and money. Business is in a position to work for social goals with the help of these resources. Also corporations unlike citizens are created by society, so they have certain civic duties and responsibilities.

## 4.26 ARGUMENTS AGAINST SOCIAL RESPONSIBILITY

1. **Deviation from Main Objective.** The main goal of business is 'profit maximization'. Economic efficiency of business is a top priority and any deviation from this would divert the business from its mission. The welfare of employees and owners will also be served well by increasing profitability. Moreover performance of social obligations will also involve large sums of money which will adversely affect the financial position of the concern. Business's function is economic not social and economic values should be the only criteria to measure the success.
1. **Increase in Prices.** Cost of social responsibility will be passed on to the society in the form of increased prices. When a business house is required to spend money on performing social obligations, the money spent on social welfare will be collected from consumer only by way of increased prices of goods and services. So ultimately it is the consumer only who bears the burden of social obligation.
2. **Excessive Concentration of Power.** Combining social activities with economic activities of business would mean giving business excessive concentration of power. Business has already got enough social power, giving them more social power would mean letting them influence society in education, in home, in government and in market. This way society will also start depending upon business. This influence of business on society may create social, economic and political problems.
3. **Lack of Social Skill.** Businessmen who are good at managing business may not be good at solving social problems. A businessman devotes all his energies in running his business efficiently and smoothly. He may not have the required skill to solve complex social problems. Also why choose a group of people who do not have qualification and skill to solve social problems. The problem has, however, been solved to great extent by institutions, like Xavier Institute of social science and IRMA (Institute of Rural Management, Anand) which train students for social work only.
4. **Lack of Accountability.** Businessmen have no direct accountability to the people. So it is not a wise step to give responsibility to businessmen for areas for which they



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are not accountable. The management of a business is accountable to the owners for its performance. It is not accountable to anyone for its social obligation.

5. Influence on Social Set-up. When business concern spends money in solving social problems then they may try to influence society for their own good. The society will also start depending upon business which in turn may create many social, economic and political problems.
6. Opposition from Society. All groups in society may not support the involvement of business in social goals. Although few persons wish the business to become more actively involved in performance of social obligations but at the same time, others may oppose this idea. There is difference of opinion among general public, government and even among businessmen themselves.
7. Complex Social Problems. Some social problems like destruction of rain forests, AIDS, ozone depletion, sex discrimination are so complex that even most socially conscientious companies fail to solve these. Also business has its own problems like delivering goods of quality at less price, earn profit for shareholders, paying taxes to government and stand in competitive world. How can we expect business undertake social responsibility amidst so many problems of its own?

### 4.27 LIMITS OF SOCIAL RESPONSIBILITY

The social responsibility is a concept which has been well understood by the businessmen today and they are all set to realise the goals of social responsibility. But there are certain factors which limit the social responsibility actions of business houses and these are:-

- i. Cost
- ii. Efficiency
- iii. Relevance
- iv. Scope

**(i) Cost :** To fulfill and implement social responsibility the main thing required is money. All the actions towards social responsibility involves cost e.g. donations to educational institution, adopting a village or district for different projects like adult education & health etc., construction of hospital, relief to needy people in times of storms, draughts or any other natural calamity. So at times the intentions for social benefit can not be put into actions for paucity of funds.

**(ii) Efficiency :** An effort towards social responsibility actions may bring down efficiency and ultimately the ability to stand in competitive market e.g. a company may continue its business even if it is running into losses with the feeling of its duty towards society and welfare of employees. As a result efficiency will go down. A number of projects being run for the benefit of the society still continue even if the company has to bear losses.

**(iii) Relevance :** How far the task of social responsibility is relevant. This question still remains controversial. Some critics are of the view that business has no social obligation to society. They are of the opinion that business has to ignore and tax its own employees and customers in an effort to fulfill social responsibility. The social problems should be the problem of government or concerned individuals, and business should concentrate on production of goods and services efficiently and effectively. According to Friedman, "There is one and only one social responsibility of business", to use its resources and

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energy in activities designed to increase its profits so long as it stays within the rules of the game ... (and) engages in open and free competition, without deception and trend ....."

**(iv) Scope :** There are some social problems the permanent solution to which is not in the hands of human beings and those problems are too complex and deep rooted like drug addiction, sex discrimination, ozone depletion, environment pollution. As it is business also has number of complex problems which are to be solved and concentrated upon, so it will be unfair to expect from businessmen to solve another complex problem of social responsibility.

### 4.28 BARRIERS TO SOCIAL RESPONSIBILITY:

To fulfill the task of social responsibility the following problems may be faced at organisational level which hinder the process of implementation of achieving the goal of social responsibility.

**(i) The Manager :** The managers are extra cautious while planning and implementing the programmes related to social responsibility as the people at high level may not approve the plans of managers if they feel the plans to be non-profitable to organisation. It is the manager who is ultimately responsible for social action programmes of any organisation. The manager can also plan or implement the social action programme.

**(ii) The Organisation:** The main objective of any organisation is profit maximization as shareholders want dividend ultimately or they may like the profits to be reploughed back for expansion of business and people working in the organisation expect higher & higher salaries. So Social action projects need to be evaluated very carefully in terms of cost and benefit. So social responsibility may be overlooked while achieving the main objective of the organisation i.e. profit maximisation.

**(iii) The Industry :** There are many competitors in the same industry for an organisation. When a particular organisation does some socially beneficial activity for the benefit of society only then it may not be appreciated by other competitors in the industry which makes individual organisation very difficult to survive in the industry alone.

**(iv) The Division :** There are number of divisions in the organisation which are competing among themselves and also strive towards main goal of organisation i.e. profit. Any social responsibility decision and project which affects or reduces the profit might threaten the existence of that particular division. This is one of the main reasons that most of the divisions feel hesitant in initiating and implementing social responsibility programmes unless & until there are clear guidelines and instructions from the people at top level.

### 4.29 SOCIAL RESPONSIBILITY—THE INDIAN SITUATION

The concept of social responsibility is very old in India. Businessmen were treated with great respect also because of prevalence of the concept of parting with one's wealth for the benefit of society. Merchants have always been charitable and provided relief in difficult times of droughts, famine or epidemics. Over the years this practice remained same except the shift from merchant charity to corporate citizenship.

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The merchants were leaders not only in the economic but also the social fields and took active interest in social reforms and in public life as well.

J.R.D. Tata was first to conduct social audit in India. Number of leading companies have realized the social responsibility and recognized the concept of social responsibility of corporate sector. Number of schools, colleges, hospitals, research institutes, technological institutes, management institutes, libraries.

Museums, places of religious worship, institutes for old and orphans, have been set up with the help of business community. There has been contributions from many businessmen for the poor and needy in times of draughts, earthquakes, floods and other natural calamities. The problem of damage to ecology is a serious problem now-a-days which has been handled by many businessmen in a every effective way. The number of measures taken to control "Pollution in environment" shows the efforts put in by them with the help of government. Public sector is guilty as private sector as far as the problem of pollution of environment is concerned. There are many public sector enterprises in India which have failed to discharge their primary responsibilities as well.

There has been change in attitudes of society and the business community itself about its obligations to society and the way of expressing it. Now there is more of direct engagement in the mainstream development concerns and in helping disadvantaged groups in the society.

Though the business units in India have started realizing their responsibility towards society, but member of such units is very limited. Government should take legislative measures to force all business units to contribute something for social uplift. Besides legislative measures, awareness about social responsibility should be created. Business should prepare a code of ethics for social upliftment the company law can also make a provision to make it obligatory for units having investment beyond a certain limit to spend a part of their profits on social welfare activities. The companies should also show in their balance sheets the amount they have spent on social obligations.

## 4.30 SUMMARY

While deciding on the constitution of business i.e. whether the entrepreneur wants it in the form of sole proprietorship, partnership or a private limited company, he should base his decision on the size of the project and the degree of risk involved. He will have to undertake formalities such as registration of partnership or incorporation of a private limited company but, however no such formalities are required in case of sole trader.

Small-scale industry is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors, the others act as sleeping partners.

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- Emphasizing the very rationale of small scale industry in the Indian economy, the Industrial Policy Resolution (IPR) 1956 stated. That they provide immediate large scale employment. They offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized.
- The scope of small-scale industries is quite vast covering a wide range of activities. These activities are characterized by labour intensive, need less capital and require less sophisticated technology.
- The National Small Industries Corporation (NSIC) an enterprise under the Union Ministry of Industries was set up in 1955 in New Delhi to promote aid and facilitate the growth of small scale industries in the country.
- The small industries service institutes have been set-up in state capital and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective.

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## **SELF ASSESSMENT QUESTIONS**

1. What are the legal formalities for setting up a small scale industry ?
2. What are the legal formalities in Factory Act for setting up a small scale industry ?
3. What is the rationale behind the development of small scale industries in India ?  
And what are it's argument for small scale industry ?
4. Discuss the role of SSI in economic development.
5. Discuss various government industrial policy resolutions.
6. Discuss the impact of globalisation and lebaralisation on SSI.
7. Discuss various financial institutions which provide finance to the SST.
8. What do you mean by social responsibility of business and discuss argument for and against social responsibility of business.
9. What are the barriers to social responsibility ?
10. What are the limits of social responsibility ?