

# Unit-1 Small Business Management



## Learning Objectives

After studying this unit, you will be able to:

- Describe the steps for starting a small business
- Explain the concept of enterprise location
- Discuss the selection of type of organization

## Structure

### 1.1 Introduction

### 1.2 Steps for Starting a Small Enterprise

#### 1.2.1 Assumptions

#### 1.2.2 Raw Material or Market Site

#### 1.2.3 Material Index

#### 1.2.4 Need for Enterprise Location

### 1.3 Selection of the Type of Organisation

#### 1.3.1 Selecting a Business Entity: Sole Proprietorship

#### 1.3.2 Selecting a Business Entity: Joint Partnership

#### 1.3.3 Selecting a Business Entity: Limited Liability Company (LLC)

#### 1.3.4 Selecting a Business Entity: Corporations

### 1.4 Let's Sum Up

### 1.5 Key terms

### 1.6 Self-Assessment Questions

### 1.7 Further Reading

### 1.8 Model Questions

## 1.1 Introduction

In the previous unit, we dealt with the concept of business plan and feasibility study and also discussed about the value and importance of a business plan. This unit will help you to understand the procedure of starting up a small business. The various sections and sub-sections of this unit will also summarize how to select the type of organization for start-up of small business. Planning is the first and the most crucial step for setting up a business or venture. Indeed, the consumer's sovereignty has always been considered as vital today as in ancient time. It was largely through small business that civilization was spread to all four corners of the then known world. Small businesses brought to the have-nots the benefits of such things as Babylonian astronomy, Greek philosophy, the Jewish calendar, and Roman law. Since then many nations, both developed and developing, have recognized the crucial importance small business as a useful source of growth: the former as complementary to large industry; and the latter for the creation of new employment avenues on a large scale in the shortest possible time. Small business has played an important role in Indian history. It practically flourished in almost



all corners: Calcutta, Surat, Madras, Bombay and penetrated into the roots of Indian soil. The standards of their products and services were in however, not often maintained. This directed efforts towards the need to protect the consumer. Gradually, small business became the source of spreading civilization to all four corners of the then known world. With highly specialized skills and opportunities, Indian products were the center of attraction at home as well as and ruled in some of its business activities till the 18th century. A country, which was known for its formidable industrial base till the late 18th century, suffered irretrievably, during the colonial rule.

### **1.2 Steps for Starting a Small Enterprise**

Location of enterprise is concerned with the least cost location, so that again transport costs are a crucial element in the location decision. A German economist, Alfred Weber devised the theory of industrial location, in 1909. In the early part of the industrial revolution factories developed in areas that were already producing manufactured goods. These were the places where woollen textiles were produced in farmhouses on farms that bred the sheep. The shift was from the farmhouse to a mill, in the same area. By chance many of these textile mills were on coalfields, so that when the shift from water powered to steam coal powered mills occurred, the transition was in the same place. The same thing happened as steel production was also shifted from local forges to coal powered mills. The early industrial revolution saw mills and factories develop on coalfields, and remain entrenched there for more than a century. By the end of the 19th century, these raw material locations were losing their ascendancy. At the beginning of the industrial revolution roads were of poor quality and slow. Canals were rapidly constructed to move heavy industrial materials, but nowhere did these form a really convenient network. It was the development of railways into extensive networks by the end of the 19th century, which enabled industrial location to free itself from raw material sites. This trend continued with roads and vehicles in the twentieth century, but water transport and especially the sea, remained dominant for long distance transport of industrial goods. Weber's analysis came at the point where railway networks had developed to their ultimate extent. He was therefore concerned with the balance of location between raw material site, the market for manufactured goods, and transport. What is meant by a Small enterprise? A small enterprise or a factory or plant is an individual building or premises that produces manufactured goods.

A company may own several factories, probably indifferent locations. The industry comprises many factories, or plants, and a number of independent enterprises. Industrial location is primarily concerned with the setting of a single enterprise, rather than the whole industry, although the location of the industry is in itself a location factor. The concepts of site and situation play separate roles, although we may use the word site in relation to location when we are really looking at the situation of the enterprise. The site of an enterprise, or group of



enterprises, is the actual physical location, or block of land. There are some basic location constraints for the site.

*Example:* A plentiful supply of flat land, access to transport, power and water, availability of labour, and capital and finance facilities.

Almost all cities will possess appropriate industrial sites and these will be zoned by councils. It is therefore the situation, or the relative location, in relation to other factories and the industry that is important. Like agricultural and central place location theories, Weber makes assumptions that simplify reality, but unlike these other theories, he does not assume an equal distribution. Rather he assumes that raw materials are unequally distributed in fixed locations.

### **1.2.1 Assumptions**

Following are the various assumptions in this context:

1. There is an uneven distribution of natural resources on the plain. Raw materials are concentrated in specific sites.
2. The size and location of markets are given at fixed points on the plain.
3. There are fixed locations of labour where wage rates are fixed and labour is immobile and unlimited (capitalists love that).
4. The area has a uniform culture, climate and political system.
5. Entrepreneurs minimize costs of production.
6. Perfect competition exists.
7. Costs of land, structures, equipment and capital do not vary regionally.
8. There is a uniform system of transport over a flat surface.

### **1.2.2 Raw Material or Market Site**

In the first instance we consider whether to locate an industry in the raw material or market location. If there is no weight loss or weight gain in production, you can site your factory at either location, because the transport costs are the same each way. Transport costs are not identical for raw material and manufactured goods and thus, a relative weight must be calculated.

Weber did this with a material index, whereby the relative weight gain or loss is calculated.

- Total weight of the finished product
- Total weight of materials used to manufacture

### **1.2.3 Material Index**

If the product is a pure material its index will be 1. If the index is less than 1 the final product has gain weight in manufacture, thus favoring production at the market place. The weight gain is most likely to come from the addition of ubiquitous materials, like water, that we can expect to occur anywhere. Such a product would be a drink, soft drinks or beer, where a small quantity of usually dried materials are added to water and bottles to make a much heavier and more fragile final product.



The significance of the material index is in calculating precisely the difference between the unit transport costs of raw materials and finished products. The number of the index is used to calculate a relative weighting, which is then applied to the spacing/radius of the isotims. The locational triangles on the handout are small examples of the weighting of more than one material. While the drawing of isotims and isodapanes is very straightforward for 2 sites, it is in adding a number of material sites and markets that the spatial model both increases in complexity and begins to provide a useful method for calculating the least cost location.

As well as weight loss or gain the material index and weighting of transport costs can also take account of loss or gain in transport, of features such as perishability, fragility and hazard.

### **1.2.4 Need for Enterprise Location**

The need for Plant Location arises under the following circumstances:

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

Steps in Enterprise Location:

1. Selection of the region
2. Selection of the locality or community
3. Selection of the exact site, and
4. Selection of an optimum site

Steps for starting a small enterprise:

1. Analyse yourself and your objectives
2. Date with yourself for newer ideas
3. Consult publications and agencies
4. Date with yourself for a decision
5. Choose a line
6. Decide on form of ownership (sole proprietary/partnership/cooperative/company (Private/public))
7. Decide whether to purchase a going concern or to start a new one.



### 1.3 Selection of the Type of Organisation

There are a number of organizations that a new entrepreneur may select to meet his requirements,

ambitions, tastes and designs. He may go for (1) Sole proprietorship, (2) Joint partnership,

(3) Limited Liability Company (4) Corporation

#### 1.3.1 Selecting a Business Entity: Sole Proprietorship

A sole proprietorship is both the simplest and the most prevalent form of business organization. An important reason for this is that it is the least regulated of all types of business structures. Technically, the sole proprietorship is the traditional unincorporated one-person business. For legal and tax purposes, the business is the owner. It has no existence outside the owner. The liabilities of the business are personal to the owner and the business ends when the owner dies. On the other hand, all of the profits are also personal to the owner and the sole owner has full control of the business.

#### Advantages

Following are the advantages of sole proprietorship form of business:

1. ***Total Control of the Owner:***

The most appealing advantage of the sole proprietorship as a business structure is the total control the owner has over the business. Subject only to economic considerations and certain legal restrictions, there is total freedom to operate the business however one chooses. Many people feel that this factor alone is enough to overcome the inherent disadvantages in this form of business.

2. ***Simplicity of Organisation:***

Related to this is the simplicity of organization of the sole proprietorship. Other than maintenance of sufficient records for tax purposes, there are no legal requirements on how the business is operated.

3. ***Least Regulated of all Business:***

As was mentioned earlier, the sole proprietorship is the least regulated of all businesses.

4. ***Registration with Local Bodies:***

Finally, it may be necessary to register with local, state, and federal tax bodies for I.D. numbers and for the purpose of collection of sales and other taxes. Other than these few simple registrations, from a legal standpoint little else is required to start up a business as a sole proprietorship.

5. ***Various Tax Benefits:***

A final and important advantage to the sole proprietorship is the various tax benefits available to an individual. The losses or profits of the sole proprietorship



are considered personal to the owner. The losses are directly deductible against any other income the owner may have and the profits are taxed only once at the marginal rate of the owner. In many instances, this may have distinct advantages over the method by which partnerships are taxed or the double taxation of corporations, particularly in the early stages of the business.

### **Disadvantages**

#### **1. Risk to the Assets of Sole Owner:**

Perhaps the most important factor to consider before choosing this type of business structure is that all of the personal and business assets of the sole owner are at risk in the sole proprietorship.

#### **2. Potential Difficulty in Obtaining Loans:**

A second major disadvantage to the sole proprietorship as a form of business structure is the potential difficulty in obtaining business loans.

#### **3. Lack of Continuity:**

A further disadvantage to a sole proprietorship is the lack of continuity that is inherent in the business form. If the owner dies, the business ceases to exist. Of course, the assets and liabilities of the business will pass to the heirs of the owner, but the expertise and knowledge of how the business was successfully carried on will often die with the owner. Small sole proprietorships are seldom carried on profitably after the death of the owner.

### **1.3.2 Selecting a Business Entity: Joint Partnership**

A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes money, property, labor, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business. A partnership is usually based on a partnership agreement of some type, although the agreement need not be a formal document. It may even simply be an oral understanding between the partners, although this is not recommended. A simple joint undertaking to share expenses is not considered a partnership, nor is a mere co-ownership of property that is maintained and leased or rented. To be considered a partnership for legal and tax purposes, the following factors are usually considered:

- The partners' conduct in carrying out provisions of the partnership agreement,
- The relationship of the parties
- The abilities and contributions of each party to the partnership, and
- The control each partner has over the partnership income and the purposes for which the income is used.



## **Advantages**

Following are the advantages of joint partnership form of business:

### **1. *Greater Opportunity for Business:***

A partnership, by virtue of combining the credit potential of the various partners, has an inherently greater opportunity for business credit than is generally available to a sole proprietorship.

### **2. *Tax Advantages:***

As with the sole proprietorship, there may be certain tax advantages to operation of a business as a partnership, as opposed to a corporation. The profits generated by a partnership may be distributed directly to the partners without incurring any double tax liability, as is the case with the distribution of corporate profits in the form of dividends to the shareholders. Income from a partnership is taxed at personal income tax rates. Note, however, that depending on the individual tax situation of each partner, this aspect could prove to be a disadvantage.

### **3. *A Simple Form of Business:***

For a business in which two or more people desire to share in the work and in the profits, a partnership is often the structure chosen. It is, potentially, a much simpler form of business organization than the corporate form. Less start-up costs are necessary and there is limited regulation of partnerships.

## **Disadvantages**

Following are the disadvantages of joint partnership form of business:

### **1. *Potential for Conflict between Partners:***

The disadvantages of the partnership form of business begin with the potential for conflict between partners. Of all forms of business organization, the partnership has spawned more disagreements than any other. This is generally traceable to the lack of a decisive initial partnership agreement that clearly outlines the rights and duties of the partners.

### **2. *Unlimited Personal Liability:***

A further disadvantage to the partnership structure is that each partner is subject to unlimited personal liability for the debts of the partnership.

### **3. *Legal Liability:***

Related to the business risks of personal financial liability is the potential personal legal liability for the negligence of another partner. In addition, each partner may even be liable for the negligence of an employee of the partnership if such negligence takes place during the usual course of business of the partnership. Again, the attendant risks are broadened by the potential for liability based on the acts of other persons. Of course, general liability insurance can counteract this drawback to some extent to protect the personal and partnership assets of each partner.



#### 4. *Lack of Continuity:*

Again, as with the sole proprietorship, the partnership lacks the advantage of continuity. A partnership is usually automatically terminated upon the death of any partner. A final accounting and a division of assets and liabilities is generally necessary in such an instance unless specific methods under which the partnership may be continued have been outlined in the partnership agreement.

### **1.3.3 Selecting a Business Entity: Limited Liability Company (LLC)**

The limited liability company is a hybrid type of business structure. It contains elements of both a traditional partnership and a corporation. The limited liability company form of business structure is relatively new. Only in the last few years has it become available as a form of business in all 50 states and Washington D.C. Its uniqueness is that it offers the limited personal liability of a corporation and the tax benefits of a partnership. A limited liability company consists of one or more members/owners who actively manage the business of the limited liability company. There may also be non-member managers employed to handle the business.

#### **Advantages**

The members/owners in such a business enjoy a limited liability, similar to that of a shareholder in a corporation. In general, their risk is limited to the amount of their investment in the limited liability company. Since none of the members will have personal liability and may not necessarily be required to personally perform any tasks of management, it is easier to attract investors to the limited liability company form of business than to a traditional partnership. The members will share in the potential profits and in the tax deductions of the limited liability company, but in fewer of the financial risks involved. Since the limited liability company is generally taxed as a partnership, the profits and losses of the company pass directly to each member and are taxed only at the individual level. A further advantage of this type of business structure is that it offers a relatively flexible management structure. A final advantage is that limited liability companies are allowed more flexibility than

Corporations in how profits and losses are actually allocated to the members/owners.

#### **Disadvantages**

In as much as the business form is still similar to a partnership in operation, there is still a potential for conflict among the members/owners of a limited liability company. Limited Liability companies are formed according to individual state law, generally by filing formal Articles of Organization of a Limited Liability Company with the proper state authorities in the state of formation. Limited liability companies are, generally, a more complex form of business operation than either the sole proprietorship or the standard partnership. They are subject to more paperwork requirements than a simple partnership but somewhat less than a

corporation. Limited liability companies are too far more state regulations regarding both their formation and their operation than either a sole proprietorship or a partnership. Similar to traditional partnerships, the limited liability company has an inherent lack of continuity.



### **1.3.4 Selecting a Business Entity: Corporations**

A corporation is a creation of law. It is governed by the laws of the state where it was incorporated and of the state or states in which it does business. In recent years it has become the business structure of choice for many small businesses. Corporations are generally, a more complex form of business operation than either a sole proprietorship or partnership. Corporations are also subject to far more state regulations regarding both their formation and operation. The following discussion is provided in order to allow the potential business owner an understanding of this type of business operation. The corporation is an artificial entity. It is created by filing Articles of Incorporation with the proper state authorities. This gives the corporation its legal existence and the right to carry on business. The Articles of Incorporation act as a public record of certain formalities of corporate existence. Adoption of corporate bylaws, or internal rules of operation, is often the first business of the corporation, after it has been given the authority to conduct business by the state. The bylaws of the corporation outline the actual mechanics of the operation and management of the corporation. There are two basic types of corporations: C-corporations and S-corporations.

These prefixes refer to the particular chapter in the U.S. Tax Code that specifies the tax consequences of either type of corporate organization. In general, both of these two types of Corporations are organized and operated in similar fashion. There are specific rules that apply to the ability to be recognized by the U.S. Internal Revenue Service as an S-corporation. In addition, there are significant differences in the tax treatment of these two types of corporations. These differences will be clarified below. The basic structure and organizational rules below apply to both types of corporations, unless noted.

**C-Corporation:** In its simplest form, the corporate organizational structure consists of the following levels:

1. **Shareholders:** who own shares of the business but do not contribute to the direct management of the corporation, other than by electing the directors of the corporation and voting on major corporate issues.
2. **Directors:** who may be shareholders, but as directors do not own any of the business. They are responsible, jointly as members of the board of directors of the corporation, for making the major business decisions of the corporation, including appointing the officers of the corporation.
3. **Officers:** who may be shareholders and/or directors, but, as officers, do not own any of the business. Officers (generally the president, vice president, secretary, and treasurer) are responsible for day-to-day operation of the corporate business.



**S-Corporation:** The S-corporation is a certain type of corporation that is available for specific tax purposes. It is a creation of the Internal Revenue Service. S-corporation status is not relevant to state corporation laws. Its purpose is to allow small corporations to choose to be taxed, at the Federal level, like a partnership, but also to enjoy many of the benefits of a corporation. It is, in many respects, similar to a limited liability company. The main difference lies in the rules that a company needs to meet in order to qualify as an S-corporation under Federal law. In general, to qualify as an S-corporation under current IRS rules, a corporation must meet certain requirements:

- It must not have more than 75 shareholders
- All of the shareholders must, generally, be individuals and U.S. citizens
- It must only have one class of stock
- Shareholders must consent to S-corporation status
- An election of S-corporation status must be filed with the IRS

The S-corporation retains all of the advantages and disadvantages of the traditional corporation except in the area of taxation. For tax purposes, S-corporation shareholders are treated similarly to partners in a partnership. The income, losses, and deductions generated by an S-corporation are passed through the corporate entity to the individual shareholders. Thus, there is no double taxation of an S-corporation. In addition, unlike a standard corporation, shareholders of S-corporations can personally deduct any corporate losses.

### **Advantages**

Following are the various advantages of corporation form of business:

1. One of the most important advantages to the corporate form of business structure is the potential limited liability of the founders of and investors in the corporation. The liability for corporate debts is limited, in general, to the amount of money each owner has contributed to the corporation. Unless the corporation is essentially a shell for a one person business or unless the corporation is grossly under-capitalized or under-insured, the personal assets of the owners are not at risk if the corporation fails. The shareholders stand to lose only what they invested. This factor is very important in attracting investors as the business grows.
2. A corporation can have a perpetual existence. Theoretically, a corporation can last forever. This may be a great advantage if there are potential future changes in ownership of the business in the offing. Changes that would cause a partnership to be dissolved or terminated will often not affect the corporation. This continuity can be an important factor in establishing a stable business image and a permanent relationship with others in the industry.
3. Unlike a partnership, in which no one may become a partner without the consent of the other partners, a shareholder of corporate stock may freely sell, trade, or give away his or her stock unless this right is formally restricted by

reasonable corporate decisions. The new owner of such stock is then a new owner of the business in the proportionate share of stock obtained.



### **Disadvantages**

Following are the various disadvantages of corporation form of business:

1. **Loss of Individual Control:** Due to the nature of the organizational structure in a corporation, a certain degree of individual control is necessarily lost by incorporation. The officers, as appointees of the board of directors, are answerable to the board of management decisions.
2. **Technical Formalities:** The technical formalities of corporation formation and operation must be strictly observed in order for a business to reap the benefits of corporate existence. Corporate meetings, both at the shareholder and director levels, are more formal and more frequent. In addition, the actual formation of the corporation is more expensive than the formation of either a sole proprietorship or partnership. The initial state fees that must be paid for registration of a corporation with a state can run as high as \$900.00 for a minimally capitalized corporation. Corporations are also subject to a greater level of governmental regulation than any other type of business entity. These complications have the potential to overburden a small business struggling to survive.
3. Finally, the profits of a corporation, when distributed to the shareholders in the form of dividends, are subject to being taxed twice.

### **1.4 Summary**

- Location of enterprise is concerned with the least cost location, so that again transport costs are a crucial element in the location decision.
- A small enterprise or a factory or plant is an individual building or premises that produces manufactured goods.
- The concepts of site and situation play separate roles, although we may use the word site in relation to location when we are really looking at the situation of the enterprise. The site of a enterprise, or group of enterprises, is the actual physical location, or block of land.
- As transport costs are not identical for raw material and manufactured goods a relative weighting must be calculated.
- The significance of the material index is in calculating precisely the difference between the unit transport costs of raw materials and finished products. The number of the index is used to calculate a relative weighting, which is then applied to the spacing/radius of the isotims.
- A sole proprietorship is both the simplest and the most prevalent form of business organization. An important reason for this is that it is the least regulated of all types of business structures.
- A partnership is a relationship existing between two or more persons who join together to carry on a trade or business. Each partner contributes



money, property, labor, and/or skill to the partnership and, in return, expects to share in the profits or losses of the business.

- The profits generated by a partnership may be distributed directly to the partners without incurring any double tax liability, as is the case with the distribution of corporate profits in the form of dividends to the shareholders.
- Of all forms of business organization, the partnership has spawned more disagreements than any other. This is generally traceable to the lack of a decisive initial partnership agreement that clearly outlines the rights and duties of the partners.
- A final accounting and a division of assets and liabilities is generally necessary in such an instance unless specific methods under which the partnership may be continued have been outlined in the partnership agreement.
- Corporations are generally, a more complex form of business operation than either a sole proprietorship or partnership.
- The bylaws of the corporation outline the actual mechanics of the operation and management of the corporation. There are two basic types of corporations: C- corporations and S-corporations.

### 1.5 Key Terms

**C-corporation:** It refers to any corporation that, under United States federal income tax law, is taxed separately from its owners.

**Creditors:** A creditor is a party that has a claim on the services of a second party.

**Limited Liability Company (LLC):** A corporate structure whereby the members of the company cannot be held personally liable for the company's debts or liabilities.

**Partnership:** A partnership is a relationship existing between two or more persons who join together to carry on a trade or business.

**Personal Assets:** A personal asset is something of value which belongs to some individual personally.

**S-corporation:** The S-corporation is a certain type of corporation that is available for specific tax purposes.

**Sole Proprietorship:** It is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business.

**Tax Benefit:** A tax benefit is an allowable deduction on a tax return intended to reduce a taxpayer's burden while typically supporting certain types of commercial activity.



## 1.6 Self-Assessment Questions

Fill in the blanks:

1. A ..... is both the simplest and the most prevalent form of business organization.
2. The liabilities of the business are ..... to the owner and the business ends when the owner dies.
3. The most appealing advantage of the sole proprietorship as a business structure is the total ..... the owner has over the business.
4. The ..... or ..... of the sole proprietorship are considered personal to the owner.

## 1.7 Further Readings

- *Dynamics of Entrepreneurial Development and Management*, Himalaya Publishing.
- Madhurima Lall and Shikha Sahai, *Entrepreneurship*, Excel Books, New Delhi.
- N.P. Srinivasan and G.P. Gupta, *Entrepreneurial Development*, Sultan Chand & Sons.
- P. Sarvanavelu, *Entrepreneurship Development*, Eskapee Publications.
- Robert D. Hisrich and Michael P. Peters, *Entrepreneurship Development*, Tata McGraw Hill.
- <http://businesscasestudies.co.uk/enterprise-rent-a-car/locating-a-business-toenhance-the-customer-experience/factors-affecting-the-location-of-abusiness.html#axzz2NabIDkDI>
- <http://www.articlesbase.com/business-articles/selection-of-types-oforganization3191380.html>
- <http://www.companiesinc.com/corporation/types.asp>
- [http://www.morebusiness.com/getting\\_started/incorporating/d934832501.brc](http://www.morebusiness.com/getting_started/incorporating/d934832501.brc)

## 1.8 Model Questions

1. What do you mean by Small-scale industry?
2. Define Sole Proprietorship and discuss its advantages and disadvantages.
3. What are the pros and cons of starting a partnership firm?
4. Differentiate among the Limited Liability Company (LLC), Corporation and S-corporation.
5. What do you understand by material index? Briefly explain.

## Unit-2 Significance of small business to the economy



### Learning objectives:

After reading this unit, you will learn.

- i) How small business plays an important role in the economy.
- ii) What type of business can be done by newcomers with low/medium capital investment.
- iii) What are the challenges faced by small business.

2.1 Introduction

2.2 Significance of small business.

2.3 Benefits.

2.4 Challenges.

2.5 Let us sum up.

2.6 Key Terms.

2.7 Self assessment questions

2.8 Further Readings

2.9 Model Questions

### 2.1 Introduction

Small business ideas are many. Prime Minister has announced, “Start up India, Stand up India”. Programme. A list of business ideas with low investment is given below.

Investment of Rs.1000/-:-

1 Private tuition: You should have adequate knowledge of a subject. You may have to make initial investment of Rs. 1000/- in books. The earning is not less than Rs.2000/- per month; from the beginning.

2 Manpower for event Management Company:

The business will require a year for break even.

Investment of Rs.5000/-

3 Small Eatery: Homemade gupchup etc- requires a mobile cart with light arrangement. The business picks up within a month. The daily sale of Rs.1000/- will generate profit in the first month to the extent of 50% of sales.

4 Shoe wash company: A little knowledge of chemicals for shop maintenance is required. The breakeven period is three months and the profit is 50% of sales.

Investment of Rs.10,000/-

5 Making uniform- With a good knowledge of tailoring skill, one can establish contacts with schools, colleges and institutions, prescribing uniform.



Investment of Rs.50000/-

6. Small grocery shop: Room rent, electricity and transportation expenses are to be met. The profit may be 15 to 20%. Break even period is less than six months.

7.Wedding ceremony services.

8.Funeral and related services.

9. Babysitting

10.Providing housed hold services such as plumbing electricity, construction, Repair at door steps. Employing a few persons, paying them regular wages or contract based wages will be necessary. Business breaks even in a year.

11.Tailoring for women.

12.Yoga Consultant.

13.Real-Estate Consultant

14.Providing contract labour for office, security management.

15.Managing website for providing information about ticket rates and the channels for booking them.

Investment of Rs. 1 lakh

16.Online service business

17.Festive gift- customization and sale in the counter/door to door delivery.

18.Book store

Investment of Rs.2 lakh

19. Software company

20. Hotel

21. Art Gallery/Music services if one is proficient as an artist or musician.

22.Recruitment firm

23.Event management firm.

The list is illustrative, not exhaustive. Ideas are many, if you work it out. The business should suit your talents, education, investment capacity and marketing skill for sale and distribution.



## 2.2 Significance of small business:

Small business plays an important role in the economy.

1. **Employment:** Agriculture provides employment to 53 % of people. Next comes small businesses and services with 25% share of employment. The informal sector denotes tiny units engaged in the production of govt. and services. The organized sector includes, establishment in the public sector and non- agricultural establishments, employing 10 or more workers. All writes complementary to the organised sector comprise the unorganised sector. The share of informal sector in employment is 93%. Only 7% of people work in the formal sector. Small business forms the backbone of informal sector and is considered important for employment creation.
2. **Optimisation of capital.** In India, the saving rate is 30.8%. Public sector saves little- about 1.3 %. From 1998-99 to 2002-03, the domestic saving in public sector is negative. The private corporate sector contributes 7% of GDP only. The Household sector contributes 22.3% of GDP. More than 80% of aggregate saving is contributed by the household capital formation is low, small business requires less capital per unit of output and is welcome. A small business/service can be started with as low capital investments as Rs.1000/-. It is a blessing in a capital-deficient country.

3. **Balanced regional development:**

Some states are less developed than others. Uttar Pradesh, Madhya Pradesh, Bihar and Odisha contribute 50% of in the country. Three states, namely, Maharashtra Gujarat and Tamil Nadu contribute 44 of gross output and 38% of employment on factory sector. Small business is dispersed all over India. Hence, they help balanced regional development.

4. **Concentration of economic power:**

Large factories concentrate economic power among the few corporates and urban areas. Small business units distribute economic power among many regions and people. 67% of operational holdings are marginal holdings. 84% of such holding operate in 44% of the area. Large holdings which is 0.7 % of total holdings operate 11% of total cultivable land. In 1995, the ten largest companies had aggregate assets worth Rs.45,000 crores. By 2012, the top 5 private sector co.mpanies had combined assets of Rs.6,50,152 crore. So, inequality of income and wealth is on increase and is sharper in the post-reform period (1991 till date). Small business

cannot substantially change the position. But it makes dispersal of economic power possible to some extent.



5. Social advantage: Small business units offer opportunity for an independent way of life. A system of diffused ownership makes wider participation in the process of economic development possible.
6. Service led growth: Serviceled growth has enabled GDP to grow at 6% per annum over the decade of 1990s, 7.6% per annum during the 10<sup>th</sup> Plan and 8% per annum during the 11<sup>th</sup> Plan. Telecommunication and IT have been the drivers of growth. Services alone cannot do the job of giving India fast economic growth. With industrialisation, India will walk on two legs as it transitions to modern economy,
7. Promotion of artistic and creative sense.

Large scale business industries have economies of scale and economies of operation. Small business may not enjoy these benefits but they promote artistic and creative efforts.

### 2.3 Benefits:

Small business survives and prospers for different reasons:-

- Developing personal Relationships

Small business builds personal relationship with, customers, suppliers and employees. One to one relationship is absent in large organizations which tend to be impersonal in their dealings.

- Innovation

Small business is in a very strong position to introduce and develop new ideas. One man responsibility enables it. Many innovation could not have seen light of the day without setting up their own business etc in small way.

- Promotion of artistic service

Large scale enterprises produce more, enjoy benefits of economies of scale, reduce cost and offer lower price. But, small business promotes artistic service with their distinctive product line, paintings, home decoration pieces etc are examples of products that make name in small business.



- Independence:

Independence of small business, their flexibility of decision making, attending quickly to problems and challenges are distinct advantages of small business.

- Technology tools:

Technology has made small business grow efficient and on a far reaching scale. The web, e-marketing social media, apps, allow small business to organise and focus communication. The cloud offers front end management of tasks.

- Niche Market:

Small niche market may have less competition and be more profitable. Niche market can have more price inelastic demand, firms can charge a bigger mark-up on the marginal cost of production. So, the firm, in spite of lower volume, becomes more profitable.

### **Not all business amount profit maximization:**

Some owners may want a business that is manageable and easy to retain control. For them, business may be a hobby. They may not want to spend more time on management and paper work by maximising sales and profit.

The cost of failure:

The cost of failure is borne by individual or partners. If it is a large business, usually others like shareholders bear the brunt.

### **2.4 Challenges:**

- Instant profit: Many start small business with an eye to instant profit. The start-up period is often 1/2 years. Small business should be able to sustain on its own upto 2 years. In micro enterprises relating to services, it makes instant small eatery can generate distant profit but low profit. If the size becomes bigger, to be introduced with initial capital investment.
- Time: Small business stands for big convenience of customers. Everything especially services must be done on time. Personal problems cannot be reason for closing business on some days or operating on unscheduled hours. Alternative arrangement must be made when personal problems upset time schedule of the business.



- Lack of knowledge/Skill:

One should have thorough knowledge of business before starting a business. If somebody thinks he can appoint skilled labour in his business without any knowledge of business, he is mistaken. Labour has its own problems. If welding or fabrication business is not understood, then skilled labour may be appointed. But the owner must learn the intricacies and quickly.

- Lack of Direction: Many in small business start business without adequate planning and change business midstream. Lack of planning means lack of focus. Without focus on business plan, a business is started. If it is done with planning and market research, the business is most likely to succeed,
- Working alone: Working alone is an advantage for decision-making. But it becomes a problem with increasing business and workload. One may start losing customers, make mistakes without thinking. It is better to start with one or two employees rather than doing business alone in the name of cost saving.
- Working in the business rather than working on the business:

Working in the business takes time. It is necessary to examine business plan, customer service and inventory requirement from time to time. Review of business is essential to determine which way business is running another and how to change direction, if necessary.

- Getting customers:

Getting customer is the core of business. Often, customers are taken for granted. How to run business is taken as important. How to provide good customer service, how to render such service in a cheaper way are not thought out. Running a business becomes more important than getting and retaining customers.

- Poor marketing: Business plan is important, So also the marketing plan. What is the target market, what are tastes and preferences of customers in that market and how to reduce cost to render good service need to be always thought out.
- Innovation: It means that the business cannot be run in traditional manner. Other people set up business. They may be out pricing you. They may be introducing better products/services. So, one has not only to look to the competitor's business but also to innovate constantly. Existing business does not like to change. But in these uncertain times, the only constant thing is change. So, business should innovate and change always instead of seeing others taking away their business.



- Pursue the best opportunities:

A business should not go after every opportunity to attract new customers. It has to choose opportunities and go after the selected ones. If efforts are distributed at various points, the focus is lost.

- Long on ideas, short on resources:

Business is often long on ideas and short on resources. The classic problem is unlimited ideas and limited means. It is better to choose to remain-focussed.

- Small business advocates:

Business owners should be members of Trade body like Association, Chamber of Commerce etc. so that they face common problems together. Many heads instead of one, resources of many instead of one, will help solving common problems.

- Customer base:

Usually service business suffers from dependence on one or a group of customers. In the initial stage, it helps. But if customer base is not diversified, this results in long term handicap. Otherwise, the customers' problem becomes problem of the business. If he fails, the business also fails for no other reason.

- Founder Dependence:

Usually founder of a business, if he does reasonably well, does not delegate planning marketing and operational work. In the course of growing business, it becomes a problem. Succession planning should be done well in advance so that the business is not over dependent on the founder.

Business grows. Quality and growth may be balanced. One cannot manage personally every client relationship. Give employees opportunities to make their own decisions and then see what and how they do it. A business owner, particularly founder, should not micro manage everything.

- Sustain business:

A business is often started. But, sustaining business is more important. You get a reputation by, servicing customers effectively more passionate you are about service, more customers get attracted to you. How to take them lifelong is the challenge. Personal touch helps. The customers should not be taken for granted any time. Relationship helps all the way to sustain business.



## 2.5 Let us sum up:

Small business generates employment, optimises use of capital, helps balanced regional development reduces concentration of economic power, promotes creative sense and renders social advantage of entrepreneurs leading independent way of life.

The benefits are: Developing Personal relationship facilitating innovation, promotion of artistic senses, flexibility of decision making, catering to niche market, having manageable business to retain control and the cost of failure being borne by individual or partners instead of a community.

The challenges of small business are-

Lack of know ledge and skill, lack of direction, working in the business rather than working on the business, getting customers, poor marketing, long on ideas but short on resources, problem of sustenance , expanding customer base, founder dependence and co-operation of small business advocates.

## 2.6 Key Terms:

Founder Dependence: Too much dependence on founder without delegation of functions or succession planning.

Niche Market- Excusive market for certain goods/services.

Informal sector- It denotes tiny units engaged in production of goods and services.

Organised sector (in India)- :

Establishments in the public sector and non-agricultural establishment employing establishment employing 10 or more workers.

Decentralised Development:

Small units decentralise economic power. Their number is more and widely described in the country. Hence, they promote balanced regional development.

Balanced regional development:

Some states of India are more developed than others. Some districts and regions are more developed. Small business reduces concentration of economic power in a few places. Large number of units all over the country helps balanced regional development.

Optimisation of capital: Small units require less capital to start with and run. These provide quick returns. Small units are useful in a capital- deficient country.

Small business advocates- Trade Association, Chamber of Commerce etc. are small business advocates. They tell Government and the public regarding work done including problems faced by the small business.



### **2.7 Self-assessment questions:**

1. What is a small enterprise?
2. How small enterprises contribute to Indian economy?
3. What are the problems faced by small business in India?

### **2.8 Further Readings.**

1. Puri V.K. & Mishra S.K. , Indian Economy, Himalaya.
2. [WWW.Quora.com](http://WWW.Quora.com)

### **2.9 Model Questions:**

1. “Small is beautiful” Discuss the statement in the context of small business in Indian economy.
2. You have done a course on Entrepreneurship. You have capital of Rs.10,000/- only. What type of business you can start and how?
3. What are the challenges faced by small business in India?

## Unit-3 Overview of small, medium and large industries:



### Learning Objectives:

After completion of the unit, you should be able to

- Know what small, medium and large industries are.
- Government policy of promoting industries.
- Problems of industries but MSME, in particular.

#### 3.1 Introduction

#### 3.2 Government of India policy of promoting MSME.

#### 3.3 State Government & MSME policy.

#### 3.4 MSME : An overview

#### 3.5 Large scale industries

#### 3.6 Let us sum up

#### 3.7 Key Terms

#### 3.8 Self-assessment questions

#### 3.9 Further Readings

#### 3.10 Model questions.

**3.1 Introduction:** Small and medium sized enterprises are businesses where employees number are below certain limits. The abbreviation SME is used in the World Bank, the United Nations, The World Trade Organisation in that sense. In Africa, the number of employees varies between 50 in Egypt to 100 in Kenya and Nigeria. Very small business employs less than 20 persons, small business 21 to 50 persons and medium less than 200 persons in South Africa. In European union, these are described differently.

Company	Employees	Turn over
Micro	Less than 10	2 million Euro
Small	Less than 50	10 million Euro
Medium	Less than 250	50 million Euro

United Kingdom prescribes 250 employees, turnover of less than £. 25 million and Gross assets less than £ 12.5 million (any two of these three criteria). In United States, small business described by Small Business Administration is based on

industry, ownership structure, revenue and number of employees. upto 500. Canada defines small business as one with fewer than 100 employees and medium size business with less than 500 employees.



Australia has different criteria.

Micro business: Less than 5 employees

Small business : Less than 10 employees

Medium business : Less than 200 employees

New Zealand defines SME with 19 or less employees.

Small business in many countries include retail stores such as small grocery stores, convenience stores, trades people (electrician, plumber) and inter-related business such as web design and computer programming. They vary in size, revenue and regulatory authorisation from country to country. There are a few units like Restaurant, Day cares, Retirement homes which are heavily regulated and require inspection and certification from government bodies.

In west, locally owned grocery stores, hardware stores and pharmacies join to form Retailers Cooperatives to enjoy economies of scale. Sometimes, they conduct franchise business to benefit from the economics of scale of the big corporation (Franchiser) Mc Donald is an example.

In India, number of employees mattered most. But, Micro, Small and Medium Enterprise Development (MSMED) Acts 2006 has defined clearly micro, small and medium enterprises.

### **Manufacturing Enterprise:**

- i) A micro enterprise is one where the investments in plant and machinery does not exceed Rs.25 lakh.
- ii) A small enterprise is one where the investment in plant and machinery in more than Rs.25 lakh but does not exceed Rs. 5 crore.
- iii) A medium enterprise is one where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

### **Service Enterprises:**

- i) A micro enterprise is one where the investment in equipment does not exceed Rs. 10 lakh.
- ii) A small enterprise is one where the investment in equipment is more than Ten Lakhs but does not exceed Rs. 2 crore.

- iii) A medium enterprise is one where the investment in equipment is more than Rs.2 crore but does not exceed Rs. 5 crore.



Example:

Manufacturing:

Micro enterprises: Soap & Detergent industry.

Small: Power loom

Service:

Micro: Fabrication, small dry-cleaning unit

Small: Automated dry-cleaning unit.

### 3.2 Government of India policy of promoting MSME:

Development commissioner (1951):

Established on recommendation of Ford Foundation, DC, MSME provides a wide spectrum of services to the MSME.

#### Functions:

- Advises the Government in Policy formulation for the promotion and development of MSMEs.
- Provides techno-economic and managerial consultancy, common facilities and extension services to MSMEs.
- Provides facilities for technology upgradation, modernisation, quality improvement and infrastructure.
- Develops human resources through training and skill upgradation.
- Provides economic information services.
- Maintains close liaison with the central ministers, Niti Aayog (erstwhile Planning Commission), State Governments Financial Institutions and other organisations concerned with development of MSMEs.
- Evolves and coordinates policies and programmes for policies and programmes for development of MSMEs as ancillaries to large industries.

It has 70 offices 21 autonomous bodies under its management. These autonomous bodies include Tool Rooms, Training Institutes and project with process development centres.

## Important schemes:



1. Prime Minister Employment Generation Programme (PMEGP).
2. Credit Guarantee schemes for micro and small enterprises. (CGTMSE-2000).

The corpus is Rs.241955 core.

Purpose:

Funding support to banks and FIs for lending collateral free credit to MSMEs.

To make available credit to micro and small enterprises for loans up to Rs.100 lakh without collateral third party guarantee,

Feature:

Guarantee covers provided upto:

- i) 85 % of credit facilities upto Rs.5 lakhs
- ii) 75 % of credit facilities upto Rs. 50 lakhs.
- iii) 80 % for MSEs owned and operated by women.

Guarantee free charged at 1 % of the credit facility sanctioned.

Achievements: As on 31<sup>st</sup> Dec, 2015, cumulatively 21.6 lakh applications have been provided guarantee coverage of Rs.103864.11 crore since inception.

Development of Khadi, village and coir industries (2014)

- i. Market promotion and development scheme ( MPDA)
- ii. Revamped Scheme of fund for regeneration of traditional industries ( SFURTI)

Objectives:

- To organise the traditional industries and artisans into clusters to make them competitive.
- To provide support for their long term sustainability.
- To improve skills of artisans.
- To make provision for common facilities.
- To improve tools and equipments of artisan.



Feature: Assistance upto 75 % to 85% of project cost upto a maximum of Rs. 8 lakhs.



5. Marketing promotion schemes:

Marketing Assistance and technology upgradation ( MATU)

- Assisting MSMEs in attending domestic trade fairs/exhibitions and international trade fairs/ exhibitions.
- Assisting MSMEs to adopt bar coding on products for marketability in national/ international market.

6. Entrepreneurship and skill development programme for assistance to training institutions.

7. Infrastructure development programme:

Micro and Small Enterprises Cluster Development (MSE-C.DP).

-Assisting the needs of industries through well defined clusters and geographic areas.

-Helping establishment of Common Facilities Centre (CFC), (Testing facility, Training centre, Common Logistic Centre, Common Raw material Bank etc),

Infrastructure Development Centre:

(Roads, power distribution network, water, Telecommunications, drainage etc).

- Assisting financially preparation of diagnostic study, detailed project report (DPR) etc.
  - Establishment of 18 autonomous bodies known as Tool Room for technology development and training.
8. Establishment of NIMSME (1962) for promotion, development and modernisation of SME sector. It is engaged in training, consultancy, research and education to extension and information services.



Sl.no	Item	Amount in Crore
1.	Prime Minister Employment Generation programs	1020
2.	Projects setup No.	44340
3.	Employment Generated No.	323362
4.	Credit Guarantee fund Trust for micro and small enterprises- Projects approved (No)	513978
5.	Do Amount	19949
6.	Marketing Assistance and Technology upgradation (No.)	303
7.	Vendor Development programme	297
8.	EDP Trainees No	66090
9.	Credit linked capital subsidy scheme No. Benefitted	5047
10	-Do- subsidy Amount	322
11	Design clinics scheme	867
12.	Lean manufacturing competitiveness schemes awareness programme. (no)	213
13.	EDP through incubator Host institutions approved New ideas approved	47 145
14.	ISO 9000/K1001/HACCP certification reimbursement scheme. No benefitted	962
15.	Intellectual property facilitation centre Awareness programme No.	69
16.	Bar code units benefitted No.	865
17.	Tool room and technology institutions trained (no)	179061
18.	Do- units assisted	35088

### 3.3.1 State Government and MSME Policy:

Odisha's Gross State Domestic Production has increased at a compound annual growth rate of 10.2% to Rs. 330200 crore. The manufacturing and service sectors are growing at a rate of 5.2 % during the last five years. Total exports from

the state are Rs 19746 crore. The value of exports has increased at annual growth rate of 2.5% between 2006 on and 2014-15.



Industrial Policy Resolution, 2015 and the ODISHA MSME Development Policy, 2009 lays down policy frame work and fiscal incentives for industries Odisha MSME Development Policy, 2016 is formulated to promote growth of MSMEs in to provide extra support in industrially backward districts.

Strategy: To achieve the objectives the following strategy is adopted:

- i) Development of MSME parks in districts to provide ready infrastructure.
- ii) Development of product specific clusters namely, cashew, engineering, rice based products, pharmaceutical, plastic and polymer, readymade garments, agro food processing, stone wares etc.
- iii) Suitable incentive packages, especially industrially backward districts.
- iv) Setting up of Livelihood Business Incubators (LBI)/Technology Business incubators.
- v) Strengthen MSME- Academia interface for skill development, product/process development and innovations.

Frame work:

- i) Setting up Facilitation cell at state level/RIC/ DICs manned by professionals.
- ii) Online mechanism for administration of incentives.
- iii) An online platform for redressal of grievance of entrepreneurs and investors.
- iv) A Central Inspection Coordination Group (CICG) to simplify business regulations and bring in transparency in inspections.
- v) Cluster approach with a list of 54 potential clusters.

e.g. Engineering cluster: Angul Rice milling, Kalahandi and Sambalpur, Cashew processing: Koraput and Gajapati, Spice processing: Phulbani, Cuttack.

vi) Marketing assistance through MSME- e Bazar and OSIC organising State Trade Fair/RICs and DICs at district level.

vi) Mandatory procurement preference as per provisions under the Odisha Procurement Preference Policy for Micro and Small enterprises, 2015

vii) OSIC setting up Raw material bank in PPP mode.

viii) Capital investment subsidy.



1.	New Micros small enterprises	25% of capital investment made in plant and machinery maximum Rs.1 crore(For SC/ST/women 30% maximum Rs.1.25 crore)
2.	New units in industrials backward districts	Additional C.I. subsidy 5%
3.	New units engaged in recycling of e-waste, hospital waste, construction waste	Additional C.I. subsidy @ 5% subject to upper limit of Rs. 10 lakh over the limit, specified in 1
4.	Seed capital Assistance for women, SC/ST/differently able entrepreneurs	Grant of 10% of Bank Term loan-Maximum Rs. 15 lakh
5.	Project Report subsidy	2% of project cost or Rs.50,000 whichever is low
	Trade mark assistance	Rs. 25,000 maximum

Further, the list of fiscal incentives provided in Industrial Policy Resolution, 2015 is continued. Highlights of the policy are given below:

1. Land at concessional rate: Ground rent @ 1% of the land value.
2. Exemption of premium on conversion of agricultural land for industrial use.

Micro small- 100% upto 50 crore.

3. Interest subsidy- New MSME 5% per annum on term loan for 5 years and for 7 years in industrially backward district.

Micro Enterprises- Rs.10 lakh

Small- Rs. 20 lakh

Medium- Rs.40 lakh

4. Stamp duty exemption completely for priority sector, 75% for small/micro

sector.



5. VAT reimbursement for 5 to 7 years.

6. Reimbursement of Entry Tax in respect of plant & machinery, raw materials.

7. Employment cost subsidy- 50% to 100 % of EST & EPF contribution for 5 years.

8.	Patent Registration, Quality Certification of 3 years	100% of cost with maximum limit.
9.	Entrepreneurship Development subsidy for new entrepreneurship undergoing MDP training.	75% of course fee maximum Rs.50,000
10.	Environment protection infrastructure subsidy	20% of capital cost and Rs. 20 lakhs whichever is lower.
11.	Non mineral based industries in Industrially backward districts wise investment of Rs.5 crore in plant and machinery.	Priority sector incentives.

3.3.2 Odisha Government has also come out with the Odisha food processing policy in November 2016 in No, 2016. The state produces 10.5 million turn of food grains and is the 9<sup>th</sup> largest producer of fish and 4<sup>th</sup> largest producer of shrimp in the country, So, to encourage food processing, a policy has been put in place.

**Highlights of the policy are:**

- i) Single window system of clearance.
- ii) Food parks to be promoted at nine places over a minimum land area of 25 acres through public private partnership model.
- iii) State- of –the- Art food testing laboratory at Cuttack, Berhampur and Bolangir.
- iv) Capital Investment subsidy:
  - General food processing industry- 25% of capital investment made in plant & machinery maximum Rs.2 crore (33 % for SC, ST, women & enterprise set up in industrially backward districts-maximum Rs 3 crore).



- Anchor industry- 25% of capital investment made in plant & machinery- maximum Rs. 5 crore.
  - State-of- the art NABL accredited Food Testing Laboratory-
  - 50% of capital investment made in plant & machinery maximum Rs. 4 crore
  - For cold chain and Primary processing centres- 35 % of capital investment, maximum Rs.5 crore.
  - For mobile pre-cooling vans- 35% of the cost maximum Rs.25 lakh
  - For meat shop modernisation 35% of the cost subject to maximum of Rs.5 lakh
- v) Subcommittee leaded by Principal Secretary, MSMI to accord approval of incentives of more man Rs 25 lakh and upto Rs. 1 crore.

State Directorate Level Committee (SDC) headed by Director of Industry to accord approval upto Rs. 25 lakhs.

#### SME Achievements: Odisha

- 10127 MSMEs registered on Udyog Adhar Memorandum.
- 4889 projects with employment component of 27840 utilising Rs. 96.82 crores margin money under PMEGP.
- 33,905 credit proposals approved without collateral for credit worth Rs. 1494.01 crore to MSMEs.
- 30 Vendor Development programme organised.
- 26 MSME, Provided credit linked subsidies work Rs.2.03 crore for technology upgradation.
- 2000 women assisted under TREAD
- 42 MSMEa benefitted under Marketing Assistance and Technology Upgradation.
- 9370 persons trained under EDP.
- 63 MSMEs got benefit under Bar code scheme.
- 62802 persons trained in Tool Room and Technology Institutes and 2646 units assisted.

### 3.4 MSME: An Over view:



	Scheme	Description in Short	Physical performance
1	Performance & Credit rating Schema (PCR)	Provide third party opinion on the capabilities and creditworthiness of MSEM	12842 units rated (2015-16)
2.	Marketing Assistance Scheme	Platform for individual/institutional buyers	Organisation of 8 international events and 66 domestic events
3.	International Cooperation (IC) Scheme	Participation in International fair etc	Assisted 650 entrepreneurs 42 events (2015-16)
4.	Skill development	Training of entrepreneurs	1146 Programmes & 31275 persons (2015-16)
5*	PMEGP	Creation of employment (Agency: KVIC)	27,886 projects assisted-2 lakh employment generated
6*	SFURTI	Organising traditional industries artisans into cluster	25756 artisans covered.
7	Coir Vikas yojana (VY)	Participation in international fairs/ product promotion programme	Rs.26 crores
8.	Coir <b>udayagi</b> yojana(CCKS)	Modernisation	Rs.20 crores
9*	ASPIRE	Setting up incubation centres	21 Livelihood Business Incubators setup- 465 incubatees trained
10.	District Industry profile	District wise compilation skill mapping	626 District profiles

			complied/ uploaded on the website
11*	Credit Guarantee Scheme[CGTMSE]	3.5 lakh credit application approved during 2015-16	21 lakh credit application approved with guarantee coverage of Rs.103864 crore
12.	Credit linked capital subsidy scheme	Technology upgradation	22380 units benefitted
13.	Cluster Development Programme (CDP)	i) Diagnostic study ii) Soft intervention iii) Hard intervention	996 cluster taken
14.	Lean manufacturing (LMCP)	Introduction of lean manufacturing technologies e.g. SOP(Standard operating procedure) JIT (Just in time) Kaizen, Pokayoka	Completed in 59 clusters 7316 beneficiaries
15.	Intellectual property rights	i) Awareness ii) Protecting ideas	8 Facilitation centres established
16.	Bar code Scheme	To enhance competitiveness	26622 application approval
17.	TREAD for women	Trade related training	28388 beneficiaries
18.	MATU	Marketing platform	1577 units benefitted.
19.	Autonomous institutes		3170 Trained, 678 units.



\*indicates cumulative position

In terms of spread and employment creation, the position is given below.

(as on 2014)

Table 1: SME (Amount in crores)



<b>Total working Enterprises</b>	<b>Employment</b>
4.8 million	11.1 million

<b>Market value of fixed assets</b>	<b>Share in total Manufacturing output</b>
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1363700	37.3%
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The share of subsectors is given as under:

Table-2: Subsector wise breakup (in %)

Retail Trade	39.8
Wearing apparel	8.7
Food product	6.9
Hotel	3.6
Sale, maintenance of vehicle	3.5
Manufacture of furniture	3.2
Others	34.3

The leading states in terms of number of enterprises are U.P. W. Bengal, Tamilnadu, Maharashtra and Andhra Pradesh. The leading states in terms of employment are U.P., W-Bengal, TamilNadu, Andhra Pradesh and Maharashtra. Odisha has 1.5 million Units 3.3 million people are employed in MSME and market value of fixed assets is estimated at Rs.12284 crore.

MSMEs contribute 37% of GDP. There are 26 million units and 6000 products ranging from traditional to high-tech items.

**Swot analysis: Strength:**

- Single man responsibility.
- Quick decision making, Taking initiatives.

- Flexibility not many layers in management. The cost of innovation is low. Quick implementation.
- Inexpensive.  
Self-labour guaranteed.  
Other are from the same locality, hence, inexpensive.
- Favourable capital-output ratio.
- Labour intensive good for an over populated economy.



### **Weakness:**

#### Internal:

- Lack of planning  
Mostly one man show
- Choice of an idea.  
Not open to new ideas
- Lack of finance  
company may not be able to arrange public issue  
Partnership affected by internal squabbles / financial problems
- Lack of industrial culture  
Run as family business without time-orientation and discipline of modern units.
- Lack of marketing skill  
No exploration of profitable market outside the locality.
- Inadequate training in skills
- Lack of access to modern methods.
- Lack of strategies.
- Lack of quality consciousness.

#### External:

- Infrastructure  
Location  
Power  
Water



## Communication

- Raw material
  - Not readily available or adequately given by the Government agencies
  - Imbalance between demand and supply.
- Marketing Problems
  - Tiny units, Khadi & village industries suffer mainly from lack of marketing facilities.
  - Ignorance of market.
  - Lack of market restricts production or scale of operation.
  - Financial weakness affecting marketing efforts.
- Corruption
  - Corruption necessitating speed money for clearance of application with Government Departments.
- Inspector Raj
  - Too many inspections. Units suffer from a minimum 20 inspectors from various agencies during a month.
  - Consequence- offer bribe, face waste of time in dealing with their unnecessary comments.
- Finance
  - Start up seed capital is inadequate.
  - High risk in raising capital from non-banking sector- (usually with high rate of interest)
  - Not in a position to offer adequate security for bank loan.
  - Inadequate working capital
  - Inadequate fixed capital investment.
  - Availability of working capital after a time lag.
- Technology
  - Modernisation costly.
  - New Technology not adopted.
  - Old technology which often adds to cost is continued
  - Ignorance of new technology.



- Method of production.
- Changing and highly competitive environment:
  - Open economy, so strong competition with products from countries with cheap labour and heavy government incentives.
  - Reservation available earlier is phased out. So, small units have to compete with big units locally and internationally.
- **Opportunity:**
  - IT sector- IT and IT enabled service- Voice over Internet protocol provider (voice), e commerce and online auctions and internet publishing and broadcasting top the list.
  - Food processing- According to National Restaurant Association of India's India food services, Report, 2013, Indian food industry is expected to touch \$65 billion by 2018. Only 1.3% of food gets processed in India while about 80% is processed in the developed world.
  - Health care: Health care industry in India is about \$200 billion. Its revenue is about 5% of GDP. Considering the income segment, 5 crore Indians can buy western medicines a market which is equivalent to purchasing power in European countries.
  - Tourism- According to World Travel and Tourism Council, the annual growth rate is expected to be 8.8 %. India may have to cater to 6 million arrivals by 2020.
  - Retail: It contributes 10% of GDP and 8% of employment. It is to grow by 25% annually. Retail is 200 billion industry now.
  - Education: India is already an educational destination With improvement of quality and relaxation of reservation and other restrictive norms, it can be an important destination.
  - Wind power: The revenue expected to be 11% annually.
  - E-commerce and online auction: The revenue is expected to grow by 9% annually.
  - Bio-Technology: A \$100 billion industry, It is expects to grow at 9% annually.
  - Solar power: A \$ 70m industry, it is growing at a rate of 9% annually.
- **Threat:**
  - Quality of product/services to meet International standards.
  - Lack of support from banks and FIs for timely funding.

- Lack of support from government agencies for expansion in international market



### 3.5 Large scale Industries:

Advantages:

Large scale Industries enjoy.

- Economies in production
  - Bulk purchase of raw materials
  - Saving in freights
  - Division of labour and specialization
  - Improved technology
  - Recourses enough for research and development.

#### 2. Economies in Management

- Use of machines for cost reduction.
- Employment of experts

#### 3. Economies in finance

- Availability of bank credit by leveraging size
- Raising funds at nominal rates by public issue of shares.
- Reinvestment of large surplus for expansion of enterprise
- Spreading of risks as they can bear the loss in one line of production against the profit in another.

#### 4. Economies in marketing:

- Economies in cost of advertising.
- Economies in selling expenses
- Quick service as they have more resources to meet bulk order and without delay.

Problems:

1. Competition: After opening up of economy, there is heavy competition. As India is a member of WTO (world Trade organization) it cannot restrict entry of goods. The Chinese goods are particularly threatening the existence of some industries like Tow-making, Electronics. The Chinese enjoy low labour cost (prescribed by a dictatorial government). State patronage including a favourable exchange rate. It exports are viewed as dumping ie. Exporting goods below cost.



## 2. Separation of ownership and management.

There is

- i) Lack of coordination between various departments.
- ii) The size reduces effectiveness of decision-making.

## 3. Recruitment of employees.

Recruitment of skilled and specialised employees is always a problem as there is competition for limited man power available.

4. Lack of flexibility- A large industry/business cannot switch easily from one business to another.
5. High Risk- If there is sudden change of government regulation or technology or customer tastes, it might threaten the existence of business.
6. Government Regulation:

Though liberalization has done away with a lot of regulations, the bureaucracy has not allowed adequate freedom to enterprises. In the name of regulation, they interfere in every time of activity. Hence, there is corruption and speed money to cut red tapism in the system.

### **3.6 Let us sum up:**

Small and medium sized enterprises are described with number of employees, turnover and revenue in European countries and USA. In India, Micro, Small and Medium enterprises (MSME) Act, 2006 defined these enterprises in terms of investment in plant and machinery, A micro enterprise is one where the investment in plant and machinery does not exceed Rs. 25 lakh in manufacturing sector and Rs. 10 lakh in service sector.

Government of India ( Development commissioner MSME), provide a spectrum of services to MSME, Some of the important schemes are PMEGP, CGTMSE, Marketing Assistance and Technology Upgradation, EDP through Incubators, National Manufacturing Competiveness Programme, ASPIRE, MATU, Lean Manufacturing Competiveness scheme etc KVIC also promotes MSME through schemes like MPDA, SFURTI.

The Government of Odisha supports these initiatives with institutions like IPICOL, IDCO, OSFC, OSIC, APICOL, OCCC, and DEPM. They have also formulated Industrial policy Resolution, 2015, Odisha MSME Development Policy, 2016 and Odisha Food Processing policy, 2016 with incentives and supporting frame work.

The physical performance under various schemes is presented in an overview. In terms of number, the leading states are U.P. W. Bengal, Tamilnadu,

Maharashtra and Andhra Pradesh. The leading states in terms of employment are U.P. W. Bengal, Tamilnadu, Andhra Pradesh and Maharashtra.



SWOT analysis reveals the following strengths of MSME.

Quick decision making, flexibility, inexpensive, favourable capital-output ratio.

#### **Weakness:**

**Internal:** Lack of planning, choice of an idea, Lack of finance, lack of industrial culture, lack of marketing skill, inadequate training in skill, lack of strategies and lack of quality consciousness.

**External:** Infrastructure, Raw material, Marketing problem, corruption, Inspector Raj, Finance, Technology, Changing and highly Competitive Environment.

#### **Opportunity:**

IT sector, Food processing Health care, Tourism, Retail, Education, Wind power, Solar power, Bio-technology.

**Threat:** Quality of product services to meet international standards, lack of support from government agencies for expansion in agencies for expansion in international market, lack of support from bank/fits for timely funding.

Large scale industries enjoy advantages of economies in production, economies in management, economies in finance, and economies in marketing. The problems are: competition, separation of ownership and management, recruitment of employees, lack of flexibility, high risk and government regulation

### **3.7 Key Terms:**

Manufacturing Enterprise:

- iv) A micro enterprise is one where the investments in plant and machinery does not exceed Rs.25 lakh.
- v) A small enterprise is one where the investment in plant and machinery in more than Rs.25 lakh but does not exceed Rs. 5 crore.
- vi) A medium enterprise is one where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

#### **Service Enterprises:**

- iv) A micro enterprise is one where the investment in equipment does not exceed Rs. 10 lakh.



- v) A small enterprise is one where the investment in equipment is more than Ten Lakhs but does not exceed Rs. 2 crore.
- vi) A medium enterprise is one where the investment in equipment is more than Rs.2 crore but does not exceed Rs. 5 crore.

Funding support to banks and FIs for lending collateral free credit to MSMEs.

To make available credit to micro and small enterprises for loans up to Rs.100 lakh without collateral third party guarantee,

Guarantee covers provided upto:

85 % of credit facilities upto Rs.5 lakhs

75 % of credit facilities upto Rs. 50 lakhs.

80 % for MSEs owned operated by women.

Guarantee free charged at 1 % of the credit facility sanctioned.

Revamped Scheme of fund for regeneration of traditional industries ( SFURTI)

To organise the traditional industries and artisans into clusters to make them competitive.

National Manufacturing Competitiveness Programming (NMCP)

To promote development of knowledge-based innovative ventures and to improve the competitiveness of MSMEs.

Each Business Incubator is to help incubation of 10 new ideas or units and is to be given functional assistance between Rs.4 Lakhs to Rs. 8 lakh to per idea/ unit

Micro and Small Enterprises Cluster Development (MSE-C.DP).

-Assisting the needs of industries through well defined clusters and geographic areas.

-Helping establishment of Common Facilities Centre (CFC), (Testing facility, Training centre, Common Logistic Centre, Common Raw material Bank etc),

NIMSME for promotion, development and modernisation of SME sector. It is engaged in training, consultancy, research and education to extension and information services.



### **3.8 Self- assessment questions :**

1. Define micro, small and medium enterprises.
2. Write short notes on-
  - i) CGT MSE
  - ii) PMEGP
  - iii) ASPIRE
3. Out sine Government of Odisha policy initiatives regarding MSME
4. Make a Swot Analysis of MSME.

### **3.9 Further Reading:**

1. MSME at a glance, 2016 Government of India, Ministry of MSME
2. IT businessedge.com
3. [misme.gov.in](http://misme.gov.in)
4. [msmeodisha.gov.in](http://msmeodisha.gov.in)

### **3.10 Model Questions**

1. Describe how does Government of India promote MSME.
2. Write short notes on-
  - i) CGTMSE (ii) KVIC
  - iii) MPDA (iv) MATU
  - v) NMCP (vi) Cluster Development Programme.
3. What are the advantages and problems of large scale industry?