

## 2. SMALL BUSINESS

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### Small Scale Industry in the Indian Economy Development

Small businesses / small-scale industrial units are playing an important role in the economic development of any nation. Although it is not generally recognized, this segment of our economy includes some of the dynamic, profitable and interesting firms. In India, there are 32.25 lakhs small-scale industrial units / businesses in the SSI sector, employing 177.30 lakh persons (1999-2000). The output of this sector is around Rs.5, 78,470 crores. The export amounted to Rs.53, 975 crores. SSIs contribute up to 40 per cent of gross turnover in manufacturing sector, 45% of the manufacturing exports and 35% of the total exports. SSI sector, contributes 7% of the GDP. During this era of economic liberalization, the growth of the SSI sector is rather quite perceptible.

#### **Definition of Small Scale Industry**

There is no generally accepted definition of a 'small business'. The definitions vary all the way from country to country and Government-to-Government in a country. The following are some of the definitions.

In the USA, in the Small Business Act 1953, congress defined a small business as one that is independently owned and operated and which is not dominant in its field of operation.

In India, the Department of Small Scale and Agro and Rural Industries considered small businesses as a sector and given the following definitions.

### **1. Small Scale Industrial Undertaking**

An industrial undertaking in which the investment in fixed assets in Plant and Machinery, whether held in ownership terms or on lease or by hire purchase, does not exceed Rs.100 lakhs is called a Small Scale Industrial Undertaking.

### **2. Ancillary Industrial Undertaking**

An industrial undertaking which is engaged or proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates or the rendering of services and the undertaking supplies or renders or proposes to supply or render not less than 50% of its production or services as the case may be to one or more other industrial undertakings and whose investment in fixed assets in Plant and Machinery, whether held on ownership terms or on lease or on by hire purchase does not exceed Rs.100 lakhs is called an Ancillary Industrial Undertaking.

### **3. Tiny Enterprises**

All small-scale units with investment limit in Plant and Machinery up to Rs.25 lakhs irrespective of the location of the unit are called tiny enterprises.

### **4. Export Oriented Units**

Units having fixed assets in Plant and Machinery not exceeding Rs.100 lakhs and which undertake to export at least 30% of its current production by the end of 3<sup>rd</sup> year from the date of its commencing of production are called Export Oriented Units (EOU).

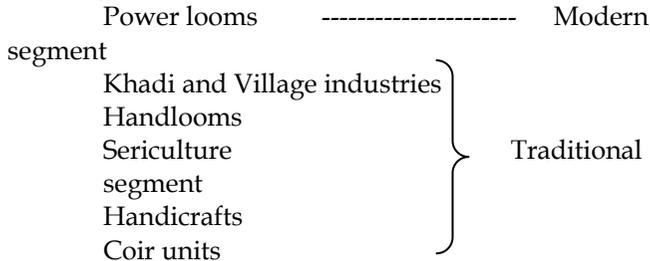
### **5. Small Scale (Industrial related) Service and Business Enterprises (SSSBE)**

Industry related Service and Business Enterprises with investment up to Rs.5 lakhs in fixed assets excluding Land and Building are called Small scale (Industry related) Service and Business Enterprises (SSSBE).

## 6. Women Enterprises

Women enterprises are those small-scale units, where one or more women entrepreneurs have not less than 51% of financial holding. Such units are given more concessions and encouragement.

## 7. Village and Small Scale Industries (24.12.1999)



## Objectives of A Small Business

Objectives are the ends towards which all the activities of the organization are directed.

1. Service
2. Profit
3. Community participation
4. Growth
5. Subsidiaries

## Characteristics

The above definitions exhibit the following characteristics associated with small business and small-scale units.

1. Characterized by smallness
2. Involves lesser capital
3. Mostly one man venture
4. They are highly diversified - wide range of products
5. Wide dispersal geographically

## Importance

There are a number of reasons why smaller firms are of importance to our economy.

1. They are the important sources of competition and challenge the economic power of larger firms
2. They broaden the distribution of economic and political power and does not result in concentration of power
3. They are the sources of innovation and creativity
4. They offer career opportunities to those, who are happiest and most productive in the unstructured environment of a small company
5. Provide the dynamism, innovation and effectiveness that lead to the productive economic system
6. There exists vast agribusiness opportunities in developing economy of India
7. Generating employment with minimum investment
8. Promoting export
9. Control over production widely distributed
10. Develop risk takers

#### **Advantages**

1. Less capital outlay but more employment generation
2. Does not require sophisticated technology
3. Facilitates decentralization and dispersal of business units
4. They offer a wide range of choices to consumers
5. Can serve specialized needs
6. Utilizes the resources in full without wastage

#### **Disadvantages**

1. Inadequate management ability
2. Inadequate finance
3. Poor competitive position
4. Uncertain business continuity

## Growth Stages

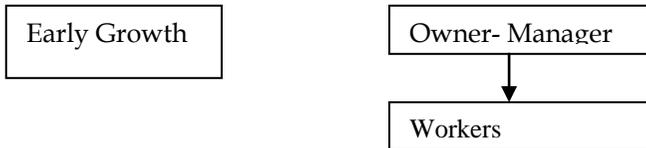
Following are the various growth stages of any small business units.

**1. First stage:** One person operation - Where owner does all

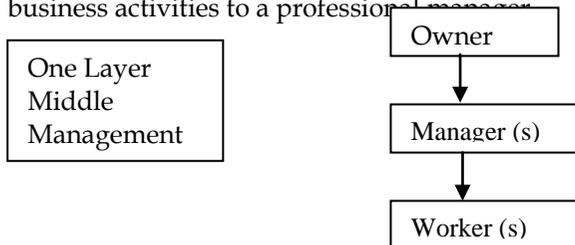
The activities



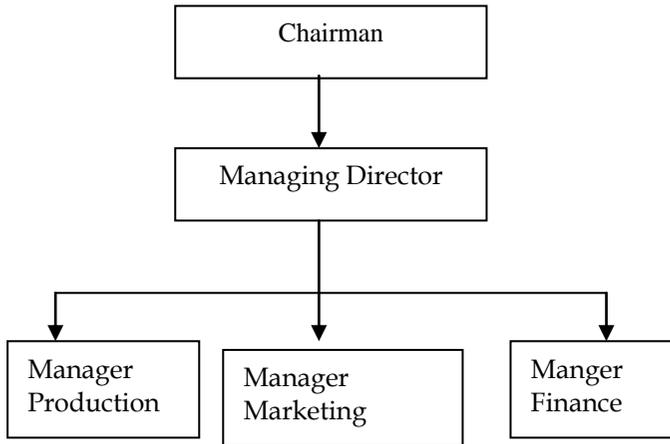
**2. Second stage: Separation** of management and non-management functions hired subordinates to do some of the manual and / or mental activities while owner manages



**3. Third stage** Separation of ownership and management functions; owner begins to relinquish the responsibilities for the day-to-day running of the business activities to a professional manager



#### 4. Multi-layer management



#### Organization and Administration

Organizational structure and administration for promotion of SSI in India are outlined below:

At national level, under Ministry of Industry an exclusive Department of Small Scale & Agro and Rural industries exists since 1991 for the promotion and development of small-scale industries. The Office of Development Commissioner (Small Scale Industries) has been functioning within the Ministry of Industry since 1954 as an apex / nodal organ and provides link between the Ministry / Department and field organizations. Since 1991 it has been working as an attached office to the Department of Small Scale & Agro and Rural Industries.

#### Development Commissioner (Small Scale Industries)

The Small Industries Development Organization (SIDO) headed by the Additional

Secretary & Development Commissioner (SSI), being an apex body for formulating policies for the development of small-scale industries in the country is playing a very constructive role for strengthening this vital sector. It functions through a network of SISIs, Branch SISIs, Regional Testing Centres, Footwear Training Centres, Production Centre, Field Testing Stations and specialized institutes. It renders services such as:

- Advising the Government in policy formulation for the promotion and development of small-scale industries.
- Providing techno-economic and managerial consultancy, common facilities and extension services to small scale units
- Providing facilities for technology upgradation, modernization, quality improvement and infrastructure.
- Human Resource Development through training and skill up gradation.
- Providing economic information services.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other organizations concerned with development of Small Scale Industries.
- Evolving and Coordinating Policies and Programmes for development of Small Scale Industries as ancillaries to large and medium scale industries.
- Monitoring of PMRY Scheme.

Over the years SIDO has served a very useful purpose as a catalyst of growth of small enterprises through its vast network of field organizations spread over different parts of the country.

## **SSI Board**

The range of development work in Small Scale Industries involves several Department / Ministries and several organizations of Central / State Governments. To facilitate coordination and inter-institutional linkage, the Small Industries Board has been constituted. It is an apex advisory body constituted to render advice to the Government on all issues pertaining to the small-scale sector. The Industry Minister of the Government of India is the Chairman and the Board comprises among others State Industry Ministers, 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. The Board was last constituted on 26.9.1998 with 93 members besides the Chairman. The term of the Board is for two years.

## **Small Industries Service Institutes (SISIs)**

There are 28 SISIs and 30 Branch SISIs set up in State capitals and other industrial cities all over the country. The main activities of these institutions are as follows:

- Assistance / Consultancy to Prospective Entrepreneurs
- Assistance / Consultancy rendered to existing units
- Preparation of State Industries Profiles
- Preparation / Updating of District Industrial Potential Surveys
- Project Profiles
- Entrepreneurship Development Programmes
- Motivational Campaigns
- Production Index

- Management Development Programmes
- Skill Development Programmes
- Energy Conservation
- Pollution Control
- Quality Control & Up gradation
- Export Promotion
- Ancillary Development
- Common Facility Workshop / Lab
- Preparation of Directory of Specific Industry
- Intensive Technical Assistance
- Coordination with DICs
- Linkage with State Govt. Functionaries
- Market Surveys
- Other Action Plan Activities assigned by Headquarters

SISIs and its Branches have common facility workshops in various trades. There is at present 42 such common facility workshops attached to SISIs / Branch SISIs.

### **Some Current Problems Worrying Small**

#### **Businessmen**

1. Govt.regulation/ policy in general
2. Inflation
3. Taxes
4. Govt. paper works
5. Labour unions
6. High interest rates
7. Environmental restrictions
8. Lack of required capital
9. Minimum Wage Laws
10. Corruptive and bureaucratic officialdom
11. Seasonality in agricultural production and interruptions in raw materials availability
12. Seasonality in demand for agricultural inputs

13. Lack of appropriate technology

Business Failure May Result From One or More of the Following Weakness

1. Lack of business records
2. Lack of business experience
3. Insufficient stock-turnover
4. Uncollected Accounts receivables
5. Inventory shrinkage
6. Poor inventory control
7. Lack of finance
8. Improper mark-up
9. Lack of sales
10. Too much left to chance
11. Crucial obstacles go un-noticed through ignorance.

ENTREPRENERIAL OPPORTUNITIES IN  
MODERN AGRICULTURE ↓

<b>FARMING (ON FARM)</b>	<b>PRODUCT MARKETING</b>	<b>INPUTS MARKETI NG</b>	<b>PROCES SING</b>	<b>FACILIT ATIVE</b>
1. Crop	1.Wholesale	1.Fertilizer	1.Milk	1.R & D
2.Dairy/Poultry /Goat	2.retail	2. Agrl. Chemicals	2.Fruits	2.Mktg.In fo
3.Fish	3.Commission Agent	3.Seeds	3.vegetab les	3.Quality control
4.Rabbit	4. Transport	4. Machinerie s	4.Paddy	4.Insuran ce
5.vegetables	5. Export	5.Animal feed	5.Sugarca ne	5.Energy
6.Flowers	6.Finance	6.Poultry hatchery	6.Cashew	
7.Ornamental plants	7.Storage	7.Vetmedic ines	7.Coir	
8.Palmrosa	8.Consultancy	8.Landscap ing	8.Poultry	
9.Fodder	8.Consultancy	9.Agrl.cred it	9.Cattle	
10.Sericultue		10.Custom service	10.Tanne ry	
11. Agro- forestry		11.Bio- control units	11.Brewe ry	
12. Beekeeping		12.Bio-tech units	12.P. board	
13.Mushroom				

they are Enterprises, Entrepreneurs and Environment. Already we discussed on the entrepreneurial personality, abilities, motives and competencies. Also we have discussed on the enterprises opportunities and their feasibility and viability, only those enterprises meeting the feasibility and viability will be considered for taking. Next important thing is the environment in which the enterprises and entrepreneurs function.

The environment factors or forces which affect the success of business are into (1) Economic environment, (2) Demographic environment, (3) Socio-cultural environment, (4) Technological environment (5) Political environment, and (6) Legal environment.

### **Importance of Environment Analysis**

The manager needs to be dynamic to effectively deal with the challenges of environment. The environment of business is not static. Some of the following benefits of environment scanning are as follows:

- It creates an increased general awareness of environmental changes on the part of management
- It guides with greater effectiveness in matters relating to Government
- It helps in marketing analysis
- It suggests improvements in diversification and resource allocation
- It helps firms to identify and capitalize upon opportunities rather than losing out to competitors
- It provides a base of objective qualitative information about the business environment that can subsequently be of value in designing the strategies.