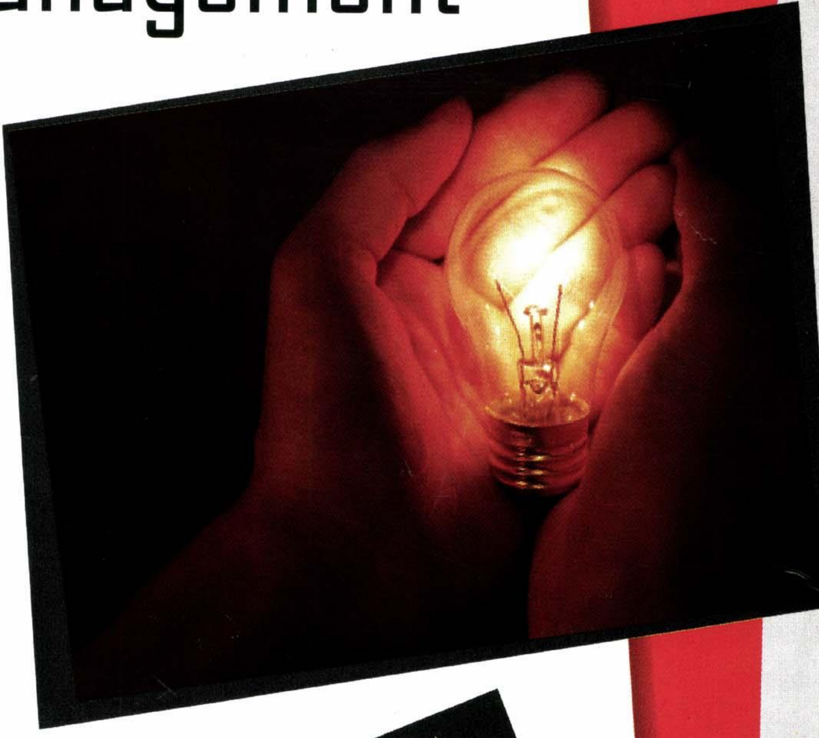
Entrepreneurship Management



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Himalaya Publishing House

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BACKGROUND

Over the years, the developing countries have adopted positive measures to defeat the forces of stagnation. To perform this gigantic task, well-considered and most suited policy of economic development has been framed. The growth process of these countries aims at accelerating the economic development to enhance the social welfare. Infact, the economic change is a part of a wider social change and the economic development is a long-term process of intrinsic growth. Therefore, the task of government policy making has a vital role to play. The policy-makers face challenge in selecting the desired objectives and suitable alternatives for stimulating the economic growth. They also require doing a careful examination of the existing institutional framework, social values, economic requirements and their implications, keeping in view, the need for rapid social and economic development of the economy.

Nowadays, most of the developing countries are following the thesis that industrialization is a process of growth and as such is organically linked both to the social and economic past and to the parallel processes of social and economic development. The thesis reaffirms the importance of industrialization as an effective means for solving the problems of economic and social progress in developing countries of the world.

Role of Small Scale Industries in Industrialization of India

India is often described as an underdeveloped country. The term 'underdeveloped' implies that the natural resources, manpower and material of the country have not been properly harnessed with the result that the people have to live in poverty. They are under fed and physically weak and their working capacity is low. 'Underdevelopment' implies that the level of real income and capital per head of population is low as judged by the standards in developed countries of North America and Western Europe. In underdeveloped countries, there is no large scale application of the fruits of scientific and technological advances to agriculture and industry. Subsistence production is generally important for the people, the markets are comparatively narrow and manufacturing industry is usually unimportant.

In many developing countries, manpower is relatively abundant. It is, therefore, imperative that their full and effective utilization should become a focal point of socio-economic policies. Emphasis has to be laid on small scale industries to absorb the surplus manpower in these countries.

The Small Scale Industry (SSI) has been recognized as one of the most appropriate means of developing the industrial economy of backward countries. Small scale industries facilitate the tapping of resources which otherwise would remain unused. These resources included entrepreneurship, capital, labour and raw materials. SSIs can mobilize rural savings which may otherwise remain idle or may be spent on luxuries or channeled into non-productive ventures. They are fairly labour intensive. Small Scale Industries create employment opportunities at a relatively low capital cost. In India, there is a basic problem of absorbing the surplus manpower in non-agricultural jobs and providing additional employment opportunities for the growing population.

Small Scale Industries contribute significantly to the strengthening of the industrial structure. Small Scale Industries serve as seed-beds of entrepreneurship. They serve the developing economy not only by their output of goods but also by functioning as a nursery of entrepreneurial and managerial talent. This role of Small Scale Industries is of decisive importance in any economy. Such industries lead to the creation of employment opportunities not only in large cities and towns but also in smaller towns and far-flung regions. The establishment of Small Scale Industries have made possible to reverse the current trend of the migration of the people from rural to urban areas.

Soon after independence our national leaders recognized the role of Small Scale Sector in the development of the economy of India and laid a solid foundation for its accelerated development through active policy support and creation of an institutional frame work. The Industrial Policy Resolutions of the Government of India, from 1948 to 1991 visualized integrated growth of both the large and small scale sectors and recognized the social and economic contribution of Small Scale Sector. These Industrial Policy Resolutions states that the Government of India would stress the role of Cottage and Village and Small Scale Industries in the development of the national economy. The policy further envisaged that the decentralized sector should acquire sufficient vitality to be self-supporting and its development to be integrated with that of the large scale industry.

The concept, small scale industry covers a wide range of activities and its definition changed from time to time. The latest definition (July, 1990) of small scale industries is quite broad-based. All industries with a capital investment of Rs. 20 lakh in plant and machinery are classified as small scale industries. The smaller units with a capital investment of Rs. 2 lakh in plant and machinery are classified as tiny units. Units with a capital investment in plant and machinery varying between Rs. 20 lakh and Rs. 25 lakh are classified as ancillary industries.

The development of small scale sector has been important in India because of the following reasons: First, the small scale unit requires less capital outlay and at the same time, it provides more employment than the large scale sector. Second, a small scale unit does not require highly sophisticated technology. It can, therefore, be useful in backward areas where the people have yet to be trained to meet the challenge of sophisticated technology.

Importance of Small Scale Industries

Apart from their inherent usefulness in terms of numerical superiority, small scale industries play a vital role in the economic growth of developing countries as discussed below:

(i) Utilization of Resources

Small Scale Industries facilitate the tapping of resources which otherwise would remain unused. These resources include entrepreneurship, capital labour and raw materials. They can mobilize rural savings which may otherwise remain idle or may be spent on luxuries or channeled into non-productive ventures.

(ii) Employment Generation

Since they are fairly labour-intensive small scale industries create employment opportunities at a relatively low – capital cost. In India, there is basic problem of absorbing the surplus manpower in non-agricultural jobs and providing additional employment opportunities for the growing population.

(iii) Generation of Foreign Exchange

Small Scale Industries facilitate substantial foreign exchange savings and earnings. A wide range of consumer and simple produced goods, now being imported, can be economically produced domestically on a small scale basis.

(iv) Diversification of Industrial Structures

Small Scale Industries contribute significantly to the strengthening of the industrial structure. Many more articles can be produced economically by the small scale industries than that of large scale industries.

(v) Entrepreneurial Development

Small Scale Industries serve as seedbeds of entrepreneurship. They serve the developing economy not only by their output of goods but also by functioning as a nursery of entrepreneurial and managerial talent. This role of Small Scale Industries is of decisive importance in any economy where the industrial structure consists of a few large scale and medium sized ones, on the one hand, and of large numbers of traditional industries such as artisan units, handicrafts and cottage industries on the other.

(vi) Reverses the Trends of the Migration from Rural to Urban Areas

The concentration of industrial and other activities has given birth to the phenomenon of the so-called pockets of development where economic and social change is achieved at much faster rate than in the outlying rural districts. This trend, although predominant, can be checked and corrected through the establishment of small scale industries. For one thing, such industries lead to the creation of employment opportunities on a dispersed basis not only in large cities and towns but also in smaller towns and far flung regions. The establishment of small scale industries would, therefore, make it possible to reverse the current trends of the migration of the people from rural to urban areas.

SETTING UP OF A NEW SSI UNIT

While setting up a new unit, there is a lot of excitement as well as pressure on the entrepreneur. In this excitement there is likelihood that entrepreneurs may choose wrong path.

Therefore, it is necessary once the entrepreneur decides to set up a unit, first step which one has to take is to identify the right product, type of raw material required to manufacture the product and whether it is locally available or not; type of machinery/equipment required; market survey, etc., and lastly the location to set up the unit.

The second step, which the entrepreneur requires to decide is; what type of organizational form of business he would like to choose, depending on finance, i.e., whether proprietary concern; partnership or private limited company.

In the next step, the entrepreneur has to choose scale of operation, i.e., whether he/she would like to set up unit in micro, small or medium. The category/definition of a micro, small, medium or large is given in terms of the investment in plant and machinery alone by the unit.

Lastly, the entrepreneur has to decide how he/she is going to arrange finance, as no enterprise/unit can take off without monetary support. No doubt financial assistance for Micro/Small Enterprise/Unit is available from various financial institutions like – Goa Economic Development Corporation; National Small Industries Corporation Limited; Small Industries Development Bank of India; Commercial/Cooperative Banks; Khadi and Village Industry Board/Commission, etc.

Steps to be Taken by SSIs :

(a) Selection of Product

An entrepreneur should select the product which has wide spread market and good profitability, hence it becomes necessary to opt genuine and proper product.

The product should be everywhere accepted, it should earn reputation for entrepreneur, it should also get profit and market leadership. Therefore, he has to select the product very carefully.

If the entrepreneur knows technical process and experience for manufacturing the product, while its selection, then it will be more beneficial to him. If he or his colleagues do not know anything about the product, it is not advisable to accept that product.

The product with good profitability should be opted. It enjoys many concessions and other benefits to manufacture a product for which the government has given preference.

Current and future prospects for the products for local and foreign market should be inspected. Some specific gains can be obtained if some products are being manufactured at prescribed industrial zones, i.e., special economic zone, agro export zone, etc.

Besides this, the location of SSI's is preferred where raw material, machinery, skilled workers are easily available.

Process for selection of product can be described as given:

(1) A man thinks to start business, for this some positive and negative factors are responsible.

(2) Information is gathered from various sources about which product to be manufactured.

(3) Information gathered about various products is arranged in sequence.

(4) Useless and unnecessary details are eradicated.

(5) Rest of the information is analyzed and arranged scientifically.

(6) Every opportunity is being scrutinized keeping various standards in mind.

(7) Micro inspection is being done for every information and reviewed thereafter.

(8) Information gathered is arranged in sequence according to profitability and benefit.

(9) The best product is being selected out of all.

(b) Preliminary Preparation of the Project Report

In the preliminary preparation stage, certain basic information and details are collected for the purpose of analysis. The preparation of a project report requires investigation of various aspect of the project. It is the initial broad testing of the project selected for detailed investigation. It relates to certain broad economic aspects like market demand, investment required and margin of profit likely to be available. The practical utility of the project from the point of view of actual execution is investigated at this stage. Preliminary scrutiny of the proposed project is desirable to find out the possible success of the project. This should be done before proceeding with extensive investigation and detailed planning of the project. The preliminary investigation may suggest that the market for the proposed product is extremely limited or that the product will not have regular demand or that the margin of profit may be very limited. Financial institutions need project report because the lending institution certainly desires to study the soundness of the proposed project in detail before granting a loan. The financial institutions now appoint expert staff for the scrutiny of project reports.

(c) Forms of Business Organisations

In order to accomplish a definite target need an organization in one form or the other. Every business enterprise with the motive of profit-making therefore, requires an organization which will facilitate carrying on the functions involved in the business operation. What form of business organization you choose depends upon whole host of factors such as whether one can raise the finance alone or not, whether one is comfortable running business alone or not, whether the orders you have got is only as a project basis or otherwise. However, there are inherent advantages to get a company registered as private limited company over having a proprietor concern or a partnership concern. Formalities required completing under the different business organizations are given below:

(i) **Proprietorship:** A proprietorship concern is a concern owned by a single individual who will be responsible for all the activities involved in business operation. No registration is required and the unit can commence operations immediately. However, may finance schemes give broad-based approval only for private limited companies, whereas proprietary concerns are considered on a case-to-case basis.

(ii) **Partnership:** For a partnership organization a partnership deed has to be prepared among the partners. The partnership can be registered or unregistered. A registered partnership has the right to the outsiders or partners, but an unregistered partnership can be sued, but has no powers to sue outsiders.

Procedure for Registration

The registration of a firm may be effected at anytime by sending by post or delivery to the Registrar of the area in which any place of the business or the firm is situated or proposed to situate, a statement in the prescribed form accompanied by the pre-prescribed fee stating:

(a) The firm name

(b) The place or principle place of business of the firm

(c) The names of any other places whether the firm carries on business.

(d) The date when each partner joined the firm

(e) The names in full and permanent address of the partners, and

(f) Statement of the firm. The statement has to be signed by all partners, or by their agents specially authorized on their behalf.

When the Registrar of Firm is satisfied that all the provisions have been duly complied with, then he records an entry of the statement in the register of firms and files the statement and issues a certificate of registration.

(iii) **Private Limited Company:** A Private Limited Company is a voluntary association of not less than two and not more than fifty members, whose liability is limited, the transfer of whose shares is limited to its members and who is not allowed to invite the general public to subscribe to its shares or debentures. Its main features are:

- It has an independent legal existence. The Indian Companies Act, 1956 contains the provisions regarding the legal formalities for setting up of a private limited company. Registrars of Companies (RoC) appointed under the Companies Act covering the various States and Union Territories are vested with the primary duty of registering companies floated in the respective states and the Union Territories.

- It is relatively less cumbersome to organize and operate it as it has been exempted from many regulations and restrictions to which a public limited company is subjected to. Some of them are:
- It need not file a prospectus with the Registrar.
- It need not obtain the Certificate for Commencement of business.
- It need not hold the statutory general meeting nor need it file the statutory report.
- Restrictions placed on the directors of the public limited company do not apply to its directors.
- The liability of its members is limited.
- The shares allotted to its members are also not freely transferable between them. These companies are not allowed to invite public to subscribe to its shares and debentures.
- It enjoys continuity of existence, i.e., it continues to exist even if all its members die or desert it.

Hence, a private company is preferred by those who wish to take the advantage of limited liability but at the same time desire to keep control over the business within a limited circle and maintain the privacy of their business.

Advantages

- Continuity of existence
- Limited liability
- Less legal restrictions

Disadvantages

- Shares are not freely transferable
- Not allowed to invite public to subscribe to its shares
- Scope for promotional frauds
- Undemocratic control

Factors Influencing a Suitable Form of Organisation

When an entrepreneur proposes to undertake a business, he has to choose a suitable form of organization. While selecting an appropriate form of organization, he has to keep in mind the merits and demerits of every form. The choice has to made both at the time of setting up a new enterprise and at the time of expansion and growth of an existing concern.

The selection of a suitable form of business organization is an important management decision. This decision affects the success of a business firm. It is a long term commitment which cannot be changed easily. As such, selection of the form of business organization is a matter of careful deliberation and judgements. Broadly speaking, the entrepreneur has the choice of three principal kinds of business – sole proprietorship, partnership and company.

For choosing a suitable form of organization an entrepreneur has to take into consideration several factors. They are:

(1) **Types of Business:** This is an important factor having a direct bearing on the choice of a form of organization. In small trading, businesses, professions and personal service traders, sole proprietorship is predominant. The partnership is suitable, in all these cases where sole proprietorship is suitable provided the business is to be carried on a slightly bigger scale. Business activities requiring pooling of skills and funds, e.g., wholesale trade, stock brokers, etc., are better organized as partnership. Manufacturing organizations are large size and more commonly set up as private and public companies. Similarly, large chain stores, multiple shops, superbazaars, engineering companies are in the form of companies.

(2) **Scope of Operations:** In case of large scale of operations, the company form is suitable because large sized enterprises require large financial and managerial resources which are beyond the capacity of a single person or a few persons. If the scale of operations of business activities is small, sole proprietorship is suitable. If the scale of operations is modest – neither too small

nor too large partnership is preferable. The scale of business operations depends upon the size of demand for goods and services.

(3) **Degree of Direct Control and Management:** If the entrepreneur desires direct control over its operations, he will prefer sole-proprietorship. But if he is not interested in or bothered about the direct control and management, he may choose partnership or company form of organization.

(4) **Amount of Capital Funds Required:** If the business requires huge amount of capital company is best form of organization. If the capital is to be required is small, a sole proprietorship or partnership form of organization would be suitable. Requirements of growth and expansion should also be considered in making the choice. There is maximum scope for expansion in case of a company. Where the funds required initially are small and scope for expansion is not desired, proprietorship or partnership is a better choice.

(5) **Size of the Risk:** The volume of risk and the willingness of owners to bear is an important consideration. If an individual is ready to bear all risks and liabilities of the business, he may opt for sole proprietorship. A business with wider risks and more liabilities is generally started in the form of partnership or company. Due to limited liability and a large number of shareholders, there is maximum diffusion of risks in a company.

(6) **Continuity of the Concern:** Sole proprietorship has a limited life because they are not fundamentally perpetual. An illness of owner or his death can end the business partnerships are also unstable. A company is the most stable and permanent form of organization. The life of the company is not dependent upon the life of the owners.

(7) **Adaptability of Administration:** In case of sole proprietorship, the responsibility for policy and operations lies with one individual. This may be either good or bad depending upon the ability of the individual.

Motivation is very high in sole-proprietorships. In a partnership, the division of responsibility may lead to disagreements. Thus, a partnership lacks centralized administration. In a company administration is centralized in the hands of few executives and professionals.

(8) **Comparative Tax Advantage:** Corporate profits are subjected to uniform rate of taxation and if the expected profits from business are going to be huge, it is better to start such a business on company basis. Profits earned by sole proprietor or a partner are subjected to progressive rate of taxation, i.e., the rate of tax goes on increasing with increase in volume of profits. Thus, proprietorships and partnerships face a lower tax burden at moderate levels of income.

(9) **Cost, Procedure and Government Regulation:** Proprietorships and partnerships are subjected to little regulation and control by the government while companies and cooperatives are subject to severe restrictions and formalities. Sole proprietorship and partnerships are easiest, cheapest and most convenient forms of organization.

It must be noted that these factors are interrelated and interdependent. For instance, the amount of capital required and degree of risk involved depends upon the nature and volume of business operations. The degree of control and the division of profits are both related to risk and liability. Therefore, an entrepreneur should not consider these factors in isolation. The interrelationship between these factors should be duly considered.

(d) Selection of Site

The third important step is choosing of a suitable plot for factory or shed. In this regard, an entrepreneur has five options open to him. He can choose a land from an industrial area developed by the State Development Corporation or Directorate of Industries where necessary industrial infrastructure has been provided. The second option is factory sheds in industrial estate constructed by the State Industrial Development Agency and provided with adequate infrastructural facilities. Or he may choose from plots/sheds developed by private developers (i.e., Private Industrial Estates). Information about this type may be obtained from newspaper advertisements or real estate agents. He may buy private land and develop the same for industrial use. However, in these cases she is to obtain permission from District Collector and/or his subordinate officers.

While selecting a site, an entrepreneur is to take into consideration the following factors:

(a) The site is situated in one's native place.

(b) The site enjoys most or all incentives provided by the government.

(c) The site is near a market.

(d) The site is near the source of labour supply and raw material.

(e) The site has modern infrastructural facilities.

Before locating his plant in a particular area he should ascertain whether the area is a declared industrial area or not. Detailed information about areas classification is available at the District Industries Centre. With the information obtained the entrepreneur can decide whether the proposed industry can be started or not.

(e) Designing Capital Structure

The initial capital of a new venture comes from the following sources: (a) Own Capital, (b) long-term loans from friends and relatives, and (c) term loans from banks and financial institutions. In recent years, the institutional lending has increased rapidly, but it has not yet become the dominant source of funds for small industry. Banks play an important role in providing working capital finance. However, an analysis of capital structure of small scale units reveals that the support from financial institutions is not adequate and that they should gear up their administrative machinery and produce better performance in order to fulfils the objectives and targets adequately.

(f) Invite Quotations for Equipment/Machinery

Various accessories are required in the business unit for storing, handling, measuring, weighing the materials, producing, etc. Such accessories should be selected carefully involving low investment and the operating expenses, providing greater safety and maximum utilization of space. Bins, racks flat, pallets, box pallets and skid platforms are used for storing the materials and other purposes. The material handling equipments can be classified as manual and mechanical. They include hand trolley, mobile jib cranes, and roller conveyors, etc. The size and number of these equipments should be selected keeping in view the needs of the form of ownership and the nature and the quantity of materials to be handled. Sometimes, suppliers are selected out of the list of suppliers registered with the unit for the supply of goods or sometimes quotations or price bids or tenders are invited from the prospective suppliers. On studying the terms of supply and the quality and quantity of goods, suppliers is selected out of the bidders or tenderers.

(g) Acquisition of Manufacturing Know-How

Many institutions like government research laboratories, research and development divisions of industries and also individual consultants provide the manufacturing know-how. In the case of ancillary units, it is provided by the main unit itself, if the promoter of the ancillary unit needs it. Sometimes, it is provided by the plant and machinery suppliers, both domestic as well as foreign. Apart from this foreign technical collaboration for know-how is possible subject to the approval of the government. The scale of operation is linked closely with technology, financial resources available and market demand envisaged. National laboratories, CSIR and RDC provide information on the feasible scale of operation relevant to the manufacturing know-how that is sought for by the applicant.

(h) Preparation of Project Report

It is necessary to prepare a project report according to the format of the loan application of the concerned term lending institution. An entrepreneur may get these reports done by a consultant or technical consultancy organisation. The report normally covers important items like sources of finance – long term and short term, Availability of machinery and technical know-how, sources of labour and raw materials, market potential and overall profitability. All these are systematically estimated and presented balancing the opportunities and constraints. It has not always been possible for consultants to submit reports which could be straight away relied upon by financial or licensing agencies. It is felt that the development agencies themselves should play a more positive role in the preparation of feasibility reports. The project report being compiled by the entrepreneur should accomplish the purpose of providing a "Birds-eye-view" of the entire spectrum of activity.

(i) ***Technical feasibility:*** Technical feasibility would encompass factors such as description of the product specification to be adopted, raw materials available as per requirements, outline of manufacturing process inclusive of a "flow charts process", quality control measures, power supply, availability of water, transport facilities, and communication network.

(ii) ***Economic viability:*** It essentially involves compilation of demands for domestic and export markets, most appropriate installed capacity requirements, capturing a substantial share of market sale, revenue expected, and suitable price structure and so on.

(iii) ***Financial implications:*** Project costs covering "Non-recurring expenses" such as land and buildings, plant and machinery, equipments, pre-operative expenses, and so on and "Recurring Expenses" such as working capital needs, raw material needs, and wages for personnel and so on will have to be worked out in detail. The probable cost of production over a period of 5 years to be assigned and expenses such as fixed and variable expenses and break-even analysis should be presented. Besides, profit per month, percentage of profit on total investment and percentage of profit on expected sale should also be computed and furnished.

(iv) ***Managerial competency:*** The new entrepreneur manager entering the small scale sector should devote his full attention to the new venture and should consider the product line chosen as a "Major Economic Activity".

(i) Registration as SSI:

Small scale and ancillary units, (i.e., undertaking with investment in plant and machinery of less than Rs.6.00 million and Rs.7.5 million respectively) should seek registration with the director of industries of the concerned state government.

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

States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by states. It must be noted that small industries is basically a state subject.

Benefits of Registering:

The registration scheme has no statutory basis. Units would normally get registered to avail some benefits, incentives or support given either by the Central or state govt. The regime of incentives offered by the Centre generally contains the following:

- Credit prescription(Priority sector lending), differential rates of interest, etc.
- Excise Exemption Scheme.
- Exemption under direct tax laws.
- Statutory support such as reservation and the Interest on Delayed Payments Act. (It is to be noted that the Banking Laws, Excise Law and the Direct Taxes Law have incorporated the word SSI in their exemption notifications. Though in many cases they may define it differently. However, generally the registration certificate issued by the registering authority is seen as proof of being SSI).

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

Objectives of the Registration Scheme

They are summarized as follows:

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centre at the Central, state and district levels to promote SSI.

Features of the Scheme

Features of the scheme are as follows:

(1) DIC is the primary registering centre

(2) Registration is voluntary and not compulsory.

(3) Two types of registration are done in all states. First a provisional registration certificate is given. And after commencement of production, a permanent registration certificate is given.

(4) PRC is normally valid for 5 years and permanent registration is given in perpetuity.

Procedure for Registration

Features of the present procedures are as follows:

(1) A unit can apply for PRC for any item that does not require industrial license. Units employing less than 50/100 workers with/without power can apply for registration.

(2) Unit applies for PRC in prescribed application form. No field enquiry is done and PRC is issued.

(3) PRC is valid for five years. If the entrepreneur is unable to set up the unit in this period, he can apply afresh at the end of five years period.

(4) Once the unit commences production, it has to apply for permanent registration on the prescribed form.

The Following Form Basis of Evaluation:

(1) The unit has obtained all necessary clearances whether statutory or administrative. E.g. drug license under drug control order, NoC from pollution control board, if required, etc.

(2) Unit does not violate any locational restrictions in force, at the time of evaluation.

(3) Value of plant and machinery is within prescribed limits.

(4) Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

REGISTRATION AS SSI

(i) Provisional Registration:

If the entrepreneur has decided upon a suitable product and is actively considering the establishment of an industrial unit, he would be initially issued a provisional (temporary) SSI Registration Certificate. It is usually provided for a period of one year, and subsequently renewed for two periods of 6 months each. If the entrepreneur is not in a position to commence production on account of circumstances beyond his own control, extension of the provisional registration period would be considered.

Provisional Registration entitles the new entrepreneur to:

(i) Apply for a shed in an Industrial Estate or a Developed plot in an industrial area.

(ii) Apply corporation/municipalities for other licenses.

(iii) Apply for power connection.

(iv) Apply for financial assistance from banks and other institutions.

To Get the Provisional SSI Registration

(a) Filled in Application Form in duplicate.

(b) A declaration that the proposed unit is not owned/ controlled by or subsidiary to any other industrial undertaking.

(c) A detailed scheme of the proposed unit (if project cost exceeds Rs.40.00 lakh and/or if comes under special category under pollution control).

(d) Pollution Control Certificate for Consent to establish usually issued by DIC except special Red where activities relates to within the purview of SSI:

  (i) A site clearance certificate from local body/local self govt.

  (ii) A requisite fee has to be deposited based on the project cost and category in the branch of UBI, earmarked for, in favour of pollution control board.

(e) However, the provisional certificate will be issued subject to production of specific clearance of the concerned department for specialized items, if any.

(ii) Permanent Registration Certificate:

An industrial unit which has commenced production or is found to be in readiness to go in to production is eligible to get the permanent registration certificate. This step is usually taken only after the unit has gone in to stream.

TO GET PERMANENT SSI REGISTRAITION:

(a) Filled in application form in duplicate.

(b) Documents regarding constitution of SSI unit:

  (i) In case of limited company – the certificate of incorporation and article of memorandum of the association.

(ii) In case of registered society – copy of registration certificate.

(iii) In case of industrial cooperative – copy of co-operative registration certificate.

(iv) In case of partnership firm – copy of regd. partnership agreement.

(c) Purchase documents /cash memos/ sale agreement with payment receipt showing the original value of plant and machinery. An affidavit in case document in respect of purchase of plant and machinery/tool/implements, not available.

(d) An affidavit in the prescribed format is to be submitted to the effect that the formation/activity is well within the purview laid down procedures and norms laid down by the authority.

(e) Pollution Control Certificate for Consent to Operate (COO) from the appropriate authority depending on the category of industry.

(f) However, the permanent certificate will be issued subject to production of specific clearance of the concerned department for specialized items, if any.

Procedure for Registration of Micro, Small and Medium Enterprises in Goa

The 'Micro, Small and Medium Enterprises Development (MSMED) Act – 2006' has been implemented by the Government of India with effect from 2nd October, 2006. Under the Act, Enterprises (Industries) have been classified into four categories namely-

- Micro Enterprises
- Small Enterprises
- Medium Enterprises, and
- Large Enterprises.

The definition classifying Micro, Small, Medium and Large Enterprises is as given below:-

(a) Enterprises engaged in the manufacture or production of goods pertaining to any industry.

  (i) a micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;

  (ii) a small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees;

  (iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

  (iv) a large enterprise, where the investment in plant and machinery is more than ten crore rupees;

(b) Enterprises engaged in providing or rendering of services,

  (i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;

  (ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or

  (iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees;

The Registration of Micro, Small and Medium Enterprises are done in Two Stages as Follows:

Stage I – Provisional

The prospective entrepreneurs who intends to establish a micro or small enterprise or a medium enterprise engaged in manufacturing or production of goods or in providing or rendering or services, at his discretion has to file the Entrepreneurship Memorandum of Micro, Small or as the case may be, of Medium Enterprises, with District Industries Centre, Directorate of Industries, Trade and Commerce, Government of Goa.

The District Industries Centre on receipt of the Entrepreneurship Memorandum (EM) will fill all the codes in the EM and will issue an acknowledgement allotting Entrepreneurs Memorandum number, date of issue and category of the unit within five days of the receipt of the EM. This registration will be valid for two years.

Documents Required for Provision Registration:

The provisional registration formalities are simple and no elaborate details are required to be provided. However, any supporting documents while filling up the application should be provided, if the same are mentioned in it. It will be also be helpful to provide a brief note on the proposed project highlighting salient features.

Stage II – Permanent/Final

Once the entrepreneur start the production or starts providing or rendering services they have to file of the Entrepreneurs Memorandum to District Industries Centre.

In case of non-filing of document of the EM within two years, memorandum filed by the entrepreneur will become invalid.

In case of change in the investment in plant and machinery or in equipment; or change of products and that of services or addition in products or service, the entrepreneur/enterprise which has already filed entrepreneurs memorandum has to inform the District Industries Centre of the same in writing within three months of the change.

Documents Required for Final/Permanent Registration:

(1) N.O.C. from Directorate of Health Services/Primary Health Centre/Urban Health Centre/valid consent order to operate from Goa State Pollution Control Board as the case may be except in case of items specifically exempted by the government under specific order/ notification from time-to-time.

(2) The unit listed under green category shall be exempted from obtaining NoC from Directorate of Health Services/ Primary Health Centre/Urban Health Centre/valid

consent order from Goa State Pollution Control Board and in that case only Departmental NoC for establishment of the unit is required to be produced. Until government notifies the list of Green, Orange and Red Category, the present practice shall be followed.

(3) NoC/Trade License from Municipality/Village Panchayat /Corporation for the units established outside the Industrial Estate.

(4) NoC from the owner of the premises in the prescribed format.

(5) House tax payment receipt or any other documentary evidence like electricity bill, water charges bill, a letter from municipality or panchayat, etc.

(6) Partnership deed in respect of partnership firm duly registered with Registrar of Firms. Memorandum of Association and Articles of Association in respect of Private Limited/Limited Company, duly registered before Registrar of Companies.

(7) Excise license from Commissioner of Excise for liquor units, (alcohol based products)

(8) Fruit product order for soft drinks and any fruit-based product.

(9) License from Directorate of Food and Drugs Administration for food, drugs, and pharmaceutical products.

(10) License from Inspectorate of Factories and Boilers for the unit having 10 or more workers working with power connection and for unit having 20 or more workers working without power connection. In such cases the acknowledgement of the application by the Inspectorate of Factories and Boilers would serve the purpose.

For Carrying on Business (CoB) Clearance:

The same information for Carrying on Business (CoB) clearance required. Industrial undertakings which cross the limit of investment as prescribed in the definition of SSI by process of natural growth will need a "Carrying on Business" license before crossing the ceiling limit from DGTD.

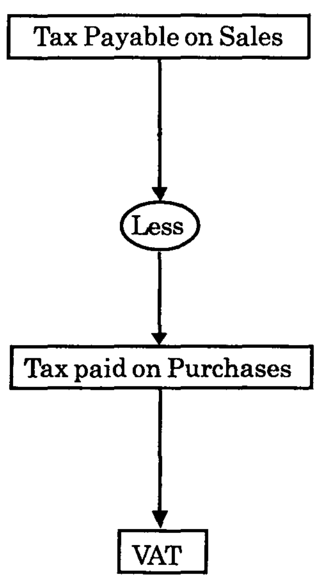
Entrepreneurs also seek to have registration under VAT/ CENVAT/EXCISE, etc. The details of the same have been given below:

What is Value Added Tax (VAT)?

Value Added Tax is the tax on value addition made by a seller on his purchases. Value addition is the difference between selling price and the purchase price. Whatever tax a seller pays at time of purchase on raw materials or other inputs is called input tax. The tax a person is liable to pay at the time of sales is called output tax. Value addition or VAT is the tax which is calculated as a difference between output tax and input tax. Every registered dealer other than a composition dealer as a pay net tax payable which is to be worked out as under:

Output tax $\xrightarrow{\text{Less}}$ **Tax paid on admissible purchases**
(Charged on sale of goods)

= Net tax payable, i.e., VAT to be deposited during the period.



Registration:-

(1) No dealer shall, while being liable to pay tax under Section 3 or under Sub-Section (6) of Section 19, be engaged in business as a dealer, under he possesses a valid certificate of registration as provided by this Act:

Provided that, the provisions of this sub-section shall not be deemed to have been contravened, if the dealer having applied for such registration as in this section provided, within the prescribed time or, as the case may be, within the period specified in Sub-Section (6) of Section 19, while he is engaged in such business.

(2) Every dealer, required by sub-section (1) to possess a certificate of registration, shall apply in the prescribed manner, to the commissioner.

(3) A person or a dealer who intends to be engaged in business, but is not liable to pay tax under the provisions of this Act may, if he so desires, apply in the prescribed manner under this sub-section for the grant of certificate of registration to the commissioner and if the certificate is granted, then so long as it is not duly cancelled, the person or dealer shall remain liable to pay tax.

(4) Certificate of registration and its renewal shall not be granted to be dealer unless he has deposited in government treasury prescribed fee in the prescribed manner and within the prescribed time.

(5) The commissioner may conduct such inquiry as he deems fit and may call for such evidence and information as he may been necessary and after the inquiry, if any, and after considering the evidence and information, if any, he is satisfied that the application for registration made under this section is in order, he shall register the applicant and issue to him a certificate of registration in the prescribed form:

Provided that if the commissioner is satisfied that the particulars contained in the application are not correct or complete or that any evidence or information prescribed for registering the applicant is not furnished, the commissioner may, after giving the applicant a reasonable opportunity of being heard, reject the application for reasons to be recorded in writing.

(6) The commissioner may after considering any information furnished under any provisions of this Act or otherwise received, amend from time-to-time, any certificate of registration.

(7) If a person or a dealer upon on application made by him has been registered under this section and thereafter it is found that he ought not to have been so registered under the provisions of this section, he shall be liable to pay tax during the period from the date on which his registration certificate took effect until it is cancelled, notwithstanding that he may not be liable to pay tax under this Act.

(8) Where:-

(a) Any business, in respect of which a certificate of registration has been issued under this section, has been discontinued, or has been transferred or otherwise disposed of; or

(b) The turnover of sales of a registered dealer has during any year not exceeded the relevant limit specified in Sub-Section(4) of Section, 3, then, in the case covered by clause(a), the dealer shall apply in the prescribed manner and within the prescribed time for cancellation of his registration to the commissioner, and in the case covered by clause (b), the dealer may apply in the prescribed manner for cancellation of his registration to the commissioner; and thereupon the commissioner may after such inquiry as he deems fit and subject to rules framed, cancel the registration with effect from such date including any date earlier to the date of the order of cancellation as he considers fit having regard to the circumstances of the case.

Registration of Dealers-

(1) An application for registration by a dealer under Sub-Section (2) of Section 18 of the Act shall be made in

Form VAT-I hereto within 30 days from the date of commencement of liability to pay tax under the Act, to the Appropriate Assessing Authority. An application for registration under Sub-Section (3) of Section 18 shall also be made in Form VAT-I hereto.

(2) The registration and the renewal fees as specified in second schedule appended to these rules shall be paid by challan in Form VAT-V hereto I the appropriate government treasury. Receipted copy of the challan thereof shall be submitted along with the application. An application for renewal of registration certificate shall be made as per the provisions provided in Rule.

(3) Provisions of Sub-Rule(1) and (2) above, shall also be applicable to any dealer making application for registration after succession of any business registered under the Act:

Provided that the registration fee of equal amount shall be payable on such application as paid by the preceding dealer, immediately before such registration.

(4) An application for registration shall be made, signed and verified in the case of business owned by,-

(a) An individual, by the proprietor or by a person having due authority to act on behalf of such proprietor;

(b) A firm, by partner thereof;

(c) A Hindu Undivided Family, by the Karta or an adult male member thereof;

(d) A body corporate (including a company, co-operative society or a corporation or local authority) by a director, manager, secretary or principle officer thereof or by a person duly authorized to act on its behalf.

(e) An association of individuals to which clause(b),(c) or (d) does not apply, by the principle officer, or the person managing the business;

(f) The government, by a person duly authorized to act on its behalf.

(5) The employer effecting deduction of tax at source as required under Sub-Section (1) of Section 28 of the Act, shall apply for registration to the Appropriate Assessing Authority in prescribed Form VAT-XXIV hereto and no registration/renewal fee shall be payable on such application.

Grant of Registration Certificate:-

(1) The Appropriate Assessing Authority, on making such enquiries as it may think necessary and on being satisfied of the geniuses of the information furnished and on ascertaining that the registration fee as specified in the second schedule hereto has been paid, he shall register the dealer and shall issue a certificate of registration in Form VAT-II.

(2) In the case of any employer effecting tax deduction at source, the registration certificate shall be issued in Form VAT-XXV hereto which certificate shall be valid for the year in which it is issued or up to such period as specified therein.

(3) The certificate of registration issued to the dealer,

(a) Shall take effect or be valid from the date of commencement of liability to pay tax if application for registration is made within the period specified in Sub-Rule(1) of Rule 14, or

(b) Shall take effect or be valid from the date on which the application has been filed with the Appropriate Assessing Authority, if such application is made after the expiry of the aforesaid period:

(c) Shall take effect in case of an application under Sub-Section(3) of Section 18 of the Act, from the date of application or from such further date as the Appropriate Assessing Authority may be Order fix;

Provided that in case of an employer effecting deduction of tax at source, the certificate shall take effect or be valid from the date on which deduction of tax at source is made or contractor's account is credited towards the payment of such deduction, whichever is earlier?

(4) The registration certificate initially issued shall be valid for a period of three years except for registration certificate issued to person or dealer making application under Sub-Section(3) of Section 18 of the Act, which shall be valid for the year in which it is granted or for such further period not exceeding one year.

(5) Any registered dealer, may obtain from the Appropriate Assessing Authority. on payment of fee of Rs.100 and on production of receipt thereof from a government treasury, a duplicate copy of any registration certificate issued to him and which may have been lost/destroyed/ defaced;

Renewal of Certificate of Registration:-

(1) An application for renewal of registration certificate except voluntary registration shall be made on plain paper at least one month prior to the expiry of the period for which it was issued or earlier renewed. A receipted copy of the challan in proof of payment of renewal fees as specified in the second schedule appended to these rules shall accompany the application for renewal.

(2) The Appropriate Assessing Authority on receipt of the application shall renew the certificate of registration for a period of three years, making necessary endorsement thereto or issue him a letter stating that the certificate of registration stands renewed for specified period which will form part of the certificate of registration originally issued.

(3) The renewal fees paid in excess, if any, shall be refunded to the dealer concerned by issue of refund voucher in Form VAT-XII. However, before proceeding to refund the said amount to such dealer, the Appropriate Assessing Authority shall first verify if any amount being due by the dealer is left unpaid by him and in such case shall adjust by issue of an order in Form VAT-XVI, the amount to be refunded towards the amount due from the dealer on the date of adjustment. If the amount of refund is

less than Rs.100 no refund voucher shall be issued but the amount shall be adjusted or be considered for being adjusted in subsequent years.

Registration of Manufacturers and Dealers:-

Every manufacturer of excisable goods is required to get him registered before commencing production. Similarly, every importer or dealer desiring to issue CENVAT invoices should also get himself registered. There is no fee for registration and a factory or unit is to be registered once only. There is no requirement of renewing the registration. The registration is valid only for the premises it is granted. Thus, the manufacturer or dealer having more than one premise is required to obtain a separate registration for each premises form the respective Range Superintendent having jurisdiction over the premises, whether it be a factory or a depot/branch office desiring to issue CENVAT invoices. If a manufacturer desires to start production of a new product he should get his registration certificate duly endorsed to this effect. The Registration Certificate is to be granted within 30 days of the receipt of an application and if the same is not granted within the said period, it shall be deemed to have been granted. The units manufacturing fully exempted goods or 'nil' rated goods unconditionally are not required to get them registered.

The existing registration nos. has been replaced by PAN-based15-digit registration nos. w.e.f. 1st December, 2001. The PAN-based registration no. is alpha numeric. The first part would be the 10 character (alpha numeric) Permanent Account number issued by Income Tax authorities. The second part would comprise of a fixed 2 characters alpha code which will be as follows:

	Category	Code
1.	Central Excise Manufacturers	XM
2.	Registered Dealers	XD

This is required to be followed by three character numeric code – 001, 002, 003... etc. as the case may be. In case, a manufacturer has only one factory/dealer's premise/warehouse, the last three characters will be 001. If there are more than one factories/dealer's premises/warehouses of such a person having common PAN for all such premises, the last three character would be 002, 003 ....etc.

Declaration

The SSI units exempted from payment of duty on the basis of annual value of clearances have been exempted from the requirement of registration so long as their value of clearances for a financial year does not exceed the exemption limit. Such units are only required to file a declaration to the department and there is no need to maintain the statutory Central Excise Records in respect of their production and clearances. However, the units are required to maintain the running serial numbered invoice book and they should also mention the progressive value of clearances in the said invoices. They are not required to submit any return to the department.

Dealers

The Central Government has made it possible for manufacturer of excisable goods to avail MODVAT (now CENVAT) credit of duty paid on the inputs purchased from any dealer, w.e.f. 4/7/94. The dealer intending to issue modvatable (now Cenvatable) invoices should get themselves registered with the jurisdictional Range Superintendent by following the procedure prescribed in Rule 9 of Central Excise (No. 2) Rules, 2001. A separate registration should be obtained for every godown/storeroom of the dealer. The dealers who get them registered with Central Excise will ensure that the prescribed register is maintained in the godown/storeroom. The dealer is required make proper entry of each consignment received/issued by them in the prescribed register (see details in Central Excise Rules and Manual).

The dealer shall issue the invoices made out in quadruplicate. The copies of the invoices issued by a first stage dealer and a second stage dealer shall be marked at the top as "FIRST STAGE DEALER" and "SECOND STAGE DEALER" respectively. The invoice issued by a first stage or second stage dealer in the case of imported goods and by a second stage dealer in the case of other goods, shall be duly authenticated by the proper officer. The dealer shall issue only one invoice in respect of the consignment if all the packages comprising the said consignment are dispatched in one lot at any one time. If a consignment is split up into two or more lots and each such consignment is dispatched separately either on the same day or on different days, a separate invoice shall be made out in respect of each lot. Separate invoices shall be issued in case where the consignment is loaded on more than one vehicle.

The dealers are required to submit to the range superintendent, a monthly return and other documents for verification. For exercising proper administrative control on collection of Central Excise Duty, every manufacturer who is liable for payment of Central Excise Department under whose jurisdiction his place of manufacture falls. (Section 6 of the CEA 1944 and Rule 174 of the CER 1944).

The application for registration is required by law to be sanctioned within 30 days of application. Separate applications are required to be made in respect of each premise in which excisable goods are manufactured/stored.

The government has exempted certain categories of units form the requirement of registration. Those whose goods are exempted from payment of duty on the basis of the aggregate annual value of their clearances being below the limit of Rs.50 lakh. However, even in respect of such units, they are required to give a declaration to the Central Excise Department each year before the 15th April indicating the goods manufactured and the value of the annual clearances.

Section 6 provides that the prescribed person(s) get himself (themselves) registered with the jurisdiction Central Excise Authorities.

Rule 174 of the Central Excise Rule, 1944 further requires every person, who cures, produces, manufacturers, carriers on trade, deals as a broker or commission agent, or holds private storeroom or warehouse or otherwise used excisable goods or a person who issues invoice or invoices, to get himself registered and not to engage himself in the said activities without making an application for such registration to the jurisdiction Range Officer in the specified form called the 'Application for Registration' R-1

Registration of Dealers

The dealers of excisable goods who wish to issue modvatable invoices, so as to pass on modvat credit to the manufacturers, have to get themselves registered under Rule 174 of CER, 1944 with the Central Excise Department as per the provisions of Notification 32/94(N.T) and 33/94(N.T.) dated 04.07.94

Further, they are required to maintain registers in the form RG-23D prescribed under Rule 57GG of the CER,1944 and are required to possess godown/ places of storage of excisable goods (either owned or rented) and are required to give the particulars of such godown along with the Application for Registration' R-1

The RG-23D register is to be maintained godown wise in case the registered person has more than one godown.

Procedure for Registration

The person/persons who wish to get Central Excise Registration have to make an application for registration to the jurisdictional Superintendent of Central Excise in the form R-1.

The Application should Contain

(1) Particulars of the person applying for registration, name of the firm, address, other details like income-tax number, sales tax number, banker's name, account numbers.

(2) Ground plan of the premises

(3) Partnership deed (in case the manufacturer is Partnership Firm)

(4) Memorandum and Articles of Association. (in case manufacturer is company registered under Companies Act.)

(5) By-laws of the Society (in case the manufacturer is cooperative society)

(6) Copies of board resolutions, authorizing the officers concerned to sign, execute the application pertaining to Central Excise Matter.

Under the provisions of Rule 174 of CER, 1944 separate Registration certificate is required for separate premises. Transfer of business form one person to another requires a fresh application for registration.

Deregistration

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

(1) It crosses the investment limits.

(2) It starts manufacturing any new item or items that require an industrial license or other kind of statutory license.

(3) It does not satisfy the condition of being owned, controlled or being a subsidiary of any other industrial undertaking.

Also,

(4) If the unit/enterprise remained closed continuously for a period exceeding one year.

(5) If the units/enterprise failed/refused or avoided to give full and truthful information as called upon by the registering authority from time-to-time and in particular for half-yearly report.

Before deregistering the unit a Show Cause Notice to the party should be sent by registered post at the address given in the application form and 30 days time will be given for reply. Action to deregister unit/enterprise will be taken only after the expiry of 30 days time. Any unit/enterprise aggrieved by the order of deregistration can appeal to the authority notified by the state government within 30 days of receipt of intimation of the same.

(j) Municipal Licence

The next step would be to obtain Municipal Licence. For example in Delhi it is necessary to obtain a Municipal Corporate Licence (M.D.C. Licence) for which fees is charged. Registration with Central and State Sales Tax Department would be necessary for which the concerned department would have to be contacted. An entrepreneur should study the procedure for accounting sales to these departments and returns have to be submitted regularly.

If the unit comes within the purview of the Factories Act, e,g., employs 10 persons with power or 20 without power, registration with the inspector will also be required. Otherwise the unit has to be registered under the Shops and Establishment Act, if applicable.

(k) Power Connection

There are two categories of power, viz.: (1) The Low Tension (LT), and (2) The High Tension (HT). A consumer can avail LT only if the connected load is 75 HP and below. In respect of the cases where the connected load is between 75 HP and 130 HP the consumer has the option to avail either LT supply or HT supply. If the connected load exceeds 130 HP the unit is classified as HY consumer. Most of the small scale units fall under the LT category. To get power connection, the New Entrepreneur has to make an application to the Assistant Divisional Engineer, State Electricity Board; the LOAD APPLICABLE for the new unit would be decided. The new entrepreneur may have to pay security deposit amounting to three months power connection. To avoid delay in getting power connection, formal application may be given when step is taken.

(l) Arrangement of Finance

The funding requirements of a project are of:

(i) Long-term requirements for acquiring fixed assets like land and building, plant and machinery and for security deposits.

(ii) Short-term loans for working capital in the form of key loan/cash credit/bill discounting, etc.

Term loans for fixed assets are provided by the State Financial Corporation and Commercial Banks. State Financial Corporation extends financial assistance by availing the refinance facilities available with the Small Industries Development Bank of India in most of the cases. Rate of interest varies depending on the amount of term loan sanctioned and is generally based on the Reserve Bank of India Guidelines.

(m) Place Order for Machinery

While purchasing the machinery, entrepreneur should check on the ability of available suppliers/dealers to supply the specified quality. He should consider the financial viability and dependability of various suppliers and should check their delivery records and consult other entrepreneurs if necessary. It is always a live issue whether to utilize one source or several sources for any one item. By utilizing a simple source, the supplier may offer special concession and cooperation but the buyer may suffer at the same time from a reduction in competitive pressure. A common practice which is felt to provide the best answer is to give a contract for a large portion through competitive bidding. This permits full cooperations from the larger suppliers and to obtain special consideration from him especially when it is required. Once the entrepreneur finalized the suppliers the immediate step is to place the orders with the same as decided in the prescribed form. This act as a contract between the entrepreneur and the suppliers to supply the equipment and other accessories in the desired quality and quantity at the stated price within a stipulated period.

(n) Procurement and Installation of Machinery

Procurement of required type of machine facilitates smooth and efficient functioning of production process. Installation of machinery is influenced by certain factors connected with the production process, viz., volume of work to be handled, the product to be manufactured including their components. For instance, shearing machine to be installed depends on the numbers, size, weight, shape, etc., of plates. Press machine of 60 tonnes, and 150 tonnes plus should have the capacity to withstand the stroke of the press machine. Therefore installation has to be done by technician or by experienced and well-trained labourers under the guidance of technically expert personnel.

(o) Recruitment and Training of Staff

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the business unit. Entrepreneur should analyses the job; analysis of job involves the preparation of job description and job specification for individual job. An analysis of job is prerequisite to any recruitment process.

Training should be provided for staff that will be using the programme to ensure that there is a reduction in the risk of errors. For example, a firm bought some "off-the-shelf" software for use in its accounts department, the supplier also offered one week's training but the firm decided that it could only afford to pay for three days of training. Accounts staff was sent on the course and on their return set about operating the new package within a few days it was evident that there were many problems as staff realized that they had only received training on how to use roughly half of the package.

(p) Procurement of Input

Through procurement function entrepreneur operates as a customer. Accordingly, it is susceptible to the marketing strategies of the vendors from whom it obtains the materials that are required for its operation. Depending upon the extent to which the business unit requires outside suppliers and is not self-sufficient the importance of the buying function increases. Here, purchased inventory may be divided into two major groups: (i) materials required for production, and (ii) materials required for maintenance of plant and equipment. Here entrepreneur can either purchase manufactured and assembled items or can deal primarily with basic raw materials and commodity markets.

(q) Trial Run and Commencement of Commercial Production

The thorough testing of programmes before they become operational: this should also involve the use of 'benchmarks' to determine the optimum time taken for a programme. Such benchmarks may be of use to an entrepreneur in checking whether programmes have subsequently been tampered with for example, a new programme had just been devised by an enterprise and was put online immediately with no major trials. Within two months it was apparent that the programme contained major flows and it took 12 months for the programme and the problems it caused to be put right.

Entrepreneurs can go ahead with his production activities. To facilitate effective, efficient and uninterrupted production of goods and services, entrepreneurs should well in hand determined the procedure of placing the orders with the dealers/suppliers, acquisition, installation and utilizations of the machinery and equipments.

GOVERNMENT OF DELHI
OFFICE OF THE COMMISSIONER OF INDUSTRIES
CPO BUILDING, KASHMERE GATE, DELHI
FORM

1. Name of Unit/Applicant

2. Address of communication

   Tel.: Pin Code :

3. Category of Unit
   SSI-1, ANC-2, SSSBE-3, TINY-4,
   EOU-5

4. Location :

Place/Town

Tehsil/Taluk

District

State

5. Type of organization:
   Proprietory-1, Partnership-2, Pvt. Company-3, Cooperative-4,
   Others-5

6. Nature of activity :
   Manufacturing/Assembly (01)
   Processing (02)
   Job work (04)
   Repairing/Servicing (08)

7. Main items of manufacture/activities.

(i) Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

☐☐☐☐☐☐☐☐☐ Code:*

(ii) Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Code:* ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

(iii) Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Code:* ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

(iv) Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Code:* ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

(v) Name ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Code:* ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

8. Investment in Fixed assets (Rs. in '000) ☐☐☐☐☐

(i) Land ☐☐☐☐☐

(ii) Building ☐☐☐☐☐

(iii) Plant and Machinery ☐☐☐☐☐

(iv) Other fixed assets ☐☐☐☐☐

TOTAL

9. Investment in Plant and Machinery

(Original value Rs. in '000)

Note: Should exclude items whose value is not taken into account while computing the investment, please enclose project profile in case value of investment in Plant and Machinery exceeds Rs. 40 lakh.

10. Power Load ☐☐☐

H.P.

(1 H.P. = 0.795 K.W.) ☐☐☐

11. Employment ☐☐

(i) Management and Office Staff ☐☐☐

(ii) Supervisory and Workers

12. Date of commencement of production (estimated)

Signature of Applicant (Authorized Person)

Date:

Name of proprietor/partner/managing director

FOR OFFICE USE ONLY

Application No. NIC CODE

Block Code District Code State Code

Location of Unit

(Conforming -1, Non-conforming-2)

Whether the items of manufacture/activity require an industrial licence.

Yes-1, No.-2

GOVERNMENT OF DELHI
OFFICE OF THE COMMISSIONER OF INDUSTRIES
CPO BUILDING, KASHMERE GATE, DELHI

PROVISIONAL REGISTRATION

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

Provisional Registration No.: | | | | | | | | | | |

Date of Issue :

Category of unit (S.No.3) | | | | | | | |

Signature

Name & designation of
Registering Authority

(1) The endorsed application form is a part of the certificate of registration.
(2) The provisional registration is valid for a period of five years from the date of issue.
(3) The provisional registration will automatically lapse at the end of the validity period or the date of commencement of production, whichever is earlier.
(4) If an applicant/unit unable to set up the unit within the validity period, the applicant/unit has the option to apply afresh for provisional registration using standard procedure.
(5) The provisional registration is given to enable the unit to obtain all facilities/clearance, etc., required in the pre-production stage.
(6) The provisional registration is subjected to any or all conditions that may be imposed by the Registering Authority.

GOVERNMENT

DIRECTORATE OF INDUSTRIES

APPLICATION FOR PERMANENT REGISTRATION AS

SMALL SCALE INDUSTRIES

(TO BE FILLED IN TRIPLICATE)

INSTRUCTIONS:

(1) Write/type in block (capital) letters.

(2) Fill up whichever is applicable.

(3) Use English alphabets/Arabic numbers while filling up blocks (to help computerization).

(4) Leave one blank after each word.

(5) While filling the form, use the following procedure. I) Name of the unit

e.g., KAMAL ENTERPRISES/G.K ENTERPRISES

K	A	M	A	L				E	N	T	E	R	P	R	I	S	E	S	

G		K		E	N	T	E	R	P	R	I	S	E	S	

(ii)	Pin Code: e.g.	1	1	0	0	4	1
(iii)	Date: e.g.,23rd June, 1959	1	1	0	0	4	1

(iv)	Quantity (kg) e.g.,90 kg	0	0	0	0	9	0

(v)	Amount (Rs. in thousand) e.g., Rs.5,000/-		0	0	0	0	5

(vi) Fill up appropriate codes in the blocks wherever applicable

Example 1: Yes-1, No-2, NA-3						3

If NA fill up-3

Example 2: Category: SSI-1, Anc-2,

Tiny-3, SSSBE-4,

Eou-5						3

If Tiny fill up-3 5. Block/boxes marked (*) are to be filled by office.

(6) Applicant should sign all copies. Abbreviations used:

SSI: Small Scale Industries, ANC: Ancillary Industrial Undertaking, SSSBE: Small Scale Service and Business Enterprise, TINY: Tiny Enterprise, EOU: Export Oriented Unit, NA: Not Applicable.

Question for Self-Assessment

(I) Answer the following in not more than 400 words :

(1) Describe the various steps to be taken by an entrepreneur to start a small scale industry.

2) Discuss the procedure for registration of a small scale unit.

(3) Critically examine the various forms of ownership available for setting up small business.

(4) How will you choose the most appropriate form of entrepreneurial organization for your business?

(5) Emphasize the need for registration of SSI units.

(II) Answer the following in not more than 100 words :

(1) Obtaining municipal licence.

(2) Power connection.

(3) Provisional registration.

(4) Permanent registration.

(5) Partnership form of ownership.

(6) Sole proprietorship form of ownership.

(7) Private limited company.

(8) Importance of training.

(9) Trial run.

(10) Registration under VAT.

(11) Registration under Cenvat.

(12) Benefits of registration.

Chapter 2

Role of Institutions in Supporting and Developing Entrepreneurship

INTRODUCTION

Finance is the lifeline of the project the entrepreneurs planning to undertake. Very often main problems encountered by new entrepreneurs are those of raising finance for land constructions, equipments, working capital requirements, etc. One of the first questions is that. An Entrepreneurs has to ask himself before thinking of raising a loan is whether he/she really needs the loan. Once the entrepreneur is sure that a loan to be raised , it is then time to look at the various options available. A number of financial institutions, commercial/cooperative banks; district industries centre provide financial to the entrepreneurs. The financial institutions that offer differed loan schemes for different purposes are explained hereunder:

Entrepreneurship Development Institute of India (EDI)

This is a key organization to play a vital role to develop entrepreneurship. It is not working for profit. It has been established by the inspiration and joint efforts of IDBI, IFCI, ICICI, and SBI. The Govt. of Gujarat has allotted 23 acre land to build grand campus of this organization. This is an autonomous and independent body.

This organization has successfully managed various training programmes for entrepreneurship development and proved that people of any class can own a business and respectfully earn their livelihood. It has proved that the belief that entrepreneurs are born, not made, is untrue. This organisation has proved with its activity and performance that entrepreneurship can be developed with properly planned efforts. To make it happen EDI has helped to set up 12 state level entrepreneurship development centres and institutes.

Main activity of EDI is to identify entrepreneur by the programme of self-employment and small industries development, later on it trains and inspires them to set up and develop small as well as village industries. From 1986 to 1990 EDI, with the help of Ford Foundation had applied three years programme in three states to develop entrepreneurship. 150 non-government volunteer organizations work to carry out programmes of this organization.

EDI has executed micro enterprise development programmes (MEDPS) as well as other programmes in the period of more than 13 years with the help of NGOs. It has groomed many entrepreneurs from rural and town area. This organization had carried out GIO MEDPS programmes and trained 15,243 rural youth in a decade.

Besides above EDI also works to strengthen capability of NGOs. It has trained 325 workers of more than 200 NGOs. More than 150 NGOs, had managed MEDPS. They did it either independently or with EDI. Chief Managers of more than 250 NGOs had participated in various training schools. They were encouraged by realistic information about small scale industries about development of financial transactions and had developed their activity. It was undertaken by micro credit programmes. NGO and banks hold dialogues for easy finance to entrepreneurs. 40 bank managers are given detailed idea about financial requirements of entrepreneurs start their business immediately after completion of training.

More than 100 chief executive officers and senior workers who are associated with NGOs have been given high level managerial training. These officers were from U.P., H.P., Rajasthan and Haryana.

The Govts. in Centre and state have approved the successful performance and activities of EDI. The international institutes, which work for development of entrepreneurship, have helped EDI. Thus, EDI has been helped by world famous organizations like world bank, common wealth secretariat, UNIDO, ILO, British Council, Ford Foundation, etc. It has been appreciated by declaring it "centre of excellence" for its global achievements by United Nations Economic and Social Commission for Asia and Pacific (ESCAP) Bangkok, Thailand and India.

EDI is a national resources organization. It is committed training, research and education of entrepreneurship. It explores novel techniques for such training. Training and educational material is also provided to trainees by learned experts. Experience and experiments are also shared with them.

EDI has a nation wide network. The organizations fully working to develop entrepreneurship are connected with it. It is also associated with inter regional centre for entrepreneurship and investment training sponsored by Government of India and United Nations, Industrial Development Organization. It is also concerned with national science and technology entrepreneurship development board.

In education field it works for entrepreneurship development of present entrepreneurs, microenterprise, microfinance development, development of entrepreneurship, promoting organizations, environment for entrepreneurship, research and development in entrepreneurship, etc.

EDI felt that to reach to the people and to prepare skilful entrepreneurs industrial education and training is the best medium, hence it emphasize on them. Entrepreneurship education is main activity of EDI. EDI plans faculty development programmes for engineering colleges and schools. It arranges summer camp for children and young people to inspire them to be capable entrepreneur. More over EDI plans seminars, workshops to apply entrepreneurship, education for future prospects and for educationists, policy decision-makers, administrators, etc.

EDI holds skill-based development programme for the raising demand of training in the fields like rural market capacity. Unit-wise finance distribution, in-house financial management in NGOs, etc. EDI arranges training and development programmes keeping the necessities of rural entrepreneurship programmes NGOs and voluntary organizations training and expansion programmes, self-employment for rural youth, etc., in mind. EDI plans programmes for the NGOs to manage their finance system, accounts, and individual administration properly as well as to groom youth to be the best entrepreneurs. It undertakes specific activities to develop rural markets and micro credit based rural business.

EDI encourages entrepreneurs who are running and managing their business to develop and expand their activity. It also works for small entrepreneurs to improve their activity. For this objective EDI holds programmes for performance improvement programmes, development programmes, inter-entrepreneurship programmes for exports, small industries management help programmes, etc. To develop entrepreneurship EDI arranges specific programmes for skilful work based management as well as to develop technology and unit in enterprise. EDI continuously strives to improve its depth and strongness to develop entrepreneurship development programmes and their organizations. For the same it arranges basic training programmes, skill development programmes and open entrepreneurship information programmes for trainees. These programmes considerably help to improve the performance at existing and potential entrepreneurs. Officers and managers of development organizations, financial organizations, also help this organization. EDI, holds research programme for entrepreneurship environment.

A new entrepreneurship research centre which is founded by national science and technology entrepreneurship development board also associated with EDI. EDI is going to set up laboratories and testing centres in industrial area through above institute. The entrepreneurs who develop technology are inspired by this because it provides information about developed technology. Besides these EDI has a separate centre for research and Entrepreneurship Education and Development (CREED) for developing research for training and education about entrepreneurship. EDI bridges practical and theoretical concepts of entrepreneurship.

EDI's activity for the development of entrepreneurship, grooming of new entrepreneurs identification of business opportunities, project evaluation, etc., are worldwide appreciated. Due to excellent performance of EDI, the Government of India and UNIDO has sponsored Inter-regional centre for entrepreneurship and investment training.

National Institute for Entrepreneurship and Small Business Development (NIESBUD)

This is a paramount to coordinate activities of those organizations who arrange training classes for entrepreneurship development. It was established in 1960 under society act and has commenced its activity since 1983. Its works as secretariat of National Entrepreneurship Development Board which enacts policies for entrepreneurship.

It provides standardized syllabus and training to various groups and concerned. The govt. provides full fund for the programmes of this organization. It holds programmes having high demand or not held by other institutes with such programmes it inspires, encourages, develops and expands entrepreneurship.

The organization (NIESBUD) works for those institutes working directly or indirectly in the field of entrepreneurship and tries to make stronger.

Its main objective is to develop and expand entrepreneurship and the institutes working in this field. It helps to make the activity of such institutes more efficient and result-oriented.

Its second object is to identify potential entrepreneurs and to train them, to help them, to provide detailed information, to exchange of the people working in this field. It also works for improvement in policy and programmes to be helpful in the formation of concerned policies.

A governing council has been formed to provide direction to this organization. Union minister of industry holds its office of chairman and minister for state of industry ministry holds the office of vice-chairman of NIESBUD. It arranges programmes keeping various people in mind who are involved in various activities. In this context NIESBUD holds various programmes for entrepreneur their supporting agencies, professionals, govt. agencies. NGOs and for the people working for the development of entrepreneurship, it arranges special programme trainers, training promoters, entrepreneurs of small industries, etc. It also arranges programmes for small aid, continuous educational programme. Entrepreneurship based programmes HoDs and senior administrators. In the same way for the teachers, research analyst of IIT, professors of engineering colleges, senior officers of merchant banks, SIDO, Shramik Vidhyapith's officers, they arrange special training classes.

NIESBUD continuously evaluates its programmes and makes necessary amendments according to current requirements. Thus, necessary amendments are made according to requirements of entrepreneurship and small industry development. NIESBUD also works to create warm atmosphere according to changing condition of society for entrepreneurs, as well as to get support and co-operation from society.

Thus NIESBUD plays a significant role to develop entrepreneurship and small industries, nation wide speciality of its activity is that it doesn't work in the fields which are less important, less necessary and the fields in which other organizations are working. It works in the field having raising demand and in which others are not working. It also helps other agencies, institutes concerned with the same field.

It tries to improve efficiency of the top most officers of finance and industrial field by training and educating them and for the development of their organizations.

It provides direction to the government to enact policies and programmes for entrepreneurship. Industry ministry and specific important ministers are associated with this organization, which denotes its worth and importance.

NIESBUD's activity defers from EDI. Both are having same goal but carryout different task. EDI works is connected with rural entrepreneurship and self-employment, whereas NIESBUD doesn't involve itself in them; hence money and efforts are not wasted.

Its structure and activities are flexible. It is continuously changes itself according to changing condition, demand, economic and industrial condition. It continuously evaluates its performance, programmes, policies, structure, etc. It arranges its programmes according to demand and requirement of industries and entrepreneurs.

However, it has more power than EDI, also having a wide spread field and work area, though it has not reached to all existing and potential entrepreneurs. The impression is such that it works only in cities. It has not reached to wider class of rural entrepreneurs like EDI has. Though it helps a lot to enact and to apply policies and programmes in the field of entrepreneurship.

Small Industries Development Organization (SIDO)

SIDO was established in New Delhi for development of small industries and organizational structure development. It has nation wide network. It provides economic and mechanical services. It is associated with office of small industries dept. agriculture and rural industry ministry as well as the Government of India.

SIDO is a noddle agency of Central government. It is a paramount organization to enact policies and programmes and to apply coordinate to control and to manage these programmes. It provides many important services to small industries. It provides services of adviser of economic management matters. It helps small entrepreneurs by providing training, some general facilities, testing instrument facility, market aid, etc. All these activities are being carried out by its regional agencies and other specially formed organizations. Among these organizations, small industries service institutes, regional testing centres, field testing centres, field testing stations, tools room, tool design, institutes field process-cum-product development centres, etc., are included, moreover 28 small industries service institutes and branches, small industries service institutes have 30 branches to work for this objective. They are situated in state capitals and at other locations.

These institutes run programmes to encourage entrepreneurship and provide advice to entrepreneurship. It holds surveys at state and district level to explore potentiality of industrial development. 4 regional and 10 zonal testing centres provide testing facility and advice. It also arranges training centres, toolrooms and tooldesign institute provide training and advice to entrepreneurs for production, product design, their arrangement, and management, etc., with coordination of tools manufacturers.

It also sets product-cum process development centre to work as research and development institute where industries are developed in clusterous form. It also helps for product designing, product improvement, development of packaging technology, man power development, training, etc.

Besides its zonal agencies there are some specific organizations, like national small industries corporation, New Delhi, which provide machinery to small industries on hire-purchase basis. It also provides market aid, technological help, instrument on hire base, etc., for the purpose of training and development of entrepreneurship. National Institute of Small Industry Extension Training Hyderabad and National Institute for Entrepreneurship and Small Business Development, New Delhi, carry out related programmes, SIDBI programmes finance to small industries. A small industry board has been formed to co-ordinate Central and state governments. It is highest advisory body. It advises the government about every facet of small industry.

These are many organizations working at state and Central level which provide various means and services. They include district industry centre, small industries development corporations, state small industries development corporations, industry commissioners and supervisor, etc.

National Alliance of Young Entrepreneurs (NAYE)

It's a national level body for young entrepreneurs. It specially strives for preparing women entrepreneurs. 1975 was the year, observed for maintaining women's status and respect, hence in the same year NAYE added as women's wing in its structure. It nurtures entrepreneurship in women. It grooms women entrepreneurs in big scale. It has put in lots of efforts have a proper place and respect for women in our industrial structure and economy.

NAYE a national institute for young entrepreneurs had hosted a conference in 1975 in New Delhi. In which through discussion was made about needs of women entrepreneurs, their problems, steps towards development, etc. NAYE represents various authorities to sort out individually the problems of woman entrepreneurs.

Women entrepreneurs are given required information through workshops, conferences, seminars, training programmes, etc., and it is seen that they get required facilities. Lobbying is being done by women's wing of NAYE to press parliament, state assemblies and in other forums for women entrepreneurs. Thus, proper efforts are done for women to secure their deserved place.

In May 1985, "The Association of Women Industrialists/ Entrepreneurs of Maharashtra" was established . 400 of its members work to develop women entrepreneurship in the state.

NAYE had a vital role in foundation of this association. It has its H.O. at Pune. It has its branches at Mumbai, Nasik, and Aurangabad and at other places. It associates NAYE to market its member's product and hold training programmes.

Thus, NAYE strives hard for upliftment of young entrepreneurs especially women. It has played a considerable role to make women entrepreneurs independent and to olive respectfully. It holds workshop, conferences, training classes, etc., to create awareness in entrepreneurs.

It is succeeded to uplift women entrepreneurs and it was appreciated worldwide. The way association for women entrepreneurs covering entire state in Maharashtra is formed. Such association should be formed in every state having branches in all districts to establish women's importance and place in the society and economy. In the same way SEWA (Self-Employed Women's Association) has performed better in Gujarat to make women independent.

State Bank of India (SBI)

Activities of India's biggest, widespread, versatile bank SBI include development of entrepreneurship. It also carries out development based banking activities along with traditional merchant banking. It is a leading bank at this facet. It was pioneer to form various programmes and schemes for the development of entrepreneurship. It especially manages its programmes to develop industries in backward area. Since 1978, SBI carry out various programmes to develop entrepreneurship.

In the leading associations working for entrepreneurship EDI was founded in 1983. NIESBUD was also founded in 1983. SBI also started its activity in 1978 for entrepreneurship. Hence, SBI is a leading bank among the organizations working for entrepreneurship. SBI has formed a unique model for the development of entrepreneurship in which a rigorous training of one month is given to entrepreneurs. It covers behaviours training etc. SBI bears all expense of training like stay food, etc.

SBI has three phases of its entrepreneurship development programme.

(1) The first phase includes to search for the person having potentiality for the development of entrepreneurship.

(2) In second phase various programmes are held for the development of such person like management skills, training programmes, inspiration, etc.

(3) In the last phase the person is given all necessary aids to develop his business and inspiration as well as encouragement is provided to such entrepreneurs.

SBI has understood the importance of small industries in national development of economy, hence, it has financed on large scale to small industries, small entrepreneurs are also encouraged by SBI. It has made a separate arrangement for the finance to small industries. SBI applies development programmes packages keeping specific requirements of small industries in notice. This package has various programmes and schemes. It also includes liberal loan, in which SBI finances up to 75% of project cost, hence, an entrepreneur has to arrange only for balance 25% amount. A technically qualified entrepreneur gets loan to cover entire project cost. The entrepreneur qualifying in the technical qualification set by bank gets 100% loan. Besides this under equity fund scheme up to Rs.1 lakh is financed as interest free loan to fulfils equity deficit. Thus, SBI has an important stake in the development process of entrepreneurship in country. It identifies and trains the entrepreneurs. It finances them to commence their business. Qualified entrepreneurs get loan up to to 100% of cost. Interest free loan is also given to fill equity deficit.

District Industry Centre (DIC)

Morarji Desai Govt. of Janta Morcha party had thought of DIC for decentralized and balanced industrial development as well as for the development of rural and small industries. This programme was commenced on 1st May, 1978, during 7th five-year plan. Central and state govt. shares 50:50 of the cost of this programme.

DIC operates in every district of the country, 422 approved district industry centres were covered 431 districts. Its objectives are to develop tiny, small and rural industries, as well as, to increase employment in villages and backward areas. It works as a single window agency for entrepreneurs, where they carry out most of the tasks of entrepreneurs. It helps to provide all kinds of help to small industries under one roof at district level. Small industries get registration in their district. It performs an important task of helping entrepreneur pre- and post-finance aids. Especially it looks after to establish more and more industries in rural backward area.

"Prime-minister Rojgar Yojna" is also applied by District Industry centre to help unemployed youth to be self-employed. This scheme was announced in August, 93 and applied on 2nd October, 1993. This programme was started with a view to employ 10 lakh unemployed youth through 7 lakh small enterprises. It was anticipated to select beneficiaries by NGOs as well as training and project profile preparation for entrepreneurs. This centre provides information about business opportunities to entrepreneurs. It helps entrepreneurs in various phases from preparation of project report to application of project. It helps to avail infrastructural like land, electricity, etc., to entrepreneurs. First of all an entrepreneur has to select district and secondly he has to get registration in the Centre.

Thus, these centres look after various activities for the development of industries and entrepreneurship in the district. All information can be gathered from one place. All the govt. schemes for tiny and small industries are applied by DICs. It provides direction and information from commencement to complete management of business.

This is a scheme in which Central and all state governments are equal financial partner. DIC carry out conspicuous activities for industrial development in rural and backward area.

Role of DIC for the Promotion of Small Scale and Cottage Industries

(1) Technical support of preparation of project Report.

(2) Information on sources of machinery and equipment.

(3) Priority in Power Supply/ Telephone Connection.

(4) Promotion of new Industrial Estates/ Growth Centres.

(5) Land/Shed in Industrial Estate.

(6) Approval of Project Reports of special types.

(7) Promotion of Electronic Industries.

(8) Govt. Margin Money Loan under Additional Employment Programme.

(9) Training through Entrepreneurship Development Programme.

(10) Assistance under State Incentives Scheme.

(11) Allotment of Raw Materials.

(12) Financial Assistance under Self-Employment Schemes.

(13) Financial assistance through Bank and other financial institutions.

(14) Assistance under Equipment Leasing Scheme through NSIC.

(15) Marketing linkage with Central Govt./state govt. organizations/undertakings.

(16) Ancillary Industry tie-up with govt. undertakings.

(17) Marketing assistance and information.

(18) Linkage with organization State Handicrafts Co-operative Society Ltd./Development Commissioners (Handicrafts), etc.

(19) Attending problems related to SSI Registration/Bank loan/Marketing of production, etc.

(20) Linkage with Research Institutes for technology up-gradation and innovation.

(21) Skill development training through SISI, EDC. etc.

(22) Managerial capability improvement through training, workshop, seminars.

(23) Export assistance.

(24) In plant study of their SSI Units.

(25) Standardization of products.

(26) Sick unit Revitalization.

(27) National level awards for innovative products/ outstanding growth/exports, etc.

(28) Promotion of products under Non-conventional Energy Sources.

(29) Registration of Industrial Cooperative and financial assistance to them.

(30) Pollution control.

(31) Design and Product Development for Handicrafts.

(32) Awards to Handicrafts Artisans.

(33) Setting up of Biogas plants.

Small Industries Service Institute (SISI)

The SISIs are set up to provide consultancy and training to small entrepreneurs-both existing and prospective. The activities of SISIs are coordinated by the Industrial Management Training Division of the DCSSIs office, there are 28 SISIs and 30 branch SISIs set up in State Capital and other places all over the country.

The main functions of SISIs include:

(1) To serve as interface between Central and state governments.

(2) To render technical support services.

(3) To conduct Entrepreneurship Development Programmes.

Small Industries Development Bank of India (SIDBI)

SIDBI was set up by an Act of Parliament, as an apex institution for promotion, financing and development of industries in small scale sector and for coordinating the functions of other institutions engaged in similar activities. It commenced operations on April 2, 1990. SIDBI extends direct/indirect financial assistance to SSIs, assisting the entire spectrum of small and tiny sector industries on All India basis.

The range of assistance comprising financing, extension support and promotional, is mode available through appropriate schemes of direct and indirect assistance for the following purposes:-

- Setting up new projects.
- Expansion, diversification, modernization, technology upgradation, quality improvement, rehabilitation of existing units.
- Strengthening of marketing capabilities of SSI units.
- Development of infrastructure for SSIs, and
- Export promotion.

Direct Assistance Schemes

Directly assists SSIs under Project Finance Scheme, Equipment Finance Scheme, Marketing Scheme, Vendor Development Scheme, Infrastructural Development Scheme, ISO-9000, Technology Development and Modernizations Fund, Venture Capital Scheme, assistance for leasing to NBFCs, SFCs, SIDCs and resource support to institutions involved in the development and financing of small scale sector.

These schemes are mainly targeted at addressing some of the major problems of SSIs in areas such as high tech project, marketing, infrastructural development, delayed realizing of bills, obsolescence of technology, quality improvement, export financing and venture capital assistance.

Indirect Assistance Schemes

Under its indirect schemes, SIDBI extends refinance of loans to small scale sector by Primary Lending Institutions (PLIs), viz., SFCs, SIDCs and Banks. At present, such refinance assistance is extended to 892 PLIs and these PLIs extend credit through a network of more than 65,000 branches all over the country.

All the schemes of SIDBI both direct and indirect assistance are in operation in all the states of the country through 39 regional/ branch offices of SIDBI.

Promotional and Developmental Activities

SIDBI is actively involved in promoting tiny and small scale industries by means for its promotional and developmental activities through suitable professional agencies for organizing Entrepreneurship Development Programmes, Technology Upgradation and Assistance under Mahila Vikas Nidhi to bring about economic empowerment of women specially the rural poor by providing them avenues for training and employment opportunities.

A	Refinance against term loans in respect of projects/ activities eligible for assistance under the Scheme	Interest on term loans for fixed assets and working capital advances (excluding interest tax) (% p.a.)	Interest on Refinance (% p.a.)
(i)	Up to and inclusive of Rs.25,000/-	12.00	9.00
(ii)	Over Rs.25,000/- and up to Rs.2 lakh	Not exceeding 13.5	10.5
B	Refinance against term loans in respect of projects/ activities eligible for assistance under TDMF and ISO 9000 Scheme (Applicable to all eligible institutions) (except RRBs)	Interest on term loans (excluding interest tax) (% p.a.)	Interest on Refinance (% p.a.)
(i)	Up to and inclusive of Rs.25,000/-	12.00	9.00
(ii)	Over Rs.25,000/- and up to Rs.2 lakh	Not exceeding 13.5	10.50
(iii)	Over Rs.2 lakh	Not exceeding 14.00*	12.00

Performance:

SIDBIs efforts have resulted in increased flow of credit to SSI sector since inception as indicated below:

Year	Sanction	Disbursement
1990-91	2410	1839
1991-92	2847	2028
1992-93	2909	2146
1993-94	3357	2672
1994-95	4706	3390
1995-96	6066	4801
1996-97	6485	4585
1997-98	7484	5241

SIDBIs Assistance to:

(i) **Tiny units** – about 89.2 per cent of the number of projects assisted under Refinance Scheme during 1996-97 were tiny, receiving assistance up to Rs.5 lakh per project. The sanctions for such projects accounted for 39.6% of the total amount of sanctions in 1996-97 as against 36.0% during the previous year.

(ii) **Women entrepreneurs** – under various schemes assistance amounting to Rs.19.7 crores was given to 1067 women entrepreneurs during 1996-97.

(iii) **Backward areas** – during 1996-97, projects emanating from backward areas received assistance to the tune of Rs.775 crore of sanction which accounted for 37% of total assistance under Refinance Scheme of SIDBI.

Measures to Simplify Rules/Regulations

- To fill the gaps in the existing structure of credit delivery mechanism to the small scale sector, Small Industries Development Bank of India(SIDBI) keeps on effecting simplification of procedures, liberalization of new schemes and introduction of new schemes.
- Endeavour of SIDBI is to ensure that no worthwhile proposal is denied credit for want of funds.

- Norms laid down by Reserve Bank of India and Government of India are followed by SIDBI for granting assistance to SSI units.

Liberalization Effected

- Enhancement in the ceiling on loan amount of the Composite Loan Scheme to Rs.2 lakh from the earlier ceiling of Rs.50,000/- to ensure timely availability of term loan and working capital to the small units. The scheme was also liberalized to include units in all areas other than metropolitan areas.
- Scope of Technology Development and Modernization Fund Scheme and Refinance Scheme for Technology Development and Modernisation has been expanded to cover non-exporting SSIs/ancillary units graduating out of SSI sector for assistance under the scheme.
- Scope of Single Window Scheme has been enlarged to cover modernisation, technology upgradation in addition to new SSI units. Project outlay under the scheme has been gradually raised from Rs.30 lakh to Rs.100 lakh. Simultaneously, the sublimits for working capital and term loan components has been done away with.

Main Schemes of SIDBI

A brief summary of the Schemes available with SIDBI. More details are available under the Section Policies and Schemes.

National Equity Fund Scheme which provides equity support to small entrepreneurs setting up projects in Tiny Sector.

Technology Development and Modernisation Fund for providing finance to existing SSI units for technology upgradation/ modernization.

Single Window Scheme to provide both term loan for fixed assets and loan for working capital through the same agency.

Composite Loan Scheme for equipment and/or working capital and also for work sheds to artisans, village and cottage industries in Tiny Sector.

Mahila Udyam Nidhi (MUN) Scheme provides equity support to women entrepreneurs for setting up projects in Tiny Sector.

Scheme for financing activities relating to marketing of SSI products which provides assistance for undertaking various marketing related activities such as marketing research, R&D, product upgradation, participation in trade fairs and exhibitions, advertising branding, establishing distribution networks including showroom, retail outlet, wears-housing facility, etc.

Equipment Finance Scheme for acquisition of machinery/ equipment including Diesel Generator Sets which are not related to any specific project.

Venture Capital Scheme to encourage SSI ventures/sub-contracting units to acquire capital equipment, as also requisite technology for building up of export capabilities/import substitution including cost to total quality management and acquisition of ISO-9000 certification and for expansion of capacity.

ISO 9000 Scheme to meet the expenses on consultancy, documentation, audit, certification fee, equipment and calibrating instruments required for obtaining ISO 9000 certification.

Micro Credit Scheme to meet the requirement of well managed Voluntary Agencies that are in existence for at least 5 years; have a good track record and have established network and experience in small savings-cum-credit programmes with Self-Help Groups(SHGs) individuals.

New Schemes

(i) To enhance the export capabilities of SSI units.

(ii) Scheme for Marketing Assistance.

(iii) Infrastructure Development Scheme.

(iv) Scheme for acquisition of ISO 9000 certification.

(v) Factoring Services, and

(vi) Bills Rediscounting Scheme against inland supply bills of SSIs

Major Schemes

Technology Development and Modernisation Fund

SIDBI has set up Technology Development and Modernisation Fund (TDMF) scheme for direct assistance of small sale industries to encourage existing industrial units in the sector, to modernize their production facilities and adopt improved and updated technology so as to strengthen their export capabilities. Assistance under the scheme is available for meeting the expenditure on purchase of capital equipment acquisition of technical know-how, upgradation of process technology and products with thrust on quality improvement, improvement in packaging and cost of TQM and acquisition of ISO-9000 series certification.

SIDBI in July 1996 had permitted SFCs and promotional banks to grant loans for modernization projects costing up to Rs.50 lakh. The coverage of the TDMF scheme has been enlarged w.e.f. 1.9.1997. Non-exporting units and units which are graduating out of SSI sector are now eligible to avail assistance under this scheme.

National Equity Fund

National Equity Fund (NEF) under Small Industries Development Bank of India (SIDBI) provides equity type assistance to SSI units, tiny units at one per cent service charges. The scope of this scheme was widened in 1995-96 to cover all areas excepting Metropolitan areas, raising the limit of loan from Rs.1.5 lakh to Rs.2.5 lakh and covering both existing as well as new units:

(a) The following are eligible for assistance under the scheme:-

   (i) New projects in tiny small scale sectors for manufacture preservation or processing of goods irrespective of the location (except for the units in Metropolitan areas).

   (ii) Existing tiny and small scale industrial units and service enterprises as mentioned above (including those which have availed of NEF assistance earlier), undertaking expansion, modernization technology upgradation and diversification irrespective of location(except in Metropolitan areas).

(iii) Sick units in the tiny and small scale sectors including service enterprise as mentioned above, which are considered potentially viable, irrespective of the location of the units (except for the units in Metropolitan areas).

(iv) All industrial activities and service activities (except Road Transport Operators).

(b) Project cost (including margin money for working capital) should not exceed Rs.10 lakh in the case of new projects in the case of existing units and service enterprises, the outlay on expansion/modernization/ technology upgradation or diversification or rehabilitation should not exceed Rs.10 lakh per project.

(c) There is no change in the existing level of promoters' contribution at 10% of the project cost. However, the ceiling on soft loan assistance under the scheme has been enhanced from the present level of 15% lakh per project to 25% of the project cost subject to a maximum of Rs.2.5 lakh per project.

State Financial Corporations (SFCs)

In pursuance of the SFCs Act, 1951, SFCs were set up mainly to finance small and medium scale units. Their area of operation is generally restricted to the concerned states. SFCs also assist small scale units for their modernization and technology upgradation programmes by providing soft loans, restructuring the sick small scale units through rehabilitation schemes and through equity type assistance under SIDBIs seed capital scheme.

At present, there are 18 SFCs (including TIIC which was set up as company) in existence for more than 40 years and operate as Regional Development Banks. The SFCs have played an important role in the evolution and growth of small and medium scale industries in their respective states. They provide financial assistance to industrial units by way of term loans, direct subscription to equity, guarantees, etc. Over the years SFCs have expanded their activities and coverage of assistance.

One-Man Committee set up by RBI under the Chairmanship of former Secretary, SSI and ARI, to look into various problems regarding credit flow to SSI sector and support appropriate measures for their redressal has given the following recommendations in its report submitted to RBI which are being processed by them:-

- Restructuring of weaker SFCs by the government.
- Funds for lending under Single Window Scheme by SFCs should be placed by SIDBI with the SFCs in adequate measures.
- Each SFC should get into an MoU with one or two Public Sector banks and participate in joint lending in which both term loan and working capital is provided jointly. For example, 80 per cent of the term loan could be given by SFC and 20 per cent by bank. In case of working capital which may be sanctioned at the same time as term loan, the proportion could be reversed, i.e., 80 per cent by bank and 20 per cent by SFC. However, the working capital account be managed and supervised by the bank through its specialized SSI branches.
- SIDBI should sign MoU with the state governments to provide some assistance to SFC prior to the approval of assistance packages by the Government of India/SIDBI.
- The staff of SFCs has to be adequately trained and SIDBI may be asked to make arrangements for this purpose.

National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation Ltd. (NSIC), an ISO 9001 certified company, since its establishment in 1955, has been working to fulfil its mission of promoting, aiding and fostering the growth of small scale industries and industry related small scale services/business enterprises in the country. Over a period of five decades of transition, growth and development, NSIC has of five decades of transition, growth and development, NSIC has proved its strength within the country and abroad by promoting modernization, upgradation of technology, quality consciousness, strengthening linkages with large and medium enterprises and enhancing exports projects and products from small industries. NSIC carries forward its mission to assist small enterprises with a set of specially tailored schemes designed to put them in a competitive and advantageous position. The schemes comprise of facilitating marketing support, credit support, technology support and other support services.

Marketing

Marketing, a strategic tool for business development, is critical to the growth and survival of small enterprises in today's intensely competitive market. NSIC acts as a facilitator to promote small industries products and has devised a number of schemes to support small enterprises in their marketing efforts, both in and outside the country. These schemes are briefly described as under:

Consortia and Tender Marketing:

Small enterprises in their individual capacity face problems to procure and execute large orders, which inhabit and restrict their growth. NSIC accordingly adopts consortia approach and forms consortia of units manufacturing the same products, thereby easing out marketing problems of SSIs. The corporation explores the market and secures orders for bulk quantities. These orders are then distributed to small units in tune with their production capacity. Testing facilities are also provided to enable units to improve and maintain the quality of their products conforming to the standard specifications.

Single Point Registration for Government Purchase:

NSIC operates a Single Point Registration Scheme under the Government Purchase Programme, wherein the registered SSI units get purchase preference in Government Purchase Programme exemption from payment of Earnest Money Deposit, etc. The units registered issue of tender sets free of cost.

Performance and Credit Rating Scheme for Small Industries

To enable small enterprises to ascertain the strengths and weaknesses of their existing operations and take corrective measures to enhance their organizational strength. NSIC is operating a Performance and Credit Rating Scheme through empanelled agencies like ICRA, ONICRA, Duns and Bradstreet (D&B), CRISIL, FITCH, CARE and SMERA. Small enterprise has the liberty to choose among any of the rating agencies empanelled with NSIC. Rating agencies will charge the credit rating fee according to their policies. The benefits to small enterprises are as follows:

- An independent, trusted third party opinion on capabilities and credit worthiness of SSI units.
- Good rating to enhance the acceptability of the SSI units with Banks. FIs, SSIs customers and buyers.
- Facilitate prompter credit decisions from Banks on proposals of SSI units.
- 75% of the credit rating fee subject to a maximum of Rs. 25,000 will be reimbursed to the small enterprise having a turnover up to Rs. 50 lakh by way of grants.
- 75% of the credit rating fee subject to a maximum of Rs. 30,000 will be reimbursed to the small enterprise having a turnover above Rs. 50 lakh to Rs. 200 lakh by way of grants.
- Technology Support. Technology is the key to enhancing a company's competitive advantage in today's dynamic information age small enterprises need to develop and implement a technology strategy in addition to financial, marketing and operational strategies and adopt the one that helps integrate their operations with their environment, customers and suppliers.

NSIC Offers Small Units,the Following Support Services Through its Technical Services Centres and Extension Centres

- Advising on application of new techniques.
- Material testing facilities through accredited laboratories
- Product design including CAD
- Common facility support in machining, EDM, CNC, etc.
- Energy and environment services at selected centres
- Classroom and practical training for skill upgradation.

NSIC Technical Services Centres are Located at the Following Places:

Name of the Centre		Focus area
Chennai	...	Leather and Footwear
Howrah	...	General Engineering
Hyderabad	...	Electronics and Computer Application
New Delhi	...	Machine Tools and related activities
Rajkot	...	Energy Audit and Energy Conservation activities
Rajpura (Pb)	...	Domestic Electrical Appliances
Aligarh (UP)	...	Lock Cluster and Die and Tool Making

On a case-to-case basis, SIDBI has also started Working Capital Finance and Non-fund facilities like Bank Guarantees and opening of inland and foreign LCs.

SIDBI also operates subsidy schemes for Food Processing Industry and Textiles Industry. Details can be had from the websites of the respective ministries.

National Bank for Agriculture and Rural Development (NABARD)

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with,

(1) Providing refinance to lending institutions in rural areas.

(2) Bringing about or promoting institutional development, and

(3) Evaluating, monitoring and inspecting the client banks.

Besides this pivotal role, NABARD also

- Acts as a coordinator in the operations of rural credit institutions.
- Extends assistance to the government, the Reserve Bank of India and other organizations working in the field of rural development.
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
- Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
- Acts as regulator for cooperative banks and RRBs.

Credit Functions:

Refinance against Investment Credit: **This is a long-term refinance facility. It is intended to create income generating assets in the following:**

- Agriculture and allied activities.
- Artisans, small scale industries, tiny sector, village and cottage industries, handicrafts, handlooms, powerlooms, etc.
- Activities of voluntary agencies and self-help groups working among the rural poor.

The credit is normally provided for a period of 3 to 15 years. Investment credit leads to capital formation through asset creation. It induces technological upgradation resulting in increased production, productivity and incremental income to farmers and entrepreneurs.

Criteria

The technical feasibility of the project, financial viability and generation of incremental income to ultimate borrowers thereby enabling them to have a reasonable surplus after repayment of the loan instalments are the necessary conditions to be satisfied for sanctioning investment credit. The period of loan ranges between 3 and 15 years depending on the purpose for which it is provided.

The beneficiaries of the programme are individuals/group of individuals, SHGs, proprietary/partnership concerns, companies, state-owned corporate or cooperative societies.

The refinance is usually 90% to 100% of the loan amount. The balance, wherever applicable, will be met by the banks or the concerned state governments or the Government of India in the case of SCARDBs. With a view to ensure credit flow to certain thrust areas, such as special category beneficiaries like SC/ST members, self-help groups, etc., the quantum of refinance is enhanced to 100%.

Refinance Schemes

Enterprise Loan Scheme (ELS)

The refinance schemes which are in force, viz., Integrated Loan Scheme (ILS) and Composite Loan Scheme (CLS) have been merged and modified into a new scheme, i.e., Enterprise Loan Scheme (ELS).

Salient Features

Institutions eligible for drawal of refinance, Commercial Banks, Regional Rural Banks, State Cooperative Banks, State Cooperative Agriculture and Rural Development Banks and Scheduled Primary Urban Cooperative Banks.

Borrowers

Individuals, artisans, small entrepreneurs, groups of individuals, associations (formal and informal), proprietary/partnership firms, Cooperatives societies, registered institutions/trusts, NGOs/voluntary agencies, private and public limited companies, etc., financed by the above eligible institutions.

Purpose

To set up new units as well as for modernization/renovation/expansion/diversification of existing units and also for replacement of old and obsolete machinery even if the units were not initially financed by the banks and refinanced by NABARD. To change over to new process of manufacturing/introduction of new technology/computerization, etc., for expansion/diversification, any unit which is in existence for at least two years will be eligible.

For acquisition of new machinery and equipments resulting in additional production capacity and/or improving productivity or introducing new product/product line, etc. (The total cost of investment in plant and machinery including that of modernization/renovation/expansion/diversification of the existing units to be financed should not exceed the SSI limit prescribed by the Govt. of India).

Eligible Activities

All manufacturing, processing, marketing and approved service activities in the SSI sector with emphasis on Cottage, Village, Tiny Industries, Rural Artisans and Rural Crafts. All activities in rural areas or benefitting rural areas that are income generating and/or employment generating, including all service sector activities, are eligible activities under NFS for refinance assistance.

Project Components

For block and/or working capital requirements of tiny/SSI/ Service sector units. In respect of cottage and village industries, artisans, etc., a component for consumption credit could be built in the working capital component keeping in view the value of the family labour engaged in the productive activity. If a unit avails working capital alone, the ceiling for refinance limit per unit shall be limited to Rs.10 lakh.

Block Capital will Include the Following:

Cost of land (to the extent of borrowers down payment), work shed, plant and machinery, equipment and tools, computers, technology upgradation, project formulation and consultancy charges, preliminary and preoperative expenses, etc., and working capital for one operating cycle.

While sanctioning loans, banks may carefully work out the credit requirements of the borrowers both for term loan and working capital. The quantum of working capital component may be assessed taking into account the incremental requirement also for a reasonable period within which the unit is expected to stabilize. Also, wherever the loan includes both term loan and working capital components, while drawing up the repayment schedule, it may please be ensured that, as far as possible, the working capital component of the loan is recovered after the block capital component is repaid, so that the unit will have adequate funds for meeting the working capital requirements.

Repayment Period of the Loan

The repayment period should be fixed between 2 years and 10 years with a need based moratorium of up to 18 months for individual cases, based on the debt servicing capacity of the borrower and taking into account the nature of activity to be financed, operating cycle, cash-flow and the borrower's sustenance needs.

Soft Loan Assistance Scheme for Margin Money

Objective

The objective of the scheme is to provide financial assistance to the prospective entrepreneurs who have the requisite talents and traits of entrepreneurship, but lack necessary monetary resources of their own for setting up units/implementing projects under NABARD refinance schemes for non-farm sector, SEMFEX II borrowers and innovative, high tech projects, export-oriented units, agro-processing schemes, and agriculture graduates for setting up a agriclinics and Agribusiness Centres covered under the farm sector.

Eligibility

The loan assistance towards margin money will be available to the entrepreneurs/promoters comprising individuals, proprietary/partnership concerns, and groups of individuals, industrial cooperative societies, government/quasi-government agencies, promotional agencies, development corporations, registered and charitable institutions and voluntary organizations. Soft Loan Assistance for Margin Money will not be available for SRWTO schemes (with the except on to SEMFEX II borrowers) and Rural Housing.

Mode of Assistance

Margin Money assistance will be by way of soft loans to the entrepreneur/promoter.

Schemes Under Per-Sanction Procedure

(i) Term Loan to SSI units (through CBs and Scheduled PCBs)

Borrowers

Individuals, Proprietary/Partnership concerns, Private/Public Limited Companies, Promotional/Developments Organizations, State Level Federations/Corporations, Joint Sector Undertakings.

Purpose

Setting up of new units and modernization/renovation/ expansion/diversification of existing units (other than agro-industries).

Eligible Items for Investment

- Land and Site Development (including cost of land up to margin money required to be brought in by the borrower).
- Construction of work shed (including civil structure, godown for storage, market outlets and other essential amenities).
- Plant and machinery (including machinery/equipment required for packaging and preservation)
- Equipment and tools.
- Delivery van.
- Project formulation and consultancy charges.
- Preliminary and preoperative expenses.
- Margin for working capital

Repayment Period

3 to 10 years with moratorium of 12 months

Debt Equity Ratio (DER) 3:1

RAJIV GANDHI UDYAMI MITRA YOJNA

Background

World over, micro and small enterprises (MESs) are recognized as an important constituent of the national economies, contributing significantly to employment expansion and poverty alleviation. Recognizing the importance of micro and small enterprises, which constitute an important segment of Indian economy in terms of their contribution to country's industrial production, exports, employment and creation of entrepreneurial base, the Central and state governments have been implementing several schemes and programmes for promotion and development of these enterprises.

The small scale industries in India, including the tiny or micro industries and service/business entities, collectively referred as micro and small enterprises (MSEs) have a long history of promoting inclusive, spatially widespread and employment-oriented economic growth. In terms of employment generation, this segment is next only to agriculture.

Objective

The objective of Rajiv Gandhi Udyami Mitra Yojana(RGUMY) is to provide hand holding support and assistance to the potential first generation entrepreneurs, in completion of various formalities and asks necessary, in dealing with various procedural and legal hurdles and in completion of various formalities required for setting up an running of the enterprise.

Target Group

The scheme is targeted to assist potential first generation entrepreneurs, which have already successfully completed entrepreneurship/skill development training of at least two weeks duration, or have undergone vocational training from ITIs.

Implementing Agencies

The scheme would be implemented through various lead agencies, i.e., Udyami Mitras , viz.,

(1) Existing National level Entrepreneurship Development Institutions (EDIs)

(2) Micro, small and Medium Enterprises Development Institutes (MSMEDIs)/Branch MSMEDIs.

(3) Central/state government public sector enterprises (PSEs) involved in promotion and development of MSEs, e.g., National Small Industries Corporation (NSIC) and State Industrial Development Corporations, etc.

(4) Selected state level EDIs and Entrepreneurship Development Centres (EDCs) NGOs, Industry Associations and other organizations engaged in entrepreneurship development and promotion of micro and small enterprises.

Activities of Under Mitra

The selected lead agencies, i.e., Udyami Mitras would be expected to render following services:

(1) Networking, coordinating and follow-up with various government departments/agencies/ organizations and regulatory agencies on the one hand and with support agencies like banks/financial institutions, District Industries Centres(DICs), technology providers, infrastructure providers on the other hand, to help the first generation entrepreneurs in setting up their enterprise. Udyami Mitras are expected to help the first generation entrepreneurs in:

(a) Identification of suitable project/product/enterprise and preparation of bankable project report for the same:

(b) Creation of the proprietorship firm/partnership firm/company/society/Self-Help Group(SHG), etc.

(c) Filing of memorandum (as prescribed under MSMED Act, 2006)

(d) Accessing bank loans, admissible capital subsidy/ assistance under various schemes of the Central/ state government and other agencies/organizations/ financial institutions/banks, etc., by networking with respective agencies.

(e) Assistance and support in establishment of work shed/office;

(f) Sanction of power load/electricity connection,

(g) Selection of appropriate technology and installation of plant and machinery/office equipment, etc.

(h) Obtaining various registrations/licenses/clearances/ NO objection certificates (NOCs), etc., from the concerned regulatory agencies/government departments/local bodies/municipal authorities, etc.

(i) Allotment of Income Tax Permanent Account Number(PAN) and Service Tax/Sales Tax/VAT registration, etc.

(j) Sanction of working capital loan from the banks.

(k) Arranging tie up with raw material suppliers.

(l) Preparation and implementation of marketing strategy for the product/service and market development.

(m) Establishment linkage with a mentor for providing guidance in future.

(n) Creation of webpage and e-mail address.

(2) Once the enterprise has been successfully set up, the Udyami Mitras would also monitor and follow-up on the functioning of the enterprise for a further period of minimum 6 months and provide help in overcoming various managerial, financial and operational problems.

FINANCIAL ASSISTANCE TO UDYAMI MITRAS

Rates of Financial Assistance

For setting up of service enterprises, the Udyami Mitras would be provided handholding charges at the rate of Rs.4,000(Rupees four thousand only) per trainee that would include a central grant of Rs. 3,000(Rupees three thousand only) under RGUMY and contribution of Rs.1,000(Rupees one thousand only) to be contributed by the beneficiary.

For setting up of micro manufacturing enterprises, having investment(in plant and machinery) up to Rs.25,00,000 the handholding charges would be Rs. 6,000(Rupees six thousand only) including a Central grant of Rs. 5,000(Rupees five thousand only) under RGUMY and Rs. 1,000(Rupees one thousand only) to be contributed by the beneficiary.

For the beneficiaries from special category, i.e., SC/ST/ physically handicapped/women/beneficiaries from North-Eastern Region, the beneficiaries contribution of Rs.1,000 shall also be provided as a grant under RGUMY.

DISTRICT RURAL DEVELOPMENT AGENCY (DRDA)

Historical Background

Poverty alleviation through self-employment and Wage-employment programme is the theme of rural development. It is District Rural Development Agency (DRDA) at the District level which overseas the implementation of different anti-poverty programme. DRDA came into existence with effect from 1/4/1980. Previously it was known as Marginal Farmer and Agricultural Land Development Agency (MFALDA). Later on it became Small Farmer Development Agency (SFDA). These agencies were only to cater the development of marginal farmers and Agricultural Labourers in rural area. Now DRDA has embraced manifold activities for upliftment of rural poor.

DRDA has become an autonomous agency having its own governing body registered under Society Registered Act, 1960. After 73rd amendment Act past in the year 1993 President of Zilla Parished is the Chairperson of the governing body and the district collector is its chief executive officer.

Activities of DRDA

(i) Self-Employment Programme

(ii) Wage-Employment Programme

Role of DRDA

(i) Principal facilitators for drawing of plan and programmes.

(ii) Allocates funds, maintains accounts and collects utilizations certificates.

(iii) Coordinates executive agencies, financial institutions, NGOs, government and panchayat raj institutions at different levels.

(iv) Supervises and monitors various programmes implemented in the field.

(v) Ensures successful implementation of the programmes.

(vi) Keeps inform zilla-parished and government through reports and returns.

(vii) Creates awareness and transparency amongst the common people.

(viii) Safeguards the interest of SC/ST, women and physically handicap persons.

The main objectives of the agency are:-

(i) To identify the families living below the poverty line through survey conducted by the govt. servants working at field level.

(ii) To give financial assistance to these BPL families through banks and govt. sponsored schemes.

(iii) To draw up model plans through technical departments, for executing the labour generating schemes such as employment assurance scheme.

The main schemes implemented by DRDA are as follows:

SWARNJAYANTI GRAM SWAROZGAR YOJNA (SGSY)

S.G.S.Y. aims at establishing a large number of micro enterprises in the rural areas. The main objective is to bring assisted BPL families above poverty line in three years (below an annual income of Rs. 20,000, a family is considered below poverty line). To remove poverty SGSY is conceived as programme covering all the aspects of self-employment, viz., organization of the rural poor into self-help groups and the capacity building, planning of activity clusters, infrastructures build up, credit and marketing. It lays emphasis on skill development through well designed training courses. The swarojgaries are financed through the banks on the basis of their projects. The subsidy is at 30% of the project cost, subject to a maximum of Rs. 7,500 for general classes and 50% or Rs. 10,000 respectively for SC/ST. For group of swarojgaries the subsidy will be 50% of the project cost subject to maximum of Rs. 1.25 lakh. There is no limit on subsidy for irrigation projects. The funds under this scheme are shared by the Centre and state govt. in ratio of 75:25 respectively.

JAWAHAR GRAM SAMRIDHI YOJNA (JGSY)

Primary objective of JGSY is to develop village infrastructure by creating durable assets and its secondary objective is generation of supplementary employment for the unemployment of poor in the rural areas. The programme is implemented as a Centrally sponsored scheme on the basis of 75% funds from the Centre and 25% funds from the state govt.

For the weaker sections of the society special safeguards are provided, such as 22.5% of the annual allocation is earmarked for SCs/STs. individual beneficiary schemes living below poverty and 30% of the employment opportunities is served for women. The programme is implemented through village panchayats.

All works that result in the creation of durable assets can be taken up as per the felt need of the community. However, priority is given to (i) infrastructure for SC/ST habitations. (ii) Community infrastructure for education, link roads and street roads.

The panchayat will execute the work with the approval of Gram Sabha. No other administrative or technical approval is required to execute the works/schemes up to Rs. 50 thousand.

Employment Assurance Scheme (EAS)

The primary objective of the EAS is the creation of additional wage employment opportunities through manual work for the rural poor living below the poverty line while the secondary objective is the creation of durable assets for the benefit of the community. The programme is implemented as a centrally sponsored scheme on cost sharing basis between the Centre and the state in the ratio of 75:25 respectively.

The programme is open to all the rural poor who are in need of wage employment. However, the preference is given to SCs/STs, the programme is implemented through zilla panchayat. 70% of the received funds is allocated to block panchayats in the ratio of their population and the remaining 30% is allocated to zilla panchayat, but the zilla panchayat is responsible for the approval of annual action plan including the funds of block panchayat. However, zilla panchayat may take into consideration the proposal of block panchayat. Zilla panchayat is also responsible for entrusting works to implementing agencies, supervision and co-ordination of works and furnishing of necessary reports through DRDA.

The programme is implemented departmentally only. Contractors are not permitted to be engaged for the execution of any work. Works taken up are labour intensive. At least 60% of the labour component is maintained against the allocated funds.

INDIRA AWAS YOJNA

Introduction

Housing is one of the basic requirements for human survival. For a normal citizen owning a house provides sufficient economic security and status in society. For a shelter less person a house brings about a profound social change in his existence endowing with an identity, thus, integrating him with his immediate social milieu. IAY was a sub-scheme of JRY. Since 1st January 1996, it has been delinked from JRY and has been made an independent scheme.

Objective

The objectives of IAY is primarily to help construction of fire proof dwelling units for members of SC/ST, Freed Bonded Labourers and also non-SC/ST rural poor living below the poverty line by providing them 100% free of cost.

Target Group – (BENEFICIARY)

The following are the criteria for selection of Indira Awas Yojana (IAY) beneficiary.

(i) He must belong to BPL family living in rural area.

(ii) Person belonging to SC/ST category will be given preference

(iii) Freed bonded labourers.

(iv) Non-SC/ST rural poor enlisted in BPL.

(v) Widow or next to kin of defence personnel or Para military forces killed in action, subject to condition that.

 (a) They reside in rural area

 (b) They are not covered any other shelter rehabilitation scheme

 (c) They are homeless

(vi) Reservation of 3% of fund under IAY for disabled person below poverty line.

RAJIV GANDHI SWAVLAMBAN ROZGAR YOJNA

The Rajiv Gandhi Swavlamban Rozgar Yojna has been designed, developed and promoted by the Delhi Khadi & Village Industries Board, with the help of Government of NCT of Delhi, to provide the employment opportunities to the unemployed youth, artisans, trained professionals, skilled technocrats and entrepreneurs by promotion/expansion of permissible industries, professions, tertiary and service sector in the UT of Delhi.

The salient features of RGSRY scheme are as under:-

Eligibility:

(i) All commercial professionals

(ii) Passed out candidates from any technical/professional institution recognized by government and its autonomous/undertaking bodies without further any training, and

(iii) Small-scale industrial units shall become eligible for financial aid of loan within the limits of budget under the preview of Delhi Khadi & Village Industries Board–Rajiv Gandhi Swavlamban Rozgar Yojna. Small scale industrial undertaking should have total investment of plant, machinery and equipment not exceeding the ceiling prescribed for small scale units by the Central government from time-to-time and must be located within the National Capital Territory of Delhi. Any one of the following can avail loan under the scheme:-

(a) School/college dropouts above the age of 18 years.

(b) Individual entrepreneur.

(c) Trade professionals.

(d) Artisan

(e) Small scale industrial units which have total investment of plant, machinery and equipment not exceeding the ceiling prescribed for small scale units by the Central government from time-to-time and must be located within the National Capital Territory of Delhi, shall also become eligible for financial aid of loan.

(f) Passed out candidates from any technical/professional institute recognized by the government or its authorized undertakings, without further training.

Quantum of Loan:-

(i) The quantum of loan granted under this scheme, to the proposed and functioning units shall not exceed Rs. 3 lakh provided that concerned entrepreneur shall make at least 10% contribution of amount demanded as loan from the DKVIB and promoter. In case of weaker sections, i.e., SC/ST/OBC/physically handicapped/ women entrepreneur/ex-servicemen only 5% contribution of entrepreneur is required.

(ii) Loan shall not be sanctioned to such parties who have already been advanced any loan for the same or similar purpose by the government or any government controlled financial institutions and has not been repaid in full with interest or has been misutilised and/or misapplied.

(iii) Subsidy:- Govt. of Delhi would provide subsidy @ 15% of the project cost subject to the ceiling of Rs.7,500.00 per entrepreneur. In case of more than one entrepreneur joining together and setting up a project under partnership, subsidy would be calculated for each partner separately, @ 15% of this share in the project cost, limited to Rs.7,500.00 each partner. Subsidy component would be adjusted to the borrower's loan account after a period of two years from interest in cases where the loan amount has been found not utilized for the purpose for which it was released. No subsidy, in case where the loan amount has been found not utilized for the purpose of which, it was released, 18% interest along with principal amount may be recovered.

Training:

Since the scheme envisages conversion of energy of school dropouts or those who have not gone beyond school education as well as of college dropouts, emphasis would be on skill formation/ enhancement of the selected candidates selected by the DKVIB. The primary purpose of imparting skills to the candidates is for enabling them to take up self-employment. DKVIB shall prepare training modules of about three months duration in respect of identified areas in consultation with the NGOs, training institutions under the government. The focus, therefore, will be on skill formation and entrepreneur development, basic component of which would be:-

(i) Skill formation.

(ii) Elements of bookkeeping.

(iii) Simple knowledge of marketing.

(iv) Acquaintance with product costing.

(v) Familiarization with project financing by banks and other financial institutions.

The expenditure likely to be incurred on the training shall be paid by DKVIB. Once the training is successfully completed, the training institution will give a certificate to each of the trainees. Industries department will do secretarial work and release of funds for the DKVIB.

Marketing Support:

Under this scheme the following arrangements are proposed for extending marketing support to the beneficiaries who avail financial assistance under this scheme.

(i) Display of their products in Delhi emporium as per availability of space.

(ii) DSIIDC/cooperative stores can get the products manufactured by the selected entrepreneurs and market the same in their own brand name.

(iii) Allowing such entrepreneur to participate in trade fairs particularly in Delhi pavilion.

(iv) Allowing such entrepreneurs to participate in the exhibitions organized by Delhi Khadi & Village Industries Board or any other govt. organisation.

(v) Forming cooperatives of entrepreneurs manufacturing same or similar type of products under common brands.

(vi) Issue of certificates to the beneficiary unit to get the recognition in the market/society.

PRIME MINISTER ROJGAR YOJNA (PMRY)

PMRY is being implemented since 1993. The scheme is designed to create and provide sustainable self-employment opportunities to one million educated unemployed youth in the country during the 8th plan period. During the last 5 years of its implementation, it was felt that certain parameters of the PMRY scheme needed modification. For example condition of eligibility such as age, educational qualifications were coming in the way of expanding the coverage of the scheme in some cases. Similarly, the total financial assistance per case was found to be insufficient in case of certain viable activities.

Midification:

Government, therefore has decided to modify some of these parameters of the scheme. The upper age limit has been relaxed beyond 35 years by 10 years for SCs/STs and women and the educational qualifications for eligibility under the scheme has been relaxed from matric (passed or failed) to VIIIth passed. Similarly, the upper limit of project cost has been increased from Rs. 1 lakh to Rs. 2 lakh (Rs. 1 lakh for business sector and Rs. 2 lakh for other activities). The PMRY scheme would now cover all economically viable activities including agriculture and allied activities but excluding direct agricultural operations like raising crop, purchase of manure, etc.

The details of the changes made in the parameters of the PMRY scheme are given below:

The modified financial parameter of increase in the upper limit of the project cost from Rs. 1 lakh to Rs. 2 lakh has been effective from 1/4/1999.

Relaxation of Norms for North Eastern Region

The PMRY would be expanded in scope to cover areas of horticulture, piggery, poultry, fishing, small tea gardens, etc., so as to cover all economically viable activities. PMRY would have a family income ceiling of Rs. 40,000 per annum for each beneficiary along with his/her spouse and upper age limit will be relaxed to 40 years. Project costing up to Rs. 2 lakh in other than business sectors will be eligible for assistance. No collateral will be insisted for projects costing up to Rs. 1 lakh. Group financing up to Rs. 5 lakh will be eligible. Scheme will have a subsidy component @ 15% with an upper ceiling of Rs. 15,000. The margin money may vary from 5% to 12.5% of the project cost to make the subsidy and margin contribution at 20% of the project cost.

PARAMETERS OF PMRY

Sr.No.	Parameters	Revised
1.	Age	For all educated unemployed 18-35 years in general with a 10 years relaxation for SCs/STs, ex-servicemen, physically handicapped and women.
2.	Educational Qualification	VIIIth passed. Preference will be given to those who have been trained for any trade in government recognized approved institutions for a duration of at least six months.
3.	Family Income	Neither the income of the beneficiary along with the spouse nor the income of parents of the beneficiaries shall exceed Rs. 40,000 p.a.
4.	Residence	Permanent resident of the area for at least 3 years.
5.	Defaulter	Should not be a defaulter to any nationalized bank/financial institution/cooperative bank. Further, a person already assisted under other subsidy linked government schemes would not be eligible under this scheme.
6.	Activities covered	All economically viable activities including agriculture and allied activities but excluding direct agricultural operations like raising crop, purchase of manure, etc.
7.	Project Cost	Rs. 1.00 lakh for business sector. Rs. 2.00 lakh for other activities, loan to be of composite nature. If two or more eligible persons joins together in a partnership project up to Rs. 10.00 lakh are covered. Assistance shall be limited to individual admissibility.
8.	Subsidy and Margin money	Subsidy will be limited to 15% of the project cost subject to ceiling of Rs. 7,500 per entrepreneur. Banks will be allowed to take margin money from the entrepreneur varying from 5% to 16.25% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost.
9.	Collateral	No collateral for project up to Rs. 1 lakh. Exemption from collateral in case of partnership project will also be limited to an amount of Rs. 1.00 lakh per person participating in the project.
10.	Rate of interest and Repayment	Normal rate of interest shall be charged. Repayment schedule may range between 3 to

	Schedule	7 years after an initial moratorium as may be prescribed.
11.	Training and other assistance	The training expenses and operational expenditure to be covered within the ceiling of Rs. 2,000 per case. The existing system of revising the scale of expenditure in consultation with the finance for various activities and flexibility would be available to the implementing agencies of the state and Central levels subject to condition that over all training and operating expenses remain within the ceiling of Rs. 2,000 per case sanctioned.
12.	Implementing Agency	The district industry centres and the directorates of industries shall mainly be responsible for scheme implementation along with banks.
13.	Linkages of targets with recovery	Basic minimum targets based on the population and the number of educated unemployed. Additional targets would be linked to the recovery of loans sanctioned, past performance of sanctions or special circumstances prevailing in the state/UT.
14.	Reservation	Preference should be given to weaker sections including women. The scheme envisages 22.5% reservation for SC/ST and 27% for other backward classes (OBCs). In case SC/ST/OBC candidates are not available, state/UTs govt. will be competent to consider other categories of candidates under PMRY.

Further Clarifications

(i) Margin/Subsidy/Project Costs:

Class sanctioned during the current year up to 31/3/99 shall continue to be sanctioned on the basis of the modalities on subsidies/ margin/project costs as originally notified in the scheme in 1993. Their disbursement in the current year and thereafter till the cut off dates in the following year shall be in accordance with the sanction conditions. The changed subsidy/margin and project costs and modalities on subsidies/margins/project costs for the general as well as the seven North-Eastern states shall be applicable from 1/4/99 and to cases sanctioned thereafter.

(ii) Training and Other Assistance:

The ceiling on training expenditure for the industrial sector shall continue to remain at the rate of Rs. 1,000 per case inclusive of stipend and Rs. 500 per case inclusive of the stipend for service and business sectors to be made available to states/UTs. Contingency funds at the rate of Rs. 250 per case sanctioned to the states/UTs shall be admissible. Flexibility in expenditure shall be notified in due course.

(iii) Age:

(a) Educated unemployed from the age group of 18 to 35 years are eligible under the scheme. A relaxation up to 10 years in the upper age limit shall be admissible to SCs/Sts, ex-servicemen, physically handicapped and women, i.e., up to the age of 45 years.

(b) In the case of the seven North Eastern states, the upper age limit has been relaxed, in general up to 40 years. For the SCs/STs, ex-servicemen, physically handicapped and women the relaxation shall be up to the age of 45 years.

Khadi and Village Industries Commission (KVIC)

The KVIC established by an Act of Parliament in 1957, is engaged in planning, promoting and implementing programmes for the development of Khadi and Village Industries in rural areas. Besides producing Khadi, 116 village industries are implementing various projects ranging from pottery, tanning, carpentry, and blacksmithing, weaving and designing of musical instruments. While khadi is produced only by registered co-operative societies and charitable trusts, it is from village industries that entrepreneurs get help. The manufacture, supply of looms and weaving equipment have all been brought under a central supply system by the commission. This is also working towards standardization of various components of the charkha from the Bureau of Indian Standards. The Khadi and Village Industries Commission will be receiving monitory assistance of nearly Rs. 6 billion from the Asian Development Bank. This aid will be given for upgrading the technological aspect of almost 300 khadi and village industries enterprises. More than 9 lakh workers are associated with khadi industry. KVIC provides employment to approximately 8.8 lakh people.

Goa Handicraft, Rural and Small Scale Industries Development Corporation (GHRSSIDC)

The Goa Handicraft, Rural and Small Scale Industries Development Corporation Ltd. is implementing the preferential purchase scheme since 1999, for the benefit of registered small scale industries located in the state of Goa. The scheme is intended to provide encouragement to the SSI units by giving a preferential treatment to the various items produced by the SSI units.

The GHRSSIDC has identified the following items :

- Ceiling and pedestal fans
- Disinfectants
- Coir mattresses
- CFL fixtures/switches
- Hose assemblies
- Paver blocks
- Air-conditioning equipment and Assembly/repairs
- Chalks
- Notebooks

In addition as and when new items, which are required by govt. organizations, are identified by the GHRSSIDC, and then the same shall be added to the rate contract.

Economic Development Corporation (EDC) in Goa

The EDC Limited, originally known as the Economic Development Corporation of Goa, Daman & Diu Limited (EDC) incorporated on 12th March, 1975 as a public limited company under the Companies Act, 1956 has been the state financial institution set up by the govt. of Goa with the prime objective to promote industrial development. The area of operation of EDC in addition to Goa is in the Union Territory of Daman, Diu,Dadra and Nagar Haveli.

It has been acting as a state industrial and investment corporation. Besides, it has also been accorded the twin status of State Financial Corporation (SFC) by IDBI/SIDBI.

The equity capital of the company is not only subscribed by the govt. of Goa but also Daman and Diu administration and IDBI. The present shareholding of the corporation as on 31/03/2008 is as follows:

	Percentage	**Amount (Rs. In lakh)**
Government of Goa	81.81%	Rs. 6,620.26
IDBI	14.25%	Rs. 1,153.22
Administration of Daman and Diu	3.94%	Rs. 319.00
	100%	Rs. 8,092.00

Status of EDC Funding (As on 31/03/2008)

Cumulative sanctions	Rs. 85,530.91 lakh
Cumulative disbursements	Rs. 56,611.85 lakh
Cumulative recovery	Rs. 81,109.47 lakh
Units assisted	5,744 nos.

The present staff strength of EDC is 94, comprising mainly of professionals from various disciplines.

Objective of EDC

EDC has been a professionally managed organization and acts as on excellent delivery channel for conversion of the Government policies and delivering them to the citizens.

The main objectives of the company are:

(1) To carry on the business of an investment company by providing financial assistance to entrepreneurs for starting, expanding, modernizing their activities in the following:

(a) Small and medium entrepreneurs in the industrial sector

(b) Tourism sector

(c) Medial infrastructure

(d) Service sector

(e) Construction sector

(f) Infrastructure development

(2) To extend financial assistance by means of various financial products, either fund-based or non-fund-based.

(3) To participate in other development works, projects, schemes as mandated by the government.

(4) To encourage and promote participation of capital in various forms like equity, preference or debentures in industrial enterprises and other economic activities.

(5) To identify and motivate entrepreneurs to set up industries and assist them in the spadework by providing required training and guidance.

(6) To offer and act as an agent for the disbursement of various schemes, incentives concessions and benefit on behalf of the state and Central government to units and enterprises assisted by EDC.

Other Activities - Patto Plaza:

The corporation has developed Patto Plaza admeasuring about 1,77,000 sq.mts. at Panaji Goa. The land was reclaimed and levelled after it was acquired. Infrastructural facilities like road, footpaths, drains, electrification and parking spaces were constructed. The plots in the complex have been leased out to various parties, which include SBI, Bharat Petroleum, LIC, Bank of India, ESIC, Registrar of Companies, Regional Providend Fund, Income Tax Dept., Passport Dept. Dempos,Sesa Goa Ltd. govt of Goa, DLF Ltd., Pasvanath Developers Ltd. Many buildings and important offices have come up in the complex. The floor area ratio (FAR) for the land is 2.50:1. The location is about 2 kms from assembly complex in the state of Goa. EDC Ltd has plans to develop more land on lines of Patto Plaza, in state of Goa.

BRIEF DETAILS OF LOAN SCHEME

Name of the Scheme	Eligibility	Purpose	Salient features	Promoters Contribution	Debt equity Ratio	Repayment Period
General term Loan	Proprietary, Partnership or limited concerns new or existing	To set up a new industrial unit or expand, diversify the existing unit.	Industrial units engaged in manufacture, preservation or processing of goods, repairs and maintenance or servicing, etc.	25%	3:1 for SSI below Rs.10.00 lakh otherwise 2:1	8-10 years including 6 months to 2 years moratorium
Equipment finance scheme	Existing concerns having good track record and sound financial position for at least 4 years	To acquire identifiable item of equipment and machinery	75% of the cost of the equipment	25%	3:1 for the equipment cost	2.5 years including moratorium of 6-12 months.
Acquisition of DG set	Existing unit	To acquire a DG set for captive use and the shed/room for housing.	75% of the cost	25%	3:1 for the equipment cost	Normal 5 to 8 years
Pollution control equipment	Existing unit intending to control/prevent pollution	To acquire pollution control equipments by new units, or existing units	75% of the cost	25%	3:1	Normal 5 to 8 years
Acquisition of computers	New or existing units	To acquire computer	75% of the cost	25%	3:1	Normal 3-5 years
Quality Control facilities	New or existing unit	To provide facilities of testing and quality evaluation for inputs as well as outputs	75% of the cost. Loan limit for SSI units not to exceed Rs.7.5 lakh moratorium could be up to 3 years.	25%	3:1	8 years include. 3 years moratorium

Scheme for indigenisation or import substitution.	Units promoted by technician Entrepreneurs/professionals existing for at least 3 years/ profit for 2 years.	To develop new products aimed at indigenis sation/import substitution.	Maximum Rs.5 lakh per product. Repayment not to exceed 5 years.	—	The total envisage expenditure to be financed.	5 years including 1 year moratorium.
Scheme for mfg. and installation of renewable energy/energy saving systems.	Units engaged in mfg of related items	To acquire or to mfg. equipments falling under renewable-energy systems like solar heaters, windmill and energy systems based on big mass. Energy saving devices like high efficiency wood burning stoves, economisers.	75% of the cost	25%.	3:1.	8 years with moratorium of 1 -1/2 years.
Scheme for hotels/ restaurant projects.	The hotel must have minimum 10 rooms of which 25% should have attached bath with one for every 4 of the remaining rooms.	To establish new hotel/ restaurant or for expansion.	The facilities should be as prescribed as per the starred category. Maximum term loan of 75% of the cost of the assets.	Minimum 30%.	1:1.	10 years including 2 years morat-orium.
Tourism Related Activities.	Facilities should be recommended and approved by Tourism Dept.	To set up tourism related facilities like amusement park, cultural centres, restaurants, tourist service agencies.	Facilities should be located in the tourist's areas. Maximum term loan of 75% of cost of assets.	25%.	3:1 below Rs.10 lakh otherwise 2:1.	10 years including 2 years moratorium.
Hospitals/	Allopathic Doctor promoters with Post-	To set up small hospitals, nursing homes,	Minimum 10 beds Maximum 50 beds	25%.	3:1 below Rs.10 lakh otherwise	10 years including 2 years

Nursing Homes	graduate qualifications are eligible for new/ expansion/ modernisation of hospitals nursing homes.	polyclinics, special clinics, etc.	should provide concessional medical facilities to low income group maximum cost of project up to Rs.10 crore.	25%.	2:1.	moratorium.
Acquistion of electro medical and other equipments	Qualified medical practitioner can apply.	To acquire electro medical and diagnostic equipment. Generator can be included.	Maximum upto Rs.60 lakh.	25%.	3:1 below Rs.10 lakh otherwise 2:1.	5-8 years including 1 year moratorium.
Scheme for qualified professionals.	Qualified professionals in the field of management, accountancy, medicine, architecture and engg.	To establish professional practice/ consultancy.	Cost of land and building shall not exceed 50% of total cost. Maximum cost up to Rs.20 lakh.	25%.	3:1 below Rs.10 lakh otherwise 2:1.	5 years with 1 year moratorium.
Scheme of loan assistance for construction of residential / residential-cum-commercial.	Proprietary/ Partnership Limited companies.	For construction of residential/ residential cum commercial complexes.	Maximum assistance limited company Rs.500 lakh Partnership-Rs.250 lakh, Proprietary – Rs.120 lakh, DER 1.5:1.	30%.	1.5:1.	5 years with a moratorium of 18 months.
complexes Loan assistance for units sold	Proprietary/ partnership/limited company.	For purchase of fixed assets sold under auction and creation of new fixed assets.	Security margins for fixed assets purchased under auction -40% for new assets 30%.	25%.	3:1below Rs.10 lakh otherwise 2:1.	5 years with a moratorium of 18 months.

under auction National equity fund scheme (NEF).	The assistance is available to new projects in tiny and SSI sector or expansion/ modernisation/ diversification and potentially viable sick units.	To support the entrepreneur for his contribution by way of soft loan.	Project cost shall not include working capital margin and shall not exceed Rs.50 lakh. The soft loan shall 5% service charge. No security is to be insisted upon.	10% of project cost.	2:1.	7 yrs. Incl.3 yrs moratorium.
Mahila Udyam Nidhi scheme (MUN).	Protect set up women entrepreneurs.	To establish new industrial projects as also service activities.	Equity assistance to women entrepreneur maximum 15% of the project cost by way of soft loan. No security including collateral is needed.	Maximum 10%.	3:1.	10 years. Incl; 5 years moratorium.
Single window scheme(SWS).	New projects with project cost and working capital requirements up to Rs.100 lakh.	To extend working capital also along with the term loan.	Requirement of working capital as per the prevailing norms.	25% minimum on fixed and current assets.	3.1 up to Rs.10 lakh otherwise 2.1.	TL 8yrs,Incl. 1 1/2 years moratorium — W.C, 8yrs. Incl.3yrs, moratorium .
Scheme for marketing organisation.	Individuals partnerships, limited companies, experienced in marketing village and small industry products.	To set up new sales outlets or undertake renovation/expansion of existing outlets for marketing VSI products.	Cost of project not to exceed Rs.25 lakh.	25%	2:1.	5-8 years.

- Depending on the merit of the case and economic development, the above stipulations are amended by the corporation while granting the assistance.
- Promoter's contribution does not include unsecured loans.
- For loans above Rs.10.00 lakh, Debt. Equity ratio is 2:1.

SELF - EMPLOYMENT SCHEMES

(A) CHIEF MINISTER'S ROZGAR YOJNA (CMRY)

(1) Eligibility

(a) Age: for all educated unemployed 18-40 year in general; relaxable by 5 yrs in case of widow, disabled person, scheduled caste, scheduled tribe, other backward class person.

Additional relaxation of 5 years for general as a well as reserved categories could be considered by the Task Force committee, to be approved by the Chairman EDC, depending upon genuineness of the case/project. However, such relaxations during the year shall not exceed 5% of the total sanctioned cases during previous financial year. Regular ex-government employees including those who have opted for VRS shall not be eligible for such relaxations.

(b) Educational qualifications: VIIIth passed relaxable in deserving cases. Preference will be given to those who have technical/professional qualifications. These will include candidates trained by TCPC, GHRSSIDC, Agriculture Department, and Forest Department or under any other Government Training scheme.

(c) Family income: The income of the beneficiary along with spouse and dependents, and children of minor age shall not exceed Rs.80,000 p.a.

(d) Residence: Permanent of the area for at least proof 15 years. Documents required residential certificate or passing certificate or passing certificate from Goa board/

Goa University or any document to the satisfaction of the sanctioning authority.

(e) Defaulter: Should not be a defaulter to any nationalized bank/financial institution/cooperative banks. Further, a person already assisted under other subsidy linked scheme would not be eligible under this scheme.

(2) Activities Covered

All economically viable/legal activities except dealing in alcohol and tobacco.

Loan Assistance

(a) Term loan: Maximum Rs.2.00 lakh-4.00 lakh, including 50% share assistance capital under DITC scheme. Maximum Rs.4.00 lakh-6.00 lakh including 50% share capital under DITC scheme for an individual with professional degree/diploma/I.T.I. including those undergoing special training programmes conducted by authorized govt. departments/corporations.

(b) Means of finance(interest free): 10% minimum promoter's contribution 50% share capital under DITC scheme.

40% term loan under CMRY @ 8% p.a-

(5% promoters contribution and 45% term loan in case of widow, disabled person, SC/ST/OBC beneficiaries) share capital to local entrepreneurs and self-employed scheme 2003.

(c) Interest rate: 8% p.a.(penal and compound interest not to be charged on term loan)

(d) Margin for loan: 10% minimum (5% minimum for widow, disabled person SC/ST/OBC person)

(e) Moratorium: Maximum one year (moratorium period at the period discretion of the task force committee)

(f) Security: First charge of mortgage/hypothecation of fixed/ current assets

(g) Collateral: The applicant has to provide personal guarantee from self and one guarantee (govt servant or a person owning a house worth Rs. 2.00 lakh or a plot of land of 1000 sq. mts. in Goa. Only personal guarantee by the applicant and parents/spouse/relative of the applicant to be taken for loan amount up to Rs.1.00 lakh and for loans where the assets financed are fixed assets as tangible security.

(h) Loans up to: The task force committee could consider proposals up to Rs.25,000 depending upon genuineness of the applicant and the project, based on an affidavit of self-declaration of having obtained all clearances from competent authorities, as applicable to their proposed venture.

Repayment Schedule

10 years (including moratorium of maximum 1 year) in monthly instalments. In case of loans against vehicles, the maximum repayment may be restricted to 5 years.

Group Activity

More than one person (not exceeding five) joining together to form a partnership will be eligible for the assistance. The assistance will be multiplies by number of persons joining together. (prior approval for the government will be required for consideration of proposals involving a group of more than 5 persons.)

Default in Repayment

If the borrower fails to repay the loan amount including interest thereon as per repayment schedule, the same shall be recovered under provisions of the Goa Public Monies (Recovery of dues) Act, 1986(PMRA) and or Section 29, 30, and 31 of SEC's Act.

Application Form/Fees

Eligible persons shall apply in prescribed application form priced at Rs.25, giving details of their project along with requisite documents. Duly completed application form shall be submitted to EDC Ltd. With application fee of Rs.200.00 (Non-refundable).

Insurance Cover Fund

Rs. 200 per lakh of term loan/share capital will be deducted from the 1st disbursement to create a fund to provide insurance cover to the loan amount/share capital in case of unfortunate disability/death of the beneficiary during currency of the loan. Repayment of principal balance of the loan amount will be done through the Fund.

Training

The science envisages compulsory entrepreneurship training of up to 7 days for the beneficiary to be provided by the government, after the loan is sanctioned but before disbursement of the loan.

Checklist for CMRY Loan Assistance

Application Form:

Fill up the simple prescribed application form in duplicate along with the following documents:

(a) 2 photographs of the applicant.

(b) Birth certificate.

(c) School leaving or qualification certificate.

(d) Certified copy of ration card.

(e) 15 years residential certificate.

(f) Any other relevant certificate.

Project Report

Fill-up the prescribed project report application form in duplicate along with the following documents:

(a) All quotations of assets to be acquired and also of raw material or stock, from authorized dealers.

(b) Registration of the unit wherever necessary.

(c) NOC form panchayat/municipality.

(d) Any other requisite NOC from government department or authority as applicable.

(e) NOC on stamp paper and in prescribed format from the owner of the premises where the activity is proposed to be started.

(f) Tax receipt/registration of the shop.

(g) Electricity/water connection proof (wherever necessary).

Guarantor

The applicant has to provide one guarantor in the form of government servant having a minimum monthly take home salary of about Rs. 4,000 or a person owning a residential house worth Rs. 2.00 lakh or a plot of land measuring 1000m2. Such a guarantor will have to fill in the prescribed form provided with the application along with two photographs and relevant proof, i.e., salary certificate, house tax receipt or From I and XIV, as the case may be (no guarantor is required for loans up to Rs.1.00 lakh. Also, if assets proposed to be acquired have tangible security, no guarantor is required for loans up to Rs.1.00 lakh).

Affidavit

The applicant has to file are affidavit on Rs. 20 stamp paper, duly executed before the competent authority, in the format provided with the application form.

(B) PRIME MINISTERS ROZGAR YOJNA (PMRY)

District Industries Centre/Directorate of Industries, Trade and Commerce, Government of Goa, Udyog Bhavan, Panaji, Goa implements Prime Minister's Rozgar Yojna (PMRY) for providing self-employment to educated to educated unemployed youth has been in operation since October 2,1993. The scheme is revised, with a view to strengthen, by liberalizing the significant parameters of PMRY, as part of promotional package, for micro and small enterprises approved by Government of India with effect from 1st of April, 2007.

Parameters for Eligibility:

(1) Age of the Applicant:

(i) 18 to 35 years for all educated unemployed.

(ii) 18 to 40 for all educated unemployed in North-East states, Himachal Pradesh, Uttaranchal and J&K.

(iii) 18 to 45 years for scheduled castes/scheduled tribes, ex-servicemen, physically disabled and women.

(2) Educational Qualification:

VIIIth pass. Preference will be given to those who have been trained for any trade in government recognized/approved institutions for durations of at least six months.

(3) Family Income:

The income of the beneficiary along with the spouse or the income of parents of the beneficiaries shall not exceed Rs.1,00,000 per annum.

(4) Residence:

Permanent resident of the area for at least 3 years. (Relaxed for married men in Meghalaya and for married women in rest of the country).

(5) Defaulter:

Should not be a defaulter to any bank/financial institution/ cooperative bank. Further, a person already assisted under other subsidy linked government schemes would not be eligible under this scheme.

(6) Activities Covered:

All economically viable activities including agriculture and allied activities but excluding direct agricultural operations like raising crop, purchase of manure, etc., an illustrative list of activities is available at DICs.

(7) Project Cost:

Rs. 2.00 lakh for service and business sectors. Rs. 5.00 lakh for industries sector, loan to be composite nature. If two or more eligible persons join together in a partnership, project up to Rs,10.00 lakh are covered. Assistance shall be limited to individual admissibility.

Self-Help Centre can be Considered for Assistance Under the Scheme Provided:

- All the members of the self-help group individually satisfy the eligibility criteria laid down under the scheme.
- A self-help group may consist of 5-20 educated unemployed youth.
- No upper ceiling on project cost.
- Loan may be provided as per individual eligibility taking into account requirement of the project.
- SHG may undertake common economic activity for which loan is sanctioned without restoring to onwards lending to its members.
- The subsidy ceiling for self-help group is Rs.15,000 per beneficiary subject to a maximum of Rs.1.25 lakh per self-help group.
- Subsidy may provide to the SHG as the eligibility of individual members taking into account relaxation provided in North-Eastern states, Uttarakhand, Himachal Pradesh and Jammu & Kashmir.
- Required margin money contribution (i.e., subsidy and margin to be equal to 20 per cent of the project cost) should be brought in by the SHG collectively.
- The exemption limit for obtaining of collateral security will be Rs. 5 lakh per member of SHG in the industry sector and Rs. 2 lakh per member of SHG project under service/business sector. Banks may consider enhancement in the limit of exemption of collateral in deserving cases.

- Implementing agencies may decide necessity of pre-disbursal training for all the members/majority of the members of the group.

(8) Subsidy and Margin Money:

Subsidy will be limited to 15% of the margin money project cost subject to ceiling of Rs.12,500 per entrepreneur. Banks will be allowed to take margin money from the entrepreneur varying from 5% to 16.25% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost.

For North-Eastern states, Himachal Pradesh, Uttaranchal and J&K. subsidy @ 15% of the project cost subject to a ceiling of Rs.15,000 per entrepreneur may vary from 5% to 12.5% of the project cost so as to make the total of the subsidy and the margin money equal to 20% of the project cost.

(9) Collateral :

No collateral for units in industry sector with cost up to Rs. 5.00 lakhs(the loan ceiling under the PMRY). For partnership projects under industry sector, the exemption limit for obtaining of collateral. Security will be Rs. 5.00 lakh per borrower account. For units in service and business sector no collateral for project up to Rs 2.00lakh. Exemption from collateral in case of partnership project will also be limited to an amount of Rs. 2.00 lakh per person participating in the project cost.

(10) Rate of Interest and Payment:

Normal rate of interest shall be charged. Repayment schedule may range between 3 to 7 years after initial moratorium as may be prescribed.

Reservation:

Preference is given to weaker sections including women. Assistance to SC/ST beneficiaries is to be targeted in such a manner that they are beneficiated in proportion to their population in the respective district/state. However, the number of SC/ST beneficiaries should not be less than 22.5% and 27% for other backward classes (OBCs) candidates are not available, states/UTs Govt. will be competent to consider other categories of candidates under PMRY.

(11) Training (Entrepreneurship Development Programme):

Each entrepreneurship whose loan is provided training per details given below:

(a) For industry Sector:

- Duration: 15 to 20 working days.
- Stipends for the EDP participant: Rs. 750.
- Training Expenditure for EDP Institutions: Rs. 875 per beneficiary.

(b) For service and business sector:

- Duration: 7 to 10 working days.
- Steepened for the EDP participant: Rs. 375.
- Training expenditure for EDP institution: Rs. 875. per beneficiary.

(12) Motivational Campaigns:

To improve the success rate of applicants, states/UTs will be allowed target of cases.

(13) Publicity:

(i) Seminars to be conducted in each district for creating awareness of PMRY in the area in the form of pre-selection motivational campaigns. A resolution may be adopted by each gram panchayat for giving wide publicity and awareness about PMRY in their respective jurisdictions.

(ii) To reduce the level of sickness/closure of PMRY units, the District Level Selection Committee/Task Force Committee be made responsible for the proper scrutiny of applications and selection of viable projects.

(14) Implementing Agency:

The District Industries Centre and the Directorate of Industries are mainly responsible for implementation of the scheme along with the banks.

Seed Capital Assistance

One of the constraints faced by the entrepreneurs, especially first generation or technical entrepreneurs is the lack of resources to meet the minimum promoter's contribution. To help the entrepreneurs overcome the problem IDBI has come up with a scheme which has gained popularity as the Seed Capital Scheme. If the project is coming up in non-backward areas, then the project would not be eligible for subsidy. Hence, the entire amount of promoter's contribution would be brought by the contributor himself. This would be reduced to the extent of the subsidy if the project is coming up in backward areas like (category A, B, or C). The maximum amount which can be sanctioned is to the extent of Rs. 5 lakh per project on the fulfilment of certain conditions.

Objectives of the Scheme

The objective of the scheme is to create new generation entrepreneurs who have the requisite traits of entrepreneurship but whose financial resources are limited. It envisages extension of assistance at a nominal service charge for meeting the risk capital requirements of entrepreneurs. The scheme is expected to promote wider dispersal of ownership and control of industrial undertakings.

Question for Self-Assessment

(I) Answer the following in not more than 400 words:

(1) State the need for institutional finance for small enterprises which are the institutions providing institutional support to entrepreneurs.

(2) What are the main functions of SIDBI? Discuss the various types of assistance the SIDBI provides to entrepreneurs.

(3) How do the SFCs contribute to the development of small scale enterprises in the country?

(II) Answer the following in not more than 100 words:

(1) Seed Capital Assistance.

(2) SISI – role and function.

(3) NSIC – role and function.

(4) EDC – role and function.

(5) DIC – role and function.

(6) GIDC – role and function.

(7) GHRSSIDC – role and function.

(8) KVIC – role and function.

(9) EDI – India role and function.

(10) NIESBUD – role and function.

(11) SIDO – role and function.

(12) DRDA – role and function.

(13) Commercial Banks – role and function.

(14) SBI– role and function.

Chapter 3

Incentives and Subsidies

INTRODUCTION

Entrepreneurs in India are offered a number of incentives with their incredible contributions to economic development. Entrepreneur play a significant role in industrialization. Firstly, they encourage effective resource mobilization of capital and skill which might otherwise remain unutilized and idle. Secondly, they induce backward and forward linkages which stimulate the process of economic development in the country. Thirdly, as a catalyst or agent of change their role is confined to economic, social, cultural and attitudinal changes required for the successful economic development.

Mrs. John Robinson has given a "Golden Age" idea in his economic development concept. She said that the society enters in golden period when total production, total capital and product value are continuously increasing – simultaneously manpower and per capita production are also increasing. It takes only when industrial production is ever increasing. Industrial development depends on entrepreneurship.

Subsidy

'Subsidy' denotes a single lump sum which is given by a government to an entrepreneur to cover the cost. The term 'bounty' denotes a bonus or financial aid given to an industry to help it to compete with other units in country or in a foreign market.

Incentive

The term 'incentive' means encouraging productivity. It is a motivational force which makes an entrepreneur take a right decision and act upon it. Broadly, incentives include concessions, subsidies and bounties stated above. Economic incentives – both financial and non-financial – push an entrepreneur towards decisive decision and action. The objective of incentives is to motivate an entrepreneur to set up a new venture in the larger interest of the nation and the society.

Need for Incentives

The need for incentives and subsidies arises for the following reasons:

(1) To correct regional imbalances in development: The usual package of incentives and concessions has been, however, the experience of industrial administration, department of industries, district level officers, development corporations, etc., that what is lacking in the backward districts is the overall existing environmental growth. One of the ways is to identify pockets of savings of different activity groups like traders, businessmen, agriculturists, professionals, etc., and provide them with relevant information as well as suitable incentives to offset the disadvantages prevailing in such places. Industrial policy uses incentives both to correct the market imperfections and to accelerate the process of industrialization so as to dive the forces of supply and demand reach the equilibrium level. Such a policy then aims at inducing some entrepreneurs or sections of the community to locate their industrial limits in areas selected by government rather than that of their own choice. Regional

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

(2) To promote entrepreneurship by removing economic constraints: As for the economic constraints, the new entrants in the field face many impediments on account of inadequate infrastructures. The new entrepreneur suffers because of distances separating central administrative organs from entrepreneurs and their projects, deficiency of various supporting services such as market intelligence, entrepreneurial guidance and training, technical consultancy and merchant banking facilities, lack of an institutional mechanism to provide full-time management personnel complementary to that of the new entrepreneurs, and finally, from insufficient orientation of the promotional institutions, barring a few exceptions, at the state level to the needs of new entrepreneurs.

(3) To provide competitive strength, survival and growth: Some of the incentives are concerned with the establishment of industries while others are concerned with the survival and growth of industries. Several incentives are confined to the first few years of the establishment of the unit while a few of them are made available over a long period. Instances may be cited of the reservations policy for SSIs due to which a small firm can hope to compete in the market to which entry by larger units is barred. If these units are already established and are brought under the reservation policy later, it will be a case of incentives to support its competitive strength. For a newcomer, the reservation is an incentive to enter the industry itself. A price preference improves its competitive strength.

Central Investment Subsidy Scheme

This was introduced in 1971, and has been modified from time-to-time. The scheme is for encouraging setting up of industries in centrally notified backward areas. For setting up industries in Category "A" backward areas, subsidy is allowed at the rate of 25% subject to a maximum of Rs. 25 lakh (enhanced to Rs. 50

lakh for setting up electronics industry in hilly districts). It is 15% and 10% subject to a maximum of Rs. 15 lakh and Rs. 10 lakh for Category 'B' and 'C' districts respectively. MRTP/FERA companies are not eligible for subsidy in Category 'C' areas. Entrepreneurs who set up nucleus plants in Category 'B' and 'C' districts/areas are legible for 20% and 15% subsidy, subject to a maximum of Rs. 20 lakh and Rs. 15 lakh respectively. Since the inception of the scheme and up to December, 1989, a total sum of Rs. 855.46 crore reimbursed to states/union territories excluding Delhi and Chandigarh.

Transport Subsidy Scheme

The scheme was introduced in 1971 and is applicable to remote and inaccessible areas. It covers the entire North-Eastern region including Sikkim, Jammu and Kashmir, and Himachal Pradesh, hill districts of Uttar Pradesh, Lakshadweep and Andaman and Nicobar Islands and Darjeeling District of West Bengal. Identified promotional institutions which transact business on behalf of small, village and cottage industries are also eligible for transport subsidy. Transport subsidy is paid on the transport costs of industrial raw materials which are brought into and finished goods which are taken out of these areas to identified rail heads/ports. In the North-Eastern region subsidy is available at the rate of 90% and for Himachal Pradesh, hill districts of Uttar Pradesh and Darjeeling District of West Bengal, it is 75%. It is also available at the rate of 90% for movement of raw materials within the N.E. region and at the rate of 50% for movement of finished goods in this region from one state to another state. For airlifting of electronic components/products from Kolkata airport to the airport nearest to the locations of the industrial units in this region subsidy is allowed at the rate of 75% and *vice versa*.

Cental Assistance for Infrastructural Development in No-Industry Districts Under the Old Scheme

To assist state governments in taking up infrastructural development in one or two identified growth centres in each no-industry district, the Centre gives financial assistance which is limited to one-third of the total cost of infrastructural development, subject to a maximum of Rs. 2 crore per district. Two types of patterns have been laid down for the purpose:

Pattern I

Rs. 2 crore as subsidy from the Central government.

Rs. 2 crore as share of the state government.

Rs. 2 crore as loan from IDBI on confessional terms.

Pattern II

Rs. 2 crore as subsidy from the Central government.

Rs. 4 crore as share of the state government.

Rs. 5 crore as loan from IDBI on concessional terms after the shares of state and Centre are spent.

For states in the N.E. region, the scheme has been further liberalized. In a total project of Rs. 4 crore, the Centre's shares would be 50%, i.e., Rs. 2 crore per district and the state governments have the option to fund the balance of Rs. 2 crore either from their own funds or by raising a loan from IDBI. Construction of sheds, subject to a ceiling of 25% of the total cost, has been allowed in the case of this region only.

So far 51 growth centres in 44 districts of the states of Rajasthan, Orissa, and Karnataka, UP, Bihar, Maharashtra, West Bengal, Tripura, Nagaland, AP and Mizoram have been approved by the government for development of infrastructural facilities. A sum of Rs. 15.42 crore has been realized for creating infrastructural facilities in the states of Rajasthan, Orissa, UP, Karnataka, MP, Maharashtra, Mizoram, Bihar and West Bengal till December 1988.

New Scheme for Growth Centres

The government has announced on June 3, 1988, the decision to set up 100 growth centres throughout the country over the next five years or so. These growth centres, would be endowed with infrastructural facilities on par with the best available in the country, particularly in respect of power, water, telecommunication and banking. Each growth centre would be provided with funds of the order of Rs. 25-30 crore in order to create infrastructural facilities of a high order.

The states/union territories have been asked to identify double the number of growth centres allocated to them but the final selection of these will be done by the Centre. The state governments are also free to include any of the growth centres already approved under the erstwhile scheme for developing such centres in the 'No-industry districts'.

The growth centres shall not be located within 50 kms of the boundary of 7 cities with a population of above 25 lakh, 30 kms from the boundary of 2 cities with a population of above 15 lakh but below 25 lakh and 15 kms from the boundary of 12 cities with a population of 7.5 lakh but below 15 lakh.

The growth centres shall be located close to district sub-divisional/block/taluka/headquarters or developing urban centres.

The broad financing pattern for development of infrastructure in the selected growth centres will be as follows:

(1)	Central government (Equity)	Rs. 10 crore
(2)	State government (Equity)	Rs. 5 crore
(3)	All-India Financial Institutions (including Rs. 2 crore as Equity)	Rs. 4 crore
(4)	Nationalized Banks	Rs. 1 crore
(5)	Market borrowings	Rs. 10 crore
	Total	**Rs. 30 crore**

The growth centres selected under this scheme will be included in Category 'B' unless it is already in Category 'A' of the list of backward areas and will be entitled to all incentives available from time-to-time for Category 'B' areas. The state governments have been requested to make suitable provisions in their states/ union territories plan for the development of these growth centres.

INCENTIVES AND FACILITIES TO EXPORTERS

(1) Duty Drawback

For a product exported from India, the manufacturer would have paid duties as under:

(i) Import duties on raw materials and components imported, and

(ii) Excise duty on the items manufactured in India.

The Customs and Central Excise Duty Drawback Rules, 1971 provide for refund of such duties to the exporter on the export being completed.

Duty drawback is allowed only in respect of all items wherein such raw materials and components have been used on which duty either of customs or excise has been paid. There are two types of rates of drawback: (i) all-industry rate, and (ii) brand rate. All-industry rate is applied to all exporters alike. The brand rate is applicable only to particular manufacturers. The brand rate is fixed on application and furnishing of information to the authorities by the exporter. Brand rate can be so fixed where the all-industry rate does not exist, or where the existing rate of drawback is less than 80% of the duty paid.

For claiming the drawback, the exporter should file with the customs the triplicate copy of the shipping bill within 60 days after the customs officer at the port has given 'Let Export Order'. On a fortnightly basis, the drawback entitled to the exporter will be remitted to his account with his bank. If the rate of drawback is yet to be fixed, the exporter can make a provisional claim. The final disbursement will be made on fixation of the rates.

To help the exporter tide over the financial difficulty faced due to the delay in disbursement of the duty drawback, the government has formulated the Duty Drawback Scheme, 1976. Under this scheme, the exporter can get interest-free finance from his bank an export eligible goods and producing a provisional certificate as to his entitlement of drawback. This has been detailed in the chapter on 'Financing Exports'.

(2) Duty Exemption Scheme

The scheme enables the exporter to import materials without payment of customs duty. The licence issued under this scheme is known as 'Advance Licence'. The items allowed to be imported under these licences are such as are to be used in the manufacture of goods to be exported from India.

The advance licences are issued to manufacturer-exporters subject to actual user condition. Generally, the scheme is applicable only to those export products in which there is a minimum value addition of 33%. The licence will bear a suitable export obligation.

The licensing authority issuing a licence under this scheme will also simultaneously issue a connected Duty Exemption Entitlement Certificate. Exempt materials imported against a licence under this scheme should be utilized for the manufacture of the resultant products specified in the Duty Exemption Entitlement Certificate. The licenseholder should execute a bond with bank guarantee and lodge it with the licensing authority.

After exports, the Duty Exemption Entitlement Certificate duly completed by the customs will have to be surrendered to the licensing authority in fulfilment of the export obligation imposed.

No duty drawback will be allowed on the products exported/ supplied under this scheme.

(3) Excise Rebate

Finished goods which are subject to excise duty for home consumption are exempt from the duty when they are exported. The scheme is also applicable where exported goods contain excisable goods in their manufacture.

The exporter can avail of this facility in either of the following methods, where finished goods are excisable:

(i) **Export under bond**: Under this method, the exporter has to execute a bond in favour of Central Excise Authorities. The amount of the bond will be equal to the duty on the estimated maximum outstanding of goods leaving the factory without paying the duty and pending acceptance of their proof of export by excise authorities. No excise need be paid by the exporter.

(ii) **Refund of duty:** If the duty is already paid, after export is made, the exporter should make a claim with the Centre Excise Authorities. After verification of the claim, the excise authorities will arrange for the refund of the central excise.

Where the excisable materials have been used in the manufacture, similar to the above arrangement, the exporter can avail of the facility of manufacturing under bond or he can claim refund after the duty is paid.

(4) Marketing Development Assistance

The Government of India has instituted a marketing development fund for providing grants-in-aid for the development of markets for Indian products abroad, for compensatory support for export commodities and for other export promotion efforts. The fund gets its resources from the allocation of General Budget.

The fund is administered by a committee consisting of the Secretaries of the Departments of Economic Affairs and Expenditure and Commerce. Various schemes (i.e., export promotion activities) falling under the grants-in-aid are processed by different subcommittees.

Assistance under MDF is available to organizations like Export Promotion Councils, Commodity Boards, India Trade Promotion Organisation, etc., and individual exporters approved by such organizations.

The extent of assistance differs depending upon the scheme. Generally it ranges between 50% and 60%. Some of the schemes eligible for assistance under the fund are:

(a) Commodity survey/study within the country for determining export potential;

(b) Market survey abroad;

(c) Publications for issue within the country or abroad;

(d) Participation in exhibitions aboard;

(e) Setting up showrooms, warehouses, after-sales service establishments;

(f) Research and development;

(g) Consultancy services;

(h) Setting-up foreign offices.

The application for assistance should be sent to the Marketing Department Assistance Committee at the Ministry of Commerce through the approved organization like Export Promotion Council and Commodity Board.

(5) Supply of Raw Materials

Units engaged in exports are given priority in the allotment of scarce raw materials such as steel. In certain cases, the raw materials are arranged to be supplied at international prices, much below the internal prices.

IPRS: The International Price Reimbursement Scheme for steel and pig iron provides for reimbursement to the exporter of the difference in international and domestic price of specified categories of iron and steel used in export of engineering goods. The reimbursement is made through the Engineering Exports Promotion Council.

(6) Export-Oriented Unit/Export Processing Zone

Units undertaking to export their entire production of goods may be set up under the Export Oriented Units Scheme. Such units may be engaged in manufacture, production of software, horticulture, agriculture, aquaculture, animal husbandry or similar activity. Units engaged in service activities may also be considered on merits.

Free Trade Zone or Export Processing Zone is an industrial estate, cordoned off from domestic tariff area, where trade barriers applicable to the rest of the economy do not apply and where export-oriented units can operate free of import duties or quantitative restrictions and are given other advantages including tax exemptions. Seven free trade zones have been set up in India at Santa Cruz (Mumbai), Kandla, Chennai, Cochin, Noida, Falta (Kolkata), and Visakhapatnam.

Units in the free trade zone and export-oriented units (outside the zone) are similarly placed with regard to conditions and benefits bestowed on them.

Facilities for Units in the Export Processing Zone

- Developed plots/ready-buildings to suit project requirements.
- Single-paint clearance of new projects within 40-65 days.
- Automatic approvals of proposals by the development commissioner on certain conditions.
- No licence required for import of capital goods, raw materials, consumables, spares, etc.
- Duty free import of capital goods and equipments from preferred sources.
- Secondhand capital goods allowed to be imported.
- Sourcing of capital goods from domestic manufacturing/ leasing companies allowed.
- Exemption from Central Excise Duty and other levies on products manufactured within the zone.
- Complete exemption from income tax on profits for a period of five years.
- Foreign equity participation up to 100% permissible.
- Remittance of profits and dividends by foreign investors/ NRIs allowed fully after payment of taxes.
- Up to 25% production and 5% rejects can be sold in domestic market on payment of appropriate duties.
- Re-export of unused imported goods allowed, subject to certain conditions.
- Imported machinery becoming obsolete allowed to be disposed of, subject to payment of custom duty on depreciated value.

- Subcontracting part of job work to units in the domestic market may be allowed.
- Concessional finance available for investment and working capital.
- Assured power supply, preferential power connection.
- Supplies from domestic market to the units in the zone, treated as deemed export.
- Export finance banks or special concessional rate of interest.
- Green card to units for getting facilities like telephone, telex, cement, steel, etc., on priority basis.
- Containers loaded by units in SEPZ not to be inspected or other points, so long the seals are intact.
- Private bonded warehouses permissible for stack and sale of duty-free materials, components, etc., to SEPZ units.
- And many more....

Other Facilities/Provision being Made Available in SEPZ

- Security as per norms laid down by the customs for SEPZ.
- Paved internal roads, street lights, water supply, etc.
- Container space on rental basis.
- Customs clearance centre within the diamond industrial park.
- Railway station within 1 km. Surat Airport, Magdalla Sea Port and Highway within 15 Km.
- Office premises available in the international trade centre of the park.
- Health centre, school, recreation club, theatre coming soon.
- Hotel by an international chain of hotel soon to come up.

- Excellent green and clean environment.
- Administrative support by the promoters to users in preparing their application for units in the zone.

Export Houses, Trading Houses and Star Trading Houses

A registered exporter is a person holding valid registration certificate issued by an Export Promotion Council, Commodity Board or other registering authority designated by government for the purpose of export promotion.

The exporter may be registered as an Export House or a Trading House or a Star Trading House if the average FOB value of physical exports during the preceding three licensing years is not less than Rs. 10 crore, Rs. 50 crore and Rs. 250 crore respectively. The registration may also be granted if the FB value of exports during the preceding licensing year was not less than Rs. 15 crore (export house), Rs. 75 crore (trading house) and Rs. 300 crore (star trading house).

These houses are entitled for special import licences for import of such items included in the Negative List of Imports, under a scheme notified in this behalf. They are also eligible for opening of foreign currency accounts in India and abroad, Marketing Development Assistance and to execute legal undertaking in lieu of bank guarantee to cover the export obligation.

(8) Export Promotion Capital Goods Scheme

The scope of the EPCG scheme has been enlarged, following amendments to the EXIM Policy in 1996. The major provisions of the scheme are as follows:

(a) Capital goods may be imported with a licence under the EPCG Scheme. Capital goods (including spares up to 20 per cent of the Cost-Insurance-Freight, value of the capital goods) may be imported at a concessional rate of customs duty according to the conditions given in the table below, subject to an export obligation to be fulfilled

Duty	Export Obligation	Period
15% CIF Value	Four times CIF Value	5 years
Zero Duty (in case CIF value is Rs. 200 million or more)	Six Times CIF value	8 years

over a period of time. The period for fulfillment of export obligation is reckoned from the date of issue of the import licence.

(b) Export obligation shall be in Free on Board basis. However, in the case of zero-duty imports, the license-holder may apply for the fulfilment of the export obligation by exporting four times the CIF value of the capital goods on net foreign exchange basis within a period of eight years.

(c) Under the scheme, manufacturer exporters, merchant exporters, and service providers are eligible to import capital goods.

(d) EPCG licenseholders may fulfil their export obligation through supply of intermediate products, but without claiming benefits provided for deemed exports.

(9) Foreign Currency Accounts for Exporters

Exporters with a net foreign earnings of Rs. 4 crore and over during the preceding year may be permitted by Reserve Bank to maintain foreign currency accounts in US dollar or sterling pound, with SBI, public sector banks and foreign banks operating in India.

Only one account shall be maintained which will have no cheque facility. No overdraft can be granted in the account. The exporter availing this facility should route all export documents through the designated branch of the bank. Credit to the foreign currency account will be approved method of liquidation of postshipment advances. RBI will fix ceiling on balance to be maintained in the account. Excess over that shall be converted into rupees promptly.

If exports arrange foreign currency overdraft/revolving lines of credit from banks abroad for financing their imports RBI may consider their keeping foreign currency accounts abroad. Mirror account shall be maintained by a bank in India. They cannot avail pre-shipment/post-shipment finance except to the extent of rupee expenditure.

(10) Other Benefits

Some of the other benefits available to exporters can now be listed.

(a) Exemption from sales tax.

(b) Exemption from income tax.

(c) Training facilities in India and abroad.

(d) Availability of concessional finance from banks and EXIM Bank.

(e) Credit insurance cover from ECGC.

(f) Pre-shipment inspection facilities.

(g) Foreign exchange for business visits abroad and for participation in trade fairs and exhibitions abroad.

(h) Special import licences for items in negative list.

Thus, it may be seen that no efforts have been spared in providing all possible facilities and incentives to exports.

SUBSIDIES AND INCENTIVES IN GOA

Capital Contribution Scheme, 2008

Introduction: The Scheme is designed to support local entrepreneurs, promote industrial units which venture out and develop special products based on locally developed technology.

Objectives: The objectives of the scheme are as follows:

(1) To give financial support to local entrepreneurs.

(2) To support existing functional units to venture out and expand.

(3) To support locally developed technology.

Quantum of Subsidy:

(1) The quantum of contribution under this scheme shall be subject to budgetary provisions and in case of sick units under revival plan. The applications which are not considered during the fiscal year shall lapse and fresh applications are required to be filed during the next financial year.

(2) Maximum capital contribution up to Rs. 1.00 crore per unit will be available under this scheme subject to the condition that contributions of promoters should be equal or more than the capital contribution by the government. However, this restriction/condition shall not be applicable to sick units.

(3) The capital contribution will be for a period of 5 years as may be indicated in the sanctioned order with guaranteed return of 6% or actual profit.

(4) The beneficiary shall submit post-dated cheques for repayment as a security towards the amount sanctioned. In case of failure of realization of the cheques so produced, the beneficiary shall be liable to be prosecuted as per the relevant provisions of the Act.

(5) The units shall submit collateral security equal to the quantum of contribution sought or equal to the tune the unit is eligible. In case of failure to repay, the security so produced shall be forfeited.

(6) **Preference:**

(1) Preference will be given to the units in the small scale sector, units involved in research and development, technical oriented, units and the units run by women entrepreneurs/clusters.

(2) In case of the Goa Sick Industrial Unit Revival and Rehabilitation Scheme, 2008, the capital contribution will be in proportion as indicated in the Goa Sick Industrial Unit Revival and Rehabilitation Scheme, 2008 and subject to:

  (a) The unit generating net revenue in VAT/ST or any other tax of the government of Goa.

(b) The actual generation of net tax revenue during the preceding year (in proportion) as indicated in the Goa Sick Industrial Unit Revival and Rehabilitation Scheme, 2008.

Preferential Purchase Incentives for Micro and Small Enterprises Scheme, 2008

Introduction: To give effect to the provisions of said policy, the government of Goa has decided to formulate a Preferential Purchase Incentives Scheme for Micro and Small Enterprises.

Objectives: This scheme is intended to encourage and give boost to Micro and Small Scale Enterprise Sector and needs to be complied with utmost care. Non-compliance of provisions of this scheme shall be viewed seriously and the officer concerned shall be personally held liable..

Benefits: Under this scheme Micro and Small Enterprises permanently registered with the Directorate of Industry, Trade and Commerce, Goa shall be given special treatment in any tender floated by government department/autonomous bodies/ corporations/semi-government departments or any purchases made by them, as under:

(1) Micro and Small Enterprises shall be allowed to match to lowest tender price floated by Non-Small Scale Units provided its quoted price is within 15% of lowest quoted price floated by Non-Micro and Small Enterprises;

(2) In case of contractual tenders for installation, commissioning of machinery/items, etc., the preference of quoted price, the pro-rata percentage over and above the lowest quotation shall be granted to the concerned Micro or Small Enterprises for being qualified to match the lowest one.

(3) For the purpose of availing benefit under this scheme, the Micro and Small Enterprises shall be required to match standard of quality as required by the state government department.

(4) The scheme shall be applicable even for purchase of computer hardware and other electronic items except in case of purchases of education department, under this scheme.

(5) The tender documents shall be supplied to Micro and Small Enterprises at the rate of maximum up to Rs.200.

(6) Earnest money shall be required to be deposited and the same shall be to the maximum of Rs. 500.

(7) No other security deposit is required.

(8) Priority in payment shall be ensured to Micro and Small Enterprises and the payment shall be effected by the concerned department within 60 days from the delivery of goods or completion of tendered work, failing which the department shall be liable to pay an interest at the rate of 0.75 % per month.

Goa State Financial Inentives to the Industries for Certification and Patenting Scheme, 2008

Introduction: Units which obtain Indian Standard Institute and International Standard Organisation Certification or any other International Certification and/or patent right on products and/or processes, need to be specially encouraged. Such units provide a benchmark of excellence and serve as a model for others to emulate. Therefore, this scheme is introduced for industrial units to provide financial incentives for achieving the benchmark of excellence.

Objectives: The main objectives of this scheme are as follows:

(a) To encourage the industrial units to obtain National and International Certification and patent rights in order to maintain requisite standards of quality of products/ processes.

(b) To give boost to the industrial units to achieve the bench mark of excellence and service as a model for others to emulate.

(c) To promote healthy qualitative industrial growth in the state of Goa.

Quantum of Assistance:

(1) Under this scheme financial assistance/subsidy to the extent of Rs. 2 lakh or the actual expenses incurred whichever is less will be granted per unit. The actual expenses will not include charges of lodging/boarding, refreshment, travel, etc., but will include only the actual charges incurred to obtain the certificate.

(2) Under the scheme financial incentive can be availed once in a lifetime of the unit, irrespective of change in ownership/constitution or product provided that after such a change in ownership/constitution/product; if the applicant becomes ineligible to use such certification under which the benefit is availed than the unit will once again be eligible to avail the benefit under this scheme. Provided that the loss of certification due to inadequacies in the unit shall not be reason enough to avail this benefit for the second time.

Incentives to Encourage Consumption of Local Raw Material Scheme, 2008

Objectives: The main objective of this scheme is to encourage consumption of local raw material; thereby encouraging units manufacturing such raw material and also to encourage economics of villages supplying/producing such raw materials including those in horticulture business/food processing/cluster.

Eligibility:

(1) Only those units under green and specified orange category shall be eligible under this scheme:

(2) Only those units which are permanently registered with the Directorate of Industries, Trade and Commerce or cleared by High Powered Coordination Committee (HPCC) or any Committee or authority formed to grant such clearance for investment in the state shall be eligible under this scheme. This scheme will be applicable only to Micro and Small Enterprises and Medium Scale Enterprises as defined under MSMED Act.

(3) The unit consuming minimum 50% of its raw material (in value) from local sources shall be eligible for the benefit on pro-rate terms with those consuming 60% and above, which will be considered for 100% benefit under this scheme.

Nature of incentive: Once a unit becomes eligible under this scheme, following incentives shall be granted in proportion to the quantum of local raw material consumed by such unit for a period of five years from the date of first approval.

(1) The unit consuming local raw material below 50% of total raw material consumed by such unit shall not be considered for any benefit. The unit consuming local raw material from 50% to 60% of total raw material consumed, by such unit; shall be given benefit proportionately considering 50% consumption at zero level and 60% consumption at 100% level (units consuming more than 50% local raw material of its total raw material shall get benefit of 100%). For the purpose of calculating the percentage level; the raw material to finished goods ratio shall be considered as 0.4 (minimum) and 0.6 (maximum).

(2) Following benefit shall be granted to the eligible units:

(a) The eligible unit shall be considered for reimbursement to the extent of maximum 90% sales tax paid by such unit and subject to quantum based on (1) above.

(b) The eligible unit shall be considered for incentives in the form of subsidy on power and water bills annually. 25% subsidy will be given to the eligible units on total expenditure incurred by the unit on power and water tariff subject to maximum Rs. 2 lakh per annum and as per proportion indicated in (1) above.

Goa State Export Market Development Scheme, 2008

Introduction: To give effect to the provisions of the said policy, the government of Goa is pleased to introduce this scheme for the industrial units engaged in export and set up in Goa, by providing assistance in the form of interest free loan.

Objectives: The main objectives of the scheme are as follows:

(a) To encourage the Goan industries to improve export markets.

(b) To support the Goan industries to establish their goods firmly in export market, thereby generating growth and employment.

Quantum of loan: Maximum interest free loan up to Rs. 5.00 lakh will be provided under this scheme.

Purpose for Assistance:

(a) Interest free loan under this scheme up to Rs. 5.00 lakh will be provided for participating in shows/exhibitions outside India.

(b) Interest free loan up to Rs. 5.00 lakh will also be provided for market study tour out of India.

(c) One unit can avail this facility only once under this scheme in lifetime.

(d) If the original unit have already taken benefits under this scheme, then the sold/transferred unit shall not be eligible to derive any benefits under this scheme.

(e) If there is any dispute in interpreting (a) to (d) above, then the decision of the Director, Directorate of Industries, Trade and Commerce, shall be final and binding.

Interest Subsidy Scheme, 2008

Introduction: In an effort to boost economic growth in the state, it is proposed by the government of Goa to provide subsidy to the micro and small enterprises on interest payable by them. This will be a very attractive incentive to the investors who could then invest more and seek better returns for themselves and for the state.

Objectives: The main objectives of this scheme are as follows:

(a) To give boost to the micro and small enterprises in the state.

(b) To provide incentives to small investors for making their enterprises viable financially.

(c) To promote industrial growth in the state and create an optimistic environment for the small investor and local entrepreneurs to invest.

Quantum of Subsidy: (a) Incentives shall be given to eligible units to the extent of 1½% of the total net turnover or 30% of the interest paid by the units, whichever is less, subject to a ceiling of Rs. 5.00 lakh per annum.

Explanation:

(a) For the purpose to this scheme, net turnover means turnover not including taxes, such as, sales tax and excise as also net of any discount.

(B) Any additional benefit granted to women entrepreneurs by Government of India/government of Goa under any scheme of any department.

Incentives to Women Entrepreneurs Scheme, 2008

Introduction: The government of Goa is pleased to frame this scheme for the benefit of those units which are set up by women entrepreneurs, to give them additional incentives.

Objectives: The objective of this scheme is to encourage women entrepreneurship and encourage women to start industry for self-employment.

Incentives:

(1) 5% additional benefit under local employment subsidy scheme. This is over and above what is eligible under the original scheme.

(2) Preference in capital contribution and under special capital contribution schemes.

(3) In case of interest subsidy scheme prescribed limit of 1½% of turnover will be increased to 2% and 30% of interest paid will be increased to 35%, however, subject to overall ceiling of Rs. 8.00 lakh.

Goa State Employment Subsidy Scheme for the Industries, 2008

Introduction: For effective implementation of new industrial policy, the government of Goa is pleased to introduce the Goa state employment subsidy scheme for the industries, 2008 for industrial units to be set up and the units already set up in the state of Goa. The scheme will be in operation as per the period indicated herein. However, the government may decide to extend or curtail the period of the same without effecting the benefits already availed.

Objectives: The main objectives of this scheme are:

(a) To promote industrial growth in the state of Goa.

(b) To create a healthy environment for setting up new industrial units in the state of Goa.

(c) To revive sick industrial units in the State of Goa.

(d) To give boost to provide employment to local youths.

(e) To create manpower suitable to the needs of the industry.

Quantum of Subsidy : For determining the quantum of subsidy, the state is divided into developed and less developed talukas, Pernem, Satari, Bicholim, Sanguem, Quepem and Canacona are less developed talukas. The rest shall be treated as developed talukas.

For new units in developed talukas, the subsidy shall be 25%.

For new units in less developed talukas additional 10% incentives will be given in the subsidy.

For existing micro and small industrial units in developed talukas, the subsidy shall be 10%.

For existing micro and small industrial units in less developed talukas additional 5% benefit will be given in the subsidy.

For sick units, under revival plan, it shall be defined by the appropriate authority, subject to maximum 25% and shall be uniform across the state.

Under any circumstances, the total quantum of subsidy shall not exceed 40% including all the additional benefits under this and various other Schemes.

GRANT-IN-AID SCHEME TO PROVIDE FINANCIAL ASSISTANCE TO THE MAHILA MANDALS

Background: The women in Indian society play significant role in shaping the family and its members; socially, educationally, culturally and economically too. The women are the milestones of the society, should be aware and educated in different arts 7 skills; which are required in their day-to-day activities or for providing good services/facilities to their family members.

The women in Indian society are not united, they are segmented. For the development of the society/families the women should be united and it is required to inculcate in the minds of women the concept of togetherness.

Today the concept of Self-Help Groups and Mahila Mandals-has highlighted the concept of togetherness and implement several programme for the well-being of the women. Mahila Mandals have actively involved in several socio-cultural activities of educating, training and socializing the women.

To encourage the activities of Mahila Mandals and to strengthen them, the scheme of Grant-in-Aid to Mahila Mandal has been formulated by which financial assistance shall be sanctioned to undertake socio-educational activities.

Objective of the scheme: The objective of the scheme is to provide financial assistance to Mahila Mandals for training/ orientation for members of the Mahila Mandals for generating their own activity for self-employment.

Target group: The scheme is applicable to all the Mahila Mandals duly registered before the competent authority within the state of Goa and are operating successfully.

Financial Assistance:

(1) Under the scheme an amount of Rs.5,000 (Rupees Five Thousand only) shall be sanctioned as annual grants to the registered Mahila Mandal for successful functioning in the state of Goa.

(2) Finaincial assistance of Rs.2,000 (Rupees Two Thousand only) shall be sanctioned to the registered Mahila Mandals having at least 20 members for undertaking any gainful self-employment activity.

Pattern of assistance: Each Mahila Mandal shall be disbursed following grants:

(1) Rs.5,000 as annual Grant-in-Aid for registered Mahila Mandal for successful functioning in the state of Goa.

(2) Rs.2,000 shall be sanctioned per course for purchase of raw materials to every Mahila Mandal for conducting any activity for self-employment.

(3) Resource persons may be provided by the directorate for each course of activity through CDPOs.

Question for Self-Assessment

(I) Answer the following in not more than 400 words:

(1) What do you mean by incentives and subsidies?

(2) What do you mean by Seed Capital Assistance? Explain the objectives of Seed Capital Scheme.

(3) Explain the various subsidies and incentives offered by the government of Goa.

(4) Discuss various possible incentives/subsidies for small scale industries offered by the Central government.

(5) Discuss the measures taken by the govt. of Goa to promote women entrepreneurship in Goa.

(II) Answer the following in not more than 100 words:

(1) Income tax benefits

(2) Need for incentive

(3) Duty Exemption Scheme

(4) Transport subsidy.

Chapter 4

Functional Areas of Management

1. PRODUCTION MANAGEMENT

INTRODUCTION

'Production' and 'Marketing' are the two basic operating functions of every industrial enterprise. Production is concerned with the supply side while marketing of goods and services is concerned with the demand side. These two activities are interdependent and one cannot exist without the other. Production of goods and services without marketing is useless and marketing of goods and services without production is not possible. Thus, production decisions constitute one of the most important functions of the top management.

Production is the process by which goods and services are created. In other words, it transforms the inputs (i.e., raw materials, men, machine, management and capital) into output (i.e., goods and services) with the help of certain production processes. Production includes production of goods and production of services. In a manufacturing organization, men, materials and equipments are employed to produce goods and commodities by creating from utility while in service enterprise the production is the discharge of some functions of utility and includes all types of services.

Production function is the basic function of an industrial enterprise around which all other activities of the organization such as purchasing, financing, marketing, storing, personnel, research and development revolve. It is therefore very essential that the production function must be managed effectively and efficiently so as to achieve the organizational goals. The main aim of every production system is to produce the goods and services economically to the entire satisfaction of the customers for which they are meant. In order to achieve this aim, it is essential to plan, organize, direct and control the production system. There activities of planning, organizing, directing and controlling comprise the production management.

Meaning

Production management is a branch of management which is related to the production function. Production may be referred to as the process concerned with the conversion of inputs (raw materials, machinery, information, manpower, and other factors of production) into output (semi-finished and finished goods and services) with the help of certain processes (planning, scheduling and controlling, etc.) while management is the process of exploitation of these factors of production in order to achieve the desired results. Thus, production management is the management which by scientific planning and regulation sets into motion the part of an enterprise to which it has been entrusted the task of actual transformation of inputs into output. A few definitions of production management are being reproduced hereunder to understand the meaning of the term clearly :

(1) "Production management then becomes the process of effectively planning and regulating the operations of that part of an enterprise which is responsible for actual transformation of materials into finished products".

• **E.F.L. Brech**

The definition seems to be quite incomplete as it ignores the human factors involved in a production process and lays stress only on the materialistic features. Elwood S. Buffa has defined the term in a broader sense as –

(2) "Production management deals with decision-making related to production process so that the resulting goods or services are produced according to specifications in amounts and by the schedule demanded and as a minimum cost".

• **Elwood S. Buffa**

Thus, production management is concerned with the decision-making regarding the production of goods and services at a minimum cost according to the demands of the customers through the management process of planning, organizing and controlling. In order to attain these objectives, effective planning and control of production activities is very essential. Otherwise, the customers shall remain unsatisfied and ultimately certain activities will have to be closed.

Production management, thus, is assigned with the following tasks –

(1) Specifying and accumulating the input resources, i.e., management, men, information materials, machine and capital.

(2) Designing and installing the assembly or conversion process to transform the inputs into output, and

(3) Coordinating and operating the production process so that the desired goods and services may be produced efficiently and at a minimum cost.

Scope of Production Management: Production management mainly associated with the factory management as the problems of production crept with the development of factory system. Before the evolution of factory system, manufacturing activities are carried on by single person that pose no problem or very insignificant problem of production and therefore question of production management did not arise. But with the inception of factory system, the situation changed and so many problems of production were begun to creep up and necessity arose to tackle with the problems of quality control, layout facilities, meeting the schedules and organization of production activities. Thus, the scope of production management began to develop. In early stage, the stress was on controlling the labour costs because labour cost was the major element of the total cost of production. With the continuing development of factory system, the trend towards mechanization and automation developed and it resulted in the increased costs of indirect labour; more than the direct labour costs. So, concerns found it difficult to run the business in these circumstances and evolved so many controlling devices to regulate the cost of production. They had developed device like designing and packing of products, indirect labour cost control, production and inventory control and quality control.

Since the level of production has increased tremendously, so many other production problems have been added to its scope. On the present era of intense competition, the scope of production management is very wide. The production department in an enterprise is not only concerned with the full exploitation of production facilities but also the human factor that indirectly affects the production, utilization of latest techniques of production and the production of quality goods to the satisfaction of customers of the product.

2. CHOICE OF TECHNOLOGY

INTRODUCTION

When an entrepreneur proposes to undertake a business, he has to choose a suitable technology. The choice has to make both at the time of setting up a new enterprise and at the time of expansion and growth of an existing concern the selection of a suitable technology of business organization is an important management decision. This decision affects the success of a business firm. It is a long-term commitment cannot be changed easily. As such, selection of the technology is a matter of careful deliberation and judgement.

Choice of technology depends on the nature of the industry, the size of the enterprise, the scale of the output, the requirements of the workers, etc. The entrepreneur should bear in mind the product design, plant design, the required tools, the personnel, etc., while planning the technology. Any carelessness, negligence or mistake in this regard can adversely affect the efficiency of the enterprise by raising the costs of production, caused by wastage of labour and materials.

The decision regarding technology cannot be taken once for all at the time of locating the new plant and equipment. It should be flexible enough to accommodate the subsequent changes in the management policies and processes and techniques of production. It will, therefore, be necessary to consider not only the problems and techniques of the initial technology and building design, etc., but also of revision in response to various situational changes. The choice of technology are to be laid out with definite objective, i.e.:

(i) to secure larger production;

(ii) to reduce the costs per unit;

(iii) to maintain the quality;

(iv) to ensure timely delivery of the outputs;

(v) to minimize the chances of accidents

It should be noted here that the objectives are laudable in themselves, it is often difficult to reconcile all of them in a practical situation. And as such, the highest level of skill and judgement are required to be exercised. For this, close association between the entrepreneurs and experienced engineers is a must.

The Following are Some Important Factors which Influence Choice of Technology and Plants and Equipments:

(1) **Nature of the product:** The nature of product to be manufactured will significantly affect the choice. The design and the specification of the product to be turned out and its physical and the chemical characteristics including the size, the shape and bulk, would decide the pattern of technology and plant and

equipments. If the design of the product is of high quality than the technology may demand complicated mechanical equipment. If the product is a luxury article, it is produced on a limited scale which may minimize specialized equipment. A product categorized as a necessary would provide the mass market and its technology should consist of a complex of specialized equipment to support longer volume of production.

(2) **Managerial policies:** The choice depends very much on the decisions and policies of the management to be followed in producing a commodity with regard to size of plant, kind and quality of the product; scope for expansion to be provided for, amount of stocks to be carried at any time, etc.

(3) **Volume of production:** Volume of production and the standardization of the product also affect the choice. Standardized commodities will be manufactured on large scale through the shortened built-in sequence of the plant complex.

The turnover of output will be quicker and the lock-up of working capital in the form of stock of raw materials and finished goods is reduced thereby.

(4) **Characteristics of the building:** Shape of building, covered and open area, number of storeys, facilities of elevators; starts, parking area, storing place and so on also influence the choice. Although minor modifications may be done to suit the needs of the technology. Special type of construction is needed to accommodate huge or technical or complex or sophisticated machines and equipments.

(5) **Human factor and working conditions:** Man is the most important factor of production and therefore special consideration for their safety and comforts should be given while selecting the technology, specific safety items like obstruction – free floor, workers not exposed to hazards, exist, etc., should be provided for sufficient space is also to be provided for free movement of workers. For this, provisions of Factories Act should be followed strictly.

(6) **Type of machine and equipment:** Machines and equipment may be either purpose or special purpose. The requirements of each machine and equipment are quite different in terms of their space, speed and material handling process and these factors should be given proper consideration.

(7) **Climatic condition:** Sometimes temperature, illumination and air are the deciding factors in deciding the technology and their installation. For example, in long-term manufacturing industry, the spray painting room is built along the factory wall to ensure the required temperature control and air expulsion and then the process of spray painting may be undertaken.

(8) **Type of industry process:** This is one of the most important factors influencing the choice of technology. Industries are classified into following main types:

(i) **Synthetic processes:** Synthetic process is one that combines several different ingredients or which involves assembling of numbers of components for manufacturing a final product, e.g., soap, medicines, cement, automobiles, radios, shoes, etc.

(ii) **Analytical process:** Analytical process is one in which final product is obtained by successive processes that separate the final product from the mass of original materials, e.g., oil refining.

(iii) **Conditioning industry:** It is one where finished product is turned out by converting the raw materials, e.g., sugar, textiles, etc.

(iv) **Continuous industry:** This involves a sequence of process solving as a prelude to release of the final product. It is characterized by an uninterrupted flow of operations from raw materials to the completion of the product through integrated facilities, e.g., cement, printing, flour mills, paper, etc.

(v) **Intermittent industry:** Intermittent type of industries are those which manufacture different components on different machines. Such industries may manufacture the parts, store them for sometime of necessary and assemble them as and when required according to the market needs, e.g., automobiles, radio sets, shipbuilding plants, cycle manufacturing plants, etc.

This classification should not be viewed as rigid because many industries are combinations of these processes.

INVENTORY CONTROL

Introduction: The dictionary meaning of the word inventory is a detailed list of movable goods. But in according or management language, inventory is used to designate the aggregate of those items of tangible property which are held for sale in the ordinary course of business and goods which are in process of production for such sale and also goods currently consumed in the production of goods or services. Thus, inventory means stock of items kept in reserve for certain period of time. It includes raw materials, work-in-progress or semi-finished goods, finished goods and spares parts for the maintenance of equipment, etc. Raw materials are those inputs that are converted into finished products. Work-in-progress represents semi-finished goods that require some work before they are ready for sale. Finished products are those which are ready for sale.

Every business organization, however, big or small, has to maintain inventory and it constitutes an integral part of the working capital. It has been estimated that inventory in Indian industries constitutes more than 60% of current asset. Inventories ~~are significant elements in cost process.~~ Inventories require a significant investment, not only in acquiring them but also in holding them. Investment in inventories is said to be idle but it is unavoidable in any organization – manufacturing or trading so inventory is a necessary evil. For this reason, one requires a careful planning, formulation .of policies and procedures appropriate to maintain the stock at some desired level. In other words, this technique of maintaining inventories at appropriate level may be known as inventory control.

Basically there are two approaches to inventory control. One is unit or physical control and the other is value control. Purchase and production department officials use this word in terms of unit control because they are mainly concerned with the control of physical units of inventories while on the other hand financial executives are interested in value so they use the word in terms of value control. These two approaches should be coordinated. The inventories should be maintained at desired level with the minimum investment of capital in acquiring as well as in maintaining them.

INVENTORY CONTROL – MEANING, OBJECTIVES AND IMPORTANCE

What is Inventory?

We have already explained in the introductory part of this chapter. Again to brief inventory means all movable items in store either ready for sale or for consumption in the course of production with a view to convert them into finished stock for sale. Thus, inventory includes stock of raw materials, work-in-progress, finished goods and accessories. Inventories form an integral part of working capital and require a considerable investment. It is, therefore, necessary to have a control over the inventories.

There are basically two approaches to inventory control. Unit control and value control. Unit control involves the control over inventories in terms of unit while value control entails the control over inventories in terms of value. These two approaches seem to be conflicting. Unit control of inventories insures stocks for continuity of operations and sales and obviously the greatest insurance against running out of any item at a crucial movement is maintaining huge supplies of everything stored in the plant. It will increase the cost of handling the inventory and investment. If value control is imposed, there is always a risk of running short of materials. Thus, an optimum control is achieved when the required materials can be obtained at a minimum cost through proper planning, formulation of policies and procedure in order to maintain the inventory level at a desired point. The quantum of inventory to be kept is decided after taking into consideration the availability of finance, the quantity-discount allowed, the cost of storage and storage accommodation, order placing and receiving costs, risk of lost due to falling prices, deterioration, evaporation, obsolescence theft, etc., economic orders, quantity and time in obtaining delivery. Thus, in the word of John L. Burbidge, laventory control is, then, concerned with the control of the quantities and/or monetary values of these items a predetermine level or within safe limits. Thus, the inventory control management include the following aspects:

(i) Size of inventory – determining maximum and minimum level establishing time schedules, procedures and lot of sizes for new orders, ascertaining minimum safety levels, coordinating sales production and inventory policies.

(ii) Providing proper storage facilities arranging the receipt disbursements and procurement of materials, developing the form of recording these transactions.

(iii) Assigning responsibilities for carrying out inventory control functions.

(iv) Providing for the reports necessary for supervising the overall activity.

It is, therefore, necessary that proper coordination must be there in the activities and policies of purchase, production and sales department to affect the better inventory control.

Objectives and Importance of Inventory Management

Inventory control nowadays has become unavoidable in any manufacturing process. The basic managerial objectives of inventory control are two-fold: (i) to avoid over and under investment in inventories; and (ii) to the right quality of goods of right quantity at proper time and at reasonable price. The objectives and importance of inventory control may be discussed as follows:

(1) **Availability of materials:** The first and foremost objective of inventory control management is to make all types of materials available at all times whenever it is required by the production department so that the flow of production may not be interrupted and the production may not be interrupted and the production may not be held up for want of supply of materials. It is, therefore, advisable to maintain a buffer stock of all essential items to move on the production on schedule.

(2) **Minimizing the wastage:** Inventory control aims at minimizing the wastage of inventory at all levels, i.e., during its storage in godown or at work in the factory. Normal or controllable wastage should strictly be controlled. Wastage of materials by leakage, theft, embezzlement and spoilage due to dust, rust or dirt should be avoided.

(3) **Better services to customers:** In order to meet the demand of quality goods, it is the responsibility of the concern to produce sufficient stock of finished goods at proper time to execute the orders of customers. It means a flow of production should be kept on.

(4) **Promotion of manufacturing efficiency:** Inventory control promotes the manufacturing efficiency of the enterprise by providing right type of materials production because it will improve the morale of workers.

(5) **Control of production level:** Proper inventory control helps increasing and maintaining buffer stock of raw materials to meet any eventuality in difficult times. Production variations can also be avoided through proper control of inventories.

(6) **Optimum level of inventories:** The management can procure the inventory in time in order to run the plan efficiently if regular and prompt information about the availability of materials is provided to it. It, thus, helps the management in maintaining the inventory at optimum level keeping in view operational requirements. It also avoids the out of stock danger.

(7) **Economy in purchasing:** A proper inventory control brings several advantages and economics in purchasing.

Management makes every attempt to purchase the inventories in bulk and to take the advantages of favourable market conditions.

(8) **Optimum investment and efficient use of capital:** From financial point of view, the prime objective of inventory control is to have an optimum level of investment in inventories. There should neither be any deficiency of stock which may obstruct the production flow nor there be any excessive investment in inventories so that it may block the funds of the concern that may otherwise be utilized fruitfully in other activities. So, the management must control the quantum of inventories by fixing the minimum and maximum levels and to avoid the deficiency or surplus stock positions.

3. MATERIALS MANAGEMENT

INTRODUCTION

Materials, as we generally know it, means the raw materials used in the manufacturing process to be transformed into finished product. In other words, the raw materials of which the finished product is made may be known as materials. The importance of material in a manufacturing concern needs no explanation because in its absence production is not possible and moreover it affects the efficacy of all men, machines, money and marketing division of an industry. So, the management of material is the grave concern of executives at all levels. There are so many problems attached with the management of materials such as investment in materials, idle funds, storage and obsolescence problems, wastage of materials in handling, etc., which require immediate attention of management so that the cost of production may be reduced to the minimum and the quality of the product may be maintained.

In recent years, the concept of materials management is being widely accepted by industrially advanced countries for more effective coordination and control over materials because materials costs (including investment in materials, handling cost, transportation and storage costs, insurance, wastage and obsolescence costs, etc.), constitute a major part of the total cost of the finished product. So, the control over material is essential to arrest the increasing cost of finished product because it is one of the major constituents of cost. Thus, material management is the uniting of activities involved in the acquisition and use of materials employed in the production of finished product.

Material Management – Meaning and Definition

Materials are of pivotal importance in the manufacturing of a product. No production is possible without materials. Moreover, materials form an important part of the cost of a commodity and therefore proper control over its procurement, issue, movement and use is necessary. So, proper and effective management of materials is the necessity of the hour. Materials management may thus be referred to an activity having all control over the materials used and the commodities produced by the concern. In the words of Bethel and others, "Materials Management" is a term used to can't "controlling the kind, amount, location, movement and timing of the various commodities used in and produced by the industrial enterprise". The materials management involve all activities relating to materials starting right from the time the need of materials arises and ending with its issuance to production. In this way, materials management is also concerned with all the activities of management such as planning, organizing, directing, controlling and coordinating so far as they are related to the materials. According to one of early definitions. "Materials management is the planning, directing, controlling and coordinating of all those activities concerned with materials and inventory requirements, from the point of their inception to their introduction into the manufacturing processes. It begins with determination of materials quality and quantity, and ends with its issuance to production in time to meet customers' demands on schedule at the lowest cost".

Thus, materials management covers all aspects of materials and material supply necessary for converting raw materials and ancillary into the desired finished products. It is thus concerned with planning and programming of materials and equipment with predesign value-analysis, with marketing research for purchases, with procurement of all materials including capital goods, packing and packing materials, with stores and inventory control, with transportation costs of materials, with materials handling and operation research of materials. Thus, the functions of materials management can be summarized as follows:

(i) Materials planning and programming.

(ii) Purchasing of raw materials and capital goods.

(iii) Inventory control.

(iv) Receiving storekeeping and warehousing

(v) Value engineering and value analysis

(vi) Transportation internal and external

(vii) Materials handling, and

(viii) Disposal of scrap and surpluses.

Objectives of Materials Management

The main objectives of materials management are as follows:

(i) **To maintain the flow of production** by making the raw materials available in time according to the schedule of production.

(ii) **Contribution towards higher productivity** by arranging the better quality of raw materials at the lowest possible cost through effective purchasing system.

(iii) **Reducing the inventory cost** by purchasing the economic lots requiring the minimum investment and the maximum utilization value.

(iv) **To eliminate extra materials** through product design.

(v) **To contribute towards competitiveness** of the product by conducting the market research and bringing the product according to the demand by the consumers. Special attention should be given to purchasing the materials.

(vi) **Increasing the profits** of the concern by producing the best quality products using quality materials at the lowest possible cost.

(vii) To buy further best ultimate value, not necessarily the lowest initial price.

Importance of Materials Management

Materials management is a service function and is of a great importance to other sections like manufacturing, marketing, engineering and finance by way of providing assistance to these sections in their operations. Their materials management entails a coordination between various departments.

The main objective of materials management is to affect the reduction in the cost of production through efficient purchasing, minimizing wastages in handling, storing and transporting the materials and thus utilizing the materials efficiently. From the national point of view materials management plays a pivotal role for the success of national plans because efficient materials management can exploit the national resources, materials efficiency and according to the plans. It also plays an important role in the industrial economy both in public and private sectors. The importance of materials management can be judged from the following advantages:

(i) According to reports materials cost is about 60 to 70 per cent of the total cost of production. Through effective materials management, **this cost content may be kept at the lowest level** and thus sales price of the commodity can be fixed at reasonable level.

(ii) Indirect cost and the cost of materials movement are well within control.

(iii) **Inventory losses are minimized,** efficient materials management reduces the risk of loss from fraud and theft and the wastages of materials are reduced.

(iv) **Adequate utilization of equipment is ensured** because effective utilization of materials is only when the equipment are effectively used.

(v) **Loss of time of labour is minimized.**

(vi) **Cases of late deliveries are most infrequent** because delays in production due to non-availability or lack of materials are prevented by arranging the proper supply of materials in required quantities to the production at the right time.

(vii) **Length of manufacturing cycle is reduced to the minimum** due to effective utilization of men, materials and machine and thus reduces the capital tied up in inventories.

(viii) **Congestion of materials in stores** and or at different points of manufacturing is avoided.

(ix) **Perpetual inventory system** and other record facilities the preparation of actual material reports to management.

(x) **Cost records of materials are made feasible.** Cost of materials used in different department or job may be ascertained easily.

Purchasing – Meaning, Objectives Activities and Procedures

Meaning and Definitions of Purchasing

Purchasing is an everyday function of almost everyone and occupies much of the time both of business houses and ultimate consumers. There are three basic types of purchasers: (i) Industrial buyers who buy raw materials, stores and equipment for manufacturers; (ii) Merchant buyers who buy goods for resale and include wholesalers, retailers, speculators, etc., and, (iii) Ultimate buyers, i.e., only with the first purchasing, i.e., purchasing of raw materials, equipment, stores etc. for the use in the manufacturing process.

Purchasing to a manufacturing concern is of extreme importance because it has its bearing on every vital factor concerning the manufacture, i.e., quantity, quality, cost efficiency, economy, prompt delivery, volume of production, etc. It is the scientific purchasing that can save much money, time and efforts of the management.

In manufacturing organization, "purchasing is the procuring of materials, supplies, machines, tools and services required for the equipment maintenance and operation of the business". Purchasing must be of the right quality in proper quantity for delivery at the correct time and at the most favourable price from outside the organization.

In the words of Walter, Industrial purchasing is "the procurement by purchase of the proper materials, machinery, equipment and supplies of stores used in the manufacture of a product adopted to marketing in the proper quantity and quality at the proper time and at the lowest price consistent with the quality desired".

In simple words, the task of purchasing is related to going to open market, finding the desired materials at the lowest possible price, and selecting the supplier who offers it at that price having the quality of the materials in mind. It is indeed, a specialist activity calling for the commercial rather than the technical training and outlook.

Objectives of Purchasing

The major objectives of scientific purchasing may be stated as follows:

(1) Procurement of required quality and quantity of materials at the best price, not necessary the lowest price.

(2) Procurement of materials which best suit the product and the purposes for which they are intended.

(3) Purchasing for time utility by a schedule, sufficiently in advance of the demands of the production department so that the production work shall not suffer due to lack of materials.

(4) Buying the quantity, which is neither too much, that involves belonging of the capital, nor too little that holds up the regular supply for production.

(5) Improvement of the product with reference to quality and the distribution by means of selection of adequate materials.

(6) Maintaining continuity of supply to ensure production schedule at a minimum of investment.

(7) Avoidance of duplication of materials, leading to waste of materials and equipment.

(8) Maintenance of company, competitive position in the market by having company's quality standards in accordance with the demands of the customers.

(9) Creation of goodwill for the company through dealing with supplies.

(10) Developing fullest cooperation and coordination and maintenance of internal relationship among various departments of the company.

The main task of the purchasing functions is buying for the company by which is meant going into the open market, finding the lowest price at which a standard item is offered, and selecting a supplier who is ready to offer that item at that price. This task is clerical, Scientific or effective purchasing is something more than buying. It is an executive job involving cooperation with other functions, e.g., production, distribution, finance, sales, etc., the purchaser, therefore, does not think solely in terms of buying. Sometimes, he thinks himself or producer, sometimes as financier, sometimes as sales manager. In all his varied thinking he works out how he can be most helpful to every phase of business.

Purchasing functions of activities: The purchasing department in a big industrial concern has to perform the following functions in order to procure right time, in the right quantity and at the right price:

(1) **Studying the market and sources of supply:** Having decided to purchase a material, the purchasing agent studies the market and various sources of supply by inviting tenders or inquiries in a prescribed form from the prospective suppliers with full details or by examining catalogues and samples received from time-to-time or by paying the visits to the prospective supplier's place of work. After detailed study of market and supplier, the agent decides to select the sources of supply. The purchases

departments should not only have the knowledge of the market or the sources of supply where such items are available but he should also have full details of the manufacturer.

The purchasing department must have full knowledge of the specification of materials requirement of the concern and the resources of supply of these requirements. The purchasing officer or agent must obtain the necessary information from personal knowledge, past records catalogues, buyers' guide and guiding materials about the vendor and he should record all these information, properly classified and suitably indexed in a comparative statement called schedule of quotation.

With the help of these records, the purchasing officer approves the supplies having regard to the reliability of the supplier in supplying the goods in the past, his price movement history, his delivery record and other service required such as technical service attitude towards rejected materials or scrap, etc. Before finalizing the deal, he should also consider the current and expected change in government import export and industrial licensing policy and emergence of substitute, etc.

(2) **Placing of order:** Having approved the supplier, the next task is to place an order with the supplier so approved in the prescribed form which forms a contract between the company and the supplier to supply the materials in the desired quantity and quality at the started price within a stipulated period.

(3) **Follow-up of purchases order:** The purchase department must contact the supplier from time-to-time before the date of requirement of the materials as ordered in order to get the assurance for the deliver of goods at the right time as its follow-up measure. It will facilitate the purchase department to arrange for the materials in case the supplier fails to deliver the goods on due date due to any unavoidable circumstances with him so that the production work will not suffer.

(4) **Verifications of invoices:** On receiving the goods from the supplier, the purchase department will check the invoice presented by the supplier with the order placed by the company.

(a) To ensure that the quality and quantity of materials received is strictly according to the order. At this stage it can obtain the services of experts to ensure the quality of the goods.

(b) To examine the prices and the total amount of the invoice. If there is any change in the price, it should see whether it is approved in advance. If invoice is found correct, it should approve the invoice for payment.

(c) To secure the adjustment on claims for goods received and found not in accordance with the quality and quantity specifications or which are being damaged in transit.

(5) **Other functions:** Besides above noted activities, the purchase department has to perform the following other functions:

(i) Giving intimation to the department concerned if deliveries are not going to be made on due dates so that necessary steps may be taken to maintain the flow of production.

(ii) Interviewing the supplier's representatives who call on the purchasing agent.

(iii) To organize discussions with the potential and actual suppliers of materials.

(iv) To maintain necessary records for efficient functioning of the department.

(v) To sell absolute materials scrap and rejected articles not approved by the purchasers.

(vi) Supervising, recurring and storekeeping operations.

(vii) Collection of information regarding new goods and services which may be proved better or substitute to the present goods that supply of materials can be restored immediately.

(viii) Preparing annual purchases budget with the help of and in consultation with other departments.

Purchasing Procedure: The main steps in purchasing procedure may be listed as follows:

(1) **Purchase requisition:** The initiation of purchase begins with the formal request from the various sections or departments to the purchase department to order goods or services. The request is made in purchase requisition slips (a prescribed form) to the purchase department by the departments needing the goods, authorizing the purchase department for procuring the goods as per the specifications given in the slip by the date mentioned on it. Purchases department receive the requisitions from:

(a) Storekeeper for all items in regular use;

(b) Production control department for special materials required for a particular order;

(c) Plant and maintenance engineer for materials required for capital expenditure or special maintenance projects;

(d) Heads of the departments for special items as filing cabinet, almirah, furniture, etc.

The requisitions are generally prepared in triplicate. The original copy is sent to the purchase department, the second copy is retained by the store or the department initiating the purchase requisition and third one is sent to the costing department.

(2) **Decision for purchase:** On receipt of the purchase requisition, the purchase department then decides what and how much to buy taking into consideration various limitations and constraints in purchasing the goods. As far as possible, the raw materials should be purchased in sufficient quantity, neither less nor more, to continue the flow of production. For purchasing other materials or plant and equipments, the necessary permission should be obtained from the authority concerned and the finance department to release the finance.

(3) **Study of market conditions and sources of supply:** Having taken the decision for the purchase of materials, the purchasing agent should study the market

conditions on the basis of market reports as to when and what goods should be purchased. An intensive study should also be made in regard to the source of supply from where the goods can be procured with the help of catalogues, directories, old records, price lists, vendor and purchase records, etc.

(4) **Selection of vendor:** On the basis of the studies of market condition and sources of supply, the purchasing agent selects the vendor keeping in mind the reliability, his price movement history, his delivery records and other services required and his past cooperation. Sometimes, supplier is selected out of the list of supplier registered with the company for the supply of goods or sometimes quotations or price bids or tenders are invited from the prospective supplies. On studying the terms of supply and the quality and quantity of goods, vendor is selected out of the bidders or tenderers.

(5) **Purchase order:** Having selected the vendor or supplier, a purchase order is prepared in the prescribed form by the purchase department and sent to the vendor authorizing him to supply a specified quantity and quality of materials at the stipulated terms at the time and place mentioned therein. It forms a formal contract between the purchaser and the vendor.

(6) **Receiving of materials:** When goods arrive, they are taken delivery of and parcels or packets unpacked and the contents of the packages are checked by the receiving clerk with the order placed by the purchasing department to the vendor. After proper checking goods should be delivered to the store department or to other department that requisitioned them. On checking if any discrepancy is found as regards to quality or quantity, it should immediately be referred to the purchasing department so that the discrepancy may be adjusted or steps may be taken to return the defective or damaged goods in exchange of proper quality material on credit note.

HRM – THE CONCEPT

Human Resource Management (HRM) is an approach to the management of people based on tour basic principles.

Firstly, human resources are the most important assets an organization has and their effective management is the key to its success.

Secondly, this success is most likely to be achieved if the personnel policies and procedures of the enterprise are closely linked with, and make a major contribution to, the achievement of corporate objectives and strategic plans.

Thirdly, the corporate culture and the values, organizational climate and managerial behaviour that emanate from that culture will exert a major influence on the achievement of excellence. This culture must, therefore, be managed, which means that organizational values may need to be changed or reinforced and continuous efforts from the top to the bottom of the organizational hierarchy, will be required to get them accepted and acted upon.

Finally, HRM is concerned with integration, getting all the organizational members involved so as to make them work together with a sense of common purpose.

As Tom Peters wrote in A PASSION FOR EXCELLENCE (William Collins, 1985): "Trust people and treat them like adults, enthuse them by lively and imaginative leadership, develop and demonstrate an obsession for quality, make them feel they own the business, and your workforce will respond with total commitment".

Thus, HRM involves getting the organizational right, providing effective motivation and leadership, obtaining and developing the right people, paying and treating them fairly, and getting them involved in working productively. In the broadest sense, it denotes satisfaction, development, fulfilment and happiness of all the people who work in an organization. The human environment within an organization has to be increasingly viewed as an integral whole. The primary objectives of the people who work in the organization are satisfied of their own physical, social and psychological needs, the organizational objectives being only of secondary importance to them, though some degree of achievement of which, is necessary or the achievement of their own personal or group objectives.

Thus, to summarize, HRM is a strategic approach to the structure, motivation, development and management of an organisation's employees, based on four basic principles:

- The effective management of human resources is the key to an organisation's success.
- Success is most easily achieved if personal policies are closely linked with the organisation's corporate objectives.
- Managerial behaviour and the organizational climate exert a major influence on the achievement of excellence.
- The total integration of manpower is essential to success.

In the words of Lee Lacoca, the world famous international Business Tycoon",... all business operations can be reduced to three words; people, product and profits. People come first. Unless you've got a good team, you can't do much with the other two".

In their pioneering piece of work titled "In Search of Excellence", Peters and Waterman (1982) emphasized that in order to achieve productivity through people, the management should put into practice the three fundamental values of "treating them as adults, treating them with dignity and treating them with respect."

RECRUITMENT

Meaning and Definition

Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization. It is a positive process because it increased the selection ratios by attracting a large number of applications for the advertised jobs.

According to Dales S. Beach – "Recruitment is the development and maintenance of adequate manpower resources. It involves the creation of a pool of available labour upon whom the organization can depend when it needs additional employees."

According to Edwin B. Flippo– "Recruitment is the process of searching for prospective employees and stimulating them to apply for jobs in the organization."

Further, Roger H.Hawk has written that "the purposes of a recruitment function are primarily straightforwards; to seek out, to evaluate, to obtain commitment from, place and orient the employees to fill positions required for the successful conduct of the work of an organization."

Recruitment enables the management to select suitable employees for different jobs. It is significant to point out that hiring of employees through selection is a negative process since it involves the taking of suitable candidates for the organization and rejection or elimination of the other applicants.

Importance of Recruitment Method

The method of recruitment that an organization uses directly affects the efficiency of its selection and placement of programme is at least three ways:

(i) It determines the number of qualified applicants applying for a particular position.

(ii) It influences how well the organization meets its obligations to hire minority group members and women. This usually entails advertising in minority newspaper, sending recruitment to minority colleges and high schools and cooperating with such agencies as the urban league that specialize in working with the minority community. It also involves actively searching for qualified women when filling positions not traditionally held by women.

(iii) It can sometimes affect the subsequent turnover rates of employees. Several studies have shown that then recruiters given applicant's realistic expectations about a particular job by pointing out both the positive and negative aspects of it, lower turnover rates result. This is particularly true when the job is fairly complex in terms of the physical and mental demands places on the incumbents, as in the case of managerial and sales positions.

Other recruiters give applicants unrealistic expectations regarding the company and their future jobs, thereby resulting in frustration, dissatisfaction and early termination. One possible solution to this problem used by several companies is a work sample, which gives the prospective employee a realistic picture of what will be expected of him or her. This involves providing films, videotapes, printed booklets or job visit to realistically depict training and work.

Sources of Recruitment

Sources of manufacture supply can be classified into two broad categories :

(1) Internal, i.e., recruitment from within the enterprise.

(2) External, i.e., recruitment from outside.

(1) Internal Sources of Recruitment:

There are two important internal sources of recruitment, namely–

(i) Transfer; and (ii) Promotion

Transfer – it involves the shifting of an employee from one job to another. At the time of transfer it is ensured that the employee to be transferred to the new job is capable of performing it. Infact transfer does not involve any drastic change in the responsibilities and status of the employee.

Promotion – On the other hand leads to shifting an employee to a higher position carrying higher responsibilities, facilities, status and pay. Most of the companies follow the practice of filling higher jobs by promoting employees who are considered for such positions. Filling vacancies in higher jobs from within the organization has the advantages of stimulating and preparing the employees for possible transfers or promotions increasing the morale of the employees and simplifying the selection and placement problems.

(2) External Sources of Recruitment:

Every new enterprise has to tap external sources for various positions. Running enterprises have also to recruit employees from outside, for filling the positions whose specifications cannot be met by the present employees. An important sources of recruitment is direct recruitment by placing a notice on the noticeboard of the enterprise. Specifying the details of the jobs available. Another name for this type of recruitment is "Recruitment at Factory gate". Very common external sources of recruitment are as follows:

(i) **Unsolicited Applications**: This type of recruitment serves as a valuable sources of manpower. If adequate attention is paid to maintain pending application folders for various jobs, the personnel department may find the unsolicited applicants useful is filling the vacancies whenever they arise.

(ii) **Advertisement**: Advertisement in newspaper or trade and professional journals in generally used when qualified or experienced personnel are not available from other sources. Most of the senior positions in industry as well as others are filled by this method.

(iii) **Employment Agencies**: Employment exchanges run by the government are regarded as a good source of recruitment for skilled, semi-skilled and skilled operative jobs. In some cases compulsory notification of vacancies to the employment exchange is required by law. Thus, the employment exchanges bring the job gives in contact with the job-seekers.

(iv) **Educational Institutions**: Jobs in commerce and industry have become increasingly technical and complex to the point where school and college degrees are widely required. Consequently, many big organizations maintain a close liaison with the universities vocational institutes and management institutes for recruitment to various jobs. Recruitment from educational institutions is the well-established practice of thousands of business and other organization.

(v) **Recommendations**: Applicants introduced by friends and relatives may prove to be a good sources of recruitment and indeed many employers prefer to take such persons because something about their background is known. When a present employee or a business friend recommends a person, a type of preliminary screening takes place.

(vi) **Labour Contractors**: Labour contractors are on important source of recruitment in many industries in India. Workers are recruited through labour contractors who are themselves employees of the organization. But, nowadays this system of recruitment is losing popularity.

Training Vs. Development

Although training helps employees do their current jobs, the benefits of training may extend throughout a person's career and help develop that person for future responsibilities. Development, by contrast, helps the individual handle future responsibilities, with little concern for current job duties. The term "Development" can be defined as the nature and direction of change taking place among personnel through educational and training processes.

According to Dunn and Stephens, "training refers to the organisation's efforts to improve an individual's ability to perform a job or organizational role, whereas development refers to the organizations efforts (and the individual's own efforts) to enhance an individual's abilities to advance in his organization to perform additional job duties." Thus, training provides knowledge and skills required to perform the job. It can be viewed as job-oriented leading to an observable change in the behaviour of the trainee in the form of increased ability to perform the job. On the other hand, although development is still job-related, it is much broader in scope. It enhances general knowledge related to a job as well as the ability to adopt to change.

Earlier training programmes stressed preparation for an improved performance in largely specific rank-and-file jobs. With the growth of organizations, several problems developed. Therefore, development programmes were started for middle managers as well as top management. Thus, training appeared to be an improper designation for learning a variety of complex, difficult and intangible functions of management personnel. Development of an individual is due to his day-to-day experience on the job. Therefore, one must emphasize the development is highly individual and is self-development too. It must be generated within the man himself. No amount of coercion can produce development in a hostile or apathetic manager.

Since the distinction between training (now) and development (future) is often blurred and is primarily one of intent, both are combined together for developing skills as well as basic attitudes, leading to continued personnel growth. These programmes purport to improve job performance, minimize waste and scrap, prepare individuals for promotions, reduce turnover, enable individuals to accept organizational changes, facilitate understanding of organizational goals and attain allied behavioural objectives.

The special problems of the developing countries which have a planned economy with emphasis on rapid industrial and business development, has given to this subject a particular significance. For these countries, a continuous supply of competent managers for every sector on industrial and business activity is a vital requisite for economic growth.

Management development is an activity designed to improve the performance of existing managers, provide a supply of managers to meet the need of organization in future and extend the understanding of management activity by drawing from three areas.

Training and Development

- Knowledge, skills and teaching abilities manifested by academic world.
- Experience, exercise and resources provided by organization.

- Trainee himself.
- Any management development programme should have five objectives.
- To improve the job performance of managers currently in post.
- To provide adequate cover in the extent of unexpected short term changes such as deaths, transfers, resignations, or unanticipated developments.
- To raise the general level of management thinking and understanding in all branches and at all levels in the organization.
- To provide supply of managerial talent which will meet the needs of the future development of the organization in terms of environmental change and growth.
- To extend the frontiers of knowledge in the understanding of the management function.

An eagerness to learn at all levels is a prerequisite for the success of management development programmes. Education, training and personal development are all parts of the pattern of management development leading to an organization – wide atmosphere of learning in which everybody has a part to play. The management develop process ensures that the organization has the effective managers, it needs to accomplish its present and future requirements. It develops capabilities of managers accomplish organisation's business strategies in the context of critical success factors such as innovations, quality and cost leadership. There are three activities involved in the process of management development – analysis of needs, evaluation of skills and competencies, and meeting the needs. Attempt should be made to combine self-development, organization-derived development and boss-derived development to evolve an effective management development system.

Meaning of Financial Management

Business finance mainly involves raising of funds and their effective utilization keeping in view the overall objectives of the firm. This requires great caution and wisdom on the part of management. The management makes use of various financial techniques, devices, etc., for administering the financial affairs of the firm in the most effective and efficient way. Financial management, therefore, means the entire gamut of managerial efforts devoted to the management of finance – both its sources and uses – of the enterprise.

According to Soloman, "Financial management is concerned with the efficient use of an important economic resource, namely, Capital Funds," Phillippatus has given a more elaborate definition of the term financial management. According to him "Financial management is concerned with the management decisions that result in the acquisition and financing of long-term and short term credits for the firm. As such it deals with the situations that require selection of specific assets (or combination of liabilities) as well as the problem of size and growth of an enterprise. The analysis of these decisions is based on the expected inflows and outflows of funds and their effects upon managerial objectives".

Thus, financial management is mainly concerned with the proper management of funds. The finance manager must see that the funds are procured in a manner that the risk, cost and control considerations are properly balanced in a given situation and there is optimum utilization of funds.

4. FIXED CAPITAL

INTRODUCTION

Fixed capital is important for every business unit. It is the preliminary need for starting an enterprise. Adequate fixed capital lays down foundation for the stable life and also provides strength and stability to the enterprise. The launching business activity is just not possible unless there is a provision for adequate fixed capital. Modern business is capital intensive and naturally the importance of fixed capital cannot be overemphasized. It acts as a cornerstone of the capital structure of a business unit. It is necessary for the stability, modernization and expansion of business activities. Promoters have to make accurate estimate of fixed capital requirement and collect it through suitable sources like equity and preference share. In brief, adequate fixed capital provides strength and stability to a business unit. It also facilitates the process of growing technology, replacement of assets which become obsolete, acquisition of new fixed assets and the expansion of business operation are just not possible unless adequate fixed capital is arranged for meeting new capital expenditure. It also ensures continuous working of a business unit.

Sources of Fixed Capital:

A company can raise fixed capital from the following sources:

(1) **Issue of equity and preference shares:** Majority companies collect initial fixed capital through the issue of share. They represent ownership securities. Shares are popular with the investing class, and rich as well as middle-class people purchase shares of companies and provide crores of rupees as fixed capital to corporate sector. Companies issue equity and preference shares for the convenience of investors.

(2) **Ploughing back of profits:** Fixed capital can be collected out of accumulated profits. Such profit is converted into share capital and invested in the business. This source is available only to big and profitable companies. It is an internal method useful for collecting fixed capital. This source is generally used for modernization of expansion programmes of a company. This method of self-financing is popular among large companies.

(3) **Loans from financial institutions:** Financial institutions like IDBI and ICICI offer long-term loans to industrial units. Such loans are repayable after a long period and hence they can be used for purchasing fixed assets. Such loans are also useful for financing expansion and development programmes of the company.

(4) **Debentures and bank loans:** Many companies issue long period debentures for collecting fixed capital

required. Even irredeemable debentures are also issued. In addition, long-term loans are taken from banks to meet the long-term financial needs. Even short-term loans are renewed often and again for meeting long-term capital needs. It may be pointed out that debentures and bank loans are used only to a limited extent for meeting the long-term capital needs, whereas equity and reference shares are used extensively for raising long-term capital.

Factors Determining Fixed Capital:

The amount of fixed capital requirements of a business depends on the following factors:

(i) **Nature of the business:** The nature of the business to a great extent determines the amount of fixed capital required by the business. For example, public utility concerns like electricity supply companies, water supply undertakings or railway companies would require heavy investment in fixed assets; on the other hand, a trading concern would require relatively much less investment in fixed assets.

(ii) **Size of the business:** Size of the business has also its impact on the fixed capital requirements of the business. It can generally be said that larger the size of the business, the heavier would be the investment in fixed capital.

(iii) **Types of products:** A company manufacturing simple consumer articles like soap, oil, etc., will require a smaller amount of fixed capital as compared to a company manufacturing complicated industrial goods such as heavy machinery, tractors, etc.

(iv) **Diversity of production lines:** More fixed capital will be required in case of companies which have diversity of production lines as compared to companies which do not have much of diversification. For example, a company producing ancillary products or by-products together with main product will require greater amount of fixed capital as compared to companies which manufacture only main products.

(v) **Method of production:** A company manufacturing each part of finished product by itself requires a greater amount of fixed capital as compared to a company which gets the parts manufactured from outside and merely assembles them in its own factory premises.

(vi) **Method of acquisition of fixed assets:** A company which purchases fixed assets against immediate cash payment or ownership basis requires a greater amount for fixed capital as compared to a company which acquires fixed assets on hire-purchase system or lease system.

Management of Capital

Management of fixed capital is concerned with the raising of required fixed capital at minimum cost and its effective utilization. The following principles should be observed in order to have an efficient management of fixed capital.

(i) Generally only such fixed assets should be purchased which are likely to increase the earning capacity of the business.

(ii) Where feasible, fixed assets should be purchased on rental or hire purchase system. This would result in releasing pressure on bulk funds.

(iii) Obsolete or outmoded fixed assets should not be brought even though they may be available at lower prices.

(iv) There should not be any idle capacity. This would increase the overhead burden. In words, new fixed assets should be bought only when there is already full utilization of the existing fixed assets.

(v) Fixed assets should be maintained properly. Periodical inspection, overhaul and scheduled repairs would considerably increase the working life of the assets.

(vi) Proper depreciation should be provided out of profits to enable times replacement of the fixed assets.

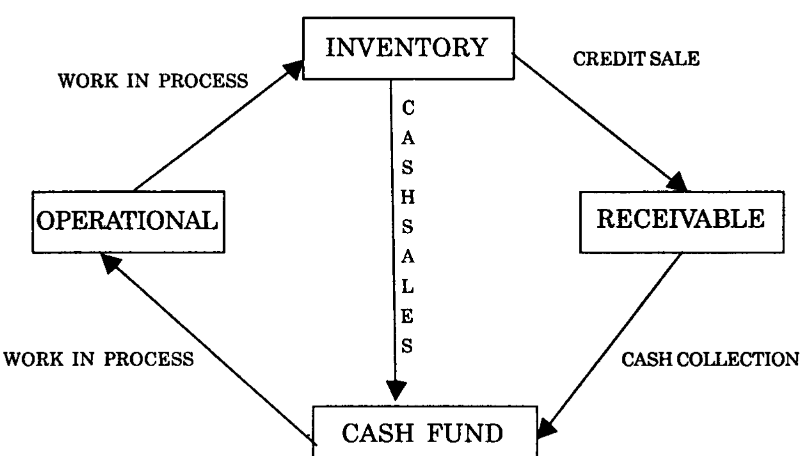
(vii) Investment in fixed assets should have a proper relationship with sales and profits. Fixed assets turnover ratio for different years can be found out to determine whether investment in fixed assets has been judicious or not.

(viii) The requirements of fixed capital should be met out of long-term funds such as share capital, debentures, loans from financial institutions, etc.

5. WORKING CAPITAL

INTRODUCTION

Every industrial or commercial unit requires working capital along with fixed capital. It is that part of total capital which required for purchased current assets, i.e., for meeting regular day-to-day needs of a business unit. Working capital or circulating capital is required for purchasing raw materials, spare parts, components, payment of wages, rent and other recurring expenses of a business unit. Working capital indicates revolving a circular flow of cash starting with cash paid for purchase of material and ending with cash receipt after the sale of finished goods. This is how working capital is a circular cash flow from cash to inventories and back to cash. A diagram showing circular flow of funds within a firm is given below:



Circular Flow of Funds (Working Capital)

A business unit requires adequate working capital for its regular and smooth working. Adequate working capital creates goodwill and prestige for the company. It enables a company to make all payments on due dates. It also raises efficiency and general morale of employees. Working capital is required only for a short period as it is recovered from the purchasers out of the price paid. Thus, working capital is of short duration but is recurring in character. In addition, a part of the working capital is treated as regular as fixed working capital and the remaining and the remaining part is known as variable or fluctuating working capital. Working capital is defined as excess of current asses over current liabilities. Distinction is also made between the gross and net working capital.

According to Shubin, "*working capital is the amount of funds necessary to cover the cost of operating the enterprise. Working capital in a going concern is a revolving fund, it consist of cash receipts from sales which are used to cover the cost of current operations*".

The company promoters have to make an estimate of working capital requirements of the company and collect the same from convenient sources. It is treated as the controlling nerve centre of a business unit. Working capital is also called circulating capital. In modern business, production is conducted in anticipation of demand and hence payment has to be made in advance for purchasing raw materials, stores, etc. Working capital is needed for meeting such financial needs in order to preserve the continuity of production. It is also needed in order to meet all normal as well as abnormal cash needs of the company.

Factors Determining Working Capital

The following factors determine the amount of working capital requirements:

(1) **Nature and size of business:** A company's working capital requirements are related to the kind of business it conducts. Public utilities need not maintain inventories as they sell services

instead of commodities. They conduct their business on cash basis and hence, they require extremely limited working capital. On the contrary, trading concerns and service industries require huge working capital as they have to carry stock-in-trade, accounts receivable and liquid cash. Manufacturing units stand in between the two extremes regarding their working capital requirements. Size of the concern also determines the amount of working capital. Large sized units require more working capital while small units require less working capital. Similarly, growth-oriented companies need more working capital as compared to static companies.

(2) **Production policies:** Working capital requirements depend upon the production, policies of a business unit. Production schedules are adjusted to market deliveries or stock of inventories is built up during off-season periods. Both will entail higher investment in working capital either to hold the stocks of raw materials or to hold the stocks of finished goods.

(3) **Time consumed in manufacturing process:** When manufacturing process is lengthy and complex in character, more working capital is required. Companies producing heavy machinery and equipment require more working capital. Similarly, if the manufacturing cost is high, more working capital will be necessary. Thus, the working capital required by an automobile manufacturing unit will be quite substantial, whereas the working capital required by a soap manufacturing unit will be comparatively limited as the process of production is rather simple and quick.

(4) **Turnover of circulating capital:** The speed with which the circulating capital completes its round plays an important role in judging the adequacy of working capital. If the sale or turnover is quick, limited working capital is adequate. Thus, the faster the sales, the lesser will be the working capital requirements and *vice versa*. The cash requirement also determines the amount of working capital. If more cash is needed for meeting regular needs, the amount of working capital required will be more. A credit commanding company may require less working capital.

(5) **Business cycle:** Requirements of working capital of a company vary with the business variations. During boom period, the management is induced to pile up big stock of raw materials and other goods likely to be used in the business operations to take advantage of favourable prices. During depression, big amounts are locked up in the working capital as the inventories remain unsold and book-debts uncollected. In both the cases, the requirement of working capital increases.

(6) **Terms of purchase and sale:** A business unit, making purchases of raw materials, etc., on credit basis and selling goods on cash basis will require lower amount of working capital.

Need for Working Capital

It has already been stated that the basic objective of financial management is to maximize shareholders wealth. This is possible only when the company earns sufficient profit. The amount of such profit largely depends upon the magnitude of sales. However, sales do not convert into cash instantaneously. There is always a time gap between the sale of goods and receipt of cash. Working capital is required for this period in not available for this period, the company will not be in a position to sustain the sales since it may not be in a position to purchase raw material, pay wages and other expenses required for manufacturing the goods to be sold.

Operating cycle: From the above it is clear that the working capital is required because of the time gap between the sales and their actual realization in cash. This time gap is technically termed as "operating cycle" of the business.

In case of a manufacturing company, the operating cycle is the length of time necessary to complete the following cycle of events:

(i) Conversion of cash into raw materials;

(ii) Conversion of raw materials into work-in-process;

(iii) Conversion of work-in-process into finished goods;

(iv) Conversion of finished goods into accounts receivable and

(v) Conversion of accounts receivable into cash.

This cycle will be repeated again and again.

Sources of Working Capital Finance

The two segments of working capital, viz., regular or fixed or permanent and variable are financed by the long-term and the short-term sources of funds respectively. The main sources of long-term funds are share debentures, term-loans, retained earnings etc.

The sources of short-term funds used for financing variable part of working capital mainly include the following:

(1) Loans from commercial banks

(2) Public deposits

(3) Trade credit

(4) Factoring

(5) Discounting bills of exchange

(6) Bank overdraft and cash credit

(7) Advances from customers

(8) Accrual accounts.

Loans from commercial banks: Small scale industries can raise loans from the commercial banks with or without security. This method of financing does not require any legal formality except that of creating a mortgage on the assets. Loan can be paid in lump sum or in parts. The short-term loans can also be obtained from banks on the personal security of the directors of a country. Such loans are known as *clean advances.*

Bank finance is made available to small scale industries at concessional rate of interest. Hence, it is generally a cheaper source of financing working capital requirements of enterprises. However, this method of raising funds for working capital is a time-consuming process.

Public deposits: Often companies find it easy and convenient to raise, short-term funds by inviting shareholders, employees and the general public to deposit their savings with the company. It is a simple method of raising funds from public for which the company has only to advertise and inform the public that it is authorized by the Companies Act to accept public deposits. Public deposits can be invited by offering a higher rate of interest than the interest allowed on bank deposits. However, the companies can raise funds through public deposits subject to a maximum of 25% of their paid-up capital and free reserves.

But, the small scale industries are exempted from the restrictions of the maximum limit or public deposits if they satisfy the following conditions:

(1) The amount of deposits does not exceed Rs. 8 lakh or the amount of paid-up capital whichever is less.

(2) The paid-up capital does not exceed Rs.12 lakh

(3) The number of depositors is not more than 50%

(4) There is no invitation to the public for deposits

The main merit of this source of raising funds is that it is simple as well as cheaper. But the biggest disadvantage associated with this source is that it is not available during depression and financial stringency.

Trade credit: Just as the companies sell the goods on credit, they also buy raw materials, components and other goods on credit from their suppliers. Thus, outstanding amounts payable to the suppliers, i.e., trade creditors for credit purchases are regarded as sources of finance. Generally, supplies grant credit to their clients for a period of 3 to 6 months. Thus, they provide in a way, short-term finance to the purchasing company. As a matter of fact, availability of this type of finance largely depends upon the volume of business. More the volume of trade credit available also depends upon the reputation of the buyer company, its financial position, degree of competition in the market, etc. However, availing of trade credit involves loss of cash discount which could be earned if payments were made within 7 to 10 days from the date of purchase of goods. This loss of cash discount a regarded as implicit cost of trade credit.

Factoring: Factoring is a financial service designed to help firms in managing their book debts and receivables in a better manner. The book debts and receivables are assigned to a bank called the 'factor' and cash is realized in advance from the bank. For rendering these service, the fee or commission charged is usually a percentage of the value of the book-debts/receivables factored. This is a method of raising short-term capital and known as '*factoring*'. On the one hand, it helps the supplier companies to secure finance against their book debts. The disadvantage of factoring is that customers who are really in genuine difficulty do not get the opportunity of delaying payment which they might have otherwise got from the supplier company.

In the present context there industrial sickness is spreading like an epidemic, the season for which particularly in SSI sector being delayed payments from their suppliers, there is a clear-up rationale for introduction of factoring system. There has been some progress also on this front. The recommendations of Study Group to examine the feasibility of setting up of factoring organizations in the country, under the Chairmanship of Shri C.S. Kalyansundaram have been accepted by the Government of India. The group is of the view that factoring for SSI units could prove to be mutually beneficial to both factors and SSI units and Factors should make every effort to orient their strategy to crystallize the potential demand from the sector.

Discounting bills of exchange: When goods are sold on credit, bills of exchange are generally drawn for acceptance by the buyers of goods. The bills are generally drawn for a period of 3 to 6 months. In practice, the writer of the bill, instead of holding the bill till the date of maturity, prefers to discount them with commercial banks on payment of a charge known as discount. The term 'discounting of bills' is used in case of time bills, whereas the term, 'purchasing of bills' is used in respect of demand bills. The rate of discount to be charged by the bank is prescribed by the Reserve Bank of India from time-to-time. It generally amounts to the interest for the period from the date of discounting to the date of maturity of bills. If a bill is dishonoured on maturity, the bank returns the dishonoured bill to the company who then becomes liable to pay the amount to the bank. The cost of raising finance by this method is the amount of discount charged by the bank. This method is widely used by companies for raising short-term finance.

Bank overdraft and cash credit: Overdraft is a facility extended by the banks to their current accountholders for a short period generally a week. A current accountholder is allowed to withdraw from its current deposit account up to a certain limit over the balance with the bank. The interest is charged only on the amount actually overdrawn. The overdraft facility is also granted against securities.

Cash credit is an arrangement whereby the commercial banks allow to borrow money up to a specified limit known as cash credit limit'. The cash credit facility is allowed against the security. The cash credit limit can be revised from time-to-time according to the value of securities. The money so drawn can be repaid as and when possible. The interest is charged on the actual amount drawn during the period rather on limit sanctioned.

The rate of interest charged on both overdraft and cash credit is relatively higher than the rate of interest given on the bank deposits. Arranging overdraft and cash credit with the commercial banks has become a common method adopted by companies for meeting their short-term financial working capital requirements.

Advances from customers: One way of raising funds for short-term requirement is to demand for advance from one's own customers. Examples of advances from the customers are advanced at the time of booking a car, a telephone connection, a flat, etc., this has become an increasingly popular source of short-time finance among the companies mainly due to two reasons. First, the companies do not pay any interest on advances from their customers. Second, if any company pays interest on advances, that too at a nominal rate. Thus, advances from customers become one of the cheapest source of raising funds for meeting working capital requirements of companies.

Accrued accounts: Generally, there is a certain amount of time gap between an incomes is earned and is actually received or an expenditure becomes due and is actually paid. Salaries, wages and taxes, for example, become due at the end of the month but are usually paid in the first week of the next month. Thus, the outstanding salaries and wages, say, expenses for a week help the enterprise in meeting their working capital requirements. This source of raising funds does not involve any cost.

Management of Working Capital

By now, you know that working capital refers to the funds required to meet the day-to-day obligations of business operations. Hence, working capital is said to be the life-blood of an enterprise. The fact remains that it is working capital that keeps the wheel on. Working capital, therefore, needs to be maintained at an adequate level. Because, both excessive and inadequate working capitals are harmful for an enterprise. For example, if the current assets are inadequate to meet the current liabilities, it will tell upon the liquidity position of the business. In case, the current assets are in excessive volume, the profitability of the business will be adversely affected due to some assets lying idle.

Management of working capital means managing different components of current assets and current liabilities. These are discussed hereunder:

Management of cash: Every enterprise irrespective of its scale requires certain amount of cash to meet its day-to-day obligations. Hence, the enterprise needs to decide carefully how much should be carried in cash. Management of cash aims at striking a balance between two contradictory objectives of meeting the cash disbursement needs and minimizing the amount locked up as cash balance. For this purpose, cash management addresses to the following four problems:

(1) Controlling the level of cash

(2) Controlling inflows of cash

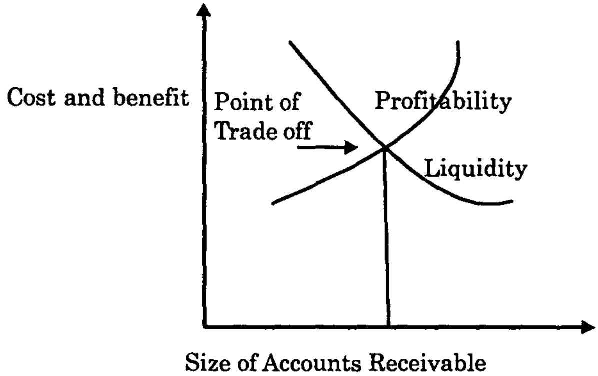
(3) Controlling outflows of cash

(4) Optimum use of surplus cash

Management of inventory: Inventories refer to raw material, work-in-progress and finished goods. These constitute a major portion, about 60%, of total current assets. There are three major motives for holding inventories in a firm, namely, transaction motive, precautionary motive and speculative motive. But, holding inventories involves costs, i.e., ordering costs and carrying costs. Hence, inventories need to be maintained at an optimum size inventory management is a trade-off between cost of acquiring and cost of holding inventories. Among various models evolved for managing inventories, the commonly used model is Economic Ordering Quantity (EOQ) model based on Baumol's cash management model. The other model of inventory management is ABC analysis also known as Control by Importance and Exception (CTE). This method controls expensive inventory items more closely than less expensive items. For a more detailed study on inventory management, go through the next chapter 24.

Management of accounts receivable: Accounts receivable represent the amount of goods sold on credit with a view to increase the volume of sales. Accounts receivable constitute major portion of current assets. According to the Indian Chamber of Commerce and Industry (ICICI) study of 417 companies, the ratios of accounts receivable to total assets, current assets and sales were, on average, 17%, 30% and 14-15% respectively. The main objective of maintaining accounts receivable are achieving growth in sales, increasing profits and meeting competition. Like inventories, maintaining accounts receivable also involves certain costs such as capital costs, administrative costs, collection costs and defaulting costs, i.e., bad debts.

The size of accounts receivable depends on the level of sales, credit policy, terms of trade, efficiency of collection, etc. A larger size of accounts receivable increases profitability and reduces liquidity and *vice versa*. Therefore, accounts receivable need to be maintained at an optimum size. The optimum size of accounts receivable occurs at a point where there is a "trade-off" between profitability and liquidity. This is depicted in figure.



Trade-off between profitability and liquidity

Management of accounts payable: Accounts payable are just reverse to accounts receivable. Accounts payable emerge due to credit purchase. This refers to a loaning of goods and inventories to the buyer. This is also called 'buy-now, pay-later'. The underlying objective of accounts payable is to slow down the payments process as much as possible. But, it should be noted that the saving of interest cost should be offset against loss of credit standing of the enterprise. The enterprise has, therefore, to ensure that the payments to the creditors are made at the stipulated time periods after obtaining the best credit terms possible.

The salient points to be noted on effective management of accounts payable are:

- Obtain most favourable credit terms with the prevailing credit practice.
- Make payments on maturity or due dates.
- Keep good track record of past dealings with the suppliers.
- Avoid tendency to divert payables.
- Provide full information to the suppliers.
- Keep a constant check on incidence of delinquency.

6. MARKETING MANAGEMENT

INTRODUCTION

Marketing management is one component of total business management. It is a specialized area of management which deals with the marketing aspect of business.

Marketing management means managing the marketing function efficiently. It represents marketing concept in action. According to Philip Kotler, "Marketing management is the analysis, planning, implementation and control of programmes designed to create, build and maintain beneficial exchanges and relationships with target markets for the purpose of achieving organizational objectives". Marketing management deals with planning, implementation and control of the entire marketing programmes of a firm. It includes various managerial functions such as determining marketing objectives and so on. Thus, marketing management is concerned with that area of total management which deals with the broad problem of sales. Marketing management may be defined as the process of managements of marketing programmes in order to accomplish corporate objectives. The marketing management process is quite comprehensive. It is looked after by a manager called marketing manager. The basic functions of management, (e.g., planning, organizing, directing) are required to be conducted by all categories of managers. A marketing manager has to perform similar managerial functions while performing regular marketing operations and activities. A marketing manager needs capacity to perform all managerial functions in the field of marketing is an efficient and orderly manner. The functions covered by marketing management are as explained below:

(1) **Determining marketing objectives:** A marketing manager has to decide marketing objectives in the context of overall business objectives of the firm. Objectives must be decided in an accurate manner as they give clear direction to the activities, plans and programmes of the marketing organization. The marketing objectives may be varied and may be expressed in terms

of sales, profit, consumer support market standing and so on. **Marketing planning is for achieving such marketing objectives.** Thus, clearly defined objectives act as a base for other management functions. Marketing objectives may be short-term or long-term. However, objectives should be based on hard realities and detailed study of prevailing marketing environment. In brief, setting the objectives is the primary function of marketing management and the whole management process moves smoothly once the objectives are decided and communicated clearly to concerned persons and departments.

(2) **Planning:** Planning as a managerial function comes next to setting up of marketing objectives. A plan is for achieving the objectives decided. It suggests the course of action needed for achieving the objectives. It involves various broad decisions regarding future course of action. Plan may be for a short period or long period. Similarly, alternative plans are kept ready and a suitable one is selected for actual execution. A plan gives various details regarding the marketing activities of a firm. It gives clear direction to the marketing activities and facilitates the use of marketing strategies as per the need of the situation. Planning creates proper background for the conduct of other managerial functions namely, organizing, directing and so on. Marketing management is concerned with the formulation of marketing plans, policies and procedures.

(3) **Organising:** Organizing is next to planning. Organising means creating suitable administrative structure for orderly execution of marketing plan. Without suitable organization, execution of the plan will not be possible. Efficient organization is necessary for dividing the activities and for utilizing material and human resources to the fullest extent. A marketing manager has to create suitable internal organizational structure for the execution of his marketing plan. Such structure avoids duplication of efforts, misdirection of activities and creates proper atmosphere for the implementation of marketing plan.

(4) **Directing:** Directing function involves giving guidance and instructions to subordinates in regard to steps to be taken for the execution of a plan. Directing also includes leading and

motivating as two supplementary functions. Effective communication is also one subfunction of directing. The purpose of directing is to execute the plan in an orderly manner. Mistakes, wastages, misuse of resources, etc., will be avoided due to directing function.

(5) **Coordinating:** Coordination is the essence of management process. A marketing manager has to coordinate his marketing plan with the plans of other departments. He needs support and cooperation from other departments and for this co-ordination is essential. Even within the marketing department, internal coordination among the sections and staff is necessary. The entire marketing organization will function smoothly and move in one direction due to such coordination. Coordination will not come easily and automatically and hence special efforts are necessary on the part of marketing manager.

(6) **Controlling:** Controlling function is important as it avoids mistakes and errors during the process of execution of marketing plan. Expected results may not be available if proper controlling mechanism is not introduced. Preparing marketing plan is not adequate. It is necessary to see that it is executed properly and for this controlling is necessary. For effective controlling, performance standards must be decided and actual performance must be evaluated for the introduction of suitable remedial measures, if necessary. Follow-up steps are possible if the controlling system is effective. In brief, proper control and co-ordination of all marketing functions is one area covered by marketing management.

(7) **Staffing:** In this managerial function, the manpower requirement of the sales organization is estimated and arrangements are made for the recruitment, selection, training, etc., of the staff/manpower. Many personnel functions are covered under staffing. Plan is to be executed with the cooperation and support of staff and hence manpower selected should be properly qualified, trained and efficient. Failure of a promising plan is possible if the persons connected with the execution are not competent.

Meaning of Distribution Channels

It is already noted that goods move from manufacturer to final consumer through a specific route called channel. Goods are distributed or sold out over wide geographical area through such channels called channels of distribution. Manufacturer-wholesaler-retailer-consumer is one popular and extensively used channel of distribution, particularly for the distribution of consumer goods of daily use. In brief, distribution channel is the route taken by goods on their journey from the producer to the ultimate consumer. It is the system/mechanism used for funneling goods and services from producers to consumers. Distribution channels are also called trade channels or marketing channels. Every distribution channel starts with the producer and ends with consumers. There may be one or more middlemen in between the two ends. Such middlemen may be mercantile agents or merchant middlemen. According to Richard M. Clewett, "A channel is the pipeline through which a product flows on its way to the consumer. The manufacturer puts his product into the pipeline or marketing channel and various marketing people move it along to the consumer at the other end of the channel". In addition, Louis P. Bucklin has defined distribution channel as "the set of institutions which participate in the distribution of goods from the point of production to the point of consumption". Finally, in the words of William Stanton, "A channel of distribution (sometimes called a trade channel) for the product is the route taken by the title to the product as it moves from the producer to the ultimate consumer or individual user". Marketing channels are necessary for large scale distribution of goods in an economically manner. These channels also perform the role of salesmanship. Mass production means mass distribution which is possible through extensive use of various distribution channels. These channels perform various functions and offer useful services to manufacturers and consumers. Distribution channels bring large scale distribution of goods and provide such goods to consumers regularly. These channel facilitate expansion of trade. They also act as line of communication in the distributive system. Even new products can be introduced in the market easily, quickly and uneconomically through such channels.

Types of Distribution Channels for Consumer Goods

Channels of distribution are many and varied in nature. Broadly speaking, there are six important channels used for the distribution of consumer goods. These channels are as noted below:

(1) Manufacturer – Wholesaler – Retailer – Consumer Channel.

(2) Manufacturer – Sole Selling Agent – Wholesaler – Retailer – Consumer Channel.

(3) Manufacturer – His own depots – Retailer – Consumer Channel.

(4) Manufacturer – Retailer – Consumer Channel.

(5) Manufacturer –His chain shops – Consumer Channel.

(6) Manufacturer – Consumer Channel.

Let us, now, consider the details of these channels of distribution for consumer goods.

(1) Manufacturer – Wholesaler – Retailer – Consumer Channel:

This is one popular and extensively used marketing channel. It is rightly called 'traditional channel' for the distribution of goods. In this channel, the manufacturer utilizes the services of two middlemen for the distribution of goods. The wholesalers and retailers render valuable services in the distribution of goods. In fact, manufacturer sell goods through them only. However, he has to be very careful while selecting the wholesalers. The wholesalers selected should have better contacts with the retailers. They must have adequate warehousing facility and should be able to perform some other marketing functions such as transporting, advertising and sales promotion. In addition, they should also be able to give financial support to manufacturer in the case of need. As far as possible the manufacturer should select wholesalers who do not deal in the product/products which directly compete with his own product/products. This lengthy channel has certain advantages. For example, this channel is convenient from the view point of the manufacturer as it brings about division of labour. It enables the manufacturer as to concentrate fully on production and not to bother about distribution. He is also relieved from the anxiety regarding selling of goods. This marketing channel widens the scope of marketing. Finally, it reduces the need of extensive advertising and publicity programmes. Thus, manufacturer enjoys a number of advantages from this channel. However, there are certain limitations as well. The serious drawback of this channel is that due to the existence of middlemen and their commission, goods become costlier to consumers. Similarly, the middlemen resort to various malpractices such as adulteration artificial scarcity and price rise. This affects sales and profit of the manufacturer. The manufacturer also loses his control over the marketing of his products soon after the delivery of goods to wholesalers. The manufacturer also loses his control over the marketing of his products soon after the delivery of goods to wholesales. The manufacturer has to depend fully on the middlemen for marketing his products. This lengthy channel is suitable for large scale distribution of large number of consumer goods like soaps, detergents and cosmetics. Such goods are usually supplied to consumers through this traditional channel. Hindustan Lever Ltd. makes use of this channel extensively for the sale of its products. The same is the case with many other leading manufacturers of consumer goods.

(2) Manufacturer– Sole Selling Agent– Wholesalers– Retailer– Consumer Channel:

In this lengthy marketing channel, the manufacturer appoints some dealers as sole distributors for his goods in a particular region or territory. The sole distributor accepts the entire responsibility of marketing of products within his area. He is paid commission for his services. The sole distributors selected must have considerable marketing influence in a concerned territory. They must have efficient sales organization and sufficient financial backing at their disposal. The appointment of sole selling agents facilitates planned production and control over the sale of product. It also lowers overhead expenditure and provides incentive to distributors. The manufacturer gets the benefit of the reputation of sole distributors. Thus, in this channel, goods flow from manufacturer to sole distributors and finally to consumers through wholesalers and retailers. Naturally, this channel is lengthy with three marketing middlemen.

The advantages and limitations of the first channel (already discussed) are equally applicable to this channel of distribution. Consumer goods as well as capital goods are distributed through this channel. For example, Kelvinator has appointed Blue Star as their selling agents. Blue Star sells Leonard refrigerators to large number of dealers in different towns and cities. Finally, consumers purchase them from local dealers. This channel is longer as compared to the previous one as three middlemen are involved in the distributive process. Manufacturers of mass consumption goods having a nationwide market do not want to deal directly with large number of wholesalers. The appointment of sole selling agents for various regions who sell to wholesalers, who in turn sell to retailers.

(3) Manufacturer– His Own Depots– Retailer– Consumer Channel:

In this marketing channel, an attempt is being made to eliminate one middleman (wholesaler) from the distributive process. Here, the manufacturer supplies goods directly to retailers through his own marketing organization. For regular supply to large number of retailers, the manufacturer opens his own depots at important commercial centres. Goods are directly supplied to retailers from these depots. The manufacturer keeps stocks in these deposits as per the requirements of the area. In addition, the manufacturer collects orders from the retailers through his salesmen and supplies goods to them. Sometimes, Large retail trading organizations such as departmental stores and supermarkets purchase directly from the manufacturer. This channel is now, popular in business world. This is because efforts are being made by the manufacturers and retailers to eliminate wholesalers from the system of distribution.

This marketing channel has the following advantages:

- The wholesaler and his commission are eliminated.
- This channel is a shorter channel and there is no scope for malpractices (of wholesalers) in this channel.
- The manufacturer has effective control on the whole marketing process and hence he prefers this channel.
- The profit of the manufacturer is likely to increase as commission is not required to be paid to the wholesalers.
- In this channel, a manufacturer has close contact with the market situation. This enables him to adjust his production and marketing plans and policies as per the need of the situation.

This Marketing channel has the following Limitations:

- In this channel, the manufacturer has to shoulder the responsibility of production as well as marketing of goods.
- The manufacturer has to maintain depots at different places and engage staff for collecting orders from retailers. This puts heavy financial and administrative burden on the manufacturer.
- The manufacturer has to give attention to various marketing functions including warehousing pricing, packaging, transportation, advertising and risk-bearing. Naturally, this channel puts heavy burden on the manufacturer.
- Small manufacturers with limited financial support find it difficult to use this channel of distribution. They naturally prefer to use the services of wholesalers for the distribution of goods.

This lengthy and time consuming marketing channel is convenient and is used mainly by large scale manufacturers with huge financial backing. Tata's and Hindustan Lever have their own distributive system. Tea companies use this marketing channel for large scale distribution. They have their deports in all major towns for the supply of tea to thousands of retailers directly. These organizations supply their products directly to retailers regularly and thereby eliminate wholesalers.

(4) Manufacturer – Retailer– Consumer Channel:

This shorter marketing channel is rather similar to the previous channel as wholesalers are eliminated in both. Here, the goods move directly from the manufacturer to retailers and finally to consumers. There is only one middleman in the distributive process. The manufacturer keeps close contact with retailers and supplies them goods regularly for onward distribution to consumers. He has to keep huge sales organization for supplying goods regularly to large number of retailers. Sometimes, even retailers keep direct contact with the manufacturer keeps close contact with retailers and supplies them goods regularly for onward distribution to consumers. He has to keep huge sales organization for supplying goods regularly to large numbers of retailers. Sometimes, even retailers keep direct contact with the manufacturer and purchase goods for distribution to consumers. Large retail shops like cooperative stores, chain shops and departmental stores purchase goods in large quantities directly from the manufacturers and supply them to consumers. In brief, manufacturers and retailers find this shorter marketing channel convenient and economical. This channel is used for the distribution of consumer goods (shoes, clothing and food items) as well as machinery, automobiles and other durable products. The wholesalers are by-passed in this channel and naturally their functions are undertaken by manufacturers.

Advantages:

(1) It is a short channel as the wholesalers are eliminated. The commission to them is also eliminated. This gives benefit to manufacturers and consumers.

(2) The cost of distribution is brought down considerably in this channel.

(3) The malpractices of wholesalers are also eliminated.

(4) In this channel, the distribution is done quickly and hence it can be used even for the distribution of perishable goods within a small area.

(5) Consumers get goods at lower prices as they have not to share the burden of commission of the wholesaler.

Limitations:

(1) The manufacturer has to look after the production and marketing at one and the same time. This puts heavy financial and administrative pressure/burden on him.

(2) The manufacturer has to maintain huge marketing organization and naturally he has to invest more capital in the business.

(3) The wholesaler is eliminated in this channel but not his functions. They are shared by the manufacturer himself.

(4) In this channel is not convenient for the distribution of perishable commodities which need quick marketing and shortest channel.

(5) Manufacturer– His Chain Shops– Consumer Channel:

In this shorter marketing channel both the wholesalers and retailers are eliminated. The functions of the wholesalers and retailers are performed by the manufacturer himself. Here, the manufacturers opens his own retail shops/branches in different parts of the country and sells his goods directly to consumers. The services of middlemen are not necessary in this shorter channel. The manufacturer looks after manufacturing and retailing. He keeps direct contact with the consumers. The branch managers are appointed for managing sales operations at the branch local level. They work as per the instructions of the head office. The manufacturers of textile, leather goods, readymade garments, ice creams and bakery products have opened their retail shops in big cities for effective distribution. The pricing policy is under their control. The prices are lowered due to the elimination of middlemen. The manufacturer will know the market reactions and will be able to incorporate necessary changes in the marketing policies at the right time. However, his attention will be diverted from manufacturing activities as he has to perform all marketing functions along with manufacturing proper. The cost of operation will also increase considerably. This channel can be used by large manufacturers who are financially sound and stable. In India, this channel of distribution is used by many manufacturers. Bata

Shoe Company, for example, sells shoes to consumers directly through its branches. Similarly, Bombay Dyeing, Raymonds and other companies have their retail shops for selling cloth.

(6) Manufacturer– Consumer Channel:

This is the shortest marketing as there is a not middleman in the distributive process. It is an example of a simple, direct and economical channel. In fact, it need not be treated as a channel at all as there is no middleman involved in the process of distribution. In this case, the manufacturer establishes direct contact with the consumers and supplies them goods. The goods are directly supplied to consumers either by establishing mail order house or through travelling salesmen or through retail shops. Bata, DCM (Delhi Cloth and General Mills), Binny and NTC (National Textile Corporation) sell their products directly to consumers. In mail order business, goods are sold through the medium of post office. In this channel, orders are collected by post and goods are sent to customers by V.P.P (value payable by post). The other method is to appoint a large number of salesmen for canvassing and sales promotion. The sales men go from door-to-door and convince the prospects about the utility of the products. The salesmen are usually paid commission on the basis of their sales. Hence, they do their best to promote sales. Small manufacturers sell their production in the local market directly. In villages, village artisans sell goods directly to local people. Small business establishments like bakeries, dairies, hotel and sweetmeat stalls use this direct marketing channel. Even farmers sometimes sell their products directly to consumers. However, this channel is not convenient for a wide market. In advanced countries, goods like cold drinks, milk and ice creams are sold through automatic machines. Machines are installed at convenient places like gardens, petrol pumps and picnic spots. The buyer has to insert coins in the machines and collect the required commodity. Neither salesmen nor dealers are required to push the sales. Direct sale to consumers through retail shops is also possible under this channel. Similarly, industrial goods may be sold directly to industrial buyers. In addition, services like water, electricity, gas, etc., are distributed by using this direct channel.

Manufacturer–consumer channel has certain advantages. The manufacturer gets complete control over the process of distribution and gets first hand information about market trends. The middlemen are eliminated from the distributive process. This gives more profit to the manufacturer without charging high price to consumers. Along with this, there are certain disadvantages of this marketing channel. For instance, there will be an increase in the cost of operation. A manufacturer will also have to maintain a large sales force for conduction door-to-door campaign. The manufacturer will also have to spend on advertisement and publicity. He will have to spend large amount of money on his sales organization. In brief, this channel is rather costly and not suitable for wider market.

Manufacturer–consumer channel of distribution is suitable under the following circumstances:

(1) When the market is local in character.

(2) When the goods to be distributed are perishable in character.

(3) When the manufacturer has financial support to establish his own distributive system.

(4) When the goods to be distributed are costly and after-sales service is necessary.

(5) When the goods are to be distributed in a selected market or area.

(6) When the manufacturer desires to have effective control on the entire marketing mechanism. Manufacturer-consumer channel is a direct one. However, it is very difficult to use it in the present day complicated marketing system. This is because a manufacturer finds it difficult to keep direct contact with growing number of consumers and also to give attention to other aspects of marketing including advertising, warehousing and actual retail selling.

It may be note that every marketing channel has its own feature, advantages and limitations. Every channel is suitable for marketing under certain circumstances. A manufacturer can use one or more channels for the distribution of his products. In fact, the use of more than one channel is quite common in the case of large manufacturers. There is no hard and fast rule as regards the selection and use of a channel of distribution. The selection of marketing channel is entirely at his discretion. In general, shorter channel is better as it is quick and economical. The longer channel is always costly and time-consuming. However, it is useful for large scale distribution of goods.

Types of Distribution Channels for Industrial Goods

The usual channels for the distribution of industrial goods are as noted below:

(1) Manufacturer– Customer (industrial user) channel

(2) Manufacturer– Distributor – customer channel

(3) Manufacturer– Agent – Distribution– Customer Channel

(4) Manufacturer– Agent– Customer Channel

Let us now consider brief details of these channels for the distribution of industrial goods:

(1) Manufacturer–Customer/Consumer Channel:

This direct channel is most appropriate for marketing high priced complex products like locomotives, generators and computers. The purchases are limited and naturally manufacturer can sell as well as provide various services including after-sales services directly to the actual user of the product. Moreover, such direct contact between the manufacturer and user is necessary for negotiations regarding price, terms and conditions of sale, extra facilities required and so on. The middleman may not be able to do this job properly due to lack of technical knowledge, etc. This channel is also quick and economical in operation. It is convenient to both the parties and hence used extensively.

(2) Manufacturer – Distributor – Customer Channel:

This channel is normally used for the marketing of accessories, multi-purpose standardized machines, machine tools, metal and so on. Here, manufacturers frequently use distributors (called industrial distributors) in order to establish contacts with potential purchasers. The purchasers are quite large in number and manufacturers find it expensive to keep contact with them. It is also profitable to promote sale through distributors rather than establishing separate sales organization or using the existing one. It is a little costly channel as the services of middleman are used on commission basis. The distributor is given title to the goods which they handle.

(3) Manufacturer – Agent – Distributor – Customer Channel:

In this lengthy channel, one more middleman, (i.e., agent) is added. Manufacturers of new industrial products (particularly without sales organization) prefer to appoint agents and use their services for promoting sales. Such agents are appointed on regional basis and they take interest in promoting sales. Such agents are appointed on regional basis and they take interest in promoting sales within the territory assigned to them. The agent stands as link between manufacturer and distributor. He acts as manufacturer's agent. This channel is also convenient to small manufacturers of industrial goods.

(4) Manufacturer – Agent – Customer Channel:

In this short channel, the agents are appointed for sales promotion. The agents act as a manufacturer's salesforce. This channel is useful for marketing industrial products with high price and where personal contact with the customer is necessary. The agent is paid commission for his services. A manufacturer may prefer this channel in order to make entry in a new market.

CHOICE /SELECTION OF DISTRIBUTION/MARKETING CHANNEL

Selection of appropriate distribution/marketing channel is an important consideration in the marketing management. It is rather a knotty and ticklish problem in the marketing mix. It may be pointed out that there is no hard and fast rule for deciding which channel of distribution is to be selected for successful marketing. A manufacturer has to study all available channels and select one channel which would give the best results under the given circumstances. While selecting one or two channels, certain considerations like product considerations, market considerations, consumer considerations, enterprises considerations, etc., should be given adequate attention. Important factors which need careful consideration while selecting the channel of distribution are as noted below:

(1) **Nature of product:** The nature of product is one significant factor influencing the selection of the distribution channel. The nature of product means the characteristics of the product. The product for marketing may be a new product or an established one. It may be a cheap or costly and finally it may be perishable or durable. If it is perishable like fruits or vegetables, it will be better to sell it directly to consumers. Similarly, costly products requiring after-sales service should pass on through few hands. Thus, consumer durables like sewing machines, automobiles, television sets and scooters are sold either directly by the manufacturer or through one area distributor. An industrial product is usually sold directly to the industrial user. If a product is new, active support of middlemen is necessary. Once it is established in the market, some middlemen can be eliminated. Standardised products like machine tools are commonly handled by wholesale distributors. In the case of local market, direct sale is possible and also preferred. Thus, nature of product is one important factor which needs careful consideration while selecting specific channel of distribution.

(2) **Nature of the market:** The size and location of the market also influence the choice, regarding the distribution channel. In the case of national markets, the producer may be

compelled to avail the services of intermediaries for effective marketing of goods. Similarly, if the number of customers is very large and if they are widely scattered, the services of middlemen are essential. On the contrary, in the case of local market and a small number of customers, the manufacturer may resort to direct channel. For example, in the marketing of consumer items, wholesalers and retailers are inevitable but they are not essential for marketing industrial goods. Finally, for mass distribution of goods, the services of middlemen are required but for selective or exclusive distribution one or two dealers are adequate. In brief, nature of market is one factor which influences channel choice.

(3) **Nature of market competition and marketing environment:** The nature and intensity of market competition is another factor connected with the selection of distribution channel. In the case of keen competition, the manufacturer has to seek active support of middlemen. Similarly, in the case of certain products like medicines, a manufacturer has to follow the same channel as used by his competitors. A manufacturer can use a shorter channel if the market competition is limited. Similarly, shorter channel can be used during the recession when the demand is less. Longer channel will be more useful during the period of prosperity when demand is more and also increasing.

Along with market competition, marketing environment needs careful consideration while selecting the marketing/ distribution channel. Such environment is the net result of various factors such as market competition, entry of new products in the market policies of competitors, government policies and so on. The channel should be selected after due consideration of market environment – present and future.

(4) **Nature and features of customers:** While selecting distribution channel, the convenience of the prospective customers should be taken into consideration. Selecting channel from the view point of customers requires information of regarding prospective customers age, income group, sex, etc. The buying habits of customers should also be taken into consideration while selecting a marketing/distribution channel.

(5) **Financial resources and cost of distribution:** Another significant factor influencing selection of marketing/ distribution channel is a financial resources at the disposal of the manufacturer and the cost of distribution in relation to the product. A manufacturer with limited financial support has to use a longer channel as he needs the services of middlemen for the distribution of goods. He can use shorter channel or can sell his goods directly to consumers if he is financially strong and capable to establish his own sales organization. Similarly, if the market is local, direct sale to consumers is possible. However, a longer channel is required if the market is too wide. This is natural as a manufacturer finds it difficult (financially) to establish his own sales organization. New companies depend heavily on the middlemen for distribution due to lack of finance but established companies try to sell their products with minimum number of middlemen. The company's product mix influences the selection of marketing channel. Here, the broader the product line, shorter will be the dealerships. Finally, a company interested in keeping greater control over the marketing channels prefers a shorter marketing channel.

(6) **Availability of middlemen:** The manufacturer of a particular product may need a large number of middlemen for efficient distribution of his product. He may also be willing to pay them attractive commission. However, he may not get the services of middlemen on fair terms and conditions. Under such circumstances, he has no alternative but to establish his own sales organization for marketing. This is because of non-availability of suitable middlemen. In brief, availability of middlemen, willingness of middlemen and the services which the middlemen are willing to provide are three broad factors connected with the middlemen in the distribution channels.

(7) **Miscellaneous factors:** In addition to the factors noted above, there are other miscellaneous factors which influence the selection of distribution channel. Such factors are: proportion of credit sales, risk-bearing in business, additional services offered by the middlemen, size of sales organization, desire for control over distribution channel and number of potential consumers.

PROBLEMS OF MARKETING

Production is meaningless without market. Therefore, the very purpose of an enterprise is to produce what the customer will buy. All industries whether small or large face problems in marketing their products or services. But, small scale enterprises are more plagued by the marketing of their products is commonly notices overtime and clime. Notwithstanding, there are two main reasons conditioning the marketing of products produced by small enterprises. First, small enterprise cannot withstand with cut-throat competition in respect of quality, cost, standardization of the products with medium and large scale industries. In fact, the same is attributed to one of the major reasons limiting the fuller utilization of their production capacity. Second, the small enterprises of our country neither have the full appreciation of the importance of marketing not had they employed and implemented effective marketing techniques in their enterprises.

In this regards, the observation made by the *Ford Foundation* seems worth quoting "In spite of an extensive potential market, the Indian small entrepreneurs were most reluctant towards efficient marketing technique and consequently have met with failure on the front of marketing of their products. When it comes to the question of markets for which the products are produced, most of the small entrepreneurs appear to be as much anchored to the past as they are in the methods of manufacturing. Types and areas of consumption are shifting but only few products try to follow them. This, in part at least, is due to the prevailing system of distribution. Few channels of communication exits between the small manufacturer and the ultimate customer. In many cases, the manufacturer does not even know in what part of the country his wires are used, or who buys them."

The Japanese delegation on small scale industries in India also gave similar view that the most knotty point in the operation of small scale enterprises and cottage industries is that the industry is isolated from the market and unable to understand quickly and accurately the prevalent trend of the market.

According to a field study of 50 small scale enterprises in a notified backward region of Uttar Pradesh, there are three major problems of marketing of small industry products. These are:

(1) **Competition with modern sector**: The market competition of the small enterprises with the modern sector has aggravated due to several factors over the years. Although the traditional hallmarks of the small scale industries are slowly yet steadily changing there is an implicit assumption of poor quality for goods manufactured in small enterprises. This sector needs to cater to wide diversity and changing tastes and preferences of their clientele which they do fail.

(2) **Lack of sales promotion**: Advertisement of the products through the elaborate sales promotion methods such as cadres of trained salesmen, advertisement in cinema slides. Posters, papers, magazines and so on have become increasingly fashionable particularly in the case of medium and large scale industries. But, small scale industries lack in the required resources as well as knowledge to practice the methods or sales promotion. As a result, the former usually have patented names which facilitate the dealers in selling their products without making much efforts. It can also be postulated that in the case of the products of small scale industries, at least at their initial stage, persuasive capacity of the dealer plays on important role in influencing their sales. In such case, the dealers demand and producers are bound to pay a relatively higher rate of commission than those paid by the large scale producers. This rockets high unit cost and, thus, impinges on their capacity to compete with the large sector. In this way the small enterprises are unstirred. If these small enterprises make a modest start too, it is to be stagnated and died out or devoured by the successful bigger enterprises.

(3) **Weak in bargaining power**: In case of handicraft units such as copper smithy and carpet weaving units, the price realized is usually better than the sales are made at the place of production itself than when these products are marketed in the fairs. It looks that, very possibly, the manufacturers are in a better bargaining position at home than in other locations like fairs where they take their products for selling. Other studies also support this finding.

One can add some other problems depending upon the type of enterprise, yet these are the major ones encompassing various problems in one way or other.

MARKETING

Marketing is one of the major stumbling blocks for small scale industries. The main problems which they face in marketing their products are enumerated below:

(i) Lack of standardization;

(ii) Poor designing;

(iii) Poor quality;

(iv) Lack of quality control;

(v) Lack of precision;

(vi) Poor finish;

(vii) Lack of service after sales;

(viii) Scale of production;

(ix) Brand preferences

(x) Distribution contacts;

(xi) Lack of knowledge of marketing

(xii) Ignorance and potential markets;

(xiii) Unfamiliarity with export activities – procedures and market know-how;

(xiv) Financial weakness; limited resources;

(xv) Limited local market; heavy dependence on middlemen;

(xvi) Lack of testing equipment;

(xvii) Absence of a marketing strategy;

(xviii) Ill-equipped marketing organization;

(xix) Lack of liaison activity;

(xx) Delayed payments; and

Due to weak financial base, a small industrialist cannot afford to spend as heavily as a large unit does no marketing his products. A rare exception is the pharmaceutical industry, in which the gap between the manufacturing cost and the selling price is very large. This is a special situation, in which marketing techniques are different, and therefore the cost of marketing is very high, particularly the marketing cost of those drugs for which there is stiff competition. The small industrialists in this line have to follow this trend in order to survive.

In the absence of a marketing channel of their own, many small units sell their products to large selling houses. Voltas, for instance, markets a number of products produced by small units. Similarly, the Bata Shoe Company sells the shoes manufactured by the small sector. As a result, small units invariably gets a raw deal. The large companies make handsome profits from marketing the products of small units by charging a much higher price from the consumer. In this respect, there is a need for a large number of marketing consortia, whose primary responsibility will be to assist small units.

Institutionalised Marketing for Entrepreneurs

Before they come up and for their sustenance, small industries need various supporting services, efficiently organized and promptly extended. Marketing guidance and assistance is one such service, which increasingly expected by newly established small units in areas which are far away from developed metropolitan cities. These industries are often not in a position to carry on market research, which is an essential prerequisite in the marketing process. To encourage the small entrepreneur to take up the production and marketing of new products, the governments in the developing countries and their specialized institutions collect, collate and disseminate up to date and reliable market intelligence on a regular basis in the absence of which an entrepreneur would often operate either in the dark or wander on an uncharted sea. As a matter of fact, manufacturing units should be guided into the unexplored areas of assumed profit. This is the rationale behind the market intelligence bureau, which collects and disseminates relevant information about potential and profitable market areas.

The production and financial capacity of small industries are limited: so are their sustaining power and competitive strength. They can compete individually if the product is special, and demand outstrips supply. In the case of products which are not special, and in lines where competition, particularly from the large-scale sector, is fierce, individual marketing becomes difficult. To contend against established large and even small units is not easy job. The very small size of operations is then a handicap. But if several small units decide to pool their resources, their combined aggregate capacity would be larger than of even the largest industrial unit. In fact, in some lines of production, the total installed capacity in the small scale sector is higher than that in the large sector small units can then compete collectively and secure a share of the market, which is legitimately theirs. However, a collective of this type can succeed only if the participants are prepared to sacrifice a part of their individuality. This is truer of foreign markets, where one has to contend not only against all the other countries, but also against a vast, domestic market. Extensive organization is needed to reach potential areas, and to hold one's own against the unfair competition from the large scale sector. It is in this context that the consortium idea, which is still is an embryonic stage in India, is relevant. Government purchase from small industries would also go up tremendously if small entrepreneurs adopt this consortium approach. They would eliminate to a great extent competition amongst themselves in their own sector and face confidently and successfully competition from other quarters.

Some small industries have good prospects of selling their products in international markets. If they cannot develop a consortium for the export of their products, they should at least associate with and support an export house. If marketing is a war, it is the fiercest in the international fields.

Question for Self-Assessment

(I) Answer the following in not more than 400 words:

(1) Define production management and discuss its scope.

(2) Briefly analyze the factors determining choice of technology.

(3) What is inventory control? Discuss its importance to production department.

(4) What is the meaning of inventory control? Discuss its objectives and importance.

(5) Explain the meaning and objectives of materials management and explain its importance.

(6) Explain the meaning and objectives of purchasing management.

(7) Discuss various purchasing activities and procedures.

(8) HRM is a strategic approach to structure, motivation, development and management of an organisation's employees. Discuss.

(9) What is meant by recruitment? Critically discuss the various sources of recruitment of employees.

(10) What do you mean by 'fixed capital'? What is its importance?

(11) What is fixed capital? What are the different source of it?

(12) What is working capital? Explain the concept of working capital and its significance in business enterprise.

(13) Discuss the various sources of working capital.

(14) What is marketing management? Explain briefly the functions of marketing management.

(15) What is meant by distribution channels? Explain briefly the channels of distribution for consumer goods.

(16) Explain briefly the distribution channels available for industrial goods.

(17) Explain the factors which need careful consideration while selecting a specific channel of distribution.

(18) Discuss the various problems of marketing of small industry products in India.

(II) Answer the following in not more than 100 words:

(1) Importance of recruitment method.

(2) Objectives of inventory control.

(3) Purchasing procedure.

(4) Meaning and importance of material management.

(5) HRM concept.

(6) Significance of marketing management.

(7) Training various development.

(8) Meaning of financial management.

(9) Management of fixed capital.

(10) Management of working capital.

Chapter 5

Industrial Sickness

The problem of sickness in industries has become very acute in India. It has adversely affected the 'health' of the industrial sector in particular and the economy in general. In the present chapter, we propose to discuss this problem in detail and its remedial measures. The discussion is carried out under the following headings:

- Definition and symptoms of industrial sickness in India.
- Causes of industrial sickness.
- Consequences of industrial sickness.
- Steps taken by the government to tackle the problem of industrial sickness.

DEFINITION OF INDUSTRIAL SICKNESS

Prior to the enactment of the Sick Industrial Companies (Special Provision) Act, 1985 there was no unanimity regarding the definition of industrial sickness. Reserve Bank of India, term lending institutions and State Bank of India all defined sick industries in different ways. However, enactment of the Sick Industrial Companies (Special Provisions) Act, 1985, settled the issue. According to this Act, a sick unit was defined as "an industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth and has also suffered cash losses in such financial year and the financial year immediately preceding such financial year". In December 1991, public sector companies were also brought under the purview of the Act. The 1992 amendment (introduced in February 1994) altered the criterion somewhat: firms only need to be registered for five years, and the criterion of cash losses for two successive years was eliminated.

As far as small scale sector is concerned, that small scale industrial unit was considered to be sick that had : (a) incurred a cash loss in the previous accounting year and was likely to continue with losses in the current accounting year and erosions on account of cumulative cash losses to the extent of 50 per cent or more of its peak net worth during the last five years, and/or (b) continuously defaulted in meeting four consecutive installments of interest or two-half yearly instalments of principle on term loan and there were persistent irregularities in the operation of its credit limits with the bank. While both (a) and (b) were required to be satisfied in the case of larger small scale units, it was to suffice if either alternative (a) or (b) was satisfied in the case of tiny and decentralized sector units.

Symptoms of Industrial Sickness:

The persistence of various signals over a long period of time becomes symptoms of sickness. The various symptoms ultimately reflect on plant performance, capacity utilization, financial ratios, share market price and practices in the diverse areas of finance, production, marketing and labour relations in the industry. Some of the important symptoms which characterize industrial sickness are given below:

(i) persisting shortage of cash;

(ii) deteriorating financial ratios;

(iii) widespread use of creative accounting;

(iv) continuous tumble in the prices of the shares;

(v) frequent request to banks and financial institutions for loans;

(vi) delay and default in the payment of statutory dues;

(vii) delay in the audit of annual accounts; and

(viii) Morale degradation of employees and desperation among the top and middle management level.

However, the financial ratios, in all cases, cannot be considered as true symptoms of industrial sickness mainly due to two reasons. First, the sickness prone units, in order to present a better and sound image do a lot of window dressing. Second, the financial data is available after a gap of one year. However, an early identification of symptoms of industrial sickness makes the task of detecting sickness easier.

Causes of Industrial Sickness

Causes of industrial sickness are usually divided into two categories: (i) external, and (ii) internal. The former include factors which originate outside the unit and, therefore, are not under the control of the unit such as power cuts, demand (or market) recession, erratic availability of inputs, government policies, etc. The latter include factors which originate within the unit and can, therefore, be said to be under the control of the unit such as production, management, finance, etc.

External Causes

(1) **Power cuts**: A large number of industrial units face power cuts from time-to-time. These power cuts are imposed by the state governments as the generation of power is considerably below its actual requirements. Drought situation during some years in a number of states further aggravated the problem and acute power shortage resulted in frequent power cuts.

(2) **Erratic supply of inputs**: Some units depend on scarce raw materials whose supply is erratic. This results in disturbing the production schedule causing losses to the unit. This often happens in the case of units depending upon the supply of

imported inputs. Insufficient availability of transport facilities (like shortage of wagons, etc.), can also upset the supply schedule of inputs.

(3) **Demand and credit restraints**: At times, recession in the market causes a steep decline in the demand resulting in unsold stocks and losses to individual units. Products with high prices for example tractors, trucks, buses, cars, etc., depend for their sustained demand on easy availability of credit to purchasers. If credit restraints are imposed so that the purchasers are not able to arrange finance, the demand for these products is bound to suffer.

This is likely to leave the manufacturers with unsold stocks inflicting losses on them. If this situation persists for quite some-time, the producing units are prone to turn sick. This problem can emerge in a serious way for ancillary units. If the demand of the principle buyer of the output of ancillary units falls due to any reason whatsoever, these units are put in a precarious position. They are bound to turn sick and may even face closure.

(4) **Government policy**: Sudden changes in the government policy relating to imports, exports, industrial licensing, taxation, etc., can make viable units sick overnight. For instance, liberal import policy for a particular product can inflict serious damage on the domestic unit(s) producing similar/substitute products. The very existence of these domestic units is likely to be threatened particularly if the imported product is cheaper and is of a better quality as compared to their products. In a similar way, granting of liberal licences to big industrial houses in the production lines reserved exclusively for the small scale sector is bound to affect the prospects of the units in the latter sector adversely. The opening up of the internal market to foreign competition in recent years in line with India's commitments to the World Trade Organisation (WTO) is making it difficult for many industrial units to survive. The most difficult problems are being faced by the small scale industries who are now facing tough competition from cheap imports (particularly from China) on the one hand, and from large scale industries (due to dereservation) on the other hand.

Internal Causes

(1) **Faults at the planning and construction stage:** Faults can occur at the planning and construction stage itself. The first fault can be the wrong location of an industrial unit. If the place where the unit has been set up lacks infrastructural facilities, the unit is likely to face difficulties. The second fault can be the absence of market analysis. Some small scale entrepreneurs plunge into production without bothering to find out the market potential of their product and this pushes them into difficulties later. At times, these small units do not 'plan' production properly. Some units start with an unbalanced capital structure some underestimate the project cost while some spend recklessly on unproductive assets. In all these cases either the implementation of the small scale project is delayed or production is started under severe handicaps. A slight disturbance in the normal functioning of these units is sufficient to disturb their 'balance' and turn them into sick units.

(2) **Defective plant and machinery:** Many entrepreneurs in the small scale sector do not seek professional and technical guidance from competent authorities in choosing correct machinery. If the plant and machinery finally selected and installed by them turns out to be defective, their units are bound to suffer losses and will in all probability turn sick.

Not only this, at times, the technology adopted by the entrepreneur is obsolete and inappropriate. Production with the help of such technology is bound to be inferior in quality as compared to the production using modern and appropriate technology. Units employing obsolete and inappropriate technology are also likely to suffer a cost and price disadvantage *vis-a-vis* units employing modern technology.

(3) **Financial problems:** A number of units face acute financial problems right from the stage of planning and construction to the stage of implementation and beyond. The equity base of many small scale units is very weak and slight disturbances in the market put them under acute financial strain. Often small scale units borrow from banks and financial

institutions but are unable to meet the repayment schedules. The burden of unpaid debt accumulates and they turn sick. In some cases, lack of support from banks causes a failure of small scale units as the banks insist on 'proven performance' either to restore working capital limits or to enhance existing limits.

(4) **Entrepreneurial incompetence**: Many persons setting up small scale units are 'incompetent entrepreneurs' in the sense that they do not possess basic technical knowledge of the product they intend for manufacturing, lack basic business acumen, do not know the costing of their products, have no knowledge of business accounts, marketing, etc. No wonder then that units set up by such people turn sick.

(5) **Management problems**: The most important internal cause of sickness is management problems. Faculty managerial decisions in the fields of production, marketing, finance, personnel management, etc., can ruin a business. For instance, lack of inventory and materials management, inadequate attention towards maintenance management (leading to frequent breakdowns and consequent lower capacity utilization), absence of quality control systems, etc., are some examples of miss-management in the sphere of production. Insufficient sales promotion activities and improper pricing policies can create problems in the field of marketing. Inefficient use of working capital can cause financial miss-management. Faults in personnel management include improper wage, increment and promotion policies, and lack of manpower planning and bad industrial relations.

(6) **Labour problems**: In some cases acute labour have resulted in strikes, lock-outs and even closure of industrial units. These problems may emanate from differences with management over the issue of wages, bonus, suspensions and retrenchment, interunion rivalry, etc. It not tackled in time satisfactorily such problems can cause sickness.

Consequences of Industrial Sickness

In a planned and underdeveloped labour surplus economy like India, industrial sickness can have serious consequences as would be clear from the discussion below:

(1) **Setback to employment prospects:** India is a labour surplus economy where avenues of employment are very much restricted in relation to the number of people seeking employment. Accordingly, closure of an industrial unit is likely to render workers unemployed. The implications are likely to be particularly serious if the sick industrial unit is a large one employing a large number of people (say, for instance, a huge cotton textile mill).

(2) **Fear of industrial unrest:** Closure of a sick industrial unit (particularly if it is a large one) not only causes substantial unemployment, it also causes widespread labour unrest. Trade unions of other industries are likely to oppose retrenchment of labour of the closed unit and resort to widespread industrial strikes. The peace and tranquility of the industrial environment will be threatened resulting in industrial losses and setback to production in a number of units.

(3) **Wastage of resources:** Resources are scarce in an underdeveloped economy and if an industrial unit turns sick and is closed down on this account, resources invested in that unit are wasted. This problem is particularly serious for large scale sick units, where substantial investments have been made in plant and machinery. Stoppage of production in these units not only results in a decline in production of the industry as a whole, it also implies the blocking up of valuable savings and capital equipment.

(4) **Adverse impact on related units:** Frequently an industrial unit is linked up with a number of other industrial units through backward and forward linkages. Therefore, sickness in one unit is likely to affect adversely a number of other units. For instance, iron and steel industry is linked up with a number of other industries via backward and forward linkages. Accordingly, sickness in a large unit manufacturing iron and steel is likely to have adverse repercussions on a number of other units.

(5) **Adverse effect on investors and entrepreneurs:** Closure or liquidation of a large sick unit creates a psychology of despair amongst investors. The share price of that unit will tumble down and the prevalence of gloomy market conditions can adversely affect the entire stock market. Not only this, failure of a unit acts as a disincentive to other entrepreneurs who were planning to launch production in the same lines. Such industrial climate is not conducive for industrial development.

(6) **Losses to banks and financial institutions:** Closure of industrial units causes substantial financial losses to banks and financial institutions which had granted loans to these units to set up their plant and machinery and commence production. Locking up of funds in the sick units also affects adversely the future lending programmes of banks and financial institutions as shortage of resources emerges. Data given earlier show that the amount of bank credit outstanding against the large and medium sick industrial units amounted to a staggering Rs. 33,838 crore at end of March 2006 while the amount of bank credit outstanding against the small scale sick industrial units touched Rs. 4,981 crore. While banks and financial institutions do initiate legal proceedings against defaulters after giving them reasonable time for repayment, the recovery of over dues takes a very long time and, in some cases, the recovered amount falls short of actual over dues.

(7) **Loss of revenue to government:** The Central, state and local governments raise substantial revenue from industrial units by way of various levies. Therefore, sickness in industrial units results in loss of revenue to these levels of government.

REMEDIAL MEASURES

On account of the above consequences of industrial sickness, it was for long regarded as a 'social' problem' in our country. Accordingly, various concessions and incentives were offered to sick units to help them regain their 'health' and stand on their feet once again. Some of measures undertaken for the revival and rehabilitation of sick industrial units are as follows:

(1) **Steps taken by banks:** The commercial banks granted various concessions to sick industrial units like; (i) grant of additional working capital facilities to overcome the shortage of working capital faced by such units; (ii) recovery of interest at reduced rates; (iii) suitable moratorium on payment of interest; (iv) freezing a portion of the outstanding in the accounts, etc. A number of steps were also undertaken on the organizational front like; (i) setting up a sick industrial undertakings cell in Reserve Bank of India to function as a clearing house for information relating to sick units and to act as a coordinating agency between the government, banks, financial institutions and other agencies for tackling the various related issues; (ii) setting up of state level interinstitutional committees at all the regional offices of the Department of Banking Operations and Development of the Reserve Bank of India for ensuring better coordination between the banks, state governments, Central and state level financial institutions and other agencies; (iii) constitution of a standing co-ordination committee by Reserve Bank to consider the issues relating to coordination between commercial banks and term-lending institutions on an ongoing basis and (iv) setting up of a special cell within the rehabilitation finance division of Industrial Development Bank of India for attending to references from banks in respect of their sick and problem areas. As regards the small scale industries, Reserve Bank issued guidelines to the banks with a view to ensuring that the potentially viable sick units in small scale industries sector receive due attention and timely support.

(2) **Policy framework of the government:** The policy framework in respect of measures to deal with the problem of industrial sickness was laid down in the guidelines issued in October 1981 (which were subsequently modified in February 1982) for guidance of administrative ministries of the Central government, state government and financial institutions. Under these guidelines, the administrative ministries in the government were given specific responsibility for prevention and remedial action in relation to sickness in industrial sector within their respective charge. They were required to monitor sickness and coordinate action for revival and rehabilitation of sick units. The financial institutions were asked to strengthen the monitoring system so

that timely corrective action could be taken to prevent incipient sickness. To restore the sick unit to 'health', the financial institutions could even consider assuming managerial responsibility. However, where the banks and financial institutions felt that a sick unit cannot be revived, they could deal with their outstanding dues to the unit in accordance with the normal banking procedures. Before doing so, they were required to report the matter to the government who was then to decide whether some measures (like nationalization or workers' participation in management) could revive the unit. If the government decided to nationalize the unit its management could be taken over under the provisions of the industries (development and Regulation) Act 1951, for a period of six months to enable government to take necessary steps for nationalization. The government could also consider steps such as restructuring, merger with healthy units, etc., to rehabilitate the sick. Where revival did not seem possible, the government could denotify the unit resulting in its closure.

(3) **Concessions by government:** Certain concessions were also provided by the government to assist revival of sick units without intervention. For instance, the Income Tax Act was amended in 1977 by addition of Section 72 A which provided for the grant of tax benefit to healthy units when they tookover the sick units by amalgamation with a view to reviving them. On January 1, 1982 a scheme for provision of margin money to sick units in the small scale sector at soft terms was introduced to enable them to obtain necessary funds from banks and financial institutions to implement their revival scheme. This was followed by the introduction of a liberalized margin money scheme in June 1987 to supplement the efforts of the state governments in reducing sickness in the small scale sector. In October 1989, the government announced a scheme for the grant of excise loan to sick/weak industrial units. Under this scheme, selected sick units were eligible for excise loan not exceeding 50 per cent of the excise duty actually paid for 5 years.

(4) **Steps for detecting sickness early:** Importance of detecting sickness in incipient stage is crucial as corrective steps can then be taken early and well in time. With this end in view,

the Reserve Bank advised the banks to take necessary remedial steps in respect of industrial units which do not come under the purview of Sick Industrial Companies (special Provisions) Act, 1985, at the stage of 50 per cent erosion of their net worth. The Reserve Bank has also closely monitored certain specific industries where sickness is more widespread.

(5) **The Industrial Investment Bank of India:** The government established the Industrial Reconstruction Corporation of India (IRCI) with a view of reviving and rehabilitating sick units. The authorized capital and paid-up capital of IRCI were Rs. 25 crore and Rs. 2.5 crore, respectively. Its share capital was subscribed by IDBI, IFCI, ICICI, LIC, State Bank of India and commercial banks. It also received a Rs. 10 crore interest free loan from the Government of India. Functions assigned to IRCI were as follows: (i) to provide financial assistance to sick industrial units; (ii) to provide managerial and technical assistance to sick industrial units; (iii) to secure assistance of other financial institutions and the government agencies for ensuring the revival and rehabilitation of sick industrial units. (iv) to provide merchant banking services for amalgamation, merger, etc., and (v) to provide consultancy services to banks in matters relating to sick industrial units.

By a notification issued on March 20,1985, the government converted the IRCI (which was a company registered under the Companies Act) into a statutory corporation and it was given the name Industrial Reconstruction Bank of India (IRBI) with a view to overcoming the inherent difficulties which had been faced by the IRCI in its efforts to rehabilitate sick industrial units. IRBI was reconstituted into a full-fledged all purpose development financial institution with effect from March 27, 1997 and its new name is Industrial Investment Bank of India Ltd.(IIBI).

(6) **Board of industrial and financial reconstruction:** In terms of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA), the Government of India set up the board for Industrial and Financial Reconstruction (BIFR) in January 1987 (which became operational on May 15, 1987) for determining the preventive, ameliorative, remedial and other measures which are

required to be taken in respect of sick industrial companies and for expeditious enforcement of the measures determined. Industrial companies whose net-worth had been eroded completely and those which had net-worth eroded by 50 per cent or more were required to make a reference to the BIFR under Sections 15 and 23 of the Act, respectively. While references received under Section 15 were required to be enquired into, there was no such requirement in respect of references received under Section 23. Public sector enterprises were brought within the purview of BIFR through an amendment of the Sick Industrial Companies (Special Provisions) Act in December 1991.

The board could, if it deemed necessary, require by order, an operating agency to enquire into and make a report with respect to such matters as may be specified in the order. In case where sickness was confirmed, BIFR was asked to determine the course of action to be followed with regard to the company. This course of action could be: (a) allowing the company time on its own, i.e., as per the scheme already initiated by the banks/institutions to make its net worth positive within a reasonable period; (b) having a scheme prepared through the operating agency in respect of the company; or (c) deciding on the winding up of the company.

The subject matters that could be covered were wide ranging and the powers of the board extended to the framing of the scheme of amalgamation and reconstruction, financial and otherwise. Where the scheme related to preventive, remedial and other measures with respect to any Sick Industrial Company, the scheme could provide for financial assistance by way of loans, advances, guarantees, reliefs or concessions from official agencies. Where the board after making enquiry and after consideration of all the relevant facts felt that it was just and equitable for the Sick Industrial Company to wind up its operations, it could record and forward its opinion to the concerned High Court.

Since its inception in May 1987 till the end of December 2007, BIFR had received 7,158 references under SICA, 1985. These references included 297 references from Central and State Public Sector Undertakings. Out of the total references received, 5,471 were registered under Section 15 of SICA. While 1,857 references were dismissed as non-maintainable under the Act, 825 rehabilitation schemes were sanctioned: and, 1,337 companies were recommended to be wound up.

The working of BIFR has been a subject-matter of much debate and criticism. This is due to the reason that there are considerable delays in the BIFR process. In many cases the delay can extend to two years or even more. Such inordinate delays make it very difficult for a sick company (which already reports negative net worth on the current definition of SICA) to turnaround successfully and rehabilitate itself. The Committee on Industrial Sickness and Corporate Restructuring which submitted its report in July 1993 stated that the quasi-judicial nature of BIFR proceedings further compounded the problems as it depends on consensus at almost all stages. **"Consensus gives any claimant the right to veto, and implies that the BIFR process can be only as fast as the slowest party."** The Committee also noted the absence of 'credible threats' to expedite negotiations and criticized BIFR for its clear preference for rehabilitation over winding up.

QUESTION FOR SELF-ASSESSMENT

(I) Answer the following in not more than 400 words:

(1) Define industrial sickness with special reference to small scale industry. Enumerate the symptoms of industrial sickness.

(2) "Sickness in small scale sector has become all-pervasive in India". Discuss.

(3) What are the reasons for sickness of most of the small business enterprises in India? What should an entrepreneur do to prevent sickness?

(4) What remedial measures do you think necessary to arrest the growing industrial sickness in India?

(5) Discuss the various causes and consequences of industrial sickness in India.

(II) Answer the following in not more than 100 words:

(1) Concept of industrial sickness.

(2) External causes of industrial sickness

(3) Internal causes of industrial sickness

(4) Corrective measures.

Chapter 6

Social Responsibility of Entrepreneurs

INTRODUCTION

Management/entrepreneur must consider the social and ethical implications of its decisions. It must consider the impact of company's decisions and the actions on the society and the environment. The very survival and growth of any enterprise totally depends upon its acceptance by the society and the environment.

Today we also insist on the social responsiveness of management/entrepreneur which means the ability and willingness of management/entrepreneur to relate the plan and policies to the social environment in such ways that are mutually beneficial to the organization and to the society. The social responsiveness implies actions and the 'how' of the responses of the management/entrepreneur.

Any enterprise must interact with, and live in, as a responsible citizen in the society.

Social responsibility indicates personal responsibility and obligation entrepreneurs and employees, as they act in their own interests, to ensure that right and legitimate interests of others are in no way sacrificed or prejudiced by their behaviour and actions. Basically, it means that entrepreneurs should consider the effects of their business decisions upon all stakeholders interested in the enterprise directly or indirectly and who may be adversely affected by those corporate decisions.

Environment Concerns

The task of an entrepreneur is to ensure that in all of our economic and social processes, we take full account of the environmental costs. Now we are in a situation where land, air and water degradation already constitutes a serious problem in our country. Growing air and water pollution is seriously affecting the quality of most of our lives. As development proceeds, the use of energy and natural resources will also increase. The challenge ahead is to adopt a pattern and style of development that will not put unsustainable pressure on our resources, particularly, non-renewable ones. The best is the polluter pays. In case of major industry at least environmental audits must now become a normal routine. Industry must recognize that they have a clear responsibility, not only towards their shareholders, but what is increasingly recognized the world over as stakeholders, particularly towards consumers and the public. That is, in addition to shareholders industry management has accountability towards consumers, workers, citizens and, of course, to future generations. That is what sustainable development means; a system of growth that does not limit the options of future generations. It is in this context that environmental costs acquire urgency. The pricing system must send right signals, reflecting all environmental costs. Only such means will enable our society to conserve its life support systems. We have to create environment-friendly standards without recreating the old license or regulatory system. Industry through self-regulation should provide protection of the environment, energy conservation and conservation of other natural resources. May be there should be countervailing powers utilized by consumers, commuters and environmentalists. It is really a matter of raising environmental consciousness. We need pressures and mechanisms (in the form of regulations) that can goad industry and marketers to constantly use new environment-friendly techniques. We should also lay emphasis on renewable substitutes where available, on energy saving and efficiency in all our economic processes. Reckless industrialization, unlimited consumerism leading to very high consumption are responsible for the present ecological damages. The earth has enough for everyone's need but not for everyone's greed. Cooperation with nature can assure harmony and tension free prosperous global life.

Environmental Impact Assessment

India has a special legislation to provide environmental protection. Under this national environment protection Act, environment impact assessment, and environment impact statement reports must be made mandatory before launching any new project. E.I.A. must include the cost of impact on the environment produced by a manufacturing project into the sale price of the products. The EIA should be prepared by a panel of experts approved by the regulatory authority. Based upon this, an environment impact statement is prepared. A draft EIS should be circulated to citizens organizations for comments. Public participation in environmental decision-making is essential. Comments of citizen's organizations should be included in the final EIS. Each EIS must consider alternative strategies and actions including no action and their respective environmental impacts. All industries are made to undergo EIA and EIS procedure before granting the green signal for launching the new project. In short, mandatory E.I.A. must become a public conscience keeper in India as it is in USA, UK, Germany and Japan. The combination of consumer Protection Act will act as Magna Carta of Eco-consumerism and two together will ensure societal marketing concept in its wider sense. Europe and U.S. are operating in a license free-system. But they have stringent environmental regulations and laws, a strong judiciary and higher public consciousness, a populace which are unforgiving. Our judiciary has fortunately taken active interest in pollution. Government should also evince similar, even greater interest.

Indian public is not yet ready to face the burden of safeguarding their health and environment. India is the only major country which has no mandatory Environmental Impact Assessment (EIA) prior to the initiation of development project. We must remove this deficiency as early as possible.

Environmental Friendly Products

Concentrated environmental campaigning has created a strong public opinion for environmental concerns, and as consumer awareness increases, consumer preferences will be expressed through market behaviour and by stakeholders of companies, compelling corporate sector to cater to changing demands created by consumer-citizens. The marketers will realize the seriousness of environmental concerns and issues. They will learn to opt for, and market their products as, 'environmental-friendly'. Preference for green consumerism and environment-friendly goods will encourage marketers to add a green tint to their marketing strategies reflecting real environmental considerations. Marketers will have to give top priority to environmental protection in India within a few years. In fact, to promote ecofriendly products will become a social responsibility. Preference for environment-friendly goods will itself create immense marketing opportunities for manufacturers. Ecomark labels on the products can be an effective promotion/marketing tool.

The new ecofriendly process recently discovered by Indian researchers could prove to be a boon for plastic and pesticide industry where the conventional process yields hazardous by-products and effluent treatment entails heavy costs. The new process has low cost, product purity and high yield. It is also duly patented in 1998. Plastic and pesticide is a very great polluter.

Meaning of Social Responsbility of Business

Social responsibility of business means the obligation of business enterprises to make decision and follow lines of action which are desirable in terms of the objectives and values of society. Decisions may affect environment, consumers and the community.

Social responsibility is thus an obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interests.

Every decision the businessman takes have social implications. Be it, opening new branch, closure of existing branch; replacement of men by machines, laying-off employees, sub-contracting. Society is affected in one way or the other.

Social responsibility is not new to our country. In olden days, whenever famine, floods, etc., leading business of area would provide food and other assistance to needy. Examples of Tatas.

Changing Views of Management's Responsibility

There have been changes in attitudes of managements in taking social responsibility in the past century. Let us examine this:

Phase I: Profit maximizing management. This derives strength from Adam Smith's "Wealth of Nations", entrepreneurs produce what people want and they want profit. They produce more for self-interest to earn more profit and benefit all. Thus, competition will bring down prices. "What is good for business is good for country".

The classical economic doctrine of maximizing profit was against corporate social responsibility.

Phase II: Trusteeship management began with diffusion of corporate ownership as shareholders. So managers are not only to maximize profits, but also serve as trustees of employees, stockholders, suppliers, customers and public at large. They emphasized concern for the interest of others as well as one's own. The change in society's attitudes and expectations is reflected in the socio-economic model of business. This model views business as a subsystem of society.

Phase III: Quality-of-life Management (QOL) : The values of QOL management contrast with both the profit maximiser and the trustee manager. Now the essential equation becomes "what is good for society is good for our company". While accepting profit as essential, the QOL management would neither produce nor sell unsafe or shoddy goods.

It also considers government as a partner in a joint effort to solve society's problems.

Modern View

A case for social responsibility – modern view. Peter Drucker argued that management should assume social responsibility. It is thus important for management to consider the impact of every business policy and action upon society. It has to consider the actions are likely to promote the public good, to advance the basic beliefs of society, and to contribute to its stability, strength and harmony.

Drucker observed that managements to consider demands made by the society on the enterprise. It is for management to convert these demands from threats into opportunities with least damage to the enterprise. Here focus is on 'quality of product and customer service'.

'Now feeling (Sandra Holmes in her study of 540 Top Executives) is, in addition to making profit, business should help solve social problems whether or not business create these problems.

The Social Responsibility of Business Involves Ethics

The social responsibility of business involves ethics which must be reflected in the philosophy of business organization. To be effective, a sound ethics must be recognized by top management and reflected in the policies of the firm. Members should voluntarily accept it.

Right leadership, integrity, proficiency, commitment to social values of a manager can change the expected behaviour of individuals.

Top management commitment, leadership, examples are crucial to corporate ethics/culture. This commitment is communicated in many ways such as – speeches, directives, company publications, policy statements and most important, actions. Top management should establish clear policies that encourage ethical behaviour.

Management must assume responsibility for disciplining wrong doers.

Companies should provide mechanism for 'whistle-blowing' as a matter of policy. Any employee becomes aware of unethical behaviour should be encouraged to report incident to his superior.

Management should give training/orientation programmes explaining their organization's code of ethics. By offering course in business ethics in MBA programmes helps in creating conscientious managers with a morally responsible approach to business.

Arguments for Social Responsibility:

Some relations for business to discharge social responsibility are as under:

(1) Public expectations from business has changed. It is argued that business exists because it satisfies the needs of society. If business at anytime fails to live up to society's expectations, it may extinct.

(2) Society creates better environment for business. A firm which is more responsive to improvement of community quality of life will get better community in which to conduct business. Getting manpower will be easy, crime will be less.

(3) Public image is improved if firm supports social goals. It may gain more customers, better employees.

(4) Before government stretches its long arms, business should discharge its obligations to society. Otherwise society will force government to make laws/regulations.

(5) Balance of responsibility with power. Business has vast social power and it affects economy and social problems. So equal amount of social responsibility is required.

(6) Business has vast pool of resources (men, talents, money, functional and professional expertise, etc.), and is in better position to work for social goals.

(7) Other institutions have failed to handle social problems, so society is turning to business.

(8) Prevention is better than cure. If business delays dealing with social problems, it may have to deal with more serious social breakdowns, therefore, business has moral responsibility.

(9) Citizenship argument. Corporations are citizens have civic duties and responsibilities, corporations must discharge these voluntarily.

Social Responsibilities Strategies

Business responses to social responsibility tend to fall within four degrees/categories.

(1) Social opposition this view is taken by the businesses which feel they have no obligation to society in which they operate. When they are caught for any offence, they cover it up by denying it. For example: M.S. Shoes for price rigging of shares.

(2) Social obligation companies have firm belief that they have obligation to obey the laws, e.g., install safety equipment required by the law.

(3) Social response position is taken by some companies that meet their social obligation as laid by law, and they will go beyond the legal requirement, if benefits out-weigh the costs.

(4) Social contribution is the position taken by companies which believe that they have deep obligation to serve society. They are responsible citizens and are eager to contribute to the improvement of society.

Business as Responsible Person

Business plays a very significant role in economic, social, political and technological affairs. So business owes responsibilities to all segments of society.

Wealth of country is to a great extent controlled by business. This gives business and its executives "enormous power" to affect the lives of employees, consumers, shareholders, etc.

Business is a part of the total environment in which we live, being influenced by it, while being a force in influencing it. The relationship between business and its environment is one of mutual benefit. Both take from and give to various segments. Only through such a relationship can a business survive and prosper.

Modern business has acquired a sense of social responsibility to society in general and to its different segments in particular. The objective of business is to balance the conflicting claims of 'stakeholders'. Business is not to confine to productive or commercial activities as its social concern, but it has to take into account social problems which arise due to its activity. Social and ethical considerations must equally concern the business.

Why Business Should Assume Social Responsibility?

There are five broad reasons:

(1) Responding to demands of society: As business gets larger, the public takes more interest opinion in it, as it has greater impact on the community. Manager responds to public opinion so as to maintain public image of their company.

If an organization does not respond, the society will either force it to do so through laws or society may no longer permit it to survive, e.g., safety of products, etc. The original purpose of corporations was to serve the public good.

(2) Longerrun self-interest of business: For example,

(a) Concern for employees can harmonies with company's best interest.

(b) Responsibilities to shareholders for attracting investment.

(c) Avoiding environmental pollutions.

(3) Moral justification: Business now tends to participate in the development of better world.

(4) Ethical behaviour and generation of profits for shareholders is not compatible.

(5) All stakeholders have a "stake" in companies because they can be harmed, if a company behaves unethically.

Government has enacted number of laws to check these practices and to bring in an element of ethics into business. Government will continue to intervene by enacting legislation and impose penalties for unethical practices.

Whatever is Legal is Ethical?

This is to judge the business activities exclusively from the point of view of law. No, this is inadequate view. For example, through maximization of profit is one primary goal of an organization, but charging unfair prices or exploitation of workers are considered as unethical practices.

Some unethical practices in business are:

- Piracy of products and copy rights.
- Deceptive advertising.
- Bribery, payment of kickbacks, corruption, scandals.
- Employee theft.
- Sexual harassment.
- Discriminatory personal policies, favouritism in promotions, compensation, etc.
- Blackmarketing.

- Production of unsafe products.
- Exploitation of environment by manufacturers
- Giving confidential information/secrets to competitor by employees, and
- Under invoicing.

Such acts, which indirectly create moral stress and impair the ability of competent managers to act with total integrity. Improved managerial ethical decision-making and moral performance can lead to both increased profitability and desirable organizational order.

Social Resonsibilities of Business towards Different Groups

The social responsibilities of business for various interest groups can be divided under two broad categories:

(1) Internal interest groups.

(2) External interest groups.

INTERNAL INTEREST GROUPS

(1) Responsibilities towards Owners

It is to be ensured that owner, shareholders, partners get fair dividend or fair return on the capital invested. Fair return has to be more than bank rate and it should be reasonable.

Further shareholders expect security of investment and share in capital appreciation as bonus shares.

(2) Responsibilities towards Employees

The traditional concept of "master-servant relationship" has to change the concept of "partnership" between labour and management

The major areas of relationship are:

(a) Wages – These should be need-based and productivity-related.

(b) Salaries for managerial personnel are to be linked to responsibilities. Ceiling on managerial remuneration by government to be adhered to.

Besides it is to be seen there are not much disparities between wages of employees and salaries of managerial personnel.

(c) Relationship between employers and employees. There are various lapses on part of employees which include:

- Unsympathetic treatment to employees by supervisors.
- Favouritism in promotions, etc.
- Lack of communication between management and workers.
- Lack of appreciation of meritorious achievements and no condemnation of neglect and lethargy.
- Delay in settling grievances/disputes with employees.
- Lapses on part of employees, i.e., indiscipline in carrying out orders.
- Lack of desire by employees to improve efficiency.
- Role of politically inspired trade unions frequent strikes, gheraos, etc.

(d) Industrial legislation, i.e., laws relating to employees to be followed strictly.

(e) Welfare of employees, employer to provide health, safety, working condition and welfare measures for conducive work environment.

EXTERNAL INTEREST GROUPS

(1) Responsibility towards Consumers and Community

- The consumer and the community are ultimate judges of business and its products. So it has to be ensured.
- Products meet the needs of consumers.
- Prices are reasonable. There is no hoarding – concerning of products to raise prices.
- After-sales service is available.
- Quality and standards (ISI, Agmark) are adhered.
- Consumer associations are to be vigilant and to report falling of standards.

(2) Businessmen's Responsibility towards Government

- Employer has to be law abiding, follow laws relating to trade, factories and labour.
- To pay his dues and taxes fully and honestly
- Not to purchase political support by unfair means.
- Not to corrupt public servants.
- Avoid adulteration.
- To maintain fair trade practices and avoid hoarding and concerning.

INDIAN SCENE – Business as a Responsible Person

Indian socio-economic environment have lent an added significance to the concept of business as a "responsible person".

(1) Indian government has been committed to socialistic pattern of society, in which private interest is to be subordinated to national considerations.

(2) The Constitution of India provides for economic and social justices for all, welfare state, laws have been enacted for social justice.

(3) State financial institutions contribute to a great part of the financial needs of business.

(4) Emergence and development of professional management is wedded to the fulfilment of socio-economic objectives.

(5) There is growing public awareness and consciousness about the role of business in maintaining environmental protection and cleanliness.

(6) Growth of trade unions for protection of employees' interests.

(7) Emergence of consumer protection agencies/forums.

These factors contribute towards corporate social responsibility.

Many large enterprises in India have emphasized their social responsibility in their annual reports, e.g., TISCO, ITC, SAIL, BHEL, ONGC, etc., have developed neighbourhood projects. The Sachar Committee (1978) appreciated that some enlightened business houses are contributing to solve problems of rural development, environment protection, control pollution and provision of clean water. They are recognizing social responsibility as development of corporate ethics.

To conclude, by being more socially responsive, business may avoid further regulations which limit the freedom of business.

It has to be realized that the future of business depends on its ability and willingness to respond to the changing expectations of society. Corporations must present themselves as being committed to social causes. A global company has to develop.

Global Sensitivity

The corporations are now doing 'social audit', i.e., presenting additional objectives and comprehensive information about organization's social performance which reflect social responsibilities. Some areas covered in social audit are

(a) Social benefits to the staff – various facilities, etc.

(b) Social benefits to the community – local taxes paid to panchayat, municipality, environmental improvements, and generation of job potential.

(c) Social benefits to the public – taxes paid and follow the duties towards government.

Business Ethics Core Responsibilities of Entrepreneurial Performance

According to Peter Pratley (The Essence of Business Ethics), "it is important to define core moral responsibilities at a minimum level. By accepting an outspoken commitment to these responsibilities, TQM can gain a lot. The core moral responsibilities are three-fold.

First of all, the corporation is committed to its original and basic moral core responsibility: that is producing goods and services that are functional and safe for the individual consumer. On top of this perennial cornerstone of business, other core activities now have to be added.

The second moral commitment therefore concerns the larger environment: environmental core and reduction of resource depletion.

Finally, the third accepted responsibility refers to the quality of the corporation itself as a moral community. At a minimum level this implies the absence of certain abuses.

These three core moral responsibilities for business organizations aim at guaranteeing a minimum of moral excellence. They are linked with an idea of normative entrepreneurial performance and encapsulate what the public may at least expect from an entrepreneur committed to quality management.

These three entrepreneurial responsibilities also imply a redefinition of corporate objectives. It pushes the meaning of the famous separatist expression 'mind your own business' in quite opposite direction. Corporate mission statements that include these moral responsibilities enlarge the matters for which the public may hold business accountable for by insisting on safe and reliable customer relationships, environmental care and humane working conditions.

The entrepreneur should gain this broader perspective as the corporation commits itself to wider human objectives, especially in relation to our common future.

Although industry will go through even more stringent reductions of employee numbers in the future, certain minimum standards, of working conditions should be agreed upon by all those committed to quality goods. This statement is moral appeal for legal means and voluntary covenants to enforce respect for minimum labour rights.

To summarize our discussion:

(1) The corporation producing quality products and services accepts specific moral responsibilities. At a minimum level, there are three such corporate responsibilities:

  (a) Consumer care, expressed by satisfying demands for ease of use and product safety;

  (b) Environmental care; and

  (c) Care for minimum working conditions.

(2) Corporations should not remain mute about their moral performances and commitments. A balanced presentation of one's corporate response in face of specific moral concerns can create a basis of understanding with one's own employees as well as with the concerned public. Communicate the priorities you have in your commitment to quality management by sophisticated use of moral talk.

Question for Self-assessment

(I) Answer the following in not more than 400 words:

(1) What do you mean by social responsibilities of entrepreneurs?

(2) Discuss in brief the changing views of management's responsibility.

(3) Explain the arguments for and against social responsibilities.

(4) Explain why business must fulfil certain social responsibilities.

(5) "Profit making and discharging social responsibilities are interdependent activities". Explain.

(6) Whatever is legal is ethical? Discuss.

(7) What are the social responsibilities of management towards the following:

(i) Internal interest groups

(ii) External interest groups

(II) Answer the following in not more than 100 words:

(1) Social responsibility of management.

(2) Environmental concern.

(3) Argument against social responsibilities.

(4) Social responsibilities towards owners and employees.

(5) Social responsibilities towards consumers and community.

(6) Social responsibilities towards government.

(7) Business ethics.