

## UNIT IV

# MICRO SMALL AND MEDIUM ENTERPRISES

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### **MAIN OBJECTIVES**

To help students in understanding an overview of MSMES in the Country.

### **LEARNING OUTCOME**

- To understand difference between Micro, Small and Medium Enterprises
- To understand the main objective behind developing Micro and small enterprises.
- To understand the role played by Micro and Small enterprises in economic development of the country.
- To understand difference between manufacturing enterprises and servicing enterprises.

### **CONTENTS**

1. Classification of Micro, Small and Medium Enterprises
2. Features and characteristics of Micro and Small Enterprises
3. Objectives of Micro and Small Enterprises
4. Problem of Micro and Small Enterprises

## **SMALL BUSINESS AS A SEEDBED OF ENTREPRENEURSHIP**

Seedbed refers to preparation of soil for the sowing of seeds for a good crop. As small-scale industries provide conducive and favourable conditions for the emergence and growth of entrepreneurship hence it is treated as a Seedbed for entrepreneurship. Small scale industries play an important role in industrial development of a country like India. The socio-economic transformation of India cannot be achieved without the development of Small-scale industries. It has been estimated that the small-scale industries contributes about 47 percent of gross value of output manufactured in the country. Their importance can be further highlighted by nothing that this sector provided nearly five times the employment as compared to the large scale sector.

The Government of India has also given an important place to small business in the framework of Indian Economic of Indian Economic Planning for ideologically and economic reasons since after independence. As a result, small scale industries have achieved an impressive growth in the number of units over the period time . increasing number of small industrial units means that increasing number of small industrial units means that increasing number of persons are adopting entrepreneurial career preferably. Small industrial units need low capital investment and are labour-intensive. These units utilize two local resources to meet the local needs of public. Therefore, the emergence and growth of entrepreneurship in India. Directly or indirectly, depends upon the growth and survival of small business unit.

## **SMALL SCALE INDUSTRIES**

Small scale industries include village and cottage industries and small scale industries in India.

Cottage and village industries and small scale industries have assumed great importance in India from the point of view of employment and contribution to the national wealth. Cottage industries are run by craftsmen at their residence with the help of their family members. They do not use power. Their tools and implements are simple. They make traditional products. They get the required raw-material from the local markets and sell their products in the local markets. They are generally located in rural areas. They are rural, household, localized and technically backward. Toy are rural, household, localized and technically backward. Toy-making, hand-loom weaving, hand spinning, rope making, woodwork, pottery etc. are a few examples of cottage industries.

Small Scale Industries, on the hand, are small modern enterprises which employ modern technique and produce modern products. They mostly use power and small machines. They are located in small and big towns and cities. They employ hired labourers, get raw materials from distant markets and sell their products even in distant markets. They have become very popular in engineering and chemical industries. They produce goods like bicycle and their spare parts, sewing machines, tools, blades, electric goods, spectacle frames and a wide variety of modern products. On the basis of the capital investment and employment criteria, small scale enterprises are defined differently.

**MICRO, SMALL AND MEDIUM ENTERPRISES CLASSIFICATION**

In accordance with the provision of Micro small & Medium Enterprises Development (MSMED Act, 2006 the Micro, Small & Medium Enterprises (MSME) are classified into manufacturing enterprises and service enterprises.

Manufacturing Enterprises: the enterprises engaged in the manufacture or production of goods. The manufacturing Enterprises are defined in terms of investment in plant & machinery.

Service Enterprises: The enterprises engaged in providing or rendering of services are defined in term of investment in equipment.

(A) MANUFACTURING ENTERPRISES (Celling LIMITS on investment in Plant & Machinery)	
i)Micro Manufacturing Enterprises:	The invest ment in plant and machin ery does not exceed Rs.25 lakhs.
ii)Small Manufacturing Enterprises:	The invest ment in plant

	and machinery is more than Rs.25 lakhs but does not exceed Rs.5 Crores.
iii)Medium Manufacturing Enterprises:	The investment in plant and machinery is more than Rs.5 Crores but does not exceed Rs.10 Crores.

**( B ) SERVICE ENTERPRISES**  
(Ceiling LIMITS on investment in Plant & Machinery)

i)Micro Service Enterprises:	The investment in equipment does
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	not exceed Rs.10 lakhs.
ii)Small Service Enterprises:	The investment in equipment is more than Rs.10 lakhs but does not exceed Rs.2 Crores
iii)Medium Service Enterprises:	The investment in equipment is more than Rs.2 Crores but does not exceed Rs.5Crores.

Note: This ceiling limit will vary from time to time, may be verified of from [WWW.MSMED ACT 2006](http://WWW.MSMEDACT2006).

The opportunities in the small-scale sector are enormous due to the following factors:

- Less Capital Intensive

- Extensive Promotion & Support by Government
- Reservation for Exclusive Manufacture by small scale sector
- Funding-Finance & Subsidies
- Machinery Procurement
- Raw Material Procurement
- Manpower Training
- Technical & Managerial Skills
- Tooling & Testing support
- Reservation for Exclusive Purchase by Government
- Export Promotion
- Growth in demand in the domestic market size due to overall economic growth
- Increasing Export Potential for Indian products
- Growth in Requirements for ancillary units due to the increase in number of Greenfield units coming up in the large scale sector. Small industry sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification.

### **FEATURES & CHARACTERISTICS OF SMALL SCALE INDUSTRIES**

Small scale industries possess certain special characteristics that distinguish them from large scale industries. “ **Small is beautiful**” or “ **Small scale industry is beautiful**” because of its important characteristics:

- 1) **Ownership** : A small scale enterprise is generally a one man show. It is owned by a single person in which case he becomes a single or sole proprietor of its business. In case it is owned by two or more than two persons. It is called a partnership in which all or most of the partners can take active part in the business since all are the owners of the business firm. Thus proprietorship and partnership are the dominant forms of ownership in the small scale sector.

2) **Management and Control:** In a small enterprise, the owner himself is generally its manager. It is managed in a personalized fashion and he actively takes keen interest in all controller of his business. He is the sole decision-maker and controller of his business. He possesses the first hand knowledge of the working of his business firm. Even in the partners or some of them if authorized by others who may act as sleeping partners.

3) **Gestation Period :** The gestation period of a small business enterprise is relatively less when compared with that of a big industrial enterprise. The gestation period is the period between the setting up of a business unit and commencement of production and sales of its products, which yield returns on investment. Thus, unlike large industrial units, small enterprises are of the nature of quick investment and quick yield.

4) **Labour Intensive:** Small scale enterprises are generally labour-intensive. This means they employ more labour and less capital as they use simple technology i.e. simple tools and machines and hence they require less capital and more man-power.

5) **Local Area Operations:** The operations of small business enterprises are generally confined to local areas as they cater to the local needs and regional demands because of the limited resources available to them.

6) **Indigenous Resources:** Small Business enterprises mostly use local or indigenous resources which would have, otherwise, remained unutilized and wasted. By exploiting the local or indigenous resources, the small enterprises are decentralized and dispersed to local rural areas. The development of small scale industries in the rural and backward areas promotes more balance regional industrial development on the one hand and prevents the influx of job seekers from the rural areas to cities and urban centers on the other.

7) **Flexibility:** Small scale enterprises are more flexible in their business since they can change their business easily and quickly according to changing socio-economic conditions in the market. They are thus more flexible and quick responsive to adopt

changes such as new products, new method of production etc. But this is not at all possible for large business enterprises.

8) **Dispersal of Units:** Small scale enterprises use local and indigenous resources and therefore, they can be located over a wide territory. The development of small business units in rural and backward areas promotes more balanced regional industrial development in the country.

9) **Fair Distribution of Wealth :** The development of small scale enterprises in different parts of the country will secure a fair distribution of income and wealth in the country as against the concentration of income and wealth caused by the large scale industries. Further, there will be no exploitation of labour and mal-distribution of wealth by the development of small scale industries.

### **OBJECTIVES OF MICRO ENTERPRISES**

The major objectives of developing micro enterprises are as follows:

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

8. To improve the level of living of people in the country.

### **ADVANTAGES OF SMALL-SCALE INDUSTRIES**

Small scale industries have distinct advantages. Some of these are :

- (1) SSI units do not require a high level of technology.
- (2) SSI units are generally labour-intensive and do not require a large amount of capital. The energy of unemployed and under employed people may be used for productive purposes in an economy like India in which capital is scarce.
- (3) Small scale industries projects can be undertaken in a short period and hence can increase production both in the short and the long run.
- (4) Small scale enterprises can be based on the processing of locally produced raw materials.
- (5) It is possible both to save and to earn foreign exchange by producing and exporting goods process from local resources.
- (6) Small-scale industrial enterprises are the training ground for local entrepreneurs on decision making.
- (7) Small industrial units can bring about a more equitable distribution of income which is socially necessary and desirable.
- (8) Small scale enterprises help to create economics stability in society by diffusing prosperity and by checking the expansion of monopolies.

(9) The development of small scale enterprises will create jobs in rural areas where unemployment and under –employment are high.

(10) SSI units have a short gestation period.

## **IMPORTANCE OF SMALL-SCALE INDUSTRIES**

Small –scale industries play an important role in industrial development of a country. It has been estimated that the small-scale industries contribute sizable gross value of output manufactured in the country.

Their importance can be further highlighted by noting that this small-scale sector provided nearly five times the employment as compared to the large scale sector.

- a.i.1.       **Generation of Employment-** The small-scale industries are labour-intensive industries. A low amount of capital invested in a small –scale industry provided more employment than the same amount of capital invested in a large-scale industry. Moreover, these industries can be set up anywhere near to SSI,s workers and thereby, provide work for the unemployed, more work for the underemployed and supplementary work for the seasonally unemployed workers.
- a.i.2.       **Self-employment-** The small-scale industries limitless opportunities for self- employment suited country like India where unemployment and underemployment is the bug problem.
- a.i.3.       **Lesser capital requirement-**Another advantage of small-scale industries is that they need relatively lesser amount of capital. As capital is very limited in an underdeveloped country like Indian. It may be used to greater advantage in small-scale sector.
- a.i.4.       **Mobilisation of capital-** Small-scale industries mobilize the savings from rural areas.

- a.i.5. **Mobilisation of entrepreneurial Skill.** Another advantage of small-scale industries is the lesser requirement of skill and expertise which is also scarce in a developing country like India. Further, small-scale industries can effectively mobilize entrepreneurial skills spread over small towns and villages.
- a.i.6. **Equitable distribution of income** - Small-scale industries secure a more equitable distribution of income and wealth. They are particularly suitable for the fulfillment of the objective of Social Justice. Small-scale industries is more widespread and they offer a much longer employment potential as compared to the large-scale industries. The development of large-scale tends to concentrate large wealth in a few hands.
- a.i.7. **Balanced regional development-** Small-scale industries use local resources. Bring about dispersion of industries and promote balanced regional development. The growth of large-scale industries, on the other hand, have a tendency towards concentration of industries at few places creating many problems like over crowding, pollution, creation of slums, etc.
- a.i.8. **Savings in foreign exchange-** Another advantage of the small-scale industries is the savings of scarce foreign exchange resources of the country. Small-scale industries can contribute to the foreign exchange resources of the country through adding to exports.
- a.i.9. **Quick investment-** The quick return is there as the time lag between the execution of investment/ project and the start of production of goods is relatively short in case of small-scale industries.
- a.i.10. **Beneficial to large-scale industries-** Large-scale industries also depend upon small-scale industries as SSIs supply their small parts and semifinished goods to large scale industries as raw materials etc.
- a.i.11. **Other benefits-** These industries also confer certain other social and political benefits such as overcoming

territorial immobility, reduction of pressure on land. Relieving congestion in urban areas etc.

## **PROBLEMS OF MICRO AND SMALL ENTERPRISES**

### (I) MARKETING PROBLEMS OF SMALL BUSINESS

#### 1. **Poor product quality:** There is generally low demand for the product

Produced by the SSIs due to its poor quality. Most of the entrepreneurs do not pay much attention towards quality control.

Due to lack of standardisation and poor quality control, they do not get any brand name in the market. They have to sell their products on consignment basis and wait for months for payment.

#### **There are various reasons for low quality of goods**

- i ) Lack of quality consciousness,
- ii) Dependence on manually operated machines,
- iii) Lack of skilled workers,
- iv) Insistence of buyers for low price,
- v) Lack of technical education

**2. Poor sales promotion.** Many small entrepreneurs do not want to spend any amount on sales promotion activities such as advertisement in newspapers, trade magazines, cash discount, calendars or gift articles on various festivals and after sales service. The problem arises because the small entrepreneurs lack resources and awareness about the importance of such methods. Sometimes, the entrepreneurs have neither the proper staff either the relevant marketing skills nor adequate finance to undertake the vital task of sales promotion.

**3. Scale of production.** Scale of production of small scale entrepreneurs is low. They do not make full use of their plant and machinery. Under-utilisation increases the cost of production the price of the product. It is seen that during the initial years of the business, plant is utilised at 40 to 50 percent of its capacity thus increasing his cost of operations. As a result, gradually the entrepreneurs weakens his competitive strength to withstand

competition from large units. Although the entrepreneurs have been granted reservation for various products, yet reservation has his own limitations.

**4. Lack of knowledge of marketing.** The small units do not adopt modern marketing techniques and are unable to employ the personnel having adequate experience and knowledge in the marketing due to limited financial. They also do not possess adequate and up-to-date market information. They are ignorant of competitive position, consumer choices and proper markets for their products. They start depending on the middlemen who exploit them and grab a major chunk of profits.

**5. Lack of marketing opportunities.** Small scale units set up in rural and backward areas face the problem of finding marketing opportunities within the local areas and have to search for outlets elsewhere for which they do not have adequate resources. The low quality of the products also restricts the marketing opportunities.

6. Absence of suitable marketing channel. Marketing problems of SSIs vary not only by the size of these units but also by the pattern of distribution channels necessary to reach the consumers. A channel of distribution for the Product is the route along which it moves from the producer to the ultimate consumer.

**There are a number of channels of distribution of a product, i.e.**

- i) Wholesalers
- ii) Retailers
- iii) Direct sellers
- iv) Selling agents

## **II) Production problems of Small Scale Industries**

1. **Maintenance of delivery schedules.** Many small business units do not care to maintain delivery schedules with the result that they lose their customers after the non-fulfilment of the first order within time. This is a great stigma on the growth of small- scale industries and deteriorates their goodwill and reputation in the market.
2. **Shortage of raw materials.** The shortage of raw materials is another problem faced by the small business entrepreneurs. Some of the raw materials are chronically in short supply, some are scarce at times and abundant at others and there are great price fluctuations. Manufacturers and suppliers of raw material create artificial scarcities frequently. The poor quality of raw materials ultimately affects the quality of final product. Sub-standard quality raw materials are supplied to them.

3. **Ignorance of scientific methods of production.** A common complaint against small entrepreneurs is their ignorance about the scientific methods of production management which causes high cost and comparatively cheap quality of their products. A planned production system inevitably controls the cost, improves the quality of products and eliminates the undue delay in delivery.

4. **Under-utilisation of production capacity.** Many entrepreneurs face the problem of under-utilisation of their installed capacity. Normally, the capacity utilised varies from 50 to 80 percent. One of the main constraints in fully utilising the installed capacity is inadequate and irregular supply of power and non-availability of raw materials.

The capacity is under-utilised because the entrepreneurs face the following problems also.

- i) Entrepreneurs are unable to market their products because they cannot withstand the competition from the products manufactured in well established large industries.
- ii) The demand of their products is inadequate.
- iii) Inefficient working because of undue demands and strikes pose as labour problems encountered by the entrepreneurs.
- iv) Due to shortage of area, entrepreneurs cannot utilise full production capacity of their units.

5. **Import restrictions.** The government at times puts import restrictions on certain inputs for which a unit might not be prepared. Then it may not be possible to arrange substitutes due to constraints of time. Expertise and financial resources.

6. **Gestation period.** The Gestation period means the time gap between establishment and operation (production) of a unit. Many small units have long gestation period because there is procedural delay in sanctioning the loan, power connection and quota of raw- materials. The loan is generally sanctioned after the unit is established and registration is effected. But the entrepreneurs have to face much harassment and non-cooperation from the government officials when they actually face the practical part of setting up and running a unit. As a result, they lose enthusiasm during the promotion period. In many cases, the gestation period prolongs as much as 7 to 12 months.

7. **Diversification of the products.** Diversification means adding or modifying or abandoning the product either partially or completely. Unless the entrepreneur keeps his technological know- how up-to-date or adapts to the new institutions by diversifying his production, he cannot grow. It is seen that many entrepreneurs do not

reveal an element of continuity or adaptability in their entrepreneurial pursuits. They are resistant to change or adapt to diversification which is an important as carrying on the business.

8. **Quality control.** Quality control is an important function of production management. It is an important aspect of production which has a significant bearing upon the marketing success of a product. In an age in which the consumers are both quality and fashion conscious, any disregard to this vital aspect by the producer would cause heavy marketing hardships to the seller of the products.
9. **Product cost.** Two main inputs of the cost of product are raw-materials and labour.

**As explained in the problems, the SSIs face various problems for raw-material which are summed up as follows :**

- a) Poor quality
- b) Insufficient supply
- c) Inflated price of raw-materials
- d) High transport cost
- e) Non-availability of quotas of raw materials.

Depending on the nature of the industry, labour cost varies from 18 percent to 65 percent of total cost of the product. But the SSIs face many labour problems. Frequent strikes, unionisation and bad industrial relations result in low productivity. Deterioration in quality, increase of waste, rise in overhead costs ultimately increase the product cost and hence reduce the profitability.

10. **Electricity.** Electricity is required for running machines, furnaces and lighting. Shortage of power can altogether force the entrepreneurs to stop producing which affects production, behaviour of workers and profitability. Power is a major input to many industries and its shortage can cause success in the industries. Power generation is continuously augmented but in spite of this increase in power production, the supply is always falling short of demand in the country.

Small industries are affected due to shortage of electricity as they generate very limited surplus. Number of industries have become sick and have closed down due to this reason.

**The problems of electricity primarily relate to :**

- a) Getting new connections
- b) Inadequate supply
- c) Frequent power cuts,
- d) High costs.

Regarding getting new connections, the entrepreneurs have to undergo the hazards of procedures and formalities and sometimes they have to wait for as many as two years for getting new connections. It simply discourages the entrepreneurs to set up a new unit.

**III) PROBLEMS RELATED TO FINANCE**

Finance holds the key to all business activities. It is the life- blood of business in any productive sphere and works as the guide for regulating investment decisions and expenditures.

1. Requirements of capital and credit. Small entrepreneurs lack their own institutional finance for their capital requirements. Many SSIs have high debt equity ratio which confirms that these units are under-capitalized. They start with an initial capital which as business to raise equity capital from the market or from other sources.
2. Problems of procuring working capital. Institutional long-term finance is given by SFC, SIDO etc. Mainly for the purpose of acquiring fixed assets like plant and machinery, construction of industrial sheds and for buying other fixed assets. Short-term finance required for the working capital requirements. Many entrepreneurs lack knowledge about this fact. Secondly, entrepreneurs claim that their short-term finance requirements are fulfilled by the financial institutions neither in time nor in quantum. There remains a wide gap between the amount applied and finally sanctioned, not to speak of funds finally released to the entrepreneurs
3. Inappropriate financial structure. Every mode of raising finance has a different cost and an optimum finance mix which results in minimum cost is desirable. In small units, the usual course of sickness is due to under-capitalisation, inappropriate finance mix and high cost of capital. Many first- generation small scale entrepreneurs lack knowledge of these facts. They need to be guided, trained and educated.
4. **Hurdles in getting loans sanctioned.** Financial institutions generally demand a lot of information and data for sanctioning loans to small units.
  - a) Personal qualification of the entrepreneur.
  - b) His experience as manager.
  - c) His personal finances.
  - d) Several types of projected ratios , e.g., capital structure ratios (leverage ratios),

working capital ratios, current ratio and comparing these all with the accepted norm of the industry,

- e) The firm's accounting policies,
- f) Size of the enterprise and ownership form,
- g) Nature of the product and market prospects,
- h) Credit – worthiness.

Entrepreneurs complain that the financial institutions are hardly satisfied with the information supplied by the borrower and go on raising queries, often not at one time, but in instalments with wide gaps.

Another problem arises due to lack of security to raise term loans. A rural entrepreneur is unable to inculcate confidence in the mind of his banker and the urbanised banker is not likely to cultivate a rapport with his rural client which is essential between a banker and a client. If a technical project report is submitted to the banker, the banker is, sometimes, not able to understand various aspects of it and sanctions the loan as he is too ashamed to admit his weakness to understand the scheme of the prospective entrepreneur.

**The financial institutions or banks are prejudiced against small scale industries due to following reasons:**

- (a) The security offered is inadequate.
- (b) Many entrepreneurs do not qualify for loans.
- (c) Instability during depression and recession period in the market.
- (d) Faulty maintenance of accounts.
- (e) Lack of audit.
- (f) Meaning of limited liability and unlimited liability is not regarded in case of sole trader and partnerships, meaning thereby that personal and business sector and liabilities are not distinguished, making the accounts untrue.
- (g) No provision of depreciation fund to provide against depreciation of fixed assets.
- (h) Lack of management ability and technical skill.
- (i) Improper scheme of working.

Banks claim that money lent does not belong to the banks but it is a liability of the bank. The bank is answerable to the depositors, the real owners a liability of the bank. The bank is answerable to the depositors, the real owners of the money. Hence, no responsible institution can lend money haphazardly or recklessly just to please or oblige the entrepreneur. If the bank does not oblige the entrepreneur, it is obvious that the intending borrower lacks something.

**5. Pattern of repayment of loan.** The amount of instalment is also fixed up at the time of sanctioning the loan. Instalment amount is fixed on the basis of loan amount, period of loan and grace period. Size of instalment amount

Is uniform throughout the period of loan . But the industrial units find it difficult to pay the initial instalments as the income generating capacity is low in the initial period and tends to increase in every successive year,

Precisely , it can be suggested that the repayment schedule should be fixed by an institution after taking into consideration various factors such as nature of industry, probable period of gestation , financial background of the entrepreneur and income – generating capacity . If a unit genuinely fails to repay the instalment then the institution should conduct in depth study and confirm the reasons without proper study , the institution should not penalise the entrepreneurs either by levying high interest or auctioning the assets of the unit. Such positive attitude would increase the confidence of the borrower unit.

**6. Structure of interest rates.** Investment behaviour of an individual depends upon two variables – the supply of finance and the price of finance. The later can be understood as the rate of interest . There is a relationship between the supply of finance and the rate of interest. The entrepreneur shall invest the borrowed amount and earn a rate of return. It is the expected rate of return or the marginal rate of profit which will determine whether he should invest his own or other people’s funds in an industrial undertaking .Entrepreneurial aptitude kept aside , a relatively high rate of return in non – industrial investment has acted as a deterrent to worthiness and status of the borrowers , lower the strcture of rates of interest. Character of the security offered has its own role .least risky and most liquid securities offered are government securities , gold and silver bullion.

**7. Wrong financial planning** .It is essential for an entrepreneur to have knowledge about the capital structure which explains the appropriate mix of various sources of finance . It the finance mix is inappropriate , it may disturb the economic viability . In such cases , the entrepreneurs fail to make proper assessments of financial needs and the appropriate source of finance is not resorted to Thus , inappropriate finance mix can drag the unit towards sickness . Many first generation small scale entrepreneur lack this knowledge. Proper education , guidance and training should be imparted to make their units viable.

**8. Improper utilisation of funds.** A financially disciplined company uses the long term funds for long term needs and short term funds for short term needs . Long term finances are utilised for acquiring fixed assets like plant and machinery , construction of sheds and for creating other fixed assets. As per accounting conventions , such assistance cannot be diverted towards working capital resources or working capital needs. Accounting and finance literate entrepreneurs understand the benefit of ploughing back the profits earned into the business. But if a unit is not able to manage its working capital effectively or utilise its fixed assets optimally , it may get sick.

## **(IV) PROBLEMS OF HUMAN RESOURCES**

(j) **Non – availability of skilled manpower.** An industry located in a backward area may get abundant supply of unskilled labour, but it is difficult to get skilled manpower. Skilled workers include professional managers, consultants, qualified technologists, and engineers. Skilled manpower is not willing to work in a remote and backward place. If they do take up the job, then the turnover among them is very high. Secondly, the enterprise has to pay more to retain the skilled work force. Sometimes, the entrepreneurs are unable to attract professional managers even with high pay and perks as the latter are more concerned about their career prospects.

**(ii) Labour problems.** Labour related problems are absenteeism, turnover, high wage rate, indiscipline, work stoppages, training cost and unionisation. In various SSIs, Labour problems have led to low productivity, deterioration of quality, increase of wastes, rise in overhead costs resulting in decline in profitability of the industrial unit. Workers have low standard of living and they also have a tendency to spend a part of their income on vices like drinking, gambling which leads to absenteeism and high turnover.

## **V. OTHER PROBLEMS**

**1. Technological changes.** There is a change in consumer habits, tastes and product decisions. Things which are in fashion and great demand today may get product decisions. Things which are in fashion and great demand today may get obsolete tomorrow. A good entrepreneur will not ignore such changes and will incorporate latest technological changes leading to change in customers' tastes and demands. An entrepreneur has to cope with all these changes. A management with weak response to change or with resistance to change may lead the unit to sickness. Not only this, the staff must also be trained and retained as the technology advances. Those who are resistant to change are likely to stop growing further.

**Various problems related to labour and technology can be summed up as follows :**

- (a) Non availability of skilled workmen.
- (b) Ineffective consultancy service provided.
- (c) Access to new technology.
- (d) Problems of skilled manpower.
- (e) Lack of human resource development programmes.
- (f) Absenteeism.

- (g) Unionisation.
- (h) Turnover.
- (i) High age rates.
- (j)

**2. Land and building.** Another problem faced by small entrepreneurs relates to land and building .entrepreneurs are forced , many a times , to take up rented land/building either because of lack of capital to purchase and own premises or because of non – availability of appropriate land and building . These rented buildings are either in highly unsatisfactory conditions or are congested thus making the environment uncongenial for work. Some entrepreneurs occupy land/ building on temporary basis and a few others on lease . They have to face problems when the lease expires. There would be stoppage of work till they find a alternate place of work. Though the entrepreneurs are eager to move into the industrial estates, the cost of land acts as a deterrent.

**3. Infrastructural facilities.**Infrastructural facilities consist of energy e.g., railways, road, shipping and civil aviation ; communication i.e., post and Telegraph , telephones and telecommunications; banking , finance and insurance science and technology and social overheads i.e., health , hygiene and education

Infrastructure provides the industry with basic services necessary to the production process . Non – availability of infrastructural facilities result in concentration of industries because every new unit comes up where infrastructural facilities are available.

Industrial sheds can resolve the problem of infrastructure and encourage new entrepreneurs to set up new units. The government can also encourage such entrepreneurs by deferring the cost of sheds over a number of years.

**4. Faulty planning.** Another important problem faced by entrepreneur is faulty project planning and inadequate appraisal of projects . No proper viability studies, technical or economic , are carried out before the unit is started. They do not survey the demand aspect , marketing problems , sources of raw materials and various other factors which need to be evaluated before jumping into this exercise . If all these aspects are not fully taken care of then the project planning will be deficient in many respects .New entrepreneurs often submit unrealistic feasibility reports and incomplete documents which invariably results in delay in completing promotional formalities.

Small entrepreneurs cannot afford consultants to prepare their project report due to the limitation of resources . They are also not in a position to collect this information on their own. All this results into faulty planning exercise.

**5. Licence system.** Another problem is to obtain licence from the concerned authority . Alot of time and energy is wasted in persuading these officials to perform their duties.

Even the entrepreneurs are ignorant of various procedures to be followed to obtain the licence from government . This is a major handicap which hinders the growth of SSIs in the country.

6. **Managerial inadequacies.**It hardly needs to be emphasised that managerial inadequacies in SSIs tend to create obstacles in their smooth functioning . Due to shortage of finance , the entrepreneur is burdened with responsibilities which he cannot cope with legal and statutory requirements of factory administration also create problems.
7. **Analysis of business environment.** Sickness of SSIs can to some extent be attributed to mismatch between the entrepreneur and the product . entrepreneurs are ignorant about the product they chose and also misread the business environment . Many perceive threat in the environment but develop sentimental attachment with a particular product and continue to incur losses.They are unwilling to change their product mix and go in for diversification in case of need.
8. **Machinery and other equipment.** Machinery and other equipment in many small industries grow obsolete over period of time . The result is high cost of production , cheap quality , high labour turnover and low productivity.

Modernisation of production facilities is urgently needed for SSIs to survive and grow . It is only improved technology which can enhance the productive capacity of SSIs and make them competitive enough to withstand the pressures of the market.

9. **Lack of technological upgradation.** The technology used by SSIs is generally not globally competitive . Without technological upgradation these units may not survive in a globally integrated economy.