

UNIT: 1 MSMEs IN INDIA 25%

Concept of Entrepreneur & Entrepreneurship, Quality & Characteristics of Entrepreneurs

MSMEs: Definition, Performance, Key Challenges & Steps involved in setting up MSMEs

ENTREPRENEUR

- Entrepreneur is a person having specific traits, who to get economic profit initiates non-repetitive activities. Thus in this type of venture(s) there is inherent risk & that is the reason it is known as an industrial venture / enterprise.
- The word ‘entrepreneur’ first appeared in the French language & was applied to leaders of military expeditions in the beginning of the 16th century.
- It was extended to cover construction and other civil engineering activities in the 17th century. It was only in the 18th century the word was used to refer to economic activities. **RICHARD CANTILLON**, a French banker applied the word to mean a person who bears uncertainty and risk.
- **RICHARD CANTILLON**, was the first person to use the term ‘entrepreneur’ to refer to economic activities. He defined an entrepreneur as a person who buys factor services at certain prices with a view to sell its products at uncertain prices in future.
- According to **PETER DRUCKER**, entrepreneur is a person who always search for a change, react to it, & takes it as an opportunity. Entrepreneurs are not risk focused, they are ‘opportunity focused’.
- In the words of **JB SAY**, a French economist, “the entrepreneur is an economic agent who unites all means of production.”
- The entrepreneur in an advanced economy is an individual who introduces something new in the economy – a method of production not yet tested by experience in the branch of manufacture concerned, a product with which consumers are not yet familiar, a new source of raw material, or of new markets & the like.
- Entrepreneur’s function is to – “reform or revolutionize the pattern of production by exploiting an invention or more generally, an untried technological possibility for producing a new commodity.”
- Briefly, an entrepreneur is one who innovates, raises money, assembles inputs, chooses managers & sets the organization going with his ability to identify them.

Innovation occurs through –

- the introduction of a new quality in a product.
 - a new product.
 - A discovery of a fresh demand & a fresh source of supply, &
 - by changes in the organization & management.
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- **ENTREPRENEURSHIP**
 - Defining entrepreneurship might seem simple, but it isn't! There are about as many definitions of entrepreneurship. Everyone seems to have his or her own views about what it is and in the same way they have defined it.
 - Entrepreneurship, like many other economic concepts, has long been debated. It has been used in various ways and in various senses. It is elusive concept that cannot be defined precisely. The word 'entrepreneurship' has been derived from a French root which means 'to undertake'. Today, people call it by various names, e.g. 'adventure', 'risk-taking', 'thrill seeking', 'innovating', etc.

Let's look at some of the various ways in which entrepreneurship has been defined.

- "Entrepreneurship is the propensity of mind to take calculated risks with confidence to achieve a predetermined business or industrial objective. In substance, it is the risk-taking ability of the individual, broadly coupled with correct decision-making."
- In another view "Entrepreneurship refers to an action process of entrepreneur towards establishing an enterprise. It is a creative and innovative process and adapting response to environment.
- Entrepreneurship has long been described by researchers and writers with terms such as new, innovative, flexible, dynamic, creative, and risk-taking. Many authors have said that identifying and pursuing opportunities are an important part of entrepreneurship.
- **According to Frank Knight**, "It involves a specialized group or persons who bear 'risks' and meet the uncertainty".
- **According to Musselman and Jackson**, "Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful."
- **According to Franklin Lindsay**, "Entrepreneurship is defined as anticipating the future requirements of society and successfully meeting these needs with new, creative and imaginative combinations of resources".
- According to **A. H. COLE**, " Entrepreneurship is a purposeful activity of an individual or a group of associated individuals, undertaken to initiate, maintain, or aggrandize profit by production or distribution of economic goods & services,"
- According to **B. HIGGINS** "Entrepreneurship is meant the function of seeking investment and production opportunity, organizing an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw material, finding site, introducing a new

technique and commodities, discovering new sources of raw materials and selecting top managers of day-to-day operations of the enterprise.

- **WILLIAM DIAMOND** - Entrepreneurship is equivalent to 'enterprise' which " involves the willingness to assume risks in undertaking an economic activity particularly a new one. It may involve an innovation but not necessarily so. It always risk-taking and decision-making, although neither risk nor decision making may be of great significance."
- **According to V.R. Gaikaward**, "It connotes innovativeness, an urge to take risk in face of uncertainties, and an intuition i.e., a capacity of seeing things in a way which afterwards prove to be true".
- In a another view "Entrepreneurship is the process of bringing together creative and innovative ideas and actions with the management and organizational skills necessary to mobilize the appropriate people, money, and operating resources to meet an identifiable need and create wealth in the process."
- **According to Richma and Copen**, "Entrepreneurship implies more creative, external or open systems orientation. It involves risk-bearing and relatively dynamic leadership."
- **According to Rao and Mehta**, "Entrepreneurship can be described as creative and innovative response to the environment".
- **According to John Kao**, "Entrepreneurship is the attempts to create values recognition of business opportunity, the management of risk-taking appropriate to the opportunity and through the communicative and management skills to mobilize human financial and material resources necessarily to bring a project to fruition." This definition recognizes that entrepreneurship involves the fusion of capital technology and human talent to complete a project successfully and with reasonable degree of risk.
- **According to Howard W. Johnson**, "Entrepreneurship is a composite of three basic elements-invention, innovation and adaptation".
- **In the words of W.N. Loucks**, "Entrepreneurship is a mixture of willingness to take risks, a desire for income and prestige, the urge for self-expression, creativeness, and independence with a dash of the gambling spirit and possibly additional subtle psychic components".
- According to Kao, the most successful entrepreneur is one who adapts himself to the changing needs of the environment and makes it hospitable for the growth of his business enterprise. This ECO (Entrepreneurship, creativity ad organization) analysis frame work developed and conceptualized by John J. Kao contributes a great deal to the emergence as well as sustenance of entrepreneurship and entrepreneurial talent in the prevailing business environment.
- **According Peter Drucker**, "Entrepreneurship is neither a science nor an art. It is a practice. It has a knowledge base. Knowledge in entrepreneurship is a means to an end. Indeed what constitutes knowledge in practice is largely defined by the ends; that is, by the practice."

- Entrepreneurship is used to refer to the qualities required to innovate, start a new enterprise, accept the challenge and bear the risk. Few individuals have these qualities and, therefore, entrepreneurs are found in limited numbers in any society.
- Entrepreneurship is described as a function of handling economic activity, undertaking risk, creating something new and organizing and co-ordinating resources.
- Entrepreneurship is the attempt to create value through recognition of business opportunity, the management of risk-taking appropriate to the opportunity & through the communicative & management skills to mobilize human, financial & material resources necessary to bring a project to fruition.
- Entrepreneurship can be viewed as a creative & innovative response to the environment & an ability to recognize, initiate & exploit an economic opportunity.
- Thus entrepreneurship is a complex phenomenon. “Some think of entrepreneurs primarily as innovators, some chiefly as managers of enterprise, some as bearers of risks and others place major emphasis on their function as mobilisers and allocators of capital.”

QUALITY & CHARACTERISTICS OF ENTREPRENEURS

Being an entrepreneur is about more than just starting a business or two, it is about having attitude and the drive to succeed in business. All successful Entrepreneurs have a similar way of thinking and possess several key personal qualities that make them so successful in business. Successful entrepreneurs like the ambitious Richard Branson have an inner drive to succeed and grow their business, rather than having a Harvard Business degree or technical knowledge in a particular field.

Becoming an entrepreneur is not an easy task! There are certain qualities that are absolutely necessary if you would like to become successful in your business ventures. Some of these qualities are built-in parts of your inherent personality, and some of them get developed over time. Knowing these characteristics and identifying your weak ones - those, which need strengthening - will, eventually, help you become a successful entrepreneur.

DECISION MAKING: As an employee your decision-making abilities are applied differently from that of a small business owner. An employee often doesn't have to make important business-changing decisions, they are made for them. Decisions which do have to be taken are usually easier to make because he gets paid at the end of the month. If you wish to be your own boss could you make a decision, which will determine whether your profit and loss statement. Can you make decisions quickly and decisively? Being indecisive is the kiss of death for a business.

SELF CONFIDENCE: Have you ever dealt with someone who clearly lacks confidence in what he's doing? This lack of confidence quickly rubs off onto you and, although you may buy a product from him, the chance of you going back a second time is slim.

If you are to attract and retain customers you must be brimming with self confidence – confidence both in your skills and your product. This attribute links in with decision making – having made a decision you need the self confidence to stick by it and not question yourself, so encouraging self doubt. Have you got the self confidence to make your customers feel confident in you?

INNER DRIVE TO SUCCEED: Entrepreneurs are driven to succeed and expand their business. They see the bigger picture and are often very ambitious. Entrepreneurs set massive goals for themselves and stay committed to achieving them regardless of the obstacles that get in the way.

STRONG BELIEF IN THEMSELVES: Successful entrepreneurs have a healthy opinion of them and often have a strong and assertive personality. They are focused and determined to achieve their goals and believe completely in their ability to achieve them. Their self optimism can often be seen by others as flamboyance or arrogance but entrepreneurs are just too focused to spend too much time thinking about un-constructive criticism.

SEARCH FOR NEW IDEAS AND INNOVATION: All entrepreneurs have a passionate desire to do things better and to improve their products or service. They are constantly looking for ways to improve. They're creative, innovative and resourceful.

OPENNESS TO CHANGE: If something is not working for them they simply change. Entrepreneurs know the importance of keeping on top of their industry and the only way to being number one is to evolve and change with the times. They're up to date with the latest technology or service techniques and are always ready to change if they see a new opportunity arise.

COMPETITIVE BY NATURE: Successful entrepreneurs thrive on competition. The only way to reach their goals and live up to their self imposed high standards is to compete with other successful businesses.

HIGHLY MOTIVATED AND ENERGETIC: Entrepreneurs are always on the move, full of energy and highly motivated. They are driven to succeed and have an abundance of self motivation. The high standards and ambition of many entrepreneurs demand that they have to be motivated!

ACCEPTING OF CONSTRUCTIVE CRITICISM AND REJECTION: Innovative entrepreneurs are often at the forefront of their industry so they hear the words "it can't be done" quite a bit. They readjust their path if the criticism is constructive and useful to their overall plan, otherwise they will simply disregard the comments as pessimism. Also, the best entrepreneurs know that rejection and obstacles are a part of any leading business and they deal with them appropriately.

True entrepreneurs are resourceful, passionate and driven to succeed and improve. They're pioneers and are comfortable fighting on the frontline the great ones are ready to be laughed at and criticized in the beginning because they can see their path ahead and are too busy working towards their dream.

COMMON SENSE: Studies show that most successful businessmen consider common sense as the foundation of their success. Common sense is defined as an ability to make sound judgments on the issues, which you encounter in everyday situations.

Good judgment depends on acquired knowledge and past experience. The combination of these two creates necessary prerequisites in developing common sense in a person. Common sense allows you to understand complex issues in simpler terms and get into the core of a problem.

ABILITY TO GET THINGS DONE: Successful entrepreneurs are persistent and hardworking. They master self-discipline to such extent that if a work is important and related to their goals, they will, eventually, complete it.

Getting things done is the vital link between motivations and their outcome. At times, entrepreneurs force themselves to choose work over fun, a boring job against a pleasant one, working on tax papers rather than reading a glamour magazine. This requires a self-control that many people simply fail to develop in them.

CREATIVITY: Creativity is the ability to use your insights and come up with new solutions to old problems, get things done in a different way or find a totally different approach for conventional things to work together. Entrepreneurs need creative thinking ability virtually in everything. Each new product, each new marketing method, each business decision - all these are fertile ground for creative thinking. Often, entrepreneurs become immensely successful thanks to one single creative idea!

MSMEs: Definition

In India, the enterprises have been classified broadly into two categories: (i) Manufacturing; and (ii) Those engaged in providing/rendering of services.

Both categories of enterprises have been further classified into micro, small and medium enterprises based on their investment in plant and machinery (for manufacturing enterprises) or on equipments (in case of enterprises providing or rendering services).

The present ceiling on investment to be classified as micro, small or medium enterprises is as under:

Classification	Investment Ceiling for Plant, Machinery or Equipments* @	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)
Small	Above Rs.25 lakh (\$50 thousand) & upto Rs.5 crore (\$1 million)	Above Rs.10 lakh (\$20 thousand) & upto Rs.2 crore (\$0.40 million)

Medium	Above Rs.5 crore (\$1 million) & upto Rs.10 crore (\$2 million)	Above Rs.2 crore (\$0.40 million) & upto Rs.5 crore (\$1 million)
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Definitions before 2nd October 2006

Classification	Investment Ceiling for Plant & Machinery or Fixed Assets*	
	Manufacturing Enterprises	Service Enterprises
Micro	Upto Rs.25 lakh (\$50 thousand)	Upto Rs.10 lakh (\$20 thousand)
Small	Above Rs.25 lakh (\$50 thousand) & upto Rs.1 crore (\$0.20 million)	-
Medium	Not defined	Not defined

PERFORMANCE

KEY CHALLENGES

- **Access to finance:**

The present domestic market conditions do not provide enough opportunities for the MSME sector for raising low cost funds. To improve the flow of credit there is a need to provide low cost finance to the MSME sector, which has limited working capital and is dependent exclusively on finance from public sector banks. The cost of credit in the Indian MSME sector is higher than its international peers. A transparent credit rating system, simplification/reduction in documentation for accessing finance, providing interest rate subvention to the MSME sector must be taken into consideration in order to maintain the growth of the MSME sector.

The Government is taking proactive steps to ensure better access to credit. Bank lending to the sector will grow at a rate of 20 per cent on a year-on-year (y-o-y) basis, along with 10 per cent annual growth in number of micro enterprise accounts, with 60 per cent of the share of MSME credit directed towards micro enterprises. These and other such measures will ensure that credit flow to the sector, especially micro and small enterprises, is adequate.

Despite such measures banks are reluctant to lend to MSMEs due to their higher risk profile owing to zero collateral or their limited years of operations. In a recent study published by the Indian School of Business (ISB), it was found that large Indian firms (the firms above the MSME threshold by the official definition) obtained about 47 per cent of their total funding from internal sources, 19 per cent from banks and financial institutions (FIs), and 5 per cent from capital markets. The remaining 29 per cent came from alternative sources.

In case of MSMEs, only 15 per cent of funding came from internal sources, 25 per cent from banks and FIs, and 10 per cent from capital markets. Around 50 per cent of the funding has been sourced through alternative funding sources including friends and family, trade credit etc. Alternative sources are typically far more expensive and are dependent on prevailing market conditions and are rarely a guaranteed source. This clearly implies that MSMEs face very high interest cost due to the lack of availability of adequate credit.

- **Access to markets:**

To withstand the onslaught of competition from large enterprises within and outside, MSMEs need to respond promptly to the evolving marketing needs and innovations. The sector needs to be provided better market access facilities in order to sustain and further enhance its contribution towards output, employment generation and exports.

MSMEs contribution should be seen not only in terms of output, employment, income, investment or exports but also in terms of qualitative indicators such as the synergies they promote with large industries, their contribution towards balanced regional growth, participation in nurturing entrepreneurial spirit, innovation and in providing a nation-wide pool of skilled and trained manpower. Even today, most small businesses in India are set up by first generation entrepreneurs. They often have a product or service idea and some fervor to work hard. However, the limited market access namely capital access, brand promotion solutions, marketing support, logistics and sales support, and information and communication technology (ICT) support stalls the fervor to take the enterprise to next level.

A recent study reveals that MSMEs in India are broadly unaware of technology solutions and tools available to cater their marketing needs. According to the study, less than 6 per cent of Indian MSMEs with access to personal computers advertise online and a majority of these enterprises use traditional media. Many Indian MSMEs are also unaware of the effectiveness, measurability and predictability of using online advertising to reach the target audience.

The study highlighted that a huge opportunity exists for SMBs to reach their desired financial goals by optimising their web presence and capabilities. It additionally pointed out that since the majority of India's MSMEs, especially the small businesses, generate a large proportion of their revenue from the local market; they still rely on traditional media like telephone directories and newspapers to reach their customer base.

Therefore, there arises a need for the sector to build capacities to develop ICT and other tools in order to cater the growing marketing needs. An understanding of the market, competitors, technology, marketing tools and business environment are determinants of success of the MSME sector.

Some of the evolved marketing strategies like niche marketing, database marketing, cluster specific marketing, guerrilla marketing and relationship marketing are vital for flourishing the business without any significant hit to the bottom-line. These marketing strategies, if implemented, can give the MSMEs a platform to go beyond the generic marketing applications,

create greater acceptance, strengthen the brand, devise a focused approach and compete globally. Brands like Nirma, Moov, Hi-Design and Fevicol started off as MSMEs in the recent past and have successfully reaped the benefits of strategic marketing to enter, compete and gain market share from the likes of Unilever, GSK and P&G. In 1959, a small time glue manufacturer thought of marketing his products to the masses and taking his business to the next level.

With successful product strategies, marketing efforts and operational efficiencies, the brand has today created a strong foothold in the market. The company's most successful brand Fevicol and its sub-brands such as Feviwik, Fevibond, Fevigum, Fevistick and Fevicryl have consistently commanded over 70 per cent of the total market share. The company has also been able to stay ahead of its competitors in both the organised and unorganised segments. MSMEs can also use proven traditional STP marketing strategies viz. segmentation, positioning and targeting for B2C and B2B ecosystems.

Technology tools like SMS, digital newsletter and electronic direct mail can be used efficiently to target segmented population. Broadly classified as push marketing, these media tools are cost efficient and easily accessible. To add to this, websites, yellow pages, directory listings help pull the prospective buyer with rational efforts

Trade fairs form another important platform for MSMEs to venture into new territories and develop businesses. The sector is required to look beyond India and innovate to market their products internationally. MSMEs possess enormous potential required to expand to international market. To acquire a competitive edge, MSMEs must tap opportunities in the international arena in the fields of technology and research and development and engage themselves in international trade. International trade fairs are an important source of market intelligence, technological advancements and innovations. Every year, industry specific trade fairs are held in the US, Canada, UK, Singapore and Dubai to create a meeting ground for sellers and buyers.

Therefore, it is imperative for MSMEs to ensure that their business offerings are in sync with the cultural, political, economic and environmental dynamics. This can be achieved by creating an in-depth study of product feasibility and viability along with competition mapping and facilitates MSMEs to re-engineer their products and services accordingly. Therefore the company adopted a cohesive global strategy which enabled successful completion of numerous diversification projects into Africa, Europe and South East Asia.

- **Access to infrastructure :**

Industries form the backbone for national development and are one of the important components for the growth of national economy and growth of the MSME sector at a healthy rate is crucial for the overall growth of the industry. However, lack of proper infrastructural facilities can cause serious damages to an enterprise's value chain process, like production,

consumption and distribution of the products, Besides, lack of finance, inadequate marketing facilities, technological obsolescence, etc that are being already faced by MSMEs.

Hence, there is a need of infrastructural development of the industries in general and MSMEs in particular which should include all types of infrastructural facilities like railways, waterways, roadways and airways, proper channels of telecommunication, adequate supply of power and other supporting facilities like Tool Rooms, Testing Labs, Design Centers, etc.

- **Access to people:**

The Indian economy is now the second fastest growing economy of the world. In such a visible growth environment, tremendous efforts are being made by SMEs (Small and Medium Enterprises) to make their presence felt and to convert their growth plans into reality. In essence, last few years have seen the exponential growth of SMEs. While big players enjoy economies of scale to control prices, SMEs enjoy agility in bringing the product faster to the market.

However, we still find many SMEs struggling to achieve expected growth and grappling with inherent challenges of culture and scale. The promoters and entrepreneurs are exploring ways to minimise this inertia and increasingly realising that HR and its different facets play an important role to address the growth issues that SMEs face.

Human Resource is one of the most essential growth indicators for organisations today. Large firms who are targeting high growth rates scour the market for talent and MSMEs can never outplay large companies in terms of salary. The other challenge faced by MSMEs is to preserve the horizontal structure that was prevalent when they were young. As the organisation grows, the cohesiveness present at the start slowly starts to fade away.

MSMEs will need to ensure that they undertake effective HR planning and ensure that the plan supports a growth aspiration, be geared to increasing the firm's flexibility and responsiveness and help the company develop its change management capabilities. However, there are certain challenges faced by MSMEs in achieving the above mentioned HR plan objectives.

- **Access to technology & environmental constraints**

Technology plays a vital role in an economy, particularly in its development phase. In this era of globalisation, the MSME sector needs to compete not just at the local or the national level but also at the global level. Access to modern technology is acting as a serious threat to the growth of the sector.

The technology transfer issues pertaining to MSMEs in developing nations are very different from those being faced in the developed countries like the US and UK. The absence of an enabling ecosystem which is much required for facilitating an active interaction in the technology transfer process is a major inhibitor for the sector. Other issues such as 'limited interaction' between technology providers and technology seekers, minimal knowledge about

upcoming technologies, and the cultural and the regional differences in the developing nations adversely affect the productivity of the MSME sector.

The competitiveness of any economy depends on how efficiently all the resources in the process of production are utilised and how efficiently these are marketed, hence the entire chain of production has to be efficient. This means that the process of production has to be cost efficient and meets quality needs of the consumers. This improvement can come through the use of latest technology.

MSME Growth impacted by Multiple Constraints

Although the MSME sector has been growing at a faster rate than the overall industrial sector, MSMEs experience multiple constraints that threaten to derail the sector's growth trajectory.

Some of key hindrances that MSMEs face are:

Inadequate market linkages: Except in the case of cluster-linked and ancillary MSMEs that have natural linkages with large enterprises, MSMEs tend to have poor market access. The non-cluster MSMEs are fragmented, and as a result, are unable to organize themselves in order to reduce procurement cost from large enterprises or streamline the output supply chain. What is worse, in the absence of adequate market linkages, any demand disruption in the supply chain can severely impact operations because the enterprise capital of these businesses tends to be locked in illiquid inventory and receivables.

Lack of infrastructure: Limited access to infrastructure such as power, water and roads increases operational costs for MSMEs and makes their businesses uncompetitive. Inadequate access to support infrastructure discourages these units from adopting newer technologies, where available. In addition, poor infrastructure forces small and medium businesses to operate in select geographies, increasing the demand for natural resources in that region.

Inadequate finance: MSMEs consider challenges in access to finance as one of the biggest constraints in growth. A study on the MSME sector also suggests that the multiple growth constraints (like those mentioned above) can be largely linked to inadequate access to finance. The Report of Working Group on Rehabilitation of Sick MSMEs by RBI also finds lack of adequate and timely access to working capital finance is one of the key reasons for sickness in the sector.

Lack of managerial competence: Micro and small enterprises in particular largely comprise first-generation entrepreneurs, who have had a limited structured training on resource planning, capital management and labor management. As a result, lack of managerial competence often shows in poor book-keeping and a limited knowledge of formal financial institutions, which further inhibits the growth of these enterprises.

Obsolete technology: While industries such as automotive, forging, software development sector require advanced technologies in operations, the majority of the small and medium

enterprises do not have that kind of technological edge. A low technology base results in low productivity, which makes these enterprises uncompetitive. Financial institutions associate lack of technology with uncompetitive businesses and therefore are wary of financing enterprises which are not technologically up-to-date in operations. These enterprises too have limited awareness about new technologies, or the technology financing schemes.

SETTING UP A MICRO, SMALL AND MEDIUM ENTERPRISE

The main steps involved in setting up a MSME are as below:-

- (a) Project Selection
- (b) Technology and Machinery
- (c) Arranging Finance
- (d) Unit Development
- (e) Filing of Entrepreneurs' Memorandum
- (f) Approvals
- (g) Clearances
- (h) Quality Certification

Project Selection : "... Our best business missions are based on those ideas that often emerge out of our deepest personal motivations and interests."

-Warren Avis in "*Take a Chance to Be First*"

It all begins with an Idea: The overriding reason for anyone to think of establishing a MSME unit can be summarised in one word - opportunity. An opportunity to provide a product or service, which can generate sufficient surplus. This is all the more true if one is a believer in the maxim, "Small is Beautiful".

However, ideas need to be filtered through a multi-layer sieve. This model is shown in the following flow:

- Does the idea fire up your motivation?
- Is it a viable business proposition in your area?
- Does it match the needs of your clientele?
- Check it out with basic market research
- Test it out at market place
- Consult with the experts
- Look out for competition in the field
- Is it a sunrise industry?
- Your business opportunity
- Project conceptualisation

Once the ideas are screened and a viable business opportunity emerges the project has to be conceptualised in all its dimensions.

The 4 Ps of Project Conception is:

- PRODUCT (Shape, Size and Nature)
- PROCESS (Technology to produce the product)
- PLACE (Location of Plant)
- PARTNER (Technological or Financial Collaborator)

Making a Product Choice: In a project conceptualisation stage while making a product choice following factors are related to product need to be considered:

- Product Line - Depth, Width
- Packaging
- Branding
- Warranties
- After Sales Service

Some other factors that one should consider while finalising the product choice are:

- Ease of availability of raw-material
- Process Technology
- Accessibility to the market
- Incentive and support from Government

Market information is also important for product selection. Products, which are likely to have a number of players in the market, are best avoided. Some such products in the recent past have been plastic footwear, audio cassettes, disposable gloves and bulk drugs.

In case the entrepreneur is looking for a product, which has export potential, the following additional questions need to be asked:

- What should be the contents of export-product portfolio?
- What are the special requirements for packaging if one has to export the products?
- What product adaptations are needed to be made for exporting a product to a specific country?
- Are any WTO conditionalities involved e.g. "child labour free", ISO 9000 certified, GMP followed etc.

The development of export-product portfolio can be done by considering 4 parameters viz.

- External demand conditions
- Internal supply capability
- Complexity of marketing tasks
- Amount of investment required to penetrate the market

Analysis can be conducted using this four dimensional model. The obvious choice is a product which scores a high rating on first two parameters and low rating on last two parameters.

EXIM (Export Import Bank of India) Bank has also developed an excellent model to conduct the export-product portfolio analysis based on three parameters viz.

- Supply Capability In Product Group
- Domestic Environment
- Export Market Attractiveness

This analysis gives rise to product groups with high potential or low potential.

With regard to special packaging requirements one has to be careful about laws of the country one is exporting to. For instance, while exporting to Australia, wooden-packaging cannot be done.

Product adaptations for country's specific needs look into things like whether voltage supply is 220V or 110V for electric appliances and for automobiles whether left-hand drive or right-hand drive is appropriate.

It has now become important to understand the implications of the various agreements which form part of WTO.

Technology and Machinery

Process Selection: Choices of process technology emerge once the product is finalized. For some complex products, process know how has to be imported. In such cases agreements for technology transfer should be made with due care to safeguard interest. A lot of appropriate technology is being developed at CSIR and Defense Research Labs and some of this technology can now be bought. Indigenously developed process know-how has intrinsic benefits such as appropriateness and relative inexpensiveness.

While checking out on a process technology, the following things need to be considered with utmost care:

- Whether process requires very high level of skilled workers or complex machines?
- Whether process requires large quantities of water and/or power?
- Whether any process or product patent needs to be honoured while utilising the selected process technology.
- Any special pollution or environmental regulations.
- Finally, the appropriateness to the indian environment and conditions. Machinery and equipment.

One of the major deficiencies in the MSMEs scenario is the prevalence of outdated production and management methods hindering the efficient operation of micro, small and medium-scale units. It was also found that the most important reason for the reluctance of the small industrialists to install modern machinery and equipment was the lack of investible funds. The main objective of National micro, small and medium enterprises (NMSME) is to provide machinery and equipment to small industrial units offering them long repayment period with moderate rate of interest.

NSIC procedures for hire purchase of machinery

- The hire purchase application is to be made on the prescribed form.
- The Director of Industries of the State under whose jurisdiction the applicant falls, forwards the application to the head office of the NSIC at Delhi with his recommendation and comments.
- All applications for indigenous or imported machines are considered by acceptance committees comprising of the representatives of the Chief Controller of Imports, Development Commissioner, micro, small and medium enterprises and other concerned departments.
- Decision of these committees is conveyed to the parties concerned with copies to the regional offices of the NSIC and the concerned Directorate of Industries.
- Once all these formalities are completed by the hirer, instructions are sent to the suppliers to dispatch the consignment (duly insured for transit risk) to the hirer and to send the R/R or C/R as the case may be, to the regional office.
- The NSIC after ensuring that all dues have been paid by the hirer releases the R/R or C/R to him for taking delivery of the machines.
- In case of imported machines, the procedure is slightly different in as much as the shipping documents are sent to the clearing agents for clearing the consignment from the Customs and dispatching it to the hirer.
- *Value of machines that can be supplied-* Rs. 7.5 Lacs, F.O.R. or landed cost as the case may be.
- *Earnest Money:* 5% or 10% of the value of machinery depending on whether the equipment is imported or indigenous. In the case of furnaces and a few other items of equipment, the rate of earnest money is different. Interest 9 per cent per annum with a rebate of 2 per cent on prompt payment. This interest is calculated on the value of machines outstanding after deducting payment of earnest money.
- *Administrative Charge:* 2 per cent on the sales value of machines and its recovery by the NSIC is spread over the total installment period.
- *Period of Repayment:* The value of the machines, after deducting the earnest money received, called the Balance Value, is payable alongwith interest and administrative charge in 7 years. The first installment is payable after one year and six months from the delivery of machines &- the second and subsequent installment are payable half-yearly thereafter.
- *Gestation Period:* In case of certain type of machines which become operative immediately on installation in the service sector industries and job order establishment, a gestation period of only 6 months shall be allowed both to the new and existing units.
- A rebate of 2% per annum is allowed on the interest rates, in case an installment is paid on or before the due date.

- In case the payment of installment is not made within one month of the specified due date, interest @ 2% per annum over and above the normal rate is charged on the defaulted amount from the date of default to the date of actual payment. Remission in interests is allowed in case one or more than one installment is paid in advance of the due date(s).
- Now the Place and Right Partner has to be selected and Project Report has to be prepared.
- **Arranging Finance**
- No MSME unit can take off without monetary support. This need for finance can be classified into following types:
 - - Long and medium term loans
 - Short term or working capital requirements
 - Risk Capital
 - Seed Capital/Marginal Money
 - Bridge loans

Financial assistance in India for MSME units is available from :

- (i) Commercial/Regional Rural/Co-operative Banks.
- (ii) SIDBI: Small Industries Development Bank of India (refinance and direct lending)
- (iii) SFCs/SIDCs: State Financial Corporations /State Industrial Development Corporations.

Long and medium term loans are provided by SFCs, SIDBI and SIDCs. Banks also finance term loans. This type of financing is needed to fund purchase of land, construction of factory building/shed and for purchase of machinery and equipment. The short-term loans are required for working capital requirements, which fund the purchase of raw materials and consumables, payment of wages and other immediate manufacturing and administrative expenses. Such loans are generally available from commercial banks. The commercial banks also sanction composite loan comprising of working capital and term loan up to a loan limit of Rs.1 crore.

For loans from FIs and CBs a formal application needs to be made. The details of documentation that need to be provided with the loan application are indicated below:

Documentation for Loan Application

- B/ S and P/ L Statement for last 3 consecutive years of firms owned by promoters
- Income Tax Assessment Certificates of Partners /Directors
- Proof of Possession of Land/Building
- Architect's estimate for construction cost
- Partnership deed/ M/A and A/A of Company
- Project Report
- Budgetary Quotations of Plant and Machinery

A sanction or rejection letter is issued by bank after its assessment of the application. After receiving a sanction letter, applicants need to indicate in writing their acceptance of terms and conditions laid down by FI/Banks.

Subsequently, loan is disbursed according to the phased implementation of the project. In today's environment there are other choices apart from commercial banks and Government owned financial institutions. These options include venture capital funds and non-government finance companies.

Unit Development

After deciding the issues of product and process, the next important question is where to set the unit up?

For many tiny units and service-based units, the home is perhaps the best starting point.

Setting up an establishment is much more than putting a signboard up and waiting for customers to walk in. It requires negotiating a favourable plot or shed purchase, organising for proper construction of building, design of interiors and finding good deals for equipment and machinery.

Construction of Building: Once an industrial plot for the unit is secured, then the next job is that of finding a suitable architect. Design of factory building has to be in consonance with the type of industry and have an appropriate plant layout.

An architect's estimate of building construction is essential for loan applications. Further, architect's certificate for money spent on building is needed for disbursement of loan.

Getting the Utility Connections: Among the utilities of prime importance are power and water. In many cases getting power connection causes delay in setting up of plant. Therefore it is imperative to commence work on these aspects with diligent follow up. Power connections are generally of either LT (Low Tension) or HT (High-tension) type. If connected load is upto 75 HP, LT connection is provided. For connected loads of 130 HP or higher only HT connection is provided.

A formal application needs to be made in a specified form to the state electricity board. An electrical inspector is deputed for evaluation of application to factory site, after which the load is sanctioned. In areas of power shortage, it is advisable to augment the power supply with a captive generating set.

Water connection is also obtained likewise by applying in advance in formal forms. The water supply can be augmented by installation of tubewell.

Getting 3M's Right

Men : Projections for manpower and staffing are made in the project report. However it is necessary to time the induction of manpower in a planned manner. The engineers and operatives must be available before the installation of the machinery.

Machinery: Choosing and ordering of right machinery is also of paramount importance. In many cases technology or process provides us with specifications which is not provided, then an extensive techno-economic survey of machinery and equipment available must be carried out. International trade fairs and engineering fairs are good places to look at available options. The entrepreneur must also consult experts, dealers / suppliers as well as users, prior to making a selection of equipment and machinery. The advice of DIC, MSMEI and NSIC can also be sought.

Materials: Materials procurement and planning are critical to success, of a start-up with a MSME unit. Inventory management can lead to manageable cash flow situations; otherwise if too much is ordered too soon considerable amount of working capital gets locked up. On the other hand, non-availability may result in production hold-ups, and idle machine and manpower. For essential imported raw material whose lead-time is large proper planning is all the more essential.

Filing of Entrepreneurs Memorandum

- Section 8 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 provides for filing of memorandum by a Micro, Small or Medium Enterprise. Sub-section (2) of section 8 stipulates that the form of the Memorandum, the procedure of its filing and other matters incidental thereto shall be such as *notified* by the Central Government.
- The memorandum may be filed by all three categories of enterprises with the DIC in the jurisdiction of which the enterprise is (or, is proposed to be) located,
- The procedure for filing it has been outlined in Schedule. II of the Notification for the format of EM.

Features of the Scheme

- The memorandum may be filed by all three categories of enterprises with the District Industries Centre in the jurisdiction of which the enterprise is (or, is proposed to be) located,
- The procedure for filing it has been outlined in Schedule. II of the Notification *for the format of EM*

Procedure for Filing Memorandum: Features of the present procedures are as follows:

- Form of the Entrepreneurs Memorandum can be downloaded from the Internet, the address of which can be obtained from Directorate dealing with MSMEs of the State Governments/ UTs. or the hard copies of the same can be obtained from the DICs.
- Any person who intends to establish a MSE, at his discretion; or a medium enterprise engaged in providing or rendering of services may, at his discretion or a medium enterprise engaged in the manufacture or production of goods shall file the Memorandum of Micro, Small or as the case may be, of Medium Enterprise with DIC of its area.
- The DIC shall fill all the codes in the form of the Memorandum and issue an acknowledgement after allotting an EM number, date of issue and category of the unit within five days of the receipt of the form of Memorandum by post or same day, if the form of Memorandum is submitted in person as well as online.
- Before issuing the acknowledgement, the DICs shall make sure that the form is complete in all respect and particularly the form is signed and is accompanied with an undertaking, which is a part of the form of Entrepreneurs Memorandum.
- The DIC shall maintain record of all the Entrepreneurs Memorandum so filed in respect of MSMEs engaged in providing and rendering services. DICs shall forward a copy of

the Entrepreneurs Memorandum so filed with EM number allotted to the SISIs of their State/Jurisdiction.

- The DIC shall maintain record of all the Entrepreneurs Memorandum so filed in respect of medium enterprises engaged in production/manufacturing of products and forward one copy each of the Entrepreneurs Memorandum with EM number allotted to SISIs of their State/Jurisdiction and to Joint Development Commissioner (MSME Pol.) in the Office of the D C (SSIs).
- The form of Memorandum is in two parts. Any person who intends to establish a micro, small or medium enterprise engaged in providing or rendering of services may file or those who want to establish medium enterprise engaged in the production or manufacture of products shall file Part 1 of the Entrepreneurs Memorandum to DIC.
- Once the above enterprises start production or start providing or rendering services, they should file Part II of the Entrepreneurs Memorandum to DIC.
- In case of non-filing of Part II of the Entrepreneurs Memorandum within two years of the filing of Part I, the Memorandum (Part I) filed by the entrepreneur will become invalid.
- In case of change in the investment in plant and machinery or in equipment, the enterprises who have already filed Entrepreneurs Memorandum should inform the DIC of the same in writing within one month of the change in investment.
- In case of change of products and that of services or addition in products or services, the enterprises who have already filed Entrepreneurs Memorandum should inform the DIC of the same in writing within one month of the change.
- The DIC shall, in addition of keeping a record, in writing, shall also maintain records electronically on computer.

The following form basis of evaluation:

- 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.
- Unit does not violate any locational restrictions in force, at the time of evaluation.
- Value of P&M is within prescribed limits.
- Unit is not owned, controlled or subsidiary of any other industrial undertaking as per notification.

Approvals : Every SSI unit has to comply with various regulations in force. These include regulatory, taxation, environmental and certain product specific clearances. This section looks into the methodology of obtaining these approvals and clearances.

- **Exemption from Compulsory Licence** : Licensing in the Industries sector is governed by the licensing exemption notification issued by Govt. of India in July 25 1991 under the IDR Act, 1951. In SSI, there are virtually no licensing restrictions. No industrial license is required except in case of 6 product groups included in compulsory licensing (these products groups mainly cover products that can only be made in large sector.)

- But if a small-scale unit employs less than 50/100 workers with/without power then it would not require a license from the Govt. of India even for the 6 product groups covered in licensing under Schedule II of the notification. Subject to this, an entrepreneur can set up a SSI unit anywhere in the country without any restriction. The units are, of course, subject to the locational/land use and zoning restrictions in force under the local laws.

Clearances : An entrepreneur has to obtain several clearances or permissions depending upon the nature of his unit and products manufactured.

Product Specific Clearances

- Establishing a Printing Press - District Magistrate
- License for Cold Storage Construction - Designated Official in State
- Pesticides - Central/State Agricultural Deptt - Ministry of Agriculture
- Drugs and Pharmaceuticals - Drug license from State Drug Controller
- Safety Matches/ Fireworks - License under Explosives Act from Directorate of Explosives,
- Household Electrical Appliances - License from Bureau of Indian Standards
- Wood Working Industry within 8 km from forest - District Forest Officer
- Milk Processing & Milk products manufacturing units - Approval under Milk and Milk Products Order from State Agricultural/ Food Processing Industries Department above a designated capacity.

Environment & Pollution Related Clearances : The method of granting consent under water and air pollution to SSI units has been simplified. Except for 17 critically polluting sectors, in all other cases SSI units will merely have to file an application and obtain an acknowledgement which will serve the purpose of consent:- Fertilizer (Nitrogen/ Phosphate), Sugar, Cement, Fermentation & Distillery, Aluminium, , Petrochemicals, Thermal Power, Oil refinery, Sulphuric Acid, Tanneries, Copper smelter, Zinc smelter, Iron & Steel, Pulp & Paper, Dye and Dye intermediates, Pesticides manufacturing and formulation & Basic Drugs and Pharmaceuticals

Regulatory or Taxation Clearances

- Registration under Sales Tax Act - Commercial Tax officer of area concerned
- Registration under Central Excise Act - Collector of Central Excise or his nominee for area
- Payment of Income Tax - ITO of the area concerned
- Registration of Partnership deed - Inspector General of area concerned
- Calibration of weights & measures - Weights and Measures Inspector of State
- Power Connection - Designated Officer of State Electricity Board
- Employee strength exceeding 10 with power connection or 20 without power - Chief Inspector of Factories

Quality Certification

Quality certification has become extremely important in competitive markets and especially in gaining foothold in exports. To avail the certification of ISO-9000, a unit has to undertake significant costs; the small scale industries have been found wanting mainly on account of resource crunch to implement quality systems to obtain this certification. However, as a paradigm shift, SSI must make 'Quality' a way of life.

It has been decided to push the quality upgradation programme in the SSI Sector in a big way.

A scheme has been launched to give financial incentive to those SSI units who acquire ISO-9000 certification, by reimbursing 75% of their costs of obtaining certification, subject to a maximum of Rs. 0.75 lacs per unit.

In order to promote modernisation and technology upgradation in SSI, the units are assisted in improving the quality of their products.

A new scheme has been launched to assist SSI units in obtaining ISO-9000 or an equivalent international quality standard. Subject to an upper ceiling of Rs. 075 lacs, each unit is given financial assistance equal to 75% of the costs incurred in acquiring the quality standard.

The SSI units are also encouraged to participate in quality awareness and learning programmes organised specially for their benefit.