

Challenges and Opportunities of Small Business Management and Start-Ups in India

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Abstract

The core objective of this research article is to investigate different challenges and opportunities in management as well as start-ups of small businesses in India. The prudence behind this research is to examine various problems in front of the small businesses and to offer vital support and cooperation to overcome those with the support of concerned institutions through consultancy and training programs. The researchers have an intention to make available the research results to the governmental agencies, concerned small business institutions and also to the educational institutions which are continually design plans, programs, policies and strategies to upgrade the managerial and technical dexterities of the small business Indian operators. After thorough revision of relevant literature on small businesses and its management, the researchers used a well structured questionnaire and in-depth personal interviews with 586 small business operators selected from manufacturing, trading (retailing and wholesaling), finance, servicing/repair businesses which are located in the coastal districts of Andhra Pradesh in India.

The researchers have used convenience sampling and collected data was analyzed with the support of Microsoft Excel and frequency distribution. Noticeably, majority of the small businessmen in India are facing myriad number of challenges both in management and at the time of establishment of their business operations. In particular, 72.47 percent of small businesses operators' have substantiated their strong opinion towards the challenges they are facing particularly fi-

nance, marketing and other problems while managing their businesses.

The researchers also attempted to get the opinions on problems of the various categories of small businesses while starting their operations. A staggering 68 percent of respondents identified the problems related to preparation of business plan, location selection, marketing and other problems like lack of proper credit facilities, skilled manpower, and other infra related problems while setting up of their businesses. On an average, 64.62 and 63.51 percent of small businesses are facing various kinds of problems both at the time of day-to-day management as well as start-up of their businesses respectively.

The present research confined with the opinions of only four categories of small business operators particularly from the manufacturing, finance, trading (retailing and wholesaling), and servicing/repair which are continuing their business operations from the nine coastal districts of Andhra Pradesh in India. The present study emphatically provides concrete information required to the business community for identifying an assortment of challenges faced by different small business operators in managing and at the time of their inception. This research paper is first of its kind from this part of the world by offering extensive and credible information required for prospective entrepreneurs in facing the dynamic challenges in managing their business. Furthermore, this research presents invaluable inputs to the stakeholders like all types of governments, policy makers, practitioners, researchers, and educators' about the various impediments faced by the small business community in India.

Keywords : Small Businesses, Industrial Policy Resolutions, Manufacturing Sector, Trading, Finance, Service Sector, Andhra Pradesh, India.

JEL Classifications : L25, L26, L50, L51

I. Introduction

Industrialization plays a substantial role in the economic progress of any country. The nature of industrialization needed by each developing country is diverse. It is a common phenomenon that the industrial structure of a country consists of large, medium, and small businesses. Of these three types of businesses, small businesses contribution to the advancement of a developing world is noteworthy. Small businesses are the unheralded dynamos of the Indian economy and solid foundation of community philanthropy and leadership, espe-

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cially in small towns. Culturally rich and well diversified developing country India which seizes support from large, medium and small businesses for a swift growth of the economy. Policy makers from both the central and state governments in the country clearly recognized paramount importance to the development of the small businesses and its contribution to the industrialization of the country.

The Government of India has been introducing significant support measures adopted from time to time through its industrial policy resolutions by expecting considerable contribution from the sector. Particularly in the last two decades, whatever the sensational economic growth rates achieved by the country greatly supported by the small business community. This sector's relative contribution is mounting tremendously in terms of production, employment and exports from year to year. The small businesses role in the economic development of the country would become more and more vital with the passage of time particularly in India because of growth rates of population and unemployment. Even though, the central and different state governments has initiated to all sorts of shore-up measures, the Indian small businesses has observed innumerable problems both at the time of their start-ups and also to carry on their businesses. In light of the initiation taken up by the governments and difficulties faced by the small businesses in the country, the researchers attempted to know the present day's challenges faced by the Indian small businesses community as a core objective of this research.

II. Materials and Methods

The idea to promote the development of small scale industries in order to invigorate India's dormant economy was first mooted by Mahatma Gandhi in 1937, when he propounded the theory of Trusteeship for economic progress. In India, the development of small industries was taken up in the 1950s when the Ford Foundation team visited this country and prepared a practical plan for the development of small scale industries. The use of the term 'small' as a designation in industry differentiates one set of industries from others. Smallness identifies a hodgepodge of businesses ranging from family-owned neighborhood stores to venture-capital-owned, innovative computer manufacturing firms (Reddy, 2010).

Small-scale enterprises have been given a vital place in the framework of Indian planning for both ideological and economic reasons. The speed of transition of small-scale sector has increased due to economic reforms by both central and state governments and the World Trade Organization (Krishna, 2004). Development of small-scale enterprises has been instilled with an array of objectives. These are: a) the generation of immediate employment opportunities with relatively low investment; b) the promotion of more equitable distribution of national income; c) effective mobilization of untapped capital and human skills; and d) dispersal of manufacturing activities all over the country, leading to growth of villages, small towns and far-flung economically lagging regions (Dhar, 1979).

Consequently, the Government of India has initiated various programs for the development of small-scale sector in India. It is worth revealing that over the past six decades, India has built-up world's

most consistent policy framework for providing confident assistance to the entrepreneurs for setting up small businesses. Today, India operates the largest and oldest programs for the development of small-scale enterprises in any developing country (Kumar, 1988). The definition of small-scale industry or enterprise varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set-up of the particular country. As a result, there are at least 50 different definitions of SSIs found and used in 75 countries. For the first time, the Government of India appointed fiscal commission defined the term small scale industry in a comprehensive way. The Fiscal Commission, 1950², defined a small-scale industry as one which is operated mainly with hired labor usually 10 to 50 hands. "The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro" (Commission Recommendation, 2003).

Small businesses, defined as for profit enterprises with fewer than 500 employees (U.S. Small Business Administration, 2009), constitute the overwhelming majority of businesses. In the United States, the Small Business Administration (SBA) established three "base" or "anchor" size standards: (1) 500 employees for manufacturing, mining and other industries with employee based size standards (except for Wholesale Trade); (2) \$7.0 million in average annual receipts for most nonmanufacturing industries with receipts based size standards; and (3) 100 employees for all Wholesale Trade industries³. However, in Australia, "A small business is defined as any business with fewer than 15 employees. This is calculated on a simple headcount of all employees who are employed on a regular and systematic basis (<http://www.fairwork.gov.au/termination/small-business-fair-dismissal-code/-pages/default.aspx>). Predominantly in Korea, the concept of small businesses comprehensively and clearly defined by sector-wise with no. of workers working in the organization. Broadly manufacturing and mining, construction and transportation with less than 50 workers; large general retail stores etc.; and seed and seeding production etc.; wholesale and product intermediation and other sectors with less than 10 workers (<http://www.sbc.or.kr/sbc/eng/smes/definition.jsp>).

1. Small Businesses and Industrial Policy Resolutions in India

After the independence, the Government of India has had taken series of steps for development of small scale and cottage industries by expecting significant contribution to the country's economy through Industrial Policy Resolutions and five year plans. Since independence, India has several Industrial Policies to her credit. These resolutions clearly and frequently define and redefine the definition of small-scale businesses along with the modifications and suggestions to the existing government policy of small scale enterprises. The Industrial Policy Resolution 1948, first time accepted the importance of small-scale industries and policy's main thrust was "protection". Protection offered by the Central government with the support of all the state governments to shoot out all sorts of the then acute prob-

lems of raw materials, capital, skilled labor and marketing.

The Industrial Policy Resolution, 1956 was added "development" along with the earlier emphasis thrust area "protection" which was reserved 128 items for exclusive production in the small sector. Besides the establishment of Small Scale Industries Board (SSIB) to scrutinize and prepare a development plan for small scale industries during the Third Five year Plan, 1961-66. The Industrial Policy Resolution 1977 classified Indian small sector into three categories: i) Cottage and household industries which provide self-employment on a large scale; ii) Tiny sector incorporating investment in industrial units in plant and machinery up to Rs.1 lakh and situated in towns with a population of less than 50,000 according to 1971 census; iii) Small-scale industries comprising of industrial units with an investment of up to Rs.10 lakhs and in case of ancillary units with an investment up to Rs. 15 lakhs. In addition, the IPR, 1977 suggested protection measures like reservation of 504 items for exclusive production in small-scale sector and proposal to set-up in each district an agency called "District Industry Centre" (DIC) to serve as a crucial point of development for small-scale and cottage industries.

The Government of India adopted this Industrial Policy Resolution 1980 policy with a main objective keep in mind that to facilitate an increase in industrial production through optimum utilization of installed capacity and expansion of industries. This policy resolution visualized i) increase in investment ceilings from Rs. 1 lakh to Rs. 2 lakhs in case of tiny units, from Rs. 10 lakhs to Rs. 20 lakhs in case of small-scale units and from Rs. 15 lakhs to Rs. 25 lakhs in case of ancillaries. Accordingly, the Industrial Policy Resolution 1980 re-emphasized and recognized the small-scale sector still remained the paramount sector for generating wage and self-employment based prospects in the country. During the year 1990, the Industrial Policy Resolution 1990 was introduced which has given due importance to small scale enterprises to serve the objective to create sufficient job opportunities. This resolution also introduced sufficient measures to boost-up this sector with an investment ceiling in plant and machinery for small-scale industries was raised from Rs. 35 lakhs to Rs. 60 lakhs and correspondingly, for ancillary units from Rs. 45 lakhs to Rs. 75 lakhs. In addition, 836 items were reserved for exclusive manufacture in small-scale sector and a new scheme of Central Investment Subsidy exclusively for small-scale sector in rural and backward areas had been mooted and implemented.

The Government of India, for the first time, tabled the new small enterprise policy titled "Policy Measures for Promoting and Strengthening and Supplementing Small, Tiny and Village Enterprises" in the Parliament on August 6, 1991. The main driving force of New Small Enterprise Policy is to impart more liveliness and growth momentum to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports. The new policy is founded on a proper understanding of the fundamental problems of small-scale sector and the measures proposed by it are well directed to mitigate the various handicaps that face this sector (Sandesara, 1991). The new small enterprise policy changes the definition of tiny units has two-fold features. First, having raised the investment ceiling from Rs. 2 lakhs to Rs. 5 lakhs and done away with the locational requirement, all new units within the investment

limit of Rs. 5 lakhs and located in bigger towns will become a part of the tiny sector. Second, more significantly, earlier industry means mainly manufacturing, the new policy has widened the scope to include industry related service and business enterprises. This is more realistic. Now like in many other countries, we have a "Small Business Policy", and not a "Small Industry Policy" (Khanka, 2004).

2. Problems of Small Businesses in India

It is an augury to any country's economic development can be possible with the support of all categories of industries in general and small businesses in particular. In the less developed countries, small and medium companies have been affected and facing new challenges but on the other side these companies have new opportunities also. The firm's capabilities can be enhanced with innovation, learning, internationalization and strong relationship with government and non-government institutions to increase its competitiveness in the market (Gabriel and Mohammed, 2011). The companies need to understand the layer of environment from national to international environments (Olga and Castellano, 2011). Predominantly, second largest populated country in the world, India definitely requires the support from small businesses to provide more employment opportunities, balancing of inequalities in the society, eradicate poverty along with distributive justice and also to deepening the feeling of dignity among individuals.

But this segment of the industry has observed incalculable number of problems which has severely hampered the contribution from the small businesses to the economic development of the country. Mostly these are related to raw material, finance, marketing, under-utilization of capacity and other problems which include technological obsolescence, inadequate and irregular supply of raw materials, lack of organized market channels, imperfect knowledge of market conditions, unorganized nature of operations, inadequate availability of credit facility, constraint of infrastructure facilities including power etc (Seventh Five Year Plan, 1985-1990).

As per the survey conducted by the Small Enterprise Development Agency (SEDA, 2007) in Korea, small business founders had difficulties at financing (44%), selection of location (19.3%), shortage of management know-how (6.5%), and selection of business type (6.2%). But in India, the situation is completely different and more drastic on challenges faced particularly related to financing (73.89%), marketing (65.19%) and other problems (78.33) which were highlighted through this survey. A foremost problem Indian small businesses are facing is the procurement of required quantity and quality of raw material which has majority of the times questioned the existence of the business. Most of the times suppliers are expressing their inability to supply the requisite supplies in time with the expected level of cost consideration. Another important setback faced by the Indian small businesses is that of finance which has identified mainly due to scarcity of capital and weak credit worthiness. Related to marketing, Indian small businesses are facing problems like understanding the market requirements, finding new customers, deprived marketing organization, poor product designing, failing to introduce attractive price structure, lack of channel support and feeble promotional support etc.

According to Arun Ghosh (1988), on the basis of All India Census of Small-Scale Industries, 1972, the percentage of utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average, we can safely say that 40-50 percent of capacity was not utilized in small-scale units.

Along with the above setbacks, Indian small businesses have observed troubles like entrepreneurial myth, social responsibility, bankruptcy, job quality. Particularly related to entrepreneurial myth, the crucial assumption is that an expert in a given technical field will also be expert at running that kind of business. Additional business management skills are needed to keep a business running smoothly (http://en.wikipedia.org/wiki/Small_business). The Indian small business entrepreneurs who established business in their field of expert fails in the remaining functional aspects of the business. This is one of the crucial setbacks facing by this segment of the industrialization.

Indian small businesses can encounter problem related to corporate social responsibility due to lack of proper time, budget, and pressure from large industry and severe stress from all the stakeholders with their expectations. In association with the bankruptcy which is nothing but the failure in discharge all the debts, majority of the small business operators in the country has come to this bad patch due to improper usage and allocation of funds to different activities in their business. Whatever may be the problems observed by the small business community in India, majority of the Indian are totally depending on establishing these kinds of businesses because of limited finance capacity as well as more unemployment. To meet demand of small business founders, the Government announced various kinds of support policies for small businessmen as well as venture business, simplification of business foundation procedures, and build up of business foundation system (Song Mu-ho, 2004). The Government of India also introduces similar kind of support policies in terms of providing financial assistance, subsidized land and power, and marketing facilities to the small businessmen in the country.

3. Methodology

The fundamental reason which inspires the researchers to take up this study is to shed the light on different challenges and opportunities of small business management and establishments in India. A two-part, closed-end type of questionnaire was used to accumulate the data related to the empirical challenges faced by the small business entrepreneurs. The sample of 600 small business operators selected for the study which were chosen from the sectors of manufacturing, finance, trading (wholesaling and retailing), and service/repair businesses. However, as the information provided by the respondents of 14 was not complete, therefore, they were excluded from the final analysis. Thus, the final sample comprised of 586 small businesses from the state of Andhra Pradesh.

The study is based on primary data which has collected with the help of a structured, non-disguised and pre-tested questionnaire. Along with the questionnaire, the researchers also used structured personal interviews with some predetermined, open ended questions. Through

personal interviews the researchers collected additional information related to the government and institutional support, preparation of business plan, training facilities, finance, marketing, availability of skilled manpower and technology along with R&D support. Even though there were time and cost constraints, much effort has been made to the extent possible to make the sample size larger. Thus, the researchers selected the sample size of 600 small business operators out of which a total of 586 usable questionnaires collected and represent a response rate of about 97.67 percent.

A well-trained team of thirty MBA students gathered the required information through questionnaires by explaining the questionnaire in the local vernacular language Telugu. The researchers have chosen the convenience sampling technique to make the organization of data collection more manageable with a significant sample size. The collected data was analyzed with the support of Microsoft Excel package and frequency distribution. The researchers also conducted well structured personal interviews to collect information related to governmental and institutional support, role of educational institutions, corruption and red-tapism in getting the permissions, and most significantly, prospective business opportunities in this segment. This extensive research completely confined to the nine coastal districts of the southern state of Andhra Pradesh which is a culturally, socially and economically well-diversified location in the country.

III. Results and Discussion

The researchers used a two-folded comprehensive questionnaire by identifying various problems with the help of pilot survey among the Indian small business community both at the time of day-to-day administration as well as start-ups of their business. The selected sample of 586 small business operators' opinion on facing different challenges faced clearly depicted in the below Table 1.

<Table 1> Respondents' Demographic

Characteristics (N= 586)		
Characteristics	Frequency	Percentage
Gender		
Male	476	81.23
Female	110	18.77
Age		
20-30	95	16.21
30-40	245	41.81
40-50	192	32.76
50-60	54	09.22
Educational Qualifications		
Un-Educated	93	15.87
Below 10th Grade	165	28.16
Below 12th Grade	123	20.99
Graduates	111	18.94
Postgraduates	94	16.04

As mentioned in the Table 2, on an average, 64.62 and 63.51 percent of Indian small businesses are severely affecting with multitude number of problems while managing and initial establishment of their businesses respectively. In particular, finance related problems severely

hinder the performance of small businesses in the country with a shocking percentage of 73.89 and 57.68 businesses completely failed in mobilization of required quantity of funds from different sources. Crucial reasons for this monetary setback are poor mobilization and management of funds, injudicious allocation of funds, poor maintenance and management of required working capital, severe fluctuations in prices of raw materials, and raising trend of other day-to-day expenditures of the business etc. Most of the Indian small businesses do not have separate marketing and human resource departments to attract the pool of competent professionals because of their budgetary constraints. A staggering 65.19 and 63.82 percent of small businesses in the country are facing severe marketing problems in understanding the market, failure in designing alluring marketing mix and to combat against competitors in the fiercely competitive business scenario. Most significantly, 78.33 and 75.77 percent of Indian small businesses have identified other problems which has mentioned in the following Table in managing and start-ups of their businesses.

<Table 2> Nature of Challenges Faced by the Indian Small Business Operators in Managing and Start-Ups

Part:1 PROBLEMS RELATED TO MANAGEMENT	Positive (%)	Negative (%)	
1. Finance	73.89	26.11	
2. Inadequate & Irregular Supply of Raw material	57.16	42.84	
3. Marketing	65.19	34.81	
4. Operations	57.51	42.49	
5. Managerial and Technical Skilled Manpower	55.63	44.37	
6. Other problems like technological obsolescence; inadequate availability of credit facilities; lack of organized market channels; imperfect knowledge of market conditions; unorganized nature of operations; inadequate support from research & development; infrastructure problems (power, water, transportation and other amenities.)	78.33	21.67	
Average of Problems in Management of Indian Small Businesses	64.62	35.38	
Part:2 PROBLEMS RELATED TO START-UPS	Positive (%)	Negative (%)	
1. Preparation of Business Plan	63.48	36.52	
2. Location Selection	68.94	31.06	
3. Bureaucracy	55.63	44.37	
4. Funds Mobilization	57.68	42.32	
5. Technology Mobilization	59.22	40.78	
6. Marketing	63.82	36.18	
7. Other problems like inadequate availability of credit facilities; scarcity of skilled technical and managerial personnel; infrastructure problems (power, water, transportation and other amenities.)	75.77	24.23	
Average of Problems in Start-ups of Indian Small Businesses	63.51	36.49	

Along with the questionnaire, the researchers also conducted a well-structured personal interviews with the small business operators and identified noteworthy dissatisfaction on the issues like government and institutional support, role of educational institutions, corruption and red-tapism and prospective business opportunities. On an average, 72 percent of Indian small business owners expressed their discontentment over the government and institutional support. Even though, different state and central governments has established number of institutions to support the small and medium enterprises, there is no proper and expected level of commitment from these due to high degree of corruption, red-tapism, and lengthy bureaucratic procedures. There is no exception in the case of financial institutions which are claiming commission on the loans sanctioned by both the commercial and specialized banks for this purpose. The small businesses in the country strongly opined that no conducive support and cooperation from the higher educational institutions and uttered that these institutions are only meant for professionally managed large scale industry which offers fat compensation package.

Most outstandingly, the researchers collected the opinions of small entrepreneurs about the prospective business opportunities available in the country. In view of the Indian small business community, there will be a mammoth business opportunity in retailing, leather goods, ready-made garments, finance and gold loan business, gems and jewelry, auto-ancillaries, interior-decoration. And in recent years, majority of the small business investments directed towards manufacturing and marketing of electrical and electronic goods like power inverters, batteries, water-coolers, heaters, water purifiers, mobile spares and accessories, audio and video related goods along with digital photo studios and color labs, etc. Along with the above, based on their interest some significant portion of potential small businessmen are also considering and directing their investments into the agro-based industries like dairy, poultry, sheep, goat and emu-bird forms, food-processing, spa-clinics, preparation of ayurvedic medicines, printing and binding, Internet and photo-copy centers, mini-passenger and transport industry, restaurants and customized fast-food centers etc.

India, a culturally-diverse country with different ethnicities, has multitude of small business opportunities which can be tapped successfully only by overcoming all the setbacks with the introduction of novel and professional way of managing along with the support of governments and educational institutions. It is the responsibility of governments, educational institutions, and other unique bodies specially established to extend their seamless cooperation in surmounting the multitude of problems by adopting proper strategies. And significantly, all the governments have to introduce stringent control mechanism to curb corruption, red-tapism, and unique strategies to get rid of inertia in the bureaucracy.

The small businesses of the country also entails the support of professional technical and business consultants in overcoming some of the crucial problems related to preparation of business plan, technology mobilization, location selection, and operations. Besides, small businesses essentially require the support from technical and management educational institutions to obtain the well-trained and experienced manpower as well as to enhance the existing capacity levels of the employees. It is also an imperative situation that Government of

India must focus on infrastructure development such as power, roads, railways and modern technology up-gradation for the growth and survival of the small businesses in the country. The small business communities have to be more creative and aggressive in recognizing their competitive advantage. The practice of latest technology and modern management techniques would facilitate them to compete with confident efficacy in the market and to face the varied challenges in future.

IV. Conclusions

The findings of the study signify that small businesses in the country are affected in the recent years and facing assortment of challenges to run and establish their businesses. The research has been observed that small businesses from all surveyed areas irrespective of age, size and turnover believed that multitude of setbacks severely hampered their profitability and majority of the times the existence of the business itself is in question mark. Now the situation in the country is tremendously changing particularly the attitudinal displays of the state and central governments which initiate necessary measures to conquer troubles facing by small businesses. Along with governments, educational institutions and special bodies support pave the way to gear-up the confidence by expecting its mite to eradicate poverty, unemployment, economic imbalances along with other social evils. By expecting alluring economic boom with a positive note, the country is eagerly awaiting to witness a remarkable change in the small business segment. The Indian small business community has to discard the existing conventional way of doing business and has to take-up new strides in following sophisticated technology and latest management techniques which would help them in achieving their economic and non-economic objectives. There will be an enormous scope for further research on challenges of the small businesses in India which will provide a route map to disseminate useful information to prospective business people, governmental agencies and even to the world of academia.

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Footnotes:

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2. Report of the Fiscal Commission, Government of India, New Delhi, 1950, 99-100.
3. SBA analyses of industry characteristics using the 1997 and 2002 Economic Censuses show significantly different economic structure for the Wholesale Trade industry as compared to the structure of industries in both 500 employee and \$7million anchor size standard industry groups, thereby requiring a separate 100-employee anchor group for wholesale industries. Much of these observed differences may be attributed to the definitional changes to the Wholesale Trade Sector between the Standard Industrial Classification System and the 1997 and 2002 North American Industry Classification System.