KARNATAKA STATE OPEN UNIVERSITY

Mukthagangotri, Mysuru-570006

MBA

(Third Semester)

ENTREPRENEURIAL DEVELOPMENT AND SMALL BUSINESS

Department of Studies and Research in Management

Course : 13

Block - 1

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KARNATAKA STATE OPEN UNIVERSITY

MUKTHAGANGOTHRI, MYSURU- 570 006.

DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

COURSE - 13

ENTERPRENEURIAL DEVELOPMENT AND SMALL BUSINESS

BLOCK

1

ENTRPRENEUR AND ENTREPRENEURSHIP

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BLOCK – 1 : ENTREPRENEUR AND ENTREPRENURSHIP

The entrepreneurs play a key role in any economy. These are the people who have the skills and initiative necessary to anticipate current and future needs and bring good new ideas to market. Entrepreneurs who prove to be successful in taking on the risks of a startup are rewarded with profits, fame and continued growth opportunities. The entrepreneurship is the dynamic process of creating incremental wealth. The wealth is created by individuals who assume the major risks in terms of equity, time and carrier commitment provide value for scope product or service.

This block entrepreneur and entrepreneurship consists of 04 units. Unit one on introduction to entrepreneurship meaning, concepts, definitions, nature, importance, functions, qualities, factors of entrepreneur and entrepreneurship. Unit two takes you theories of entrepreneurship introduction, theories, charetenstics, classification and manager v/s entrepreneurship. Unit three discusses creativity and innovation introduction, stages, forms, barriers, techniques, innovation and entrepreneurship. The last unit of this block on entrepreneurship development programme introduction , need, phases, evolution, problems of EDPs and ethics or social responsibility of entrepreneurs.

UNIT- 1: INTRODUCTION TO ENTREPRENURSHIP

Structure :

1.0 Objectives

1.1 Introduction

1.2 Understanding the Concept of Entrepreneurship

1.3 Evolution of the Concept of Entrepreneurship

1.4 The Concept of Entrepreneurship

1.5 Definitions of Entrepreneurs

1.6 Nature of Entrepreneurship

1.7 Importance of Entrepreneurs

1.8 Functions of Entrepreneurship

1.9 Qualities of Successful Entrepreneurs

1.10 Factors Influencing Entrepreneurship

1.11 Entrepreneurship

1.12 Role of Entrepreneurs in Socio-Economic Development

1.13 Case Study

1.14 Notes

1.15 Summary

1.16 Key Words

1.17 Self Assessment Question

1.18 References

1.0 OBJECTIVES

After study this unit, you should be able to;

- Define entrepreneurship and entrepreneurs.
- Give an account on evolution of entrepreneurship.
- Describe the nature and function of entrepreneurship.
- Determine the qualities of successful entrepreneurs.

1.1 INTRODUCTION

The term 'entrepreneur' is derived from the French word 'Enterprendre'. The meaning of this word is to undertake. The term 'entrepreneur' was applied to the leaders of military expeditions in the early 16^{th} century. Later on it was used to cover the contractors undertaking the civil contracts of construction of bridges, dams, roads, etc. In the beginning of the 18th century the term was used to refer to the economic activities. In France the farmers doing the farming activity on commercial basis were also considered as entrepreneur. Thus we find that the meaning of the term 'entrepreneur' has changed over a period of time from the leader of military expeditions to individuals doing business by bearing the risk.

Entrepreneurship occupies a central place in the economic development of a country. In addition to other factors of production, such as raw material, land, capital, labour, entrepreneurship factor is essential for industrial development. Any country requires both small entrepreneurs and big entrepreneurs. In fact, the rapid development of a country depends on the supply of entrepreneurship. Entrepreneurial culture therefore, needs to be inculcated and nurtured among the people. The term 'entrepreneur' and 'entrepreneurship' are different. Entrepreneur is a person and entrepreneurship is a tendency and process. It is necessary for the state to create entrepreneurial opportunities than to create employment opportunities. This unit deals with the concept of entrepreneurship, theories of entrepreneurship, factors stimulating entrepreneurship and obstacles inhibiting entrepreneurship.

An entrepreneur is a person who assumes risk and starts an enterprise. The term 'entrepreneur' has been used from 18th century in the context of economic activities. Before that, the leaders of military expeditions were called entrepreneurs. Then the term was extended to cover the civil contractors, farmers and ultimately the persons organizing the factors of production to start the enterprise by assuming the risk therein. Entrepreneurs are individuals who collect means of production, organize an enterprise, innovate, create new things and bear the risk in the expectation of the reward in the form of profit.

1.2 UNDERSTANDING THE CONCEPT OF ENTREPREUERSHIP

The Various economists, sociologists and psychologists have used different approaches to explain the concept of entrepreneurship. These approaches are summarized below ;

♦ **Economic Approach**: Economists like Richard Cantillon, Adam Smith, J.B. Say, Carl Manger, Joseph Schumpeter have explained the concept of entrepreneurship from the economic point of view. According to the economic approach entrepreneurship is the process of initiating a new venture by organizing the resources required and accepting the risk involved therein. Entrepreneurship and ultimately economic development takes place when the economic condition is favourable. An entrepreneur buys the factors of production at a certain price, converts them into products and sells them at an uncertain price. Thus, economists have emphasized two main aspects, viz. innovation and risk bearing. The entrepreneurs create new things, use new technology, find new sources of raw material, source of new markets and so on. By the innovation function entrepreneurs make available new products to the people and help to raise their standard of living.

♦ **Sociological Approach:** Sociologists have emphasized the impact of social system, ethics, values, customs, and perception on entrepreneurship. They hold that entrepreneurship flourishes in those societies, which recognize the services of entrepreneurs respect them and give approval to the business and wealth creation. According to them entrepreneur represents society's model personality.

v **Psychological Approach:** According to the psychological approach entrepreneurship is influenced by factors like high achievement, motive, self-reliance, creativity, desire to regain the lost status. The psychological approach is developed by Macmilan and Hansen.

♦ **Modern Approach:** The modern approach states that entrepreneurs have to function under adverse conditions. There is a scarcity of labour, shortage of capital and uncertain market. Hence they require possessing organizing skills, innovative ability, decision making ability, risk bearing capacity.

1.3 EVOLUTION OF THE CONCEPT OF ENTREPRENEURSHIP

The word 'entrepreneur' is derived from the French word entreprendre. It means 'to undertake'. Thus, entrepreneur is the person who undertakes the risk of new enterprise. Its evolution is as follows.

■ **EARLY PERIOD**: The earliest definition of the entrepreneur as a go-between is Marco Polo. He tried to establish trade route to the far East. He used to sign a contract with a venture capitalist to sell his goods. The capitalist was the risk bearer. The merchant adventurer took the role of trading. After his successful selling of goods and completing his trips, the profits were shared by the capitalist and the merchant.

- **MIDDLE AGES**: The term entrepreneur was referred to a person who was managing large projects. He was not taking any risk but was managing the projects using the resources provided. An example is the cleric who is in charge of great architectural works such as castles, public buildings, cathedrals etc.

- **17th CENTURY:** An entrepreneur was a person who entered into a contractual arrangement with the Govt. to perform a service or to supply some goods. The profit was taken (or loss was borne) by the entrepreneur.

- **18th CENTURY**: It was Richard Cantillon, French Economist, who applied the term entrepreneur to business for the first time. He is regarded by some as the founder of the term. He defined an entrepreneur as a person who buys factor services at certain prices with a view to sell them at uncertain prices in the future

- **19th CENTURY:** The entrepreneurs were not distinguished from managers. They were viewed mostly from the economic perspective. He takes risk, contributes his own initiative and skills. He plans, organizes and leads his enterprise.

- **20th CENTURY:** During the early 20th century Dewing equated the entrepreneur with business promoter and viewed the promoter as one who transformed ideas into a profitable business. It was Joseph Schumpeter who described an entrepreneur as an innovator. According to him an entrepreneur is an innovator who develops untried technology.

- **21th CENTURY**: Research Scientists live De Bone pointed out that it is not always important that an individual comes up with an entirely new idea to be called an entrepreneur, but if he is adding incremental value to the current product or service, he can rightly be called an entrepreneur.

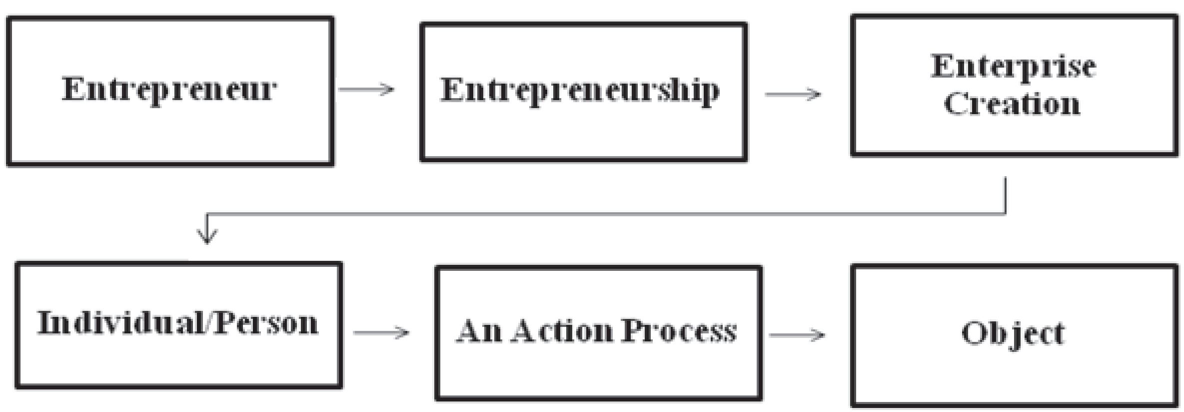
1.4 THE CONCEPT OF ENTREPRENEURSHIP

"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."

According to Higgins B : Entrepreneurship is 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 materials, finding site, introducing new techniques and commodities, discovering new sources of raw materials, and selecting top managers of day-to-day operations of the enterprise.

According to Joseph Schumpeter "Entrepreneurship essentially consists in doing things that are not generally done in the ordinary course of business routine".

According to John Kao: "Entrepreneurship is an attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity and through the communicative and managerial skills to mobilize human, financial and material resources".



Source: Srinivasan & Gupta, (2013)

In the words of 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 materials, finding site, introducing a new technique, discovering new sources ofraw materials and selecting top managers for day to day operations of the enterprise." This definition highlights risk-taking, innovating and resource organizing aspects of entrepreneurship.

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 H. Cole, "Entrepreneurship is the purposeful activities of an individuals or a group of associated individuals undertaken to initiate, maintain and aggrandize profit by production or distribution of economic goods and services". This definition states that entrepreneurship is goal-oriented process involving production or distribution of products and goods. It may be undertaken by person or by group of persons.

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 mobiles the appropriate people, money, and operating resources to meet an identifiable need and create wealth in the process."

1.5 DEFINITIONS OF ENTREPRENEURS

The following are the some important definitions of the term 'Entrepreneur'.

According to Richard Cantillon: "An entrepreneur is an agent who buys factors of production at certain prices in order to combine them into a product with a view to selling it at uncertain prices in future."

According to J. B. Say: "An entrepreneur is the economic agent who unites all means of production and the labour force of the one and the capital or land of the others and who finds in the value of products his results from their employment, reconstitution of the entire capital that he utilizes and the value of the wages, the interest and the rent which he pays as well as profits belonging to himself."

According to Joseph Schumpeter: "Entrepreneur is an individual who carries out new combines of means of production by which there occurs disequilibrium."

According to Peter Ducker: "Entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity. Innovation is a specific instrument of entrepreneurship. It is an act that endows resources with a new capacity to create wealth; innovation indeed creates a resource."

1.6 NATURE OF ENTREPRENEURSHIP

Entrepreneurship is a creative and innovative response to the environment and an ability to recognize, initiate and exploit an economic opportunity. Truly speaking, it is a multi-dimensional concept. Therefore, it is necessary to consider many factors and perspectives in respect of entrepreneurship. The nature of entrepreneurship may be understood in the light of its outstanding features, mentioned hereunder.

1. Innovation is the crux of entrepreneurship:

It is an undeniable fact that without innovation entrepreneurship cannot be there. In true sense of the term, an innovator is an entrepreneur and the pioneer of new industry.

However, an entrepreneur is not simply an innovator he tests the commercial worth whileness of an innovative idea, assumes the risk and organizes human efforts to put idea into practice. The person who undertakes the prevailing or traditional business activities is the 'follower' or 'imitator' and not an 'innovator' and hence not the 'entrepreneur'. The entrepreneur gives a new combination of resources. According to Schumpeter entrepreneurship is a creative activity.

The entrepreneurs are constantly on the look out to do something different to meet the changing requirements of the customers. Innovation may be a new product, a new process of production, a new source of raw material, a new market or a new combination of means of production.

2. It is a function of high achievement:

According to McClelland, entrepreneurship is the function of high achievement. He stressed that the need for achievement or the achievement orientation is the most directly relevant factor of explaining economic behavior of a person. People having high need for achievement are more likely to succeed as entrepreneurs. Various studies on psychological roots of entrepreneurship reveal the presence of a high achievement orientation among successful entrepreneurs. The people with high need for achievement are willing to take calculated risks and have a high tolerance for ambiguity. They struggle to achieve more and more.

3. It is a function of organization building:

The ability to build an efficient organization is the most critical skill required for industrial development. He must be able to delegate responsibilities to others. Harbison argued that an entrepreneur is necessarily an 'organization builder'.

According to him, the ability to create an organization is the most critical skill which facilitates the economic use of others innovations. He further advocated that if the organization building skill is absent, innovations fail to stimulate economic development. In other words, if the organization building skill is absent, useful innovations also become useless. Entrepreneurs are the prime movers of innovations, because, their ability to perceive opportunities and bring together the manpower, material and capital to convert innovations in business opportunity is very important.

4. It is a function of managerial skills and leadership:

According to Hoselitz, the managerial skills and leadership are the most important facets of entrepreneurship. He explains that the entrepreneur must have the ability to lead and manage. The entrepreneur assumes more risk than a traderor a money-lender. Only a strong desire to make profit is not enough to succeed in entrepreneurship. In other words, the entrepreneurship fails if its founders fail to function as efficient managers and leaders.

5. It is a function of status withdrawal:

According to E.E. Hagen, 'creative innovation' or the 'change' is the fundamental feature of economic growth. According to him, an entrepreneur is a creative problem solver who feels a sense of increased pleasure when facing a problem and tolerates disorder without any discomfort. Hagen has described an entrepreneur as 'innovative or creative personality'. According to him, such creative personalities emerge when the members of some social groups experience 'the withdrawal of status respect'. This may occur when a traditionally elite group is displaced forcefully by another group or when any other superior group changes its attitude towards a subordinate group.

6. It is a function of religious beliefs:

According to Max Weber, the spirit of entrepreneurship comes from religion. The religious values play dominant role in entrepreneurship. According to him religious values affect mental attitude which in turn affects the 'spirit of capitalization' or adventurous spirit'.

According to Weber, the protestant ethics provides the 'spirit of capitalism' among its followers and hence they boldly assume the risk and become successful entrepreneurs,

7. It is a function of social, political and economic structure:

According to John Kunkel, the social, political and economic structure affects the entrepreneurship. The supply of entrepreneurship depends upon following four structures found in a society.

8. It is a necessary dynamic force:

According to Saying, the entrepreneurship is nothing but a necessary dynamic force. According to him, an entrepreneur is a catalyst or an agent who brings about development in economic conditions.

9. It is a distinct factor of production:

Entrepreneurship is a distinct factor of production. The entrepreneurship significantly contributes towards the economic development in following ways.

- It promotes capital formation by mobilizing idle savings of the public.
- It provides large-scale employment.
- It helps to reduce concentration of economic power.

- It promotes the balanced regional development.
- It encourages effective mobilization of capital and skill.
- It induces backward and forward linkages.

10. It involves risk-bearing:

Entrepreneurship involves risk bearing. Every productive or creative venture involves risk. The entrepreneurs come forward and boldly assume the risk. They get profit as economic reward for risk bearing. Obviously, the quantum of profit depends upon the quantum of risks undertaken.

1.7 IMPORTANCE OF ENTREPRENEURSHIP

Entrepreneurship occupies an important status in the process of economic development of any country. Industrially advanced countries owe and the significance of entrepreneurship. Entrepreneurship is of great importance in underdeveloped countries for holding steady progress. The importance of entrepreneurship can be understood with the help of following points:

- **Voluntary initiation:** Entrepreneurship is voluntary initiation of individuals of society. They conceive the business ideas, refine them, develop them and translate them into industrial activities. It is the voluntary initiation of such people which causes economic development of a country.
- **Balanced growth**: In developing country like India, there is regional imbalance in respect of economic development. All regions or parts of the country are not equally developed. For development of such regions, industrial development is the prime factor. The entrepreneurship helps to achieve balanced regional development by starting small-scale industries there. It focuses on rural industrialization and development of local skill and market.
- **Capital formation:** Entrepreneurship plays significant role in mobilizing savings of society towards industrial enterprises. The society invests its savings in the entrepreneurial activities. The capital formation helps to exploit natural resources to create markets and to carry on trade. It is an undeniable fact that without capital formation, economic development would be hampered.
- **Self-employment:** The entrepreneurship facilitates self-employment. The enterprising people employ their physical and mental capabilities for their personal benefit. This helps to reduce the burden of growth in population on economic development of a country.

- **Employment generation:** Entrepreneurship is job-creating and job-giving. The entrepreneurs establish business ventures which provide employment opportunities on large-scale. This is how entrepreneurship helps to reduce the unemployment problem which is the root cause of all social-economic problems. The opportunities of gainful employment abstains people from unlawful and criminal activities. Instead, they are given incentive to participate and contribute in productive and socially desirable activities.
- **Optimum utilization of natural resources**: In the absence of entrepreneurship, the factors of production like land, labour, money etc. would remain idle or unused. Through entrepreneurship, the natural resources and factors of production are assembled and put to use through business organizations, and they are converted into production.
- **Variety of production and technology:** Entrepreneurship plays an important role in developing a variety of products and technology. This leads to improve the standard of living of the people.
- **Change agent:** Entrepreneurship is a change agent. It brings about change in prevailing socioeconomic set up by conceiving and developing new ideas and putting them into action.
- **Export promotion:** Entrepreneurship promotes a country's export trade which is an important ingredient to economic development. The growing entrepreneurial activities in various sectors of economy improve the exports and build a favourable balance of trade. It explores markets abroad, improves quality of products suitable to world class standards and earns foreign exchange. Entrepreneurship also provides import substitution and saves forex earning.
- **Quality enhancement through Research and Development:** Entrepreneurship gives fillip to Research and Development activities. The entrepreneur takes efforts to make their products compatible to the needs of foreign markets. This stimulates R & D activities.
- **Reduces the concentration of economic power:** Entrepreneurship helps to reduce the concentration of economic power in a few hands and thereby inequalities of income. Entrepreneurs from all social strata undertake business activities and generate wealth. It stimulates the equitable distribution of wealth, income and political power.
- **Reduces the problem of brain-drain:** If the best employment opportunities are not available in the home country, the talented people go abroad. It is called brain-drain which has adverse effect on a country's economic development. The entrepreneurship provides scope for their talent in home country, offers good remuneration packages and

prevents them from going abroad in search of employment. The entrepreneurship pools and develops the creative talent in the country.

- **Entrepreneurship brings social stability:** Entrepreneurship achieves social stability by meeting the diverse demands of the society and ensuring regular supply of essential goods and services. The non availability and short-supply of essential goods and services may cause social unrest which may endanger the social stability.

- **Economic development:** Entrepreneurship spells the difference between 'prosperity' and 'poverty' among nations. The economic development of a country is quite impossible in the absence of entrepreneurship. Japan is the place where entrepreneurs have achieved success by hard work as well as imagination and ability. The economic progress of USA and Western Europe also highlights the significance of entrepreneurship.

1.8 FUNCTIONS OF ENTREPRENEURS

The entrepreneurs have to perform a number of functions while starting and running an enterprise:

1) **Innovation:** Schumpeter has regarded 'innovation' as a main function of the entrepreneur. Innovative entrepreneurs are required for achieving the rapid economic progress of a country. Innovation is concerned with introduction of new products, adopting new technology, opening a new market or discovering a new source of raw materials, creating a monopoly in the industry or breaking the existing monopoly etc. Ratan Tata's Nano car is best example of innovation.

2) **Risk Assumption**: Risk bearing is second important function of an entrepreneur. There is a risk in every enterprise. The risk may arise due to natural calamities, changing government policy, changing tastes of customers, increasing competition etc. The entrepreneur has to bear all these risks and uncertainties in business. The success is not guaranteed in business. The entrepreneur should take a calculated risk.

3) **Decision making**: Decision making is another important function of an entrepreneur. The entrepreneur has to take decision as to selection of site, nature of product, technology to be used, raising of capital, expansion of business etc. A successful entrepreneur is one who can take the decision promptly and accurately. A wrong, delayed decision may result into heavy loss. A business opportunity may be lost due to delay in making decision.

4) **Organizing:** An entrepreneur has to collect the various factors of production viz. land, labour, capital etc. and create an organization to undertake the production / trading activity. He is required to possess a good organizing skills. Organizing has become a difficult task in modern times.

5) **Management:** An entrepreneur has to manage the activities of the enterprise in an effective manner. He has to plan, co-ordinate and control these activities with a view to achieve the business goals.

1.9 QUALITIES OF SUCCESSFUL ENTREPRENEURS

What makes entrepreneurs successful in their venture? Different experts have identified a number of qualities of successful entrepreneurs; some of these important qualities have been described below-

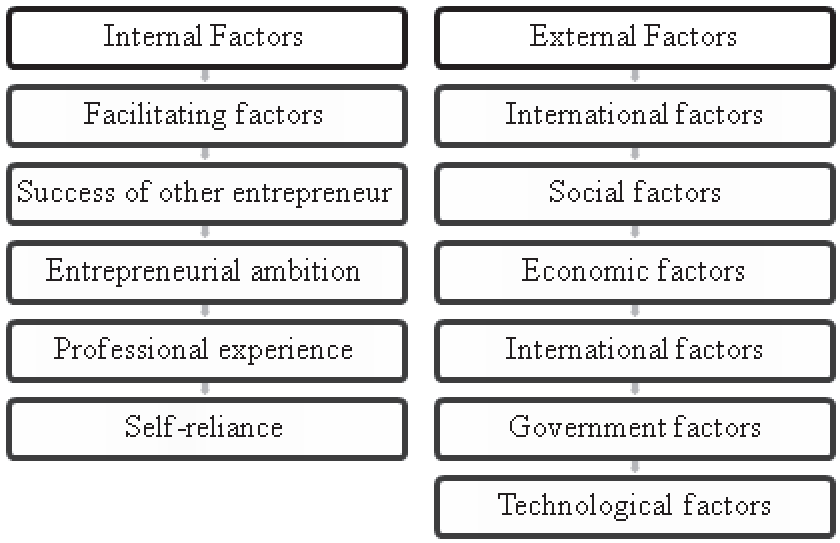
- **Ambition:** Successful entrepreneurs have high ambitions about their venture. They want to achieve high goals in business. Due to this high ambition or high achievement motive, they are able to overcome the obstacles in their business, turn misfortunes into fortunes, suppress anxieties and find out new ways and means.
- **Creativity**: Successful entrepreneurs are creative or innovative in their task. They do new things, manufacture new goods, find new sources of materials, use new methods of production, search new markets and so on. They do not invent new things but use these inventions for producing new goods and services. Tata Motor's Nano car shows the innovativeness of Ratan Tata.
- **Self-confidence**: Successful entrepreneurs have confidence in their skills and abilities. They are sure about success in their business. They do not hesitate to launch new products, expand and diversify their business. They are confident of overcoming any unanticipated problem and survive in the adverse conditions
- **Foresight:** The successful entrepreneurs have a good foresight. They forecast the future business environment i.e. how will be the likes and dislikes of customers, what will be the state of technology and prepare a plan of action accordingly. Foresight helps them to cope up with future environment effectively and stay ahead of others in the industry. Ratan Tata started manufacturing of consumer cars after anticipating a sharp decline in the demand of heavy commercial vehicles.
- **Hard work:** If the entrepreneurs desire to succeed in their enterprise, they should be prepared to work hard. They should work untiredly for hours together, be ready to do any kind of work in their business. They should always remember that hard work fetches good fruits.
- **Emotional balance:** There are always ups and downs in the business. Sometimes you make profit; on other times you incur loss. But if you wish to succeed in business, you should control emotions. Successful entrepreneurs neither get carried away due to huge

profit nor loose their hearts due to a heavy loss. They maintain emotional balance. They treat these situations as normal features of business and remain calm and quiet.

- **Decision-making ability:** The successful entrepreneurs have a good decision making ability. They make decisions promptly and accurately. The decision-making ability helps them to solve the business problems satisfactorily and exploit the opportunities. Decision-making is an important function of entrepreneurs.
- **Courtesy:** The successful entrepreneurs deal with the customers, vendors, employees, government officials and the general public in a courteous manner. Courtesy and modesty leads them to success.
- **Communication skill:** Communication skill is another important quality of successful entrepreneurs. With good communication skill entrepreneurs are able to convince effectively their ideas, thoughts and job requirements to the employees and get the work done in a better manner.
- **Good character:** The character of an entrepreneur has become an important quality in modern business. Today no enterprise can survive for a long time by following unethical and fraudulent practices. Character is the result of cultural values.
- **Motivational ability:** The successful entrepreneurs have ability to motivate the employees. They can extract best work from them and achieve high goals. Motivational ability is also required for getting the expected response from the customers, vendors and the government. Consider again Ratan Tata, who ably motivated the vendors to supply components at a lower price for the Nano car project.
- **Opportunist:** The successful entrepreneurs are opportunists. They seek opportunities and exploit them. They convert 'problems' into opportunities, i.e. polluted water may be a problem for the general public but it is a golden opportunity for the entrepreneur to treat the water and provide packaged pure drinking water.
- **Patience:** The successful entrepreneurs have a lot of patience. They are not affected by adverse situations like temporary failure, low consumer response, labour problems etc.

1.10 FACTORS INFLUNCING ENTREPRENEURSHIP

The factors stimulating entrepreneurship may be divided into the following two groups.



Source: Taneja, (2012)

Internal factors:

Internal factors are related with a person. They shape the entrepreneurial personality. These factors are as follows:

i. **Ambition:** An ambitious person is likely to turn to entrepreneurship more than an ordinary person. A highly ambitious person tries to become an entrepreneur for earning money, prestige and respect in society, for working independently and for creating employment for himself and others.

ii. **Self-reliance:** The tendency of independence motivates a person towards entrepreneurs. These persons are their own bosses. They do not like to take orders from other persons. Instead of becoming 'servant' they want to become entrepreneur.

iii. **Success of other entrepreneurs:** The stories of successful entrepreneurs in the surroundings motivate persons to follow the route of entrepreneurship. These successful entrepreneurs are role models for the potential entrepreneurs, for example, a young computer software engineer is motivated by Bill Gates of Microsoft, and Narayan Moorthy of Infosys.

iv. **Professional experience:** After working in a particular field for a number of years, some persons want to start their own enterprise. They feel confident to overcome the difficulties and problems in the business because of their rich experience.

v. **Supportive factors:** A person gets financial and mental support from his family members, friends, and relatives to start an enterprise. The family background of a person either induces one to become an entrepreneur or discourages him from doing so. In certain communities like Marwaris, Parshis, Sindhis, entrepreneurship is encouraged from childhood and hence most of the people from these communities turn to entrepreneurship.

vi. **Compelling factors:** Sometimes a person is compelled to become an entrepreneur because of adverse conditions, unemployment problem, job dissatisfaction, untimely death of family head etc. Under these circumstances there is no choice before a person than to become an entrepreneur.

External factors:

Entrepreneurship gets encouragement from the external environment as well. These factors arise outside the person and motivate him to become entrepreneur. The external factors are explained below:

- **Economic factors:** Favorable economic condition, ample natural and physical resources availability, rising income of people encourage persons to start new enterprises and make money by providing goods and services for fulfilling the increased demands of people. Investment in shopping malls, hotels, tourism, health centers, entertainment industry, increases.
- **Social factors:** Entrepreneurship is influenced by the customs, traditions and values of a society. The materialistic attitude of society stimulates entrepreneurship. Entrepreneurship is developed significantly in a society where the activities of entrepreneur are recognized, respected and rewarded and where the religious values do not prohibit business activities and wealth formation.
- **Technological factors:** Technological advancements and cheap availability of technology induce a person to introduce new products, improve the quality of existing products and start high-tech enterprises. For example, due to technological advancements entrepreneurship has flourished in the sectors like infrastructure, non-conventional energy, construction, automobiles, information technology.

- **Political factors:** Political stability, attitude and policy of the government towards business, stable policy, maintenance of law and order and such political factors stimulates entrepreneurship; attract domestic and foreign entrepreneurs in various fields. For example, stable and democratic government, feeling of security, rule of raw has attracted huge foreign investments. The liberalization, privatization and globalization policy in the country has provided greater scope to private sector to establish, expand and diversify the enterprises. Steps like incentives, tax holiday benefits, cheap credit facility, export promotion measures and assistance for technological up-gradation have given impetus to entrepreneurial development in the country.
- **International factors:** Entrepreneurship is influenced by the international environment. Free global trade policy and need of international co-operation, have encouraged entrepreneurs to take their activities on international level, install production facilities abroad and tap new foreign markets. Favorable international environment has increased foreign investment.

Entrepreneur is an Economic Agent who plays a vital role in the economic development of a country. Economic development of a country refers steady growth in the income levels. This growth mainly depends on its entrepreneurs. An Entrepreneur is an individual with knowledge, skills, initiative, drive and spirit of innovation who aims at achieving goals. An entrepreneur identifies opportunities and seizes opportunities for economic benefits.

Entrepreneurship is a dynamic activity which helps the entrepreneur to bring changes in the process of production, innovation in production, new usage of materials, creator of market etc. It is a mental attitude to foresee risk and uncertainty with a view to achieve certain strong motive. It also means doing something in a new and effective manner. In the context of positioning the youth entrepreneurship to the public policy space, the established influence of primary social reference group to the entrepreneurial intent might be less interesting than studies, analyzing the institutional and other general preconditions for entrepreneurial development.

The concept of entrepreneurship has been around for a very long time. In the last decades it has resurged. The concept of entrepreneurship is an age-old phenomenon that relates to the vision of an entrepreneur as well as its implementation by him. Entrepreneurship is a creative and innovative response to the environment. It is also the process of setting up a new venture. Entrepreneurship is a composite skill that is a mixture of many qualities and traits such as imagination, risk, taking, ability to harness factors of production, i.e. land, labour, technology and various intangible factors. Usually anyone who runs a business is called an entrepreneur. The more precise meaning of entrepreneur is on who creates his own business i.e., a person who organizes, operates and assumes the risk of a business venture.

An entrepreneur is a person who perceives a need and then brings together manpower, material and capital required to meet the need. Entrepreneur implies a set of values norms and traits that are conducive to the growth of a business enterprise. It is the organizational culture that focuses on new opportunities and creation of an organization where these opportunities can be perused earnestly. An entrepreneur seeks the opportunities looks for ways and means to capitalize on the newer opportunities by organizing the structure and the resources and gaining control on them. And against this, manager is primarily concerned with the resources under his control, the structure of his organization and its relations to the market. He is also concerned with matching the opportunities with organizational abilities. The entrepreneurs are driven by the perception of opportunities. They changes in the political rules, social values, consumer preferences, technology etc.

Entrepreneur is one who has unusual foresight to recognize potential demand of goods and services. lt is a change agent who transforms demand into supply. He is one who possesses certain arts and skills of creating new economic enterprises. He is a person with exceptional insight into the society's needs and possesses abilities to fulfill them. He is "Economic Risk Taker" of Cantillon and "Industrial Manager" of Adam Smith. The British economist John Stuart Mill had described entrepreneurs as business founders and thus become fourth economic factor with land, labour and capital.

In the context of employment generation, the three terms i.e., Income Generation, Self employment and Entrepreneurship are often used interchangeably. Entrepreneurship refers to Identification of innovative ideas, setting up of a new enterprise. Whereas self-employment refers to full time involvement in one's own occupation. One may or may not be bearing the rise, mobilizing inputs, organizing production and marketing the product or service. Income generating activities, on the other hand, are part time, causal and practiced with a view of raising additional income. All entrepreneurs are self-employed and income generating persons. But all self-employed and income generating persons may not be entrepreneurs.

Entrepreneurship is a key ingredient to a prosperous economy, and while this requires a vibrant private sector, government policies can have a major effect on the amount of entrepreneurship that takes place. Government can encourage entrepreneurship by providing a stable economic environment and by protecting property rights. Market institutions are vital as a foundation for entrepreneurial activity, and excessive government interference through taxation, regulation, and redistribution, can kill the incentives for entrepreneurship. If one takes a production function approach to the economy, it appears that the route to prosperity is through increasing inputs, requiring investment and technological advances. This approach ignores the entrepreneurial role involved in combining inputs most effectively.

1.11 INTRAPRENEURSHIP

Intrapreneurship is more important now than ever before. No one needs to be told that the world is changing now faster than ever before. Organizations are finding it harder and harder to survive by merely competing. They are, therefore, increasingly looking towards their intrapreneurs to take them beyond competition to create new businesses in new markets.

Intrapreneurs are persons who are working in the existing organization. They foster organization innovation by assuming entrepreneurial roles. While entrepreneurs are persons who start their own company, Intrapreneurs is a person who pursues an entrepreneurial idea within a company. "Intrapreneurs is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organisational environment."The term 'Intrapreneur' was introduced by Gordon Pinchot. He defines Intrapreneurs as 'those who take hands on responsibility for creating innovation of any kind within an organization. The intrepreneur may be creator or inventor but is always the dreamer who figures out how to turn an idea into a profitable reality.

The term "intrapreneur" was officially recognized in 1992 with this definition in American Heritage Dictionary: "A person within a large corporation who takes direct responsibility for turning an idea into a profitable finished product through assertive risk-taking and innovation."”Intrapreneurs” are entrepreneurs who catch hold of a new idea for a product, service, or process and work to bring this idea to fruition within the framework of the organization. Intrapreneurs with their innovations and dedicated efforts are perceived as a valuable asset by the organization, inspiring others.

He serves as a champion to others in the organization. New businesses which are started by entrepreneurs do well in the beginning but become stagnant over a period of time. To retransform these businesses into active and growing ones, the firms encourage the concept of Intrapreneurship. Intrapreneur is "a person similar to an entrepreneur, except that he or she develops a new business in the context of a large organization." It is re-emergence of entrepreneurship within large organizations. It understands the need for, initiating and carrying out innovations at every level of the organization. "Intrapreneurship is the practice of innovating by developing new products, processes or services while one is part of an organization."

1.12 ROLE OF ENTREPRENURS IN SOCIO-ECONOMIC DEVELOPMENT

Entrepreneurship contributes towards socio-economic development. The role of entrepreneurship in economic development varies from economy to economy depending upon its materials resources, industrial climate and the responsiveness of the political system to the entrepreneurial functions. The entrepreneurs contribute more in favorable opportunity conditions than in the economies with relatively less favorable opportunity conditions. Entrepreneurship constitutes an important input in the process of economic development. It channelizes resources, capital and men for economic growth. It is the best a1ternate to over the problem of unemployment and poverty:

It manages growth .J..A. Timmons has remarked, "It creates and builds something from practically nothing. It takes calculated risks. It is the knack for sensing an opportunity where others see chaos contradiction and confusion. It is the know-how to find, and control resources and to make sure that the venture does not run out of money when it is needed most". Robert Ronstadt writes, "Entrepreneurship is the dynamic process of creating incremental wealth." According to Schumpeter, economic development consists of "employing resources in a different way", bringing in a new combination of means of production. The entrepreneur looks for ideas and puts them into effect for economic development. Entrepreneurship has great importance in various economic systems.

It is all the more important under capitalism - and mixed economy where not only the responsibilities of entrepreneur in production and distribution are recognized but the objective of growth of business and profit maximization is also attained. Therefore, the importance of entrepreneurship stands beyond challenge in every economic system except under socialism where it appears in a different form, yet, entrepreneurship prevails in all economic systems in one form or the other. An entrepreneur has a critical role in competitive market economy, especially in developing contrives like India.

An entrepreneur acts as a trigger head to give spark to economic activities by his entrepreneurial decisions. Further, India which itself is an under-developed country aims at decentralized industrial structure to militate the regional imbalances in levels of economic development, small-scale entrepreneurship in such industrial structure plays an important role to achieve balanced regional development. It is unequivocally believed that small scale industries provide immediate large scale employment, ensure a more equitable distribution of national income and also facilitate an effective. resource mobilization of capital and skill which might otherwise remain unutilized. Entrepreneurship contributes in economic development in following ways:

- **Increasing Income and Per Capita Income:** Entrepreneur brings in new products and services and develops new markets for growth of economy thus increasing gross national product as well as per capital incomes of the people in the country. The role of entrepreneurship in economic development involves more than just increasing per capita output and income; it involves initiating and constituting change economic growth depends on the rate of applied technical progress (i.e., innovation) and rate of technical progress in the economic field which in turn depends on the supply of entrepreneurs in the society. Thus the entrepreneur is the agent of change in society.
- **Wealth Creation and Distribution:** Entrepreneurial activity leads to value addition and creation of wealth and capital in the structure of business and society. This change is accompanied by growth and increased output which allows more wealth to be divided by the various participants. It provides businessmen with a realistic basis to identify, analyze, and exploit a business opportunity. It takes most challenging decisions to help towards the building of a rapid growth and financially sound enterprise William James says, ''It is only through risking our decisions from one hour to another that we create wealth and capital". The wealth also gets distributed to more people and geographic areas, thus giving benefit to larger section of society.
- **Production Evolution Process:** Entrepreneur understands and takes up product evolution process. This is a process where innovation develops and an entrepreneur commercializes the new products. Here an entrepreneur combines different technologies and fuses them in to products and services which turn into marketable items. Entrepreneurs also focus on costs and efficiency. It asks, "to what results should the resources and efforts of the business be allocated so as to reach extraordinary productivity and results.

The important role that entrepreneurship plays in the socio- economic development of an economy can now be put in a more systematic and orderly manner as follows:

- Entrepreneurship promotes capital formation by mobilizing the idle saving of the public.
- It provides immediate large-scale employment. Thus, it helps reduces the unemployment problem in the country, i.e. the root of all socio-economic problem.
- It promotes balanced regional development.
- It helps reduces the concentration of economic power.
- It simulates the equitable redistribution of wealth, income and even political power in the interest of the country.

- It encourages effective resource mobilization of capital and skill which might otherwise remain unutilized.
- It also induces backward and forward linkages which stimulate the process of economic development in the country.
- Last but no means the least; it also promotes country's export trade i.e., an important ingredient to economic development.

Thus, it is clear that entrepreneurship serves as a catalyst of economic development. On the whole, the role of entrepreneurship in economic development of a country can be best be put as "an economy is the effect for which entrepreneurship is the cause."

The concept of the entrepreneur should be understood in its broadest sense that he is a person who acts as an agent of change for the good of the people. He not only brings change in economy but is responsible for social development also. The professional manager today is young, dynamic , educated, skilled and professional to the core. At the same time they are well versed with the modern technology and well dressed. The professional manager translated the entrepreneurial vision into a reality by adopting his professional efficiency and managerial skills. The entrepreneur and professional managers are, therefore, a critical input of socioeconomic development. Owner-managers and entrepreneurs are both born and made. They have certain personal character traits that they are born with and are influenced by antecedent factors as well as the culture into which they are born.

The owner-manager assumes all business risks and stands to lose not only his capital but reputation and prestige in the event of failure of business, whereas the professional manager is not exposed to such risks. The owner-manager is identified with individuality, flair, strong motivation to achieve success and the urge to grow while the professional manager conjures up a picture of organizing, planning, motivating and controlling. The owner-manager exhibits a strong desire for independence, which he demonstrates through the building of an organization.

Intrapreneurs are persons who are working in the existing organization. They foster organization innovation by assuming entrepreneurial roles. While entrepreneurs are persons who start their own company, intrapreneur is a person who pursues an entrepreneurial idea within a company. "Intrapreneur is a person who focuses on innovation and creativity and who transforms a dream or an idea into a profitable venture by operating within the organizational environment." The term 'intrapreneur' was introduced by Gordon Pinchot. He defines intrapreneur as 'those who take hands on responsibility for creating innovation of any kind within an organization. The intrapreneur may be creator or inventor but is always the dreamer who figures out how to turn an idea into a profitable reality.

An enterprise must earn profits for its own survival, for expansion, for bearing the risks and finally for the prestige of its management. But profit cannot be the sole objective of the entrepreneur. It is a means and not an end. No enterprise can last long unless along with earning profits, it continues to fulfil its obligations to the society. The ultimate objective of every enterprise has to be the good of the people. Business must be run by the people through the people and for the people. Entrepreneurship is a key driver of economic growth. However, entrepreneurial attributes are under threat in the wake of international competition. These threats provide immense opportunities for innovation, which holds the key to a country's ability to participate and reap the benefits of globalization. A country that fosters innovation and supports entrepreneurs will emerge the strongest in the future.

1.13 CASE STUDY

Case Study 1

Dr. George E. Gerpheide formed Cirque Corporation in 1991 and its predecessor, Proxima, Inc. in 1988, to further develop and commercialize GlidePoint® technology, which he had previously developed. As founding president, Dr. Gerpheide was the guiding force behind taking Cirque from a small start-up basement business to a respected, multimillion-dollar corporation known throughout the world. He has been responsible for: Initially developing GlidePoint® technology on which he holds five patents Assembling and leading a technical team Attracting tea members with key financial, sales, and marketing skills,Securing over $2 million in private funding, Negotiating technology license agreements Formulating corporate strategic and growth planning.

Dr. Gerpheide holds a Ph.D. in Computer Science from the University of Utah (1981), where he was a Graduate Research Fellow and IBM Fellow. He also holds a B.S.E.E. degree from MIT (1975), where he was a National Merit Scholar. He is a member of the Institute of Electronic Engineers (IEEE). During the startup years, the company was operating in the founder's basement on a shoe string budget, and at times did not have the funds to make the meager payroll. While the inventor saw great potential, the markets need was not yet established. Potential customers were not interested, and most computers did not have a graphical user interface - a Windows operating system

The Challenges Cirque's greatest challenge to date occurred when the company was very small and fragile. A laboratory prototype of the proprietary GlidePoint® touchpad technology had just been developed. This was prototype number 26, following a string of unsuccessful attempts to produce what would be become the first commercially successful touchpad technology. Operating out of the basement on a shoe-string budget, the company employed several part-time engineers and technicians and had no significant funding behind it. At that time, the technology was visualized for use by manufacturers of notebook computers, who could build it into their keyboards. Another hopeful market was keyboard manufacturers themselves who could build the pointing technology directly into their desktop computer keyboard. Unfortunately, while the inventor saw the potential for this technology, the markets need was not yet established or apparent. Not only that, but the current prototype was a large mass of jumbled wires and circuitry which obviously could not be manufactured at low cost or in the size required for a portable computer

The Successful Solution: The founders persevered. If you play blackjack long enough, you will eventually get the winning hand. In this case, a lucky break came when a very large manufacturer of portable computers finally responded after a long period of silence. The enthusiasm and vision of this first customer lead to initial money for further engineering followed by a significant technology license. This provided the spring board for all of the company's operations which allowed it to go on to become the leading provider of touchpad technology. Cirque created an entirely new category of products in the retail computer market with its line of Glide Point® pointing devices and keyboards..

Even as the inventor and creator of Cirque Corporation and of Glide Point® technology, Dr. Gerpheide typically resists praise given specifically toward him. During company meetings or announcements, he gives all credit to the employees for their hard work, dedication to task, and commitment to the company's successes. Dr. Gerpheide initiated and coordinated a research experiment to investigate growth of protein crystals in micro-gravity in conjunction with Utah State University for the Space Shuttle Challenger, Mission 41-B, and was present to witness the take-off in Florida. Dr. Gerpheide also spends time each week mentoring grade school children at Eastwood Elementary School.

QUESTIONS

1. What advice would you expect Dr. Gerpheide to give potential entrepreneurs who experience failures in starting their business?
2. How would the employees of Cirque probably behave when faced with a problem? Why?
3. What do you think Dr. Gerpheide tells the grade school children that he talks to on a regular basis in Salt Lake City about the relationship of education and success?
4. Why didn't his company succeed at first? What did he do about it?

Case Study 2

Mrs. Layaan Nisha is married to an entrepreneur and hence was much interested in having her own business. But as she studied only up to +2, she was not confidence whether she could able to do that. However she used to attend any programme in the city which talks about business. Hence when she was told about the ni-msme EDP at Periyar TBI, she was very much happy as the press news said that there would be hand-holding support under RGUMY after the training

Nisha was very curious person to know newer things. She attended the training programme at Periyar TBI during 25.10.2010 to 10.11.2010. During the EDP, she was able to relate her experience with her husband's business issues. She was very lively and sincere in doing the assignments given to her. She came up always with a bunch of questions for every session that other participants were also inspired to ask questions. She picked up her business idea on the second day of training itself and hence started preparing her business plan form the day onwards. She was then introduced to a local entrepreneur who was making arecanut plates. When he complained of some design problem in his machine, she consulted her husband and decided to do the manufacturing of machinery also for producing the arecanut sheath products. Thus she could able to come out with range of moulds.

Nisha was able to get the required support from her husband in terms of money, work place and manpower. Hence she established her unit immediately after the training. Her husband also extended his support by correcting the design flaws in the machine and by making moulds for new shapes, thus her products started getting demand in the market. Periyar TBI asked her to train women in the skill development, when the Incubator organised a two-day training at Andaman Nicobar islands in July 2012, Nisha was the master trainer. She carried a portable version of her machine to the island by airlifting and provided training. It was very much appreciated by the Island administration. Now she is procuring her raw material from the islands as the rate is very economic and there is an assured supply. Nisha is now very much a professionally performing entrepreneur, thus she has fulfilled her own dream of being an acclaimed business woman.

QUESTIONS

1. List out the main chacterstics of Mrs.Layaan Nisha to become an successful entrepreur in India?
2. Explain the internal as well as external factors influencing to Mrs. Layaan Nisha become an successful entrepreneur?

1.14 NOTES

1.15 SUMMARY

This unit discussed about the basic concepts of entrepreneurship, function and features of entrepreneurship and also major characteristics of successful entrepreneurs are discussed in the length. To give an account of role of entrepreneurs in socio-economic development also given in this unit.

1.16 KEYWORDS

Economic Development

Entrepreneur

Intrapreneur

Risk Bearer

Decision Making

1.17 SELF ASSESSMENT QUESTIONS

1. Define entrepreneurship and explain the major functions of entrepreneurship?

2. Explain the nature and characteristics of entrepreneurship in India?

3. State the differences between manager V/S entrepreneurs?

4. Explain the major factors influencing for development of entrepreurship activity?

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UNIT – 2 : THEORIES OF ENTREPRENEURSHIP

Structure :

2.0 Objectives

2.1 Introduction

2.2 Theories of Entrepreneurship

2.3 Characteristics of Entrepreneurship

2.4 Manager V/S Entrepreneurship

2.5 Classification of Entrepreneurship

2.6 Case Study

2.7 Notes

2.8 Summary

2.9 Key Words

2.10 Self Assessment Questions

2.11 References

2.0 OBJECTIVES

After study this unit, you should be able to;

- Explain the theories of entrepreneurship.
- Give an account nature and characteristics of entrepreneurship.
- Describe the manager Vs entrepreneurs.
- Explain the types of entrepreneurs.

2.1 INTRODUCTION

Entrepreneurship theories date back to the first half of the 1700s with the work of Richard Cantillon, who introduced the idea of entrepreneurs as risk takers. The classic, neoclassical and Austrian Market process schools of thought all pose explanations for entrepreneurship that focus, for the most part, on economic conditions and the opportunities they create. Economic theories of entrepreneurship tend to receive significant criticism for failing to recognize the dynamic, open nature of market systems, ignoring the unique nature of entrepreneurial activity and downplaying the diverse contexts in which entrepreneurship occurs.

Entrepreneurial organization have their roles in the economic science as well as in business science and that entrepreneurship cannot be automatically equated or restricted to small business only, or to the creation of new enterprises. However, both in literature and in everyday life this connection is frequently used and can be attributed to the fact that new economic entities do not emerge unless there is an entrepreneurial approach and entrepreneurs. On the other hand, there are not many economic entities in the small business sector that act in an entrepreneurial way, have real potential for growth, or demonstrate to generate growth.

2.2 THEORIES OF ENTREPRENEURSHIP

1) Cantillon's Theory (1755):

This theory does not view the entrepreneur as a production factor as such, but an agent that takes on risk and thereby equilibrates supply and demand in the economy. In a neo-classical framework, this function resembles that of the optimizing residual claimant, e.g., the business owner who rents labor and capital from workers and land owners in a world of uncertain demand or production.

2) Marshall's approach to entrepreneurship (Marshall, 1949):

Marshall is an equilibrium creating entrepreneur. To Schumpeter, the crucial fact about the modern corporation is that its managers cannot fill the strong social role played by the entrepreneur. The Neo-classical theory and thereby the "Marshallian analysis tries to explain equilibrium conditions in the markets under the assumptions of perfect knowledge and information, perfect competition (existence of many firms), existence of homogenous goods, and free entry and exit.

Marshall's main concerns and at the same time goal is to show that markets clear under the perfect competition assumptions and there are no excess profit opportunities and hence there is no exploitation of labor in production process since everyone earns his marginal contribution to production and national income. Marshall uses small changes (innovations) in the market process by many small competitors and confusingly indicates that large scale production is essential for economic progress and economic innovation. Marshall tried to create equilibrium by having many players in the market, hence perfect competition and not monopolist market. His theories consider many „great men who establish equilibrium in the supply and demand in the market for goods and services. Marshallian analysis gives small contributions from a very large number of modest entrepreneurs lead economic progresses.

3) The Social Enterprise School:

Entrepreneurship is viewed as "social enterprise" initiative. This refers to any organization, in any sector, that uses earned income strategies to pursue a double bottom line or a triple bottom line, either alone or as part of a mixed revenue stream (as a social sector business) that includes charitable contributions and public sector subsidies." Social Enterprise School centers on earned-income activity by nonprofits, but also includes market based solutions to social problems as well as businesses that generate profit that is donated to a social venture or purpose.

4) Schultz Approach (Schultz, 1975):

Argues that entrepreneurship is closely connected to situations of disequilibria and that entrepreneurship is the ability to deal with these situations. In disequilibrium, agents are acting sub-optimally and can reallocate their resources to achieve a higher level of satisfaction. Entrepreneurship is the ability to coordinate this reallocation efficiently, and it follows that agents have different degrees of entrepreneurial ability.

Schultz argues that, in disequilibrium, individuals know that opportunities to increase satisfaction exist but the reallocating process requires time. A better allocation of resources can be achieved either by experimenting by investing in human capital. he argues that entrepreneurship exists in all aspects of life. Thus, housewives and students are entrepreneurs when reallocating their time for housework or student activities. Furthermore, since entrepreneurship is an ability that can be augmented by investment, Schultz argues that a market for entrepreneurship exists and that it is possible to analyze entrepreneurship within the conventional supply and demand framework

5) Kirzner's "alert" entrepreneur (Kirzner, 1997):

While in Neoclassical analysis (Marshall) the main focus is the conditions necessary to sustain an equilibrium, and Schumpeter's focus was to explain the progress in capitalistic system by using innovator entrepreneur's destructive creation, Kirzner- representing the Neo-Austrian approach to entrepreneurship- focused on answering the question of whether a market economy works and, if it does so, what is the process that leads the economy towards an equilibrium. Kirzner claims that initially the economy is in disequilibrium and the competition among 'alert' entrepreneurs leads to equilibrium. Neo-classical economists, Kirzner realizes that markets are not always clear, there is no perfectly informed representative agent and for change to occur the entrepreneurs need incentives and this incentives comes from the difference among agents in terms of information and knowledge.

According to Kirzner, an improvement in the technique of production or a shift in preferences leads to change (disequilibrium) in the market where initially there was equilibrium. If there is equilibrium in the market there is nothing for the entrepreneur to do and no exchange and profit opportunities for them since everybody will be able to carry out his initially determined exchange plans. But whenever the change has occurred, some planned activities will not be realized. Kirzner states, there is no room for entrepreneurial discovery and creativity: the course of market events is foreordained by the data of market situation and for the system to create profit opportunities for entrepreneur there is need for an exogenous shock to the system.

Kirzner argues that the economy is in a constant state of disequilibrium due to shocks constantly hitting the economy. Furthermore, economic agents suffer from "utter ignorance"—they simply do not know that additional information is available. In this world, the alert entrepreneur discovers and exploits new business opportunities and eliminates (some of the) "utter ignorance" and thus moves the economy toward equilibrium, which is the state where no more information can be discovered. Kirzner's analysis of entrepreneurship identifies a disequilibrium that can only be corrected (to equilibrium) by alert entrepreneurs who produce and exchange, but the emphasis is on the exchange opportunities and progress that comes mainly from this part.

He postulates that entrepreneurial progress does not depend on a "great man" but it does depend on many great men, many players in the business arena. Profits from an entrepreneurial venture may not usually be very large and in some cases before the break-even point is established, the returns maybe negative. Since there is a lot of uncertainty in the business environment, profits is always a speculative affair by the entrepreneurs and therefore an entrepreneurship is an act of risk taking. Seeing risk and grabbing them may be considered too certain and requires an extra talent of people who can see the extra ordinary things. This scenario may therefore negate Kirzner theory.

6) Schumpeter (1999):

The discovery and opportunity theory of entrepreneurship (equilibrium destruction theory) Schumpeter looks at entrepreneurship as innovation and not imitation. Schumpeter's innovator as an economic and social leader does not care much about economic profits and only joy he gets from being an innovator and being a server to his society. Schumpeter's entrepreneur is an innovator in the entrepreneurship arena. In the Schumpeterian theory, the entrepreneur moves the economy out of the static equilibrium. Marz (1991), states that "Schumpeter hardly denied that the process of accumulation is the ladder to social power and social prestige; but he thought the very mainspring of the exercise of the entrepreneurial function is the powerful will to assert economic leadership.

The joy of carrying through innovations is the primary motive, the acquisition of social power a subsidiary to it. The entrepreneur is not (necessarily) the one who invents new combinations but the one who identifies how these new combinations can be applied in production. This line of reasoning implies that a business owner is considered an entrepreneur only if he is carrying out new combinations." The entrepreneur moves the economic system out of the static equilibrium by creating new products or production methods thereby rendering others obsolete. This is the process of "creative destruction"(creating uncertainty) which Schumpeter saw as the driving force behind economic development (Schumpeter, 1949).

7) **Knight's Approach (Knight, 1971):**

According to Knight, the main function of the entrepreneur is to assume the uncertainty related to these events, thereby shielding all other stakeholders against the entrepreneur. It could be argued that the innovating role of the entrepreneur was already identified or at least mentioned by Marshall. Knight views an entrepreneur in terms of Risk, Uncertainty and Profit. Knight recognized the distinction between risk and uncertainty. The latter is uninsurable since it relates to unique events, e.g., a shift in consumer taste. According to Knight, the main function of the entrepreneur is to assume the uncertainty related to these events, thereby shielding all other stakeholders against it. i.e., the entrepreneur exercises judgment overthese unique situations, the uncertainty in the economy, and functions as an insurance agent.

8) Knight elaborated his theory in the paper

"Profits and Entrepreneurial Functions" from 1942 (Knight, 1942, 1971). Knight explicitly argues that entrepreneurs are owners of companies, i.e., residual claimants, and thus receive profits. In order to earn a positive profit, the entrepreneur carries out three tasks:

a. he initiates useful changes or innovations;

b. he adapts to changes in the economic environment; and

c. he assumes the consequences of uncertainty related to the company.

Hence, in this later .It can be argued that the Knightian theory of entrepreneurship is a refinement of the theory by Cantillon (Hebert and Link, 1988).The latter also argued that entrepreneurship is closely connected to risk/uncertainty but did not recognize the important distinction between the two. However, the "Cantillonian" entrepreneur is also an arbitrageur who ensures that the economy is in equilibrium-a function which is not entrusted.

9) Neoclassical Constraints:

An economy cannot be static and therefore the state of static equilibrium is unrealistic. Large profits in the entrepreneurial situation are also not easy to come by. The wholesome application of the neoclassical theories is also unrealistic.

10) Biological Theory of Entrepreneurship:

According to Eagly (1995) several of the academic theories of gender differences offer explanations based on deeply seated cultural or even biological differences between men and women. The practitioner literatures are also particularly likely to emphasize gender differences, construing them as core aspects of what it means to be a man or a woman in the entrepreneurial process. However, other especially role-based theories emphasize that gender differences in behavior should be expected to change along with other social changes. Moreover, even theories of more stable gender differences generally also admit the co-existence of more malleable gender differences. Risk has long been a central concept in the entrepreneurship.

Entrepreneurial activities are frequently assumed to involve risk-taking, especially relative to managerial activities within established corporations. A more promising recent line of research has suggested that entrepreneurs differ in cognitive style from others and that they may be more likely to make particular cognitive errors. Psychologists have documented moderate and consistent levels of differences between men and women in risk-taking behaviors. Their results showed that "males took more risks even when it was clear that it was a bad idea to take a risk," and that females "seemed to be disinclined to take risks even in fairly risky situations or when it was a good idea," leading to the speculation that "men and boys would tend to encounter failure or other negative consequences more often than women.

11) Sociological Theories of Entrepreneurship:

Entrepreneurial ventures are clearly social entities from the very beginning, because even solo ventures implicitly involve a choice not to share ownership with others in the founding process. How a venture begins and whether others are recruited to join the effort can have lasting consequences for its performance and survival. Enterprises can be formed as a result of teams. Three principles underlying team formation may be distinguished: purposive choice, and choice constrained by context or opportunity structure refers to the tendency of people to associate with others similar to themselves, such as choosing others on the basis of gender or ethnicity. Purposive choice reflects people's tendencies to choose others who possess valuable skills, such as education or experience. Finally, opportunity structures set a context within which the first two principles operate.

Entrepreneurship has a psychological contract involving a give and take "transactionionary relationship in form of teamwork involving two or more individuals who jointly establish a business in which they have an equity (financial) interest. These individuals are present during the pre-start-up phase of the firm, before it actually begins making its goods or services available to the market." By this definition, a person must be involved from the beginning and also must have an equity stake in the venture to be considered a member of entrepreneurial teams spread the responsibility across individuals. Having to defend decisions to other individuals also having an equity stake in the venture can make team members more confident in their decisions noted that friendships "may hold teams together and stimulate heroic efforts during difficult times." The Biological perspective of entrepreneurship involves a psychological satisfaction and differences in behaviors in their exhibited by different gender in their endeavors as entrepreneurs.

2.3 CHARATERISTICS OF ENTREPRENEURSHIP

The main characteristics of entrepreneurship are stated below:

- **Innovation:** Entrepreneurship is innovative process. Innovation does not mean 'invention'. It means introducing new products, new technology, searching new markets, and discovering new sources of raw material etc. the innovation function gives impetus to the economic development of a country. Schumpeter has regarded innovation as a main feature of entrepreneurship. Tata's 'Nano' car is an example of innovation in automobile industry.

- **Risk bearing**: The second important characteristic of entrepreneurship is risk taking. Business is full of risks and uncertainties. The entrepreneur has to bear a number of risks in forming and running the enterprise. The market and price to be received is uncertain, there is a risk of changes in consumer likes and dislikes, in government policies, the competition may intensify etc. The entrepreneurs are calculated risk takers and not gamblers. They bear all risks in business in return of profit. Entrepreneurship develops in a society, which has a large number of persons ready to take risk.

- **Decision-making:** Entrepreneurship involves decision-making. Entrepreneurs have to take decisions on selection of product, site, raw material, labour, technology etc. They have to decide the quantum and sources of capital, marketing strategies and so on. Success of entrepreneurs depends on the ability to make decision promptly and accurately, and this requires a creative and analytical mind.

- **Dynamic process:** Entrepreneurship is a dynamic process. In the course of time, enterprises grow; unsuccessful enterprise die and new enterprises are established. The nature of enterprise, methods of business, nature of technology change over a period of time. Today's complex and uncertain environment compels the entrepreneurs to remain dynamic in order to survive in the market.

- **Organizing process:** Entrepreneurship is an organizing process in the sense that the entrepreneur has to organize various factors of product, create an organization structure and define the roles and responsibilities of personnel and manage the enterprise. Alfred Marshall has emphasized the organizing and management functions of entrepreneur.

- **Accepting challenges:** Entrepreneurship gives importance to accepting challenges by the entrepreneurs. In any business, there are tremendous challenges, and the entrepreneurs cannot avoid them. The task of seeking opportunities and exploiting them itself is challenging. In today's era of globalization and hyper change entrepreneurs have to face more challenges.

- **Management:** The entrepreneurs should manage the resources in an effective and viable manner. The management function has become more impact in modern times. It is the effective management, which helps entrepreneur to achieve the goals, maintain and improve the market share, fulfill the needs of customers and earn sufficient profit.

- **Commitment and Determination:** For an entrepreneur to be successful these attitudes are very important. Especially in cases of new ventures the entrepreneur has to completely immerse her or himself in the enterprise. Without this total commitment the entrepreneur might end up spoiling all the effort just for small errors that could have been avoided had is the been adequately careful. The undiluted determination of successful entrepreneurs is candid by the sincerity with which they perform their task.
- **Desire for Responsibility:** The entrepreneurs have a keen desire to have access and control of resources that they would productively utilize engage to achieve their self determined goals. They prefer to bear the responsibility of the outcome of the venture they are associated with. "This willingness to accept the responsibility for the outcome of the entrepreneurial venture is closely related to the deep desire of entrepreneurs to maintain an internal locus of control."
- **Opportunity Obsession:** An entrepreneur is on the lookout for opportunities that enables one to fix a goal that one can achieve. Even periods of crisis would be an opportune moment to realize some goals. Out of chaos the entrepreneur recognizes and picks up an opportunity and eventually proves himself successful. "The successful entrepreneur is also very adept at determining the difference between an idea and an opportunity, being constantly on those ideas that do, indeed, present opportunities."
- **Creativity and Flexibility:** Entrepreneurs are often faced with changing demands of their customers and their business. They can by no means afford to be rigid. They have to be flexible enough to live up to the expectations that keep changing. "The ability to respond to in a flexible manner to constant change requires a high degree of creativity. Very often ambiguity will serve better than certainty. A creative entrepreneurial mind is required to deal with this ambiguity in the development of problem solution".
- **Desire for Immediate Feedback**: Entrepreneurs get to know what they are doing. There has to be constant feedback of the consequences of their actions so that they take realistic measures to achieve their goals. "They have a strong desire to use this knowledge to improve their performance. This characteristic is also very relevant to their desire to learn from mistakes. Consequently, such entrepreneurs are often described as excellent listeners and quick learners."
- **High Level of Energy:** Entrepreneurs are extremely energetic. They are so much immersed in their venture that long hours of work become a routine for them. During the launch of an enterprise the extra energy that an entrepreneur puts in become a critical factor for its success.

- **Motivation to Excel:** Entrepreneurs like to excel in whatever they do. Most often they are self starters and have an inner desire to keep doing better than their previous performance. We have seen David McClelland developing his thesis based on this need for achievement. The drive is from within. They are "seldom driven by externally evidenced status and power. Rather, they derive satisfaction from the challenge of being creative and building their chosen venture. They appear to have a keen sense of their strengths and weaknesses."
- **Orientation to 'the Future:** The entrepreneurs do not sit idle even when everything seems to be going fine with them. They are constantly either on the look out for new opportunities or are trying to improve upon their set standards. They have to be very much proactive to live up to the need of the hour. Entrepreneurs engaged in high growth ventures, having more stakes, are consequently more concerned for the future.
- **Willingness to Learn from Failure:** An entrepreneur is not scared of failure. She may have tried to set up a venture and may have failed but the failure would, more likely, make her him further determined to taste success. "It is important in studying entrepreneurship to distinguish failure of a business from failure of the entrepreneur. They are not the same. Failure of a particular business is not necessarily' a loss. Although the specific business no longer exists, the resources, the macro sense, are most often redistributed, most important, people learn from business failure. The only thing more painful than learning from experience is not learning- from experience."
- **Leadership Ability:** Normally entrepreneurs have some experience related to the enterprise they are associated with. They have intimate knowledge about the resources required, the technology and the market. "It is rare, indeed, for a highly successful venture to be started by someone with no experience in the chosen field of the venture. Successful entrepreneurs have an ability to extend influence without power. This tactic requires that, the entrepreneur be more of a mediator or negotiator than a dictator." With so much of knowledge and experience they tend to be visionary leaders not dreamers. "It has been said that the difference between a visionary and a dreamer is that when a dreamer wakes up, there is nothing there. Such visionary leaders are not loners, they have no need to insist on getting all the credit. Rather, they realize that rarely is it possible to build a successful venture alone."
- **Tolerance for Risk:** They essentially are risk managers who **Concept and Theories** only take calculated risks. High rates of changes, risks and ambiguity are accepted as normal in their world. Uncertainty is something that is treated as a given condition. One

has to live with it. “In such a world, it is important that the entrepreneurs learn to manage risk and make sure that the risks taken are reasonable ones, commensurate with the perceived rewards. Entrepreneurs learn to manage risk, in part by transferring part of the risk of the venture to others (investors, bankers, customers, suppliers and so forth).” Entrepreneurs display tremendous capacity to tolerate ambiguity and uncertainty. They are quite used to conflict. “They view conflict as a means to an end in examining risk, uncertainties and potential rewards. Successful entrepreneurs capitalize on the constructive effects of stress and minimize the negative reactions of exhaustion and frustration.”

2.4 MANAGER V/s ENTREPRENEURS

Any enterprise needs entrepreneurs to start the enterprise and run it. It also needs managers for the managerial role required for running day to day operations of the enterprise. Generally the Chief Executive and his team at top level play the role of entrepreneurs whereas the group of officers in the organization in middle level as well as lower level plays the role of managers. A professional manager takes care of the general functions of running an organization such as strategic planning, operation planning, organizing the resources, staffing coordination, motivation and controlling work in the organization.

The professional manager is driven by a plan to achieve the predetermined targets to build the organization and develop it. A manager uses managerial tools to achieve the targets like the volume of production, the profit or growth of an organization. He contributes on day to day operations in achieving the quality of goods produced, makes efficient use of the resources and enhancement of the standards. A manager is appointed by the organization and paid as per the employment contract.

An entrepreneur is not a paid manager. He is great motivator to start his new business and also manage it successfully. He is the investor and takes risks in the enterprise. He is an innovator and a manager and works for his satisfaction and he is happy to get positive results. An entrepreneur appoints a manager for carrying out some of his functions, whereas the reverse is not true. An entrepreneur may also perform duties of a manager in getting done his creative activities and satisfying need of achievement. An entrepreneur takes a venture for his personal satisfaction, whereas a professional manager has functions like setting targets, following rules, procedures, attainment of set targets. Any failure of an enterprise may be a huge loss in the career of an entrepreneur. In case of professional managers the failures may mean little.

The distinction between an entrepreneur and with professional / traditional manager is detailed in to separate:

2.5 CLASSIFICATION OF ENTREPRENEURS

Entrepreneurs may be classified on the basis of level of motivation, geographical arts, gender, use of technology, nature of business entrepreneurial background etc. Study of the different types of entrepreneur, therefore, assumes importance. Based on the study of the American agriculture, Clarence Danh of has classified the entrepreneurs into four types viz. innovative entrepreneur, Imitative entrepreneur, Fabian entrepreneur and drone entrepreneur.

I . According to Economic Development:

1) **Innovative Entrepreneur:** Innovative entrepreneurs are motivated by the idea of doing something new. They welcome the advancements in science, technology and research fields. They make commercial use of inventions and introduce new products, which hitherto were not used by customers, e.g. increasing prices of petrol – diesel and their reducing supplies motivate them to launch LPG or electric battery operated motorcars. Innovative entrepreneurs form a large number in developed countries like U.S.A., France, Germany etc. It is only because of the innovative entrepreneurs the society gets new products like i-phone, electric battery driven car and standard of living of people is improved. The favourable environment in terms of educational, infrastructural facilities, availability of huge funds and the latest technology, increased needs of people in developed countries enables the entrepreneur to innovate.

2) **Imitative Entrepreneurs:** The tendency of imitative entrepreneurs is just reverse of that of innovative entrepreneurs. They do not innovate but imitate the products and policies of innovative entrepreneurs functioning in developed country. Underdeveloped or developing countries require imitative entrepreneurs more than the innovative entrepreneurs. The environment in these countries is not conductive for innovation. There is a scarcity of funds, materials, labour in these countries. The level of research is low, technology is quite old and the needs of people are limited. The entrepreneurs, therefore, cannot assume the risk of innovation. They take moderate risk and are content with limited income. Sony Corporation of Japan first launched a pocket cassette recorder 'Walkman' when it received tremendous response; the other entrepreneurs imitated it and started manufacturing such product.

3) **Fabian Entrepreneurs:** These entrepreneurs take great precaution and are of suspicious mind in experimenting any change in their entreprises. They conduct the business in a routine manner and are ready to change only when they feel that failure to change would affect their position. They do not welcome the changes. They are lazy and indifferent

towards the enterprise. They have moderate ambitions. They are happy in carrying on their family business in a traditional manner. They are not prepared to expand or change their business. Their traditional outlook is detrimental to the progress of the country.

4) **Drone Entrepreneurs:** These entrepreneurs stick up to the old values, customs and traditions. They are not willing to effect changes in their enterprise, rather they oppose such changes. They blindly follow the traditional methods of business even when it causes loss to them. Their attitude affects the profitability, competitiveness and productivity of their enterprises.

II. According to the Type of Business:

Entrepreneurs are found in various types of business coronations of varying size. We may broadly classify them as follows:

- **Business Entrepreneur:** Business entrepreneurs are individuals who conceive an idea for a new product or service and-then creates a business to materialize their idea into reality. They tap both production and marketing' resources in their search to develop a new business opportunity. They may set up a .big establishment or a small business unit. They are called small business entrepreneurs when found in small business units such as printing press, textile processing house, advertising agency; readymade garments, or confectionery. In a majority of cases, entrepreneurs are found in small trading and manufacturing business and entrepreneurship flourishes when the size of the business is small.

- **Trading Entrepreneur:** Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work. He identifies potential markets, stimulates demand for his product line and creates a desire and interest among buyers to go in for his product. He is engaged in both domestic and overseas trade. Britain, due to geographical limitations, has developed trade through trading entrepreneurs. These entrepreneurs demonstrate their ability in pushing many ideas ahead to promote their business.

- **Industrial Entrepreneur:** Industrial entrepreneur is essentially a manufacturer, who identifies the potential needs of customers and tailors a product or service to meet the marketing needs. He is a product-oriented man who starts in an industrial unit because of the possibility of making some new product. The entrepreneur has the ability to convert economic resources and technology into a considerably profitable venture. He is found in industrial units as the electronic industry, textile units, machine tools or videocassette tape factory.

- **Corporate entrepreneur:** Corporate entrepreneur is a person .who demonstrates his innovative skill in organizing and managing corporate undertaking. A corporate undertaking is a form of business' organization, which is registered under some statute or Act, which gives it a separate legal entity. A trust registered under the Trust Act, or companies registered under the Companies Act are example of corporate undertakings. A corporate entrepreneur is thus an individual who plans, develops and manages a corporate body.
- **Agricultural Entrepreneur:** Agricultural entrepreneurs are those entrepreneurs who undertake agricultural activities as raising and marketing of crops, fertilisers and other inputs of agriculture. They are motivated to raise agriculture through mechanization, irrigation and application of technologies for dry land agriculture products. They cover a broad spectrum of the agricultural sector and include its allied occupations.

III. According to the Technology use:

The application of new technology in various succors of the national economy is essential for the future growth of business. We may broadly classify these. entrepreneurs on the basis of the use of technology as follows:

- **Technical Entrepreneur:** A technical entrepreneur is essentially compared to a "craftsman." He develops improved quality of goods because of his craftsmanship. He concentrates more on production than marketing. On not much sales generation by and does not do various sales promotional techniques. He demonstrates his innovative capabilities in matter of production of goods and rendering of services. The greatest strength, which the technical entrepreneur has, is his skill in production techniques.
- **Non-technical Entrepreneur:** Non-technical entrepreneurs are those who are not concerned with the technical aspects of the product in which they deal. They are concerned only with developing alternative marketing and distribution strategies to promote their business.
- **Professional Entrepreneur:** Professional entrepreneur is a person who is interested in establishing a business, but does not have interest in managing or operating it once it is established. A professional entrepreneur sells out the running business and starts another venture with the sales proceeds. Such an entrepreneur is dynamic and he conceives new ideas to develop alternative projects.

IV. According to Stages of Development:

Entrepreneurs may also be classified as the first generation entrepreneur, modern entrepreneur and classical entrepreneur depending upon the stage of development. They are explained below:

- **First-Generation Entrepreneur**: A first-generation entrepreneur is one who starts an. industrial unit by innovative skill. He is essentially an innovator, combining different technologies to produce a marketable product or service. .
- **Modern Entrepreneur**: A modern entrepreneur is one who undertakes those ventures, which go well along with the changing demand in the market. They undertake those ventures, which suit the current marketing needs.
- **Classical Entrepreneur**: A classical entrepreneur is one who is concerned with the customers and marketing needs through the development of a self-supporting venture. He is a stereotype entrepreneur whose aim is to maximize his economic returns at a level consistent with the survival of the firm with or without an element of growth.
- **Others**: Innovating entrepreneurship is characterized by aggressive assemblage in information and analysis of results, deriving from a novel combination of factors. Men / women in this group are generally aggressive in experimentation who exhibit cleverness in putting attractive possibilities into practice. One need not invent but convert even old established products or services by changing their utility, their value, and their economic characteristics into something new, attractive and utilitarian. There in the key to their phenomenal success. Such an entrepreneur is one who sees the opportunity for introducing a new technique of production process or a new commodity or a new market or a new service or even the reorganization of an existing enterprise.

V. According to the Growth:

The development of a new venture has a greater chance of success. The entrepreneurs a new and open field of business. The customer's approval to the new product gives them psychological satisfaction and enormous profit. The industrial units are identified as units of high growth, medium growth and low growth industries and as such we have "Growth Entrepreneur" and "Super-Growth Entrepreneur."

- **Growth Entrepreneur**: Growth entrepreneurs are those who necessarily take up a high growth industry, which has substantial growth prospects.
- **Super-Growth Entrepreneur**: Super-growth entrepreneurs are those who have shown enormous growth of performance in their venture. The growth performance is identified by the liquidity of funds, profitability and gearing.

Dynamic enterprises can be found in all developmental stages of an enterprise, not only in the so-called stage of growth. The long-term growth is related to, and depends on, the assertion of the leadership professionalization and the development of an entrepreneurial and managerial team, as well as on an advanced, professional organizational structure, tailored to the nature of the business. Underlying for the dynamic enterprise leadership is the understanding and awareness of the management techniques of a growing enterprise, which means that we cannot expect the most dynamic enterprises to be led by individual entrepreneurs, but by strong entrepreneurial and management teams, under the lead of an influential entrepreneur or an entrepreneurial manager, who need not necessarily be the founder of the enterprise.

The entrepreneur is the one who undertakes to organize, manage, and assume the risks of a business. In recent years entrepreneurs have been doing so many things that it is necessary to broaden this definition. Today, an entrepreneur is an innovator or developer who recognizes and seizes opportunities; converts those opportunities into workable/ marketable ideas; adds value through time, effort, money, or skills; assumes the risks of the competitive marketplace to implement these ideas; and realizes the rewards from these' efforts.

The entrepreneur is the aggressive catalyst for change in the world of business. He or she is an independent thinker who dares to be different in a background of common events. The literature of entrepreneurial research reveals some similarities, as well as a great many differences, in the characteristics of entrepreneurs. Chief among these characteristics are personal initiative, the ability to consolidate resources, management skills, a desire for autonomy, and risk taking. Other characteristics include aggressiveness, competitiveness, goal-oriented behavior, confidence, opportunistic behavior, intuitiveness, reality-based actions, the ability to learn from mistakes, and the ability to employ human relations skills.

Development of entrepreneurship depends on the facilities to acquire knowledge and skills required, so that an individual can take full advantage of them. Economic policies of the government are one of the major factors that promote the development of entrepreneurship. Support systems in the form of education, training institutes/colleges may promote entrepreneurship through emphasizing values, which favor taking initiatives, introducing innovativeness and encourage risk-taking capacity. Government can create an atmosphere for the growth of entrepreneurship by creating awareness of the importance of entrepreneurship for the development of the country, by promoting a climate which values entrepreneurial behavior through media, press, mass education programmes, by setting up industrial R&D institutes, by introducing favorable labor policies and by creating allied infrastructure facilities and services.

2.6 CASE STUDY

Case Study 1

Mazwe Tom completed Grade 12 but remained unemployed. He always dreamed of a career in fashion design but could not afford to further his studies. As an innovative self-starter, this young man joined the classes offered by a community-based project that trained people to sew. Using his skills from the sewing classes, combined with his own initiative and self-motivation, a viable business idea was created. He was put in contact with Donne Nicols of Cyril Ramaphosa's Shakunda Foundation. They immediately gave him machines for domestic and industrial sewing, as well as for overlocking.

He started making clothes according to orders from members of his local community. Word quickly spread about his unique designs. Tom marketed the business by means of flyers and the clothes his customers were wearing. The most significant challenges that Tom faced were cash-flow management and poor client payment. Though modest in size and equipment, the business has grown. In the first year he was able to support himself and set aside some profit for capital.

When questioned about his success factors, Tom points to the uniqueness of the clothes he designs. 'I get my inspiration from all over – from watching how famous people dress. My designs are 100% original. I take in what I see, change it and put the Tom's Fashion Design stamp on it,' he says. Looking to the future, he says his sights are set on becoming a top South African designer. And if his story proves anything, it's that it pays to dream.

Questions:

1. Identify any TWO key success factors of Mazwe Tom's business enterprise?
2. Mazwe Tom stays that the most significant challenges to his business are cash-flow management and poor client payment?
3. Advise Mazwe on ways to overcome these challenges?

Case Study 2

Sequira he an entrepreneur only 21 year old when she joined Palm Beach Resorts as a Food and Beverages (F&B) helper. She had just graduated from one of the premium catering colleges in the city. She was young, energetic and possessed a pleasant disposition. Due to her experimenting nature she was not very successful with her F&B. However, when one of her managers tried her out in guest relations, she was an instant hit. From then on there was no looking back for her. She soon rose to the position of a Banquets Manager .Even as a Banquets Manager she loved the Kitchen section. She felt like cooking. Many a times she went to the Kitchen of one of the Palm Beach Resort Restaurants and experimented. Many a times she was successful, or this is what her Kitchen staff often told her. She was enjoying every bit her life.

Unfortunately for her this was to be her glass ceiling. Due to a catering educational background not many in the Palm Beach Resorts Management thought that she could take up hardcore marketing assignments. Happy was unhappy. She felt stifled. Her stagnation in position was making her feel truncated. She decided to go independent. Over the years, being single, she had gathered enough money. Moreover, her father was a successful businessman and would love to fund any of his only daughter's ventures. Also being in guest relations, Happy herself knew a lot of influential people. On the other hand, Happy Sequira was now 30. She had to seriously contemplate marriage due to parental pressures. Her rise at Palm Beach Resorts was meteoric, which implied that she was not used to serious failure. Besides Happy wondered what kind of a start-up could she design to suit her needs.

QUESTIONS:

1. Briefly analysis this case and make out should happy Sequira go independent?

2. If Happy decides to take up F&B what kind of a start-up do you suggests?

3. Make out the manager v/s entrepreneur relationship in this case study?

2.7 NOTES

2.8 SUMMARY

This unit discussed about the theories of entrepreneurship and characteristics of entrepreneurship, differences between managers v/s entrepreneurs are discussed in the length. To give an account of types of entrepreneurs is also given in this unit.

2.9 KEYWORDS

Motivation

Leadership

Manager

Theories

Development

2.10 SELF ASSESSMENT QUESTION

1. Explain the different types of theories of entrepreneurship?
2. Describe the classification and types of entrepreneurs?
3. Explain the nature and characteristics of entrepreneurship in India?
4. State the differences between manager V/S entrepreneurs?

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UNIT - 3 : CREATIVITY AND INNOVATION

Structure :

3.0 Objectives

3.1 Introduction

3.2 Stages of Creativity

3.3 Innovation and Entrepreneurship

3.4 Forms of Innovation

1.5 Barriers to Creativity

3.6 Technique for Improving Creative Process

3.7 Case Study

3.8 Notes

3.9 Summary

3.10 Key Words

3.11 Self Assessment Questions

3.12 References

3.0 OBJECTIVES

After study this unit, you should be able to;

- Define creativity and innovation.
- Give an account on innovation and entrepreneurship.
- Describe the barriers of creativity.
- Determine techniques for improving the creativity process.

3.1 INTRODUCTION

The terms creativity and innovation are often used to mean the same thing, but each has a unique connotation. Creativity is the ability to bring something new into existence.''This emphasizes the "ability," not the "activity," of bringing something new into existence. A person may therefore concieve of something new and envisions how it will be useful, but not necessarily take the necessary action to make it a reality. Innovation is the process of doing new things. It is the conversion of creative ideas into market place reality, which people are prepared to buy. This distinction is significant. Ideas have little value until they are converted into new products, services, or processes. Innovation, therefore, is the transformation of creative ideas into useful applications but creativity is prerequisite to innovation.

In essence, organizational leadership is the most important aspect of the organizational creativity and innovation dynamics. No organization can transform or renew itself unless the leaders put the process in motion and sustain it. Therefore, organizations need creative leaders to manage the innovation process. Hence, the creativity of an organization depends on how the leader designs the organization and creates the environment that allows creativity to develop. It can also depend on how they encourage and manage diversity in the organization. Finally, it depends on how the leader inspires everyone to bring out his or her best creative self and use that to help lead and transform the organization.

Creativity has always been at the heart of human endeavor. Allied to innovation, which creates unexpected value, it is now recognized as central to organizational performance. The shift to knowledge economies has been abrupt and there is a flurry of interest in creativity and innovation in the workplace. Innovation is considered, quite simply, an imperative for organizational survival. It may even be the key to some of the biggest challenges facing the world, such as global warming and sustainable development. Notwithstanding, we are still far from a theory of organizational creativity: the avenues for promising research that might contribute to its emergence are innumerable because of the increasing use of systems approaches and the growing number of agents involved in knowledge flows.

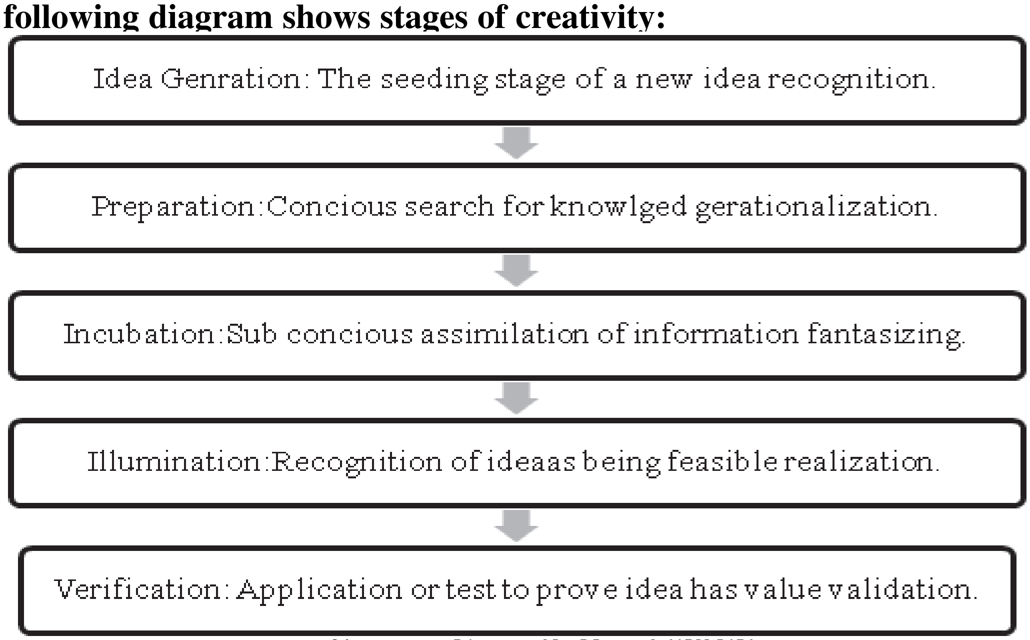
Creativity is the mental and social process fuelled by conscious or unconscious insight of generating ideas, concepts, and associations. Innovation is the successful exploitation of new ideas: it is a profitable outcome of the creative process, which involves generating and applying in a specific context products, services, procedures, and processes that are desirable and viable. Naturally, people who create and people who innovate can have different attributes and perspectives.

The positive impact of entrepreneurial firms is seen throughout the economy and the society. Entrepreneurial firms create jobs, contribute to economic growth they reshape the business ecosystem, create an environment where they play a major role in introducing innovations, commercializing new technologies, opening new market, and creating value by combining resources in exciting new ways.

3.2 STAGES OF CREATIVITY

Creativity and the spirit of innovation to develop in any organization, it must recognize the role of the leaders in encouraging creativity. Leaders can successfully encourage organizational creativity and innovation by designing the organization to foster an environment that is conducive for creativity to flourish. Leaders can do this by building friendly and inclusive working conditions for the members of the organization. When the social structure of the organization helps workers feel secure and accepted, it brings out their creativity. Consequently, organizational leaders must respect, value, and harness the richness of ideas, backgrounds, and perspectives of every employee and allow them to use their unique personal assets and experiences to work for the organization.

The following diagram shows stages of creativity:



Source: Vasanth Desai (2012).

- **Idea generation:** Exactly how an idea is germinated is a mystery; it is not something that can be examined under the microscope. For most entrepreneurs, ideas begin with interest in a subject or curiosity about finding a solution to a particular problem.
- **Preparation:** Once a seed of curiosity has taken form as a focused idea, creative people embark on a conscious search for answers. If it is a problem they are trying to solve, then they begin an intellectual journey, seeking information about the problem and how others have tried to resolve it. Inventors will set up laboratory experiments, designers will begin engineering new product ideas, and marketers will study consumer buying behavior.
- **Incubation:** The idea, once seeded and given substance through preparation, is put on a back burner, the subconscious mind is allowed time to assimilate information. Incubation is a stage of 'mulling it over'. When an individual has consciously worked to resolve a problem without success, allowing it to incubate in the subconscious will often lead to a resolution.
- **Illumination:** Illumination occurs when the idea surfaces as a realistic creation. This stage is critical for entrepreneurs because ideas, by themselves, have little meaning. Reaching the illumination stage separates daydreamers and tinkerers from creative people who find a way to transmute values.
- **Verification:** An idea once illuminated in the mind of an individual still has little meaning until verified as realistic and useful. Thus, verification is the development stage of refining knowledge into application.

3.3 INNOVATION AND ENTREPRENEURSHIP

It may refer to incremental, radical and revolutionary changes in thinking, products, processes or organizations. A distinction is typically made between invention, an idea made manifest, and innovation, ideas applied successfully **Innovation** is the process of doing new things. This distinction is important. Simply having a great new idea is not enough; transforming the idea into a tangible product, service or business venture is the essential next step. Innovation, therefore, is the transformation of creative ideas into useful applications, but creativity is a prerequisite to innovation.

Entrepreneurship requires business owners to be bold enough to try their new ideas, flexible enough to throw aside those that do not work, and wise enough to learn about what will work based on their observations of what did not. Entrepreneurs develop new ideas and from their ideas, establish new enterprises that add value to society. Creative thinking has become a core business skill, and entrepreneurs lead the way in developing and applying that skill. In fact, creativity and innovation often lie at the heart of small companies' ability to compete successfully with their larger rival.

If creativity is the seed that inspires entrepreneurship, innovation is the process of entrepreneurship. This was Schumpeter's conclusion when he wrote about the economic foundations of free enterprise and entrepreneurship. According to him innovation does not happen as a random event. Central to the process is the entrepreneur. It is they who introduce and then exploit the new innovations. For Schumpeter, 'the entrepreneur initiates change and generates new opportunities. Until imitators force prices and costs into conformity, the innovator is able to reap profits and disturb equilibrium'. Sometimes innovation involves generating something from nothing. However, innovation is more likely to result from elaborating on the present, from putting old things together in new ways, or from taking something away to create something simpler or better.

Peter Drucker believes that innovation is the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and capable of being practiced. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. And they need to know and to apply the principles of successful innovation.

3.4 FORMS OF INNOVATION

Innovations could emerge from within NGOs, government or incumbent firms, but due to organizational inertia and the inherently contradictory nature of firms producing both environmentally harmful products, and environmentally beneficial alternatives, it seems likely that innovations may emerge from new firms. In the context of environmental entrepreneurship in existing industries, the process of creative destruction plays an important role. For example, if entrepreneurs are able to successfully create energy alternatives that provides a cheap, reliable, and endless supply of energy, Surely existing power distributors and fossil fuel miners may evolve, but the end effect would be the same; the destruction of a previously existing industry while reducing environmental degradation. Just as in more familiar examples of creative destruction, when entrepreneurs enter a sector built on environmentally unsustainable practices, the likely outcome is that industries will indeed be destroyed, although in many cases, this will be a prolonged process.

The innovation can, of course, be of varying degrees of uniqueness. Most innovations introduced to the market are ordinary innovations, that is, with little uniqueness or technology.

As expected, there are fewer technological innovations and breakthrough innovations with the number of actual innovations decreasing as the technology involved increases. Regardless of its level of uniqueness or technology, each innovation (particularly the latter two types) evolves into and develops toward commercialization through one of three mechanisms: the government, intrapreneurship, or entrepreneurship.

Innovation means "doing new things or the doing of things that is already being done in a new way." It includes new processes of production, introduction of new products, and creation of new markets, discovery of a new and better form of industrial organization. Earlier, we defined innovation as the process of doing new things. It is important to recognize the innovation more focus on action not conceiving new ideas only. When people have passed through the Realization and Validation stages of creativity process, they may have become inventors, but they are not yet innovators.

Innovation as 'the means to break away from established patterns', in other words doing things really differently. Therefore, simply introducing a new product or service that has customer's willing to buy it, is not necessarily innovation. Innovations have to break the mould of how things are done. To really innovate Mintzberg says that 'one engages in divergent thinking aimed at innovation; the other is convergent thinking aimed at perfection'.

- **Technological innovativeness** primarily comprises research and engineering efforts aimed at developing new products and processes.
- **Products-market innovativeness** consists of market research, products design, and innovations in advertising and promotion.
- **Administrative innovativeness** is concerned with novelty in management systems, control techniques, and organizational structure. Innovation can also be classified in terms of whether it is incremental, modular.
- **Incremental Innovation:** This comprises relatively small modifications to pre-existing solutions this type of innovation improves and extends an established design. Improvement takes place in individual components, but the basic core design concepts and the linkage between them remain the same. An example is faster spinning hard drives.
- **Modular Innovation**: This kind of innovation changes the core design of one or more components but does not change the entire product architecture. This type of innovation requires new knowledge for one or more components, but the architectural knowledge remains the same. A good example is the digital phone which replaced the analog phone, without changing the phone itself .

- **Architectural Innovation:** The essence of this type of innovation is the reconfiguration of an established system to link together components and parts in a new way. According to the authors, architectural innovation does not mean that the components remain unchanged but they are changed in a manner that there are new ways of linkage between the components

- **Radical Innovation:** This type of innovation brings about a new dominant design and consequently, a new set of core design concepts embodied in components that are linked together in a new architecture .Radical innovation leads to new solutions that address customer needs.

- **Disruptive Innovation:** Gets a great deal of attention, particularly in the press, because markets appear as if from nowhere, creating massive new sources of wealth. It tends to have its roots in technological discontinuities, such as the one that enabled Motorola's rise to prominence with the first generation of cell phones.

- **Application Innovation:** Takes existing technologies into new markets to serve new purposes.

- **Product Innovation**: Takes established offers in established markets to the next level, as when Intel releases a new processor or Toyota a new car. The focus can be on performance increase, cost reduction, usability improvement or any other product enhancement.

- **Process Innovation:** Makes processes for established offers in established markets more effective or efficient. Examples include Dell's streamlining of its PC supply chain and order fulfillment systems.

- **Experiential Innovation:** Makes surface modifications that improve customer's experience of established products or processes.

- **Marketing Innovation:** Improves customer-touching processes be they marketing communications or consumer transactions.

- **Business Model Innovation**: Reframes an established value proposition to the customer or a company's established role in the value chain or both. Examples include IBM's shift to on demand computing, and Apple's expansion into consumer retailing.

- **Structural Innovation:** Capitalizes on disruption to restructure industry relationships. Innovators like banks, for example, that have used the deregulation of financial services to consumers under one umbrella.

The creative process starts with one good idea. Most groups can come up with lots of good ideas. The desire to innovate is born in some people. It can be encouraged, especially at an early age. If the leadership does not really want ideas, the group quickly learns this and will not offer them. A willingness to welcome new ideas or to ask for them will bring the inventors in the group forward. Once an idea is found, hard work is needed to turn the idea into reality. The effort required to move ahead with an idea requires faith, persistence, and communication. The courage needed to risk failure prevents many from trying, and therefore effort must be rewarded. Entrepreneurship cannot occur if the group is not committed to taking an idea and using it to produce well-being in the future.

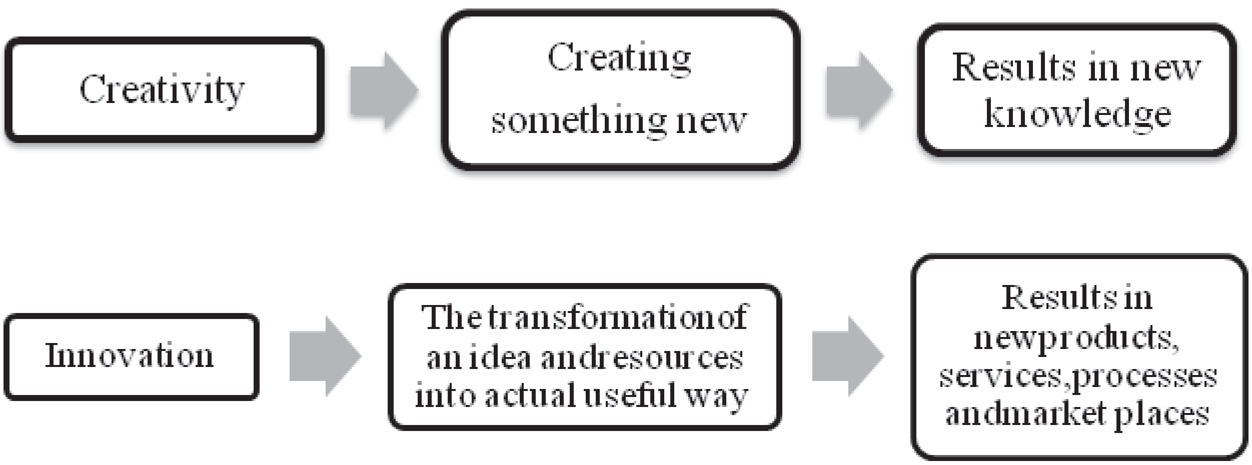


Fig: Invention versus Innovation in Entrepreneurship

Sources: Robert D. Hisrich, Michael P. Peters (2000)

To innovate effectively, therefore, requires insight - into customers and markets, into what is possible and what is not, and into how to make things happen. It is also helped by good luck. What is more, innovation may be a necessary condition for establishing a growth business, but it is not a sufficient condition. To exploit an innovation successfully requires strength of personal character, managerial ability and often money, which bring us back to the central role of the entrepreneur.

- **Innovation:** Innovating is a process of creating, changing, experimenting, transforming and revolutionizing. Innovation is one of the key distinguishing characteristics of entrepreneurial activity. The passionate drive and intense hunger of entrepreneurs to forge new directions products and processes and to take risks set in motion a series of decisions that lead to the innovations that are important for economic vitality. Without these new ideas, economic, technological, and social progress would be slow indeed.

The "creative destruction" process of innovating leads to technological changes and employment growth. Entrepreneurial firms act as these "agents of change" by providing an essential source of new and unique ideas.

- **Job Creation:** We know that job creation is vital to the overall long-term economic health of communities, regions, ad nations. Entrepreneurial ventures play very important role in it. Small business create more jobs than large business do. During economic recession, when large companies are on their way to retrenchment of their work force, individuals whose jobs are eliminated find employment with small business. The creation of jobs by small businesses is expected to continue into the future as new firms start small and grow.

- **Number of New Start-ups:** All businesses whether they fit the definition of entrepreneurial or not at one point in time were start-ups, the most convenient measure we have of the role that entrepreneurship plays in this economic statistic is to look at the number of new firms over a period of time. The assumption that we have to make, then, is that some of these new firms engage in activities that are entrepreneurial in nature. The next important function of entrepreneurship is starting the venture. In fact, entrepreneurs identify opportunities and possible competitive advantages. They set goals and strategies. Pursuit of entrepreneurship contributed to the overall creation of new firms.

- **Opportunity to Contribute to Society and Be Recognized for Your Efforts:** Often, small business owners are among the most respected and most trusted members of their communities. Business deals based on trust and mutual respect are the hallmark of many established small companies. These owners enjoy the trust and recognition they receive Entrepreneurship often deals with the difficult issues of social responsibility and ethical problems. Entrepreneurship produces such goods and services that protect consumer health and global environment and helps in creating better living conditions in society. It generates employment and conserves natural resources, balances growth in the country and provides more amenities to people. Ethical considerations also play a role in decisions and actions of entrepreneurs.

- **Path of Creating Tomorrow:** Peter Drucker Says, "Entrepreneur has to seek off yesterday and to render obsolete what already exists and is already known. He has to create tomorrow. Making the business of tomorrow cannot be a flash of genius. It requires systematic analysis and hard, rigorous work today·. The specific job of entrepreneurship is to make today's business capable of making the future, of making itself into a different business".

- **Entrepreneurship Provides an Opportunity to Make a Difference and Create Your Own Destiny:** Increasingly, entrepreneurs are starting businesses because they see an opportunity to make a difference in a cause that is important to them. Entrepreneurs are finding ways to combine their concerns for social issues ad their desire to earn a good living. Owning a business provides entrepreneurs the independence and the opportunity to achieve what is important to them.

- **Entrepreneurship Serve Small Markets With New Technology:** Large firms, with their crippling overheads, do not find it profitable to serve small populations. This is where small entrepreneurial firms serve an invaluable role by providing specialized products to niche customers. Entrepreneurial firms are usually faster to come to the market with radical new technologies. Ultimately, this will lead to a better standard of living for the whole society.

- **Entrepreneurship Provides Opportunity to Reach Your Full Potential and Reap Impressive Profit:** Too many people find .their work boring, unchallenging, and unexciting, but not entrepreneurs. To them, there is little difference between work and play; the two are synonymous. Entrepreneurs' businesses become their instruments for self-expression and self-actualization. They know that the only boundaries on their success are those imposed by their own creativity, enthusiasm, and vision. Although money is not the primary force driving most entrepreneurs, the profits their businesses can earn are an important motivating factor in their decisions to launch companies. Most entrepreneurs never become super-rich: but many of them do become quite wealthy.

3.5 BARRIERS TO CREATIVITY

- **Barriers for Individuals:** Arnold (1962), suggested three blocks to individual creativity, namely:

  - Perceptual blocks, which prevent a person from receiving a true, relevant picture of the outside world. For example, either/or tendency whereby other alternative solutions are missed.
  - Cultural blocks, which result from influences of society. The individual is insufficiently robust to resist social pressures that reject any new idea at the outset.
  - Emotional blocks such as fear, anxiety and jealousy. Poor effectiveness can result from fear of failure.

- **Barriers to Organizational Creativity:** Majaro (1988) suggested that there is a link between creativity and organization level barriers. While some of these can be removed, others only have to be circumvented because they are too firmly seated in organization history and tradition. A few main organizational barriers are discussed below.

- **Lack of Resources and Management Support:** Organizations need some 'slack' resources in order to be able to try out new ideas. Some floating spare manpower and other resources is going to enhance the capacity of the firm to generate ideas and identify valuable commercial innovations. Firms with spare available resources can easily and readily field a task force to manage and implement an inflow of innovative ideas.

- **Bureaucracy and Red Tape:** Bureaucracy can reduce the ability of companies to innovate, being the opposite of flexibility. Bureaucracy requires people to follow rules and regulations without questioning and the pressure to conform inevitably limits creativity which requires a maximum of freedom.

- **Functional 'Myopic' Thinking:** This refers to seeing things only from a marketing or finance (another functional area) perspective. Organizations function along these lines for efficiency, but this unfortunately results in identity building. Marketers for example may over rely on the premise that successful product design starts from a customer. This can stifle internally developed creativity if carried out to the extreme.

- **Fear of taking risks, fear of criticism and a tendency to conform:** People fear to be ridiculed for their ideas and may therefore not be willing to take risks. They may therefore retain ideas with fear of being unsuccessful, especially when company profitability is concerned. Instead of appearing eccentric, people prefer to conform to established group norms and to espouse the general view of the group.

- **Resistance to Change:** Creativity being synonymous to change, people tend to believe that it will result in a disruptive change in their working habits, responsibilities, working methods and so on. Resistance to change will therefore limit creativity.

- **Time constraints:** As a leader there are two very distinct but interrelated roles to consider: taking care of the present and building long term sustained success in the future. It is easy to fill your schedule with the here and now and fool yourself into believing you have no time.

- **Being Passive**: By that I mean waiting for someone else to come up with the answer and then trying to lift it and shoe horn it into your organization.

- **Over Control**: Much is said and written about employee engagement. The fact is employees will only engage if they feel that if they come up with an idea it will be given appropriate consideration. If you want to control everything you will never get creativity.

♦ **Fear of Failure**: Every organization needs to take some degree of risk. Those risks might result in successes sometimes and failure at other times. If you fear failure, your organization, team or function will always be sub-optimal in terms of results. We often learn more when we fail than when we succeed.

♦ **Barrier 7: Complacency**: The minute you think you have it cracked you are in dangerous waters. Just look at organizations that were around in the past who are not any longer. Don't ever think that you have it all cracked.

3.6 TECHNIQUE FOR IMPROVEING THE CREATIVE PROCESS

Creativity techniques are methods that encourage creative actions, whether in the arts or sciences. They focus on a variety of aspects of creativity, including techniques for idea generation and divergent thinking, methods of re-framing problems, changes in the affective environment and so on.

They can be used as part of problem solving, artistic expression, or therapy. Some techniques require groups of two or more people while other techniques can be accomplished alone. These methods include word games, written exercises and different types of improvisation, or algorithms for approaching problems techniques exploiting randomness are also common. A lot of creativity techniques have been proposed to foster creativity of individuals and groups: famous examples are Brainstorming and –writing, Mind mapping, Morphological Analysis or the Six-Thinking-Hats. These techniques define certain rules, activities or constraints for the problem solving process, promising to be more effective than less structured approaches. As an example, the brainstorming technique proposes the following rules of conduct for the group meeting.

The following are the techniques to need in creativity process and needs positive energy for fuel. If we make a few slight changes, improve our creativity habits, and just have more fun, our creative energies will increase. Here are a few tips that hopefully will inspire the next great idea.

1) **Relax, and create ideas each day:** Sometimes we are so focused on the current project or our business, we forget to step back and think. We rush. We move from one project to the next. We start to do things the same way because it is easier. Take five minutes each day by yourself and think. Don't think about anything in particular. Just think. Take a walk around the block. Go sit on a bench. Leave your cell phone and Blackberry on your desk. Now, just think. Stare at a tree. Don't think about anything in particular. Your mind knows what you need. Each time you do this you will have an idea. Sometimes it will be a little idea. Sometimes it will be a big idea.

2) Expand your possibility box: If the box is bigger, there will be more possibilities. When people want to create ideas, the first instinct is to shrink the possibility box. If you shrink the box, there will be nothing there. Try to expand the possibilities. Remember: try not to create rules where rules do not exist.

3) Noted everything: Yes, it is a pain to write every idea down. If you don't, you will forget. We always forget. Take notes or use an audio recorder. Send yourself e-mails. No idea is too small to noted.

4) Change your location: Creativity wants variety. Take a walk to another floor in the building, go outside and sit on a bench or stand around the parking lot. Go to a nearby museum, store, mall, coffee shop or park to think. Use your surroundings to inspire and motivate you to create. Get out of your normal surroundings and experience something new.

5) Create fast brainstorming sessions: Do not linger. Use quick energy bursts. Give yourself 15 minutes and create as many ideas as possible. And then stop. You can even run in and out of the room to create a sense of urgency. The shorter time will force you to focus on the task and create more energy. Also, the shorter session will force you to make better choices in the creative process. There is no time to judge, analyze, or second guess. There is only enough time to create ideas. Do this several times a day. Use that positive energy to focus and produce ideas.

6) Stop creating rules where rules do not exist: If someone says, "This is the way we have always done it," run away in horror. You are not safe. He or she is a creative zombie and may infect you.

7) Eliminate some of your fears: (the fear of failure, the fear of making a mistake, the fear of looking foolish) and your creative energy will increase. Nobody is keeping score.

8) Find new ways of doing something: There is always more than one path and way. Don't be so quick to judge.

9) Stop trying to analyze and create at the same time: It is impossible. Our first instinct is to create an idea and then analyze it to death. As soon as you start analyzing, you have stopped the creative process. You are figuring out if one idea can work (do we have the budget, the time, etc.) and have stopped creating ideas. Our minds cannot do both at the same time. Separate the two activities. Focus on the creative process and building on ideas. When you have finished creating, then you can start analyzing. Creativity wants momentum and energy.

10) Don't worry about who gets the credit: One of the biggest obstacles to the creative process is ego. Even as an independent photographer, you still have to work with others to create a finished product. Successful teams understand it takes many people, groups, and organizations for an idea to become a reality. Spend more time figuring out how to make the idea work rather than who gets the credit.

11) When you do work with a team (art director, client, advertiser, etc.), build on each other's ideas: The most successful creativity sessions are when everyone is participating, contributing thoughts and building on ideas. Be open to each other's ideas. When everyone has ownership and responsibility for an idea, the energy will fuel success.

Entrepreneur is an opportunity seeker and organizer and coordinator of the factor of production. He not only perceives the business opportunities but also mobilizes the other resources like – man, money, machine, materials and methods. According to some economists, the functions of an entrepreneur are establishing coordination. In business enterprise, risk-taking, controlling the enterprise, innovation for change, motivation and other related activities. In reality, an entrepreneur has to carry out a combination of these functions in keeping with time and environment. Truly, he has to consider new ideas, demands and exploit the opportunities, and thereby contribute to technical progress. A successful entrepreneur recognizes the potential of a product or service, design operating policies in marketing, production, product development and the organizational structure. He carries out the whole set of activities of the business. He has a high capacity for taking calculated risks and has faith in his own capabilities.

Both the role and the motivation of the entrepreneurs have varied with time in the evolution of the developed economies. Similarly, as has been mentioned earlier, Schumpeter-like innovative entrepreneurs are not the requirements of the developing countries primarily because there is already a vast stock of proven technological innovations which are yet to be applied in these countries. Moreover, the kind of original innovations which are taking place in the advanced countries at present are very difficult to be achieved in these countries because of their lack of adequate infrastructure, resources, highly skilled personnel and effective management Organizations. It will be rather too ambitious for the entrepreneurs of the developing economies to prove to be innovative at par with those of the developed economies.

The task of the entrepreneurs in the developing economies is essentially the adapting of the already existing proven innovations to these economies. The task is not to carry on original technological innovations like those of the nineteenth century entrepreneurs of Europe and America (who are their actual counterparts taking into consideration the stages of industrialization of the then Europe and America and the present state of the developing countries). Apparently, it may seem to be a simpler task than that of the nineteenth century entrepreneurs of the Industrial Revolution. Hurdles faced on the production side and in marketing the products make task of the entrepreneur of the developing countries more difficult than that of their counterparts in the West. Problems that arise on the production side are largely due to the very existence of a huge stock of proven technology.

The entrepreneur of a developing country finds 'large gap between the techniques of the existing semi-traditional means of production and the modem technology. The leap that one has to make to upgrade the technology to keep pace with the advanced countries is quite big because for the latter things improved comparatively slowly. It is not merely the disparity of technology which poses the problem. Along with it, the requirement of technical and managerial skills of highly improved quality is of utmost importance. All this has to be done in a far shorter interval of time. To overcome all this, capital investment goes up phenomenally which in itself is a critical problem especially when in such economies capital is not only scarce but is also slow to be mobilized.

3.7 CASE STUDY

CASE STUDY 1

P&G is widely recognized for its marketing might, its legacy as an innovator is equally rich. Over its 175-year history, the Cincinnati firm has consistently created new categories of consumer goods — from the first disposable diaper (Pampers) to the first toothpaste with fluoride (Crest) to the first synthetic laundry detergent (Tide).

The problem of growth

But in March of 2000, a slight decline in P&G's sales and an earnings warning sent its stock price tumbling. By June, P&G named a new CEO, A.G. Lafley, who brought in fresh thinking about corporate strategy and welcomed new perspectives on innovation. When an internal analysis revealed that only 15% of innovation projects were meeting success targets, senior executives began searching for ways to turn around this key metric.

During this time, a number of top P&G leaders were exploring ideas in *The Innovator's Dilemma*, the groundbreaking book by Innosight co-founder Clay Christensen. And not long after, P&G began collaborating with an Innosight team to build innovation capabilities that would spawn new brands and business models. The idea was to institute a process that was analogous to a factory — making innovation systematic, repeatable and reliable.

Innovation assembly lines

Via its new Connect & Develop program, P&G stepped up the sourcing of raw materials — in the form of product ideas from outside the company. "It didn't matter where the ideas came from," says Nathan Estruth, vice president of P&G FutureWorks. "We had to systematize a process to find them, to partner, to bring them in, and to turn raw ideas into innovations in our growth factory."

A key part of improving its innovation success rate was setting up "innovation assembly lines" by seeking growth from four major categories of innovation: sustaining innovations to improve on existing products disruptive innovations that bring high-end services to mass markets (i.e Crest White Strips) transformative innovations based on performance breakthroughs commercial innovations to enhance the consumer experience.

Questions:

1. Explain the forms of innovation takes place in over all case studies?

2. Analysis' the overall case and explain the stages of creativity and innovation?

CASE STUDY 2

VIJAY MALLYA– UB GROUP

Chairman of the United Breweries Group, launched a new domestic airline called Kingfisher Airline, Rajya Sabha MP. Prior to being entrusted with the responsibilities of a classical Indian corporate conglomerate, Vijay Mallya worked for the American Hoechst Corporation (now Sanofi-Aventis) in the US and with Jenson & Nicholson in the UK. Since 1980, he assisted his father, famous industrialist Vittal Mallya, the then Chairman of The UB Group, in managing the important Brewing and Spirits Divisions and in re-launching the Kingfisher Brand of Beer. In 1983, the sales volume of the UB Spirits division was approximately 2.85 million cases and UB's beer business trailed behind that of Golden Eagle from Mohan Meakins. Also included in the Group were activities such as pharmaceuticals, agrochemicals, paints, petrochemicals and plastics, the manufacture of electromechanical batteries, the manufacture of food products and carbonated beverages, a fast-food pizza chain and several medium and small scale industrial units. In 1988, Mallya became a non-resident Indian to pursue global opportunities and to transform.

The UB Group into India's first multinational company. While, in the initial stages, overseas representative offices had been commissioned, the real break came in 1988 when Mallya, in a leveraged buyout, acquired the global Berger Paints Group with operating companies across four continents. The exit strategy for this investment was profitably executed when Mallya successfully directed five Initial Public Offerings on the London, Singapore, Nairobi, Jamaica and Abidjan Stock Exchanges. The paints business was divested for significant value in 1996. Mallya also founded a software company in the US in 1993 which was subsequently listed on the NASDAQ in 1996 and which provides a considerable window of opportunity to the vast US market. He also initiated several ventures for the promotion and globalization of UB brands and, in particular, Kingfisher and McDowell. In 2007, United Spirits Limited, the flagship of The UB Group, acquired a hundred percent of premium scotch distillers Whyte & Mackay and Liquidity Inc, a United States-based maker of specialty vodkas.

The Delaware-based Liquidity Inc produces specialty brands like Pinky Vodka and Marakesh. The UB Group's Brewing Division has also assumed undisputed market leadership with a national market share in excess of 48%. Through a process of aggressive acquisition and market penetration, The UB Group today controls 60% of the total manufacturing capacity for beer in India. The flagship brand, Kingfisher, is now sold in over 50 countries worldwide having received many accolades for its quality. Kingfisher, one of the flagship brands of The UB Group, has partnered with NDTV, India's leading broadcast group in a first-of-its-kind media alliance for the promotion of NDTV Good Times.

The NDTV Good Times channel would leverage from the editorial credibility and quality of the NDTV group and the strong lifestyle appeal of the Kingfisher brand and icon, to offer Indian viewers a world-class television entertainment experience. Under his dynamic leadership, the group has diversified business interest ranging fro alcoholic beverages to life sciences, engineering, agriculture, chemicals, IT and leisure. In 2000, Vijay Mallya entered politics, took over as the President of the Janatha Party and became a Rajya Sabha MP. In 2005, Vijay Mallya established Kingfisher Airline. In a short span of time, Kingfisher Airlines has carved a niche for itself. In 2010, it made acquisition of Air Deccan, the no-frill airlines, the first of its kind in India. Vijay Mallya has other interests too apart from business. He has won trophies in professional car racing circuits and is a keen yachtsman and aviator. He has also won numerous trophies in horse racing including several prestigious Derbies.

QUESTIONS

1. Give an brief account of vijaya mallya adopting innovation in his entrepreunrhip career?
2. Give suggestion for adopting different forms of entrepreneurship in this case study?

3.8 NOTES

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3.9 SUMMARY

This unit discussed about the basic concepts of creativity and innovation in entrepreneurship and also stages of creativity process, barriers of creativity are discussed in the length. Lastly it includes the techniques for improving the creativity process also given in this unit.

3.10 KEYWORDS

Creativity

Innovation

Incubation

Idea

Brainstorming

3.11 SELF ASSESSMENT QUESTIONS

1. Define creativity and innovation?
2. Briefly explain the stages of creativity process?
3. Mention the barriers of creativity?
4. Explain the techniques for improving the creativity process?

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UNIT - 4: ENTREPREURSHIP DEVELOPMENT PROGRAMME

Structure :

4.0 Objectives

4.1 Introduction

4.2 Need for Entrepreneurship Development Programme (EDP)

4.3 Phases of Entrepreneurship Development Programmes

4.4 Evolution of Entrepreneurship Development Programmes

4.5 Problems in the Conduct of EDPs

4.6 Ethics or Social Responsibility of Entrepreurs

4.7 Case Study

4.8 Notes

4.9 Summary

4.10 Key Words

4.11 Self Assessment Questions

4.12 References

4.0 OBJECTIVES

After study this unit, you should be able to;

- Explain the concept of entrepreneurship development programme.
- Give an account on need and importance of EDP.
- Describe the types of entrepreneurship development programme.
- Determine the social responsibility of entrepreneurs.

4.1 INTRODUCTION

EDP may be defined as a programme designed to help an individual in strengthening his/ her entrepreneurial motive and in acquiring skills and capabilities necessary for playing his/ her entrepreneurial role effectively. An EDP stresses on entrepreneurial motivation and behavior. Programme which aims at providing informational or managerial inputs or focus on preparation of project without a touch of entrepreneurial motivation and behavior is not considered as an EDP. EDP helps in inculcating entrepreneurial traits into a person, imparting the required knowledge, developing technical, financial, marketing and managerial skills and building the entrepreneurial attitude. EDP has been recognized as an effective human resource development tool. It is primarily for developing the first-generation entrepreneurs who on their own cannot become successful entrepreneurs. EDP through its continuous process of training and motivation help them to set up their own profitable enterprise and become successful entrepreneurs in their own right. It is not merely a training programme, rather it is a comprehensive programme involving the following process:

- ♦ It is a process which enhances the knowledge, skill and motivation of the potential entrepreneur.
- ♦ It is a process which instills entrepreneurial behaviour in the minds Of entrepreneur in their day-today activities, and
- ♦ It is a process through which the potential entrepreneurs can develop and set up their own enterprise.

EDP by itself therefore, aims at achieving the specific objectives of the programmes through continuous training and motivation.

4.2 NEED FOR ENTREPRENURSHIP DEVELOPMENT PROGRAMME (EDP)

EDPs are meant to train and develop new entrepreneurs who act as catalytic agents in the process of industrialization and economic growth. It is the entrepreneur who organises and puts to use capital, labour and technology in the best possible manner for the setting up of his enterprise. The entrepreneur with his vision and ability to bear risk can transform the economic scene of the country. They play a vital role in initiating and sustaining the process of economic development of a nation. It is the EDP through which the entrepreneurs learn the required knowledge and skill for running the enterprise successfully which ultimately contribute towards economic progress in the following ways

1. **Creates Employment Opportunities:** Acute unemployment has been a chronic problem of most of the underdeveloped and developing nations of the world. EDPs help solving the problem of unemployment by creating adequate employment opportunities in setting up of their own small and big industrial unit where the unemployed are absorbed. EDPs also help the unemployed to opt for se employment by choosing entrepreneurship as a career. In this way EDPs help the entrepreneur to get an opportunity to lead on independent and respectable life in the society and at the same time enable others to get gainful employment. Various programmes, schemes like Prim Minister's Rozgar Yojana, NREP (National Rural Employment Programme) and IR (Integrated Rural Development Programme) etc. have been initiated by Government of In to eliminate poverty and solve the problem of unemployment.

2. **Helps in Achieving Balanced Regional Development:** Successful EDPs assist in accelerating the pace of industrialization in the backward areas and helps in reducing the concentration of economic power in the hands of a individual. Government encourages to set up industries in the backward areas to remove wide gap of income and wealth between the rich and poor. The various concessions subsidies offered by the State and Central Governments prompted the entrepreneurs to up their own small and medium industrial units in the rural and backward areas. EDPs in setting up more and more industrial units in the backward areas lead to the development of rural sector which helps in achieving balanced regional development.

3. **Prevents Industrial Slums:** The towns and cities are highly congested and overcrowding due to the growth of industrial slums which results in overburdening of civic amenities and a lot of problems including adverse impact on the health of the people. EDPs help in solving the above problems by preventing the growth of industrial slums through dispersal

of industrial units in different parts of the country including backward and rural areas. EDPs help entrepreneurs to know about the various schemes, incentives, subsides and infrastructural requirements for setting their enterprises, particularly in backward and rural areas. This checks migration of rural people to urban sector and thus controls the growth of industrial slums.

4. **Use of Local Resources:** Plenty of locally available resources remain unutilized due to absence of initiative and lack of adequate knowledge by the entrepreneurs. Proper use of these resources will help to starve out a healthy base for rapid industrialization and sound economic growth. EDPs can help in the proper use of locally available resources by providing proper training, guidance and education to the potential entrepreneurs.

5. **Easing Social Tension:** EDPs help in channelizing on right lines the talent and energies of unemployed youth feel frustrated after completing their education without a job or source of livelihood. Unemployment and frustration amongst the young and educated people lead to social unrest Lid tension. EDPs help in diverting the talent of the youth towards self-employment careers by establishing their own enterprises and thus creating employment opportunities for the unemployed. In this way EDPs are able to defuse the social tension and unrest among the youth.

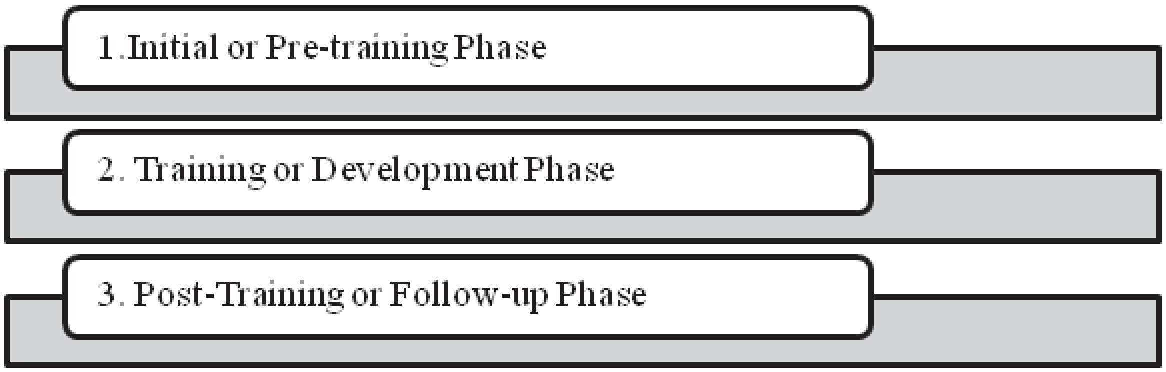
6. **Economic Independence:** The entrepreneurs through EDPs are able to achieve economic independence of a country by producing a wide variety of better quality goods and services at competitive prices. They also through export promotion and import substitution able to earn and save urge amount of foreign exchange which is essential for the growth and development of any economy.

7. **Improves the Standard of Living and Per-Capita Income:** EDPs provide the necessary support to entrepreneurs by educating them about the test innovation and techniques of production to produce a large variety of quality goods id services at competitive prices. EDPs also help in establishing more enterprises which ad to provide more employment opportunities and help in increasing the earning of the people. It will result in increase in per-capita income and thus helps in the improvement of standard of living of the people.

8. **Helps in the Overall Development of the Nation:** Entrepreneur acts as a catalyst which helps in enhancing the various activities involved a business enterprise. In recent years EDP package, have become a vital strategy for harnessing the vast untapped human skills, and put them into industrial development. It results in the emergence of entrepreneurial opportunities in various fields which leads to all-around development in a country.

4.3 PHASES OF ENTREPRENURSHIP DEVELOPMENT PROGRAMMES

An Entrepreneurship Development Programme consists of the following three phases:



Sources: Robert D.Hisrich, Michael P.Peters, "Entrepreneurship Development Text book.

These three phases requires different roles to be played by the entrepreneurship development training providers. These three phases are discussed as under:

1. Initial or Pre-training Phase:

The activities and preparations required to launch the training programme come under this phase. Here the activities relating to the training programme which covers the identification and selection of potential entrepreneurs and provides initial motivation to entrepreneurs is basically covered. This phase accordingly includes the following:

1. Creation of infrastructure for training
2. Publicity campaign for the programme
3. Preparation of training syllabus
4. Development of application form
5. Formation of selection committee
6. Designing tools and techniques for selecting the trainees
7. Selection of trainees (potential entrepreneurs)
8. Tie up of guest faculty for the training purpose
9. Arrangement for inauguration of the programme
10. Pre-potential survey of environmental opportunities.

2. Training or Development Phase:

The main objective of this phase is to bring desirable change in the behavior of the trainees. In other words, the purpose of training is to develop 'need for achievement' i.e. motivation among the trainees. In this phase the training programme is implemented to develop motivation and skills among the participants. The objective of this phase is to bring desirable changes in the behavior of the trainees. The trainer has to judge how much, and how far the trainees have moved in their entrepreneurial pursuits. A trainer should see the following changes in the behavior of the participants:

- Is he/ she attitudinally tuned very much towards his/ her proposed project idea.
- Is there any change in his/her entrepreneurial outlook, role and skill.
- How should he/she behave like an entrepreneur?
- What kind of entrepreneurial behavior does the trainee lack?
- Is he/she skillful in choosing the right project, mobilizing the right resources at the right time.
- Does he possess the knowledge of technology, resources and other related entrepreneurial knowledge.
- Some of the questions listed above also answer the basic underlying assumptions in designing a suitable
- Training programme for the potential entrepreneurs. Having trained the trainees, the trainers need to ask themselves as to how much, and how far the trainees have moved in their entrepreneurial pursuits.

3. Post-training or Follow-up Phase:

The ultimate objective of the EDP is to prepare the participants to start their enterprises. This phase therefore involves assessment to judge how far the objectives of the programme have been achieved. This phase is also called 'follow-up'. Follow-up indicates our past performance drawbacks, if any, in our past work and suggests guidelines for framing future policies to improve our performance. Monitoring and follow-up reveals drawbacks in the earlier phases and suggests guidelines for framing the future policy. In this phase infrastructural support, counseling and assistance in establishing new enterprise and in developing the existing units can also be reviewed.

In nutshell, the purpose behind the Entrepreneurship Development Programme Follow-up is to:

- Review the pre-training work
- Review the process of training programme; and
- Review past training approach
- Assisting and helping the budding entrepreneurs
- Counseling those participants who have certain hesitation in starting their own venture.

4.4 EVALUATION OF ENTREPRENURSHIP DEVELOPMENT PROGRAMMES

Developing entrepreneurship has become a movement in India in the recent past. EDPs have been considered as an effective instrument for developing entrepreneurship in the countryside. Hundreds of EDPs are conducted by around 800 organizations to impart entrepreneurial training to participants in thousands across India and in some underdeveloped and developing countries. As the main objective of the EDPs is to create enterprises, therefore EDPs are evaluated by this single objective. There is a need to have a retrospective look into how many participants have actually started their own enterprises after completing their training.

The EDPs are to be evaluated on the following basis:

1) **Programme Objectives:** Evaluation of an EDP may begin with an assessment of the philosophy or the central objectives of the programme. The agency conducting the programme must be clear about the purpose underlying entrepreneurial development. The objective may be to increase production, to generate employment, to uplift certain people, etc. It becomes easier to assess the goals when they are clearly defined. Whatever may be objectives an agency is likely to start an EDP with a certain set of assumptions. These assumptions might be based on experience, research or pure hunch. These assumptions should be evaluated along with the objectives of the programme. One agency in India has based its programme on the following assumptions.

- Everyone cannot be an entrepreneur. An individual must have certain traits in order to be successful entrepreneur.
- The traits required for successful entrepreneurship can be identified and measured through psychological test and certain social indices.
- Persons who possess these traits will be more successful than those not having.

- Persons possessing such traits can be trained to further develop them on other dimensions of entrepreneurship too
- Evaluation of some of these assumptions requires research studies. The required data might be collected from the trained and rejected candidates. However, simple indices like the number of the trained candidates
- who started their own industries, the number of them who gave up after some attempts towards entrepreneurship, the number of persons employed in these organizations, changes in their economic status, etc., are likely to throw light on whether the objectives set up by the agency were achieve or not.

2) Selection Strategy and Procedures:

It is impossible to train each and everyone intending to be an entrepreneur. It is desirable to those candidates are selected from training who are likely to be successful in setting up and successfully running their enterprise. The success of an EDP depends largely on proper selection of trainees. Therefore, evaluation of selection strategy and procedure is necessary. The Behavioural Science Centre (India), New Delhi has been rating the selection of potential entrepreneurs, positive self-concept, initiative, independence, problem solving, hope of success, searching environment, and time bound planning.

A three-stage selection procedure is followed in this case. It begins with screening through a carefully designed application blank which collects data on dimensional mentioned above. This is followed by psychological tests and behavioural exercises and games meant for assessing certain other qualities. Finally, personal interviews are held. Several tests may be used to judge the effectiveness of selection procedures. The proportion of those setting up enterprise from the selected group as compacted to those from the rejected group can be one such test. The 'entrepreneurial movement' in the selected group should be higher than those in the rejected group. Any occupational movement say from unemployment to service, service to trade and trade to manufacturing may be treated as entrepreneurial movement.

3) Training Programme:

Another area of evaluation in the contribution of the training programme. This covers the contribution otherwise of the curriculum and its design, the content of the programme, the faculty the sharing of practical experiences and even the follow-up. Curriculum design deals with issues like natural (full time or part time)and duration of the programme, classes schedule, components of the programme, the type of preparation required on the part of the students and the faculty. For example, a programme for unemployed persons can be a full time one and of shorter duration. But a programme for employed person should be part time so that it does not clash with service. In order to judge the extent to which the training has increased the possibility of training he trainers into successful entrepreneurs, the following criteria may be used.

- Comparison of a random sample of entrepreneurs from the trained group with those of a random sample from untrained group.
- Comparison of a random sample of entrepreneurs from the trained group with those from the rejected group.
- Interviewing the trained group to find out their opinion on the training programme.
- Surveying the expectations and experiences of those under training.
- Examination of the curriculum content by a group of experts.
- Assessment of trained entrepreneurs in their business operations.

4) Organizational Policies and Structures:

Entrepreneurial development programmers are generally institutionalized. A local, regional, national or international agency often takes the initiative in starting, funding and executing the programme. These are promotional agencies. Without an institutional support entrepreneurial development programmers are not likely to be successful. Therefore, the assessment of such programmers should begin with the evaluation of the effectiveness of the organizations or agonies concerned with the sponsoring, funding and execution of the programme. Such assessment may cover the evaluation of the agencies resources and development needs. Such needs may relate to financial resources, faculty requirements, viable structures to attract entrepreneurs and to provide them with continuous support, physical facilities, such as a workshop, a study cell, etc.

The policies and strategies of the concerned agencies are equally significant. The training strategy of the organization concerning an EDP depends upon its overall view about entrepreneurial development. For instance, one agency might take a limited view and relate entrepreneurship to making industrial organization. Another organization on the other hand might adopt a broader view of developing entrepreneur spirit in the community as a whole. Such a view might be appropriate in cultures facing occupational stability. Such specific orientation of sponsoring of executing agencies would provide direction to the training courses. Therefore, command needs will also have to be evaluated. Like the assessment of policies, strategies community needs and the organizations of training courses the structure and process of the organization should also be evaluated. Creative and flexible structures and processes may set an example to the trainees. The dynamics of the organization and its working may have to be examined to see if it has requisite self renewing characteristics.

4.5 PROBLEMS IN THE CONDUCTING EDPs

The following are the problems should be faced by the entrepreneurs as follows:

- **No policy at the National Level:** Government of India is fully aware about the importance of entrepreneurial development. But there is no problem.
- **Problems at the pre-training phase:** Identification of business opportunities, finding and locating target group, selection of trainee and trainers etc. are basic problems faced by entrepreneurial pre-training phase.
- **Over-estimation of trainees:** EDP agencies overestimate the skills and capabilities of the educated youth to become entrepreneur.
- **Duration of EDPs:** Duration of most of the EDPs varies between 4 to 6 weeks, which is very short period to develop entrepreneurial skills in the participants
- **Non-availability of infrastructural facilities:** EDPs conducted in rural and backward areas suffer interior infrastructural facilities like proper class room, suitable guest speakers, boarding and lodging etc.
- **Improper methodology:** The course contents of EDPs are not standardize
- **Mode of selection:** There is no uniform procedure adopted by various agencies for the identification of prospective entrepreneurs. Organizations conducting EDPs prefer those persons who have some project ideas of their own and thus this opportunity is not provided to all the interested candidates
- **Non-availability of competent faculty:** Non availability of competent teachers causes failure of this programme.
- **Poor response of financial institutions:** Entrepreneurs are not able to offer collateral security for the grant of loans. Banks are not prepared to play with the public money and hence they impose various conditions for the grant of loans.

4.6 ETHICS OR SOCIAL RESPONSIBILITY OF ENTREPRENEURS

An enterprise must earn profits for its own survival, for expansion, for bearing the risks and finally for the prestige of its management. But profit cannot be the sole objective of the entrepreneur. It is a means and not an end. No enterprise can last long unless along with earning profits, it continues to fulfill its obligations to the society. The ultimate objective of every enterprise has to be the good of the people. Business must be run by the people through the people and for the people. An entrepreneur must take risks with his or her own capital in order to sell and deliver products and services while expending greater energy than the average business person in order to innovate.

An entrepreneur is very much linked with society. Since any venture owes its existence to society, it has to function under the overall control and discipline of the society. Any business, which is injurious to any segment of the society, can neither be tolerated nor allowed to continue. Every enterprise is required to perform and satisfy certain obligations which it owes to the society and the performance of which is essential for its own survival and the well-being of the society. It is the obligation of an enterprise which it owes to the different segments of the society that determine its objectives.

Besides earning profit, an entrepreneur has to satisfy the requirements of various other groups of people. Faced with daily stressful situations and other difficulties, the possibility exists that the entrepreneur will establish a balance between ethical exigencies, economic expediency, and social responsibility, a balance that differs from the point at which the general business manager takes his or her moral stance. How much and what type of social responsibility an organization should pursue has been a topic of heated debate for a number of years. Social responsibility is the obligation of organizational decision makers to act in ways that recognize the interrelatedness of business and society.

Social responsibility assumes the existence of stakeholders, individuals or groups of individuals who have a stake in or are significantly influenced by an organization's actions and who, in turn, can influence the organization. According to H.R. Brown, an entrepreneur, today, has an obligation 'to pursue those policies, to make those decisions or to follow those lines of action which are desirable, in terms of the objectives and values of the society. The entrepreneur, therefore, has to include his social obligations and social values as inputs into the decision and action process, along with organizational, economic, technological and other relevant values and variables.

According to Koontz O' Donnell "Social responsibility is the personal obligation of everyone as he acts for his own interests, to assume that the rights and legitimate interests of all others are not impugned." The traditional view of social responsibility was that organizations existed solely to serve the interests of one stakeholder group: Stockholder. However, the traditional - and purely economic - view of social responsibility has given way to a belief that organizations have larger social role to play and a broader constituency to serve than stock holders alone.

The 'need for achievement' is one of the important entrepreneurial traits/ competencies. behavioral experiments have proved that can be developed through entrepreneurship training, popularly known as EDPs. The main objective of EDPs has been enterprise creation. The course contents of EDPs, accordingly, includes inputs like general introduction to entrepreneurship, achievement motivation training, managerial/ Management skill, support systems and procedures, market survey, fundamentals of Project Feasibility Study and Business Plan Development, Technical knowledge and skills, Plant Visits and Meet an entrepreneur. The time duration of EDPs ranges from one week to six weeks. EDP is a process of 'grooming' entrepreneurs. This process involves three phases. The success of EDPs is evaluated in terms of the number of trainees launched their ventures after the completion of training programme and changes in the entrepreneurial behavior.

However, EDP suffers on many counts, be it the trainers, the trainees, the Entrepreneurial Development Organization, the supporting agencies and the state government As a conclusion, it can be said that entrepreneurship, is the outcome of a complex and varying combinations of socio-economic, psychological and other factors. A realistic perspective should take them together. Each of the entrepreneurship theories discussed are inter-disciplinary and are influenced by a multitude of factors. It is the integration of external environment, dream, ambition, passion, achievement, motivation, commitment, integrity, zeal, honesty, sincerity, ability and hard work which largely determine whether an individual become an entrepreneur.

4.7 CASE STUDY

Case Study 1

Ms.Rani is a young and active woman. She was a home maker without any idea about business. She attended the EDP training conducted by Periyar TBI and sponsored by ni-msme, Hyderabad during the year 2010-11. After attending the training she realized the scope of food processing industry

She examined the market demand and decided to produce ready mix upuma. Periyar TBI helped her to prepare the ready mix upuma by giving work space and machineries for grinding, blending etc. Also Periyar TBI helped her to pack the powder with neat label and cover. She started her unit named 'Rani's Products'.

Now her ready mix upuma got great demand in market and she is earning nearly Rs.8,000/- per month as profit through this business. After the success of this product she decided to expand her brand name by preparing number of products. Now she is also preparing Idly podi, Green leaves podi, and Milagu podi in the same brand name of 'Rani'.

QUESTIONS

1. Explain the need and importance of entrepreneurship development programme (EDP) programme in this case study?
2. Give an account of impact of EDPs programme conducted by the government institutions in this case study?

Case Study 2

Ms.Fathima was married at a young age of 16 to her cousin with about 150 sovereigns of gold as marriage gift. After she conceived her son, the husband took away all the gold and disowned her. She had to return to her parents looking for her livelihood. At the beginning, she was assisting a women's parlour in her neighborhood. But she had a determination to win back her lost glory and gold.

Ms.Fatima attended the ESDP on Imitation jewellery organized from 06.12.2010 to 14.01.2011, which helped them to understand the potential of imitation jewellery making as a business. Ms.Fatima with her daunting urge to prove her mettle, was very active during the entire training period. She organized field visits and convinced the fellow female trainees to take the training inputs further. As she was not qualified with a degree, she took the training as a great opportunity to earn and managed the attendance, lecture schedules and overall conduct of the programme. Thus she emerged as the most active participant of any training offered at Periyar TBI till date.

Fatima bought a new machine immediately after the training and engaged one of the fellow trainees to make the basic chain links. She travelled extensively to places where such works were done. She made comprehensive analysis on cost, quality, innovation and market preference of such jewels and type of customers and their likings. She was able to visualise many things in quick time.

Now she engages more than 10 women to make unpolished chain links for her which she polishes in a way to make her product edge over others in the market. Thus she is able to get premium price for her products- both for quality and innovativeness. She also trains people and thus keeps herself busy. She was able to buy a two wheeler for Rs.55,000 and house for Rs.5,00,000 and settled the hospital expenses of Rs.2,00,000 for her ex-husband who divorced her just before he got hospitalised. Now her 'Bismi Imitation Jewellery's turnover is Rs. 7-8 lakhs per month and her customer base is expanding and they have become a recurring market for her novel items.

1. Explain the role and importance of ESDP Mrs famithma become successful women entrepreneur?
2. Briefly explain the different phases of EDPs in this case study

4.8 NOTES

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4.9 SUMMARY

This unit discussed about the concepts of entrepreneurship development programme and the need and importance of entrepreneurship development programme are discussed in the length.To discuss the major problems while conducting entrepreneurship development programme is also given in this unit.

4.10 KEYWORDS

EDP

Start-up

Initiation

Promotion

Phases

4.11 SELF ASSESSMENT QUESTIONS

1. Briefly explain need and importance of entrepreneurship development programme?
2. Explain the major problems while conducting entrepreneurship development programme?
3. Describe the different phases of entrepreneurship development programme?
4. Explain the role of social responsibility of entrepreneurs in India?

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DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

COURSE - 13

ENTERPRENEURIAL DEVELOPMENT AND SMALL BUSINESS

BLOCK

2

PROMOTION OF VENTURE

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BLOCK -2 : PROMOTION OF VENTURE

The venture backed entrepreneurs have considerable credibility in the business and the promotion of entrepreneur is geared to higher levels, venture is the lifeblood of any economy giving the employment, economic growth and the benefits of increased standards of living to the people.

Block 2 promotion of ventures consists of 04 units. Unit 5 on business environmental analysis introduction. Meaning, definitions, importance and types.Unit 6 enlightens establishment of new business introduction, steps , policy assistance for MSMEs, Programme schemes. Unit 7 discuss industrial estates meaning, objectives,types advantages, SEZ objectives features, benefits, incentives and facilities offered by SEZs. Unit 8 takes you marketing analysis concept, process, functions problems, institutional and government support, problems of SSEs and recent government initiatives.

UNIT – 5 : ENVIRONMENTAL ANALYSIS

Structure :

5.0 Objectives

5.1 Introduction

5.2 Meaning of Business Environment

5.3 Definition of Business Environment

5.4 Importance of Business Environment

5.5 Types of Business Environment

5.6 Summary

5.7 Keywords

5.8 Self Assessment Questions

5.9 References

5.10 Case study

5.11 Notes

5.0 OBJECTIVES

After completion of this unit, you should be able to;

- Define Business Environment
- Explain the important of Business Environment
- Depicts the types of Business Environment

5.1 INTRODUCTION

The survival and success of any individual depends on his/her innate capability to cope with the environment, and the extent to which the environment is conducive to the development of the individual. Similarly, the survival and success of a business firm depends on its innate strength, viz., the resources at its command, physical, financial and human, skill in organization and management, adaptability to the environment and the extent to which the environment is contributory to the development of the organization. The survival and success of a firm, thus, depends on two sets of factors, viz., the internal factors - the internal environment and the external factors - the external environment. However, the term 'business environment' often refers to the external factors. The external environment consists of two components, viz., business opportunities and threats to business.

5.2 MEANING OF BUSINESS ENVIRONMENT

The conditions that affect business activities may be regarded as the environment of business. In other words, business environment refers to the surroundings and circumstances, which influence business operations. This environment consists of forces and factors, internal or external to a business firm. The skill and ability of employees, their attitude to work, relations between managers and subordinates etc. may be regarded as internal environment of business. These are important factors, which may affect business operations. But these are within the control of the businessman. By taking suitable steps the conditions can be improved. On the other hand, external environment refers to all those aspects of the surrounding of business, which are not within the control of the managers and may affect business activities to a great extent. The external environment has, broadly, two components, viz, business opportunities and threats to business. Similarly, the organizational environment has two components: Strengths and weaknesses of the organization.

5.3 DEFINITION OF BUSINESS ENVIRONMENT

The word business environment is defined by various authors as follows.

According to Arthur M. Weimer "Business Environment encompasses the 'climate' or set of conditions, economic, social, political or institutional in which business operations are conducted".

According to William Gluck and Jauch "Environment contains the external factors that create opportunities and threats to the business. This includes socio-economic conditions, technology and political conditions".

Keith Devis defined Business Environment as "It is the aggregate of all conditions, events and influences that surround and affect it".

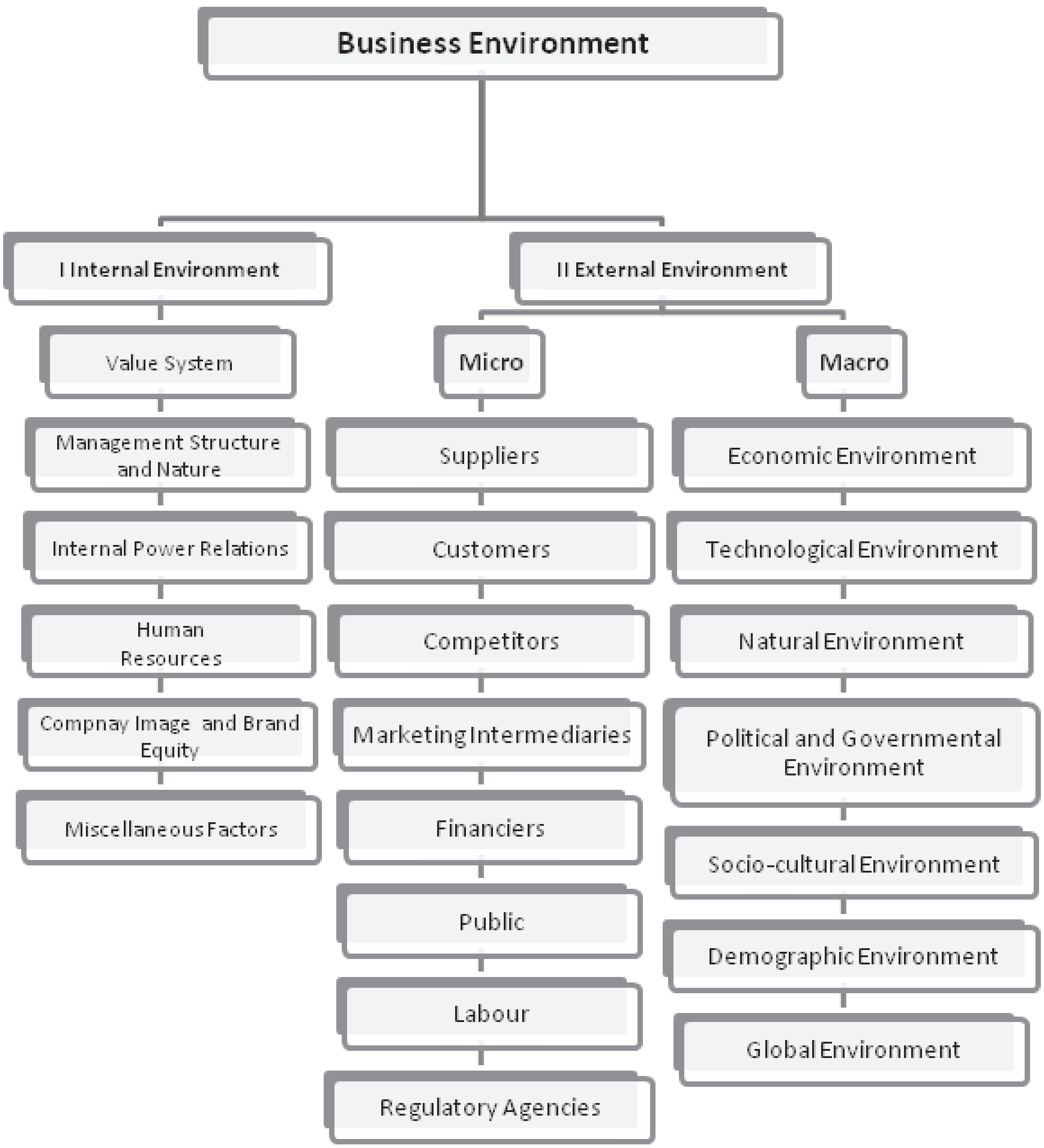
5.4 IMPORTANCE OF BUSINESS ENVIRONMENT

The following are the importance of business environment:

1. The study of business environment helps an organization to develop its broad strategies and long term policies.
2. It enables an organization to analyze its competitors' strategies and thereby formulate effective counter strategies.
3. Knowledge about the changing environment will keep the organization dynamic in its approach.
4. Such a study enables the organization to foresee the impact of the socioeconomic changes at the national and international level on its stability.
5. Finally, as a result of the study, the executives are able to adjust to the prevailing conditions and thus influence the environment in order to make it congenial to business.

5.5 TYPES OF BUSINESS ENVIRONMENT

The environment of business is always changing and it is uncertain. The business environment can be under two levels:-



I Internal Environment:

The important internal factors which affect the enterprises are:-

1. Value system:

The value system of the founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices.

2. Management structure and nature:

The organization structure, composition of board of directors, extent of professionalization of management etc are important factors influencing business decisions.

3. Internal power relations:

Factor like the amount of support the top management enjoys from different levels of employees, shareholders and board of directors have important influence on decisions and their implementation.

4. Human resources:

The characteristics of the human resources like skill, quality, morale, commitment, attitude etc., could contribute to the strength and weakness of an organization. Some organizations find it difficult to carry out restructuring or modernization because of resistance by employees where as they are smoothly done in some others.

5. Company image and brand equity:

The image of the company helps while raising finance, forming joint ventures or other alliances, soliciting marketing intermediaries, entering purchase or sale contracts, launching new products etc.

6. Miscellaneous Factors:

There are a number of other internal factors which contribute to the success/failure of a business or influence decision- making in business. They include the following. ·

i) Physical assets and facility like the production capacity, technology and efficiency of the productive apparatus, distribution logistics etc are among the factors which influence the competitiveness of a firm.

ii) Research and development and Technological capabilities, among other things, determine a company's ability to innovate and compete.

iii) Marketing resources like the organization for marketing, quality of marketing men, brand equality and distribution network have direct bearing on marketing efficiency.

iv) Financial factors like financial policies, financial position and capital structure are also important internal environment affecting business performance, strategies and decisions.

II External Environment:

It consists of

1. Micro Environment

2. Macro Environment

1. Micro Environment:

The micro environment consists of the factors, having direct bearing on the performance of an enterprise. These factors are more closely linked with the business than the macro factors. The micro environment factors are discussed below:-

a. Suppliers:

These are the firms and individuals who supply the input like raw materials and components to the company. It is very important to have a reliable source of supply. Uncertainty regarding the supply or other supply problem will compel the companies to maintain high costs. It is very risky to depend on a single supplier. Hence the company should have multiple source of supply.

b. Customers:

According to Peter F. Drucker, "There is only one valid definition of business purpose, that is to create a customer". A business exists only because of its customer. A company may have different categories of customers like individual, household, industries and other commercial establishments, and government and institutions. Depending on a single customer is often too risky because it may place the company in a poor bargaining position. With the growing Globalization, the customer environment is increasingly becoming global. Not only that the markets of other countries are becoming more open, the Indian market is becoming more exposed to the global competition and the Indian customer is becoming more "global" in his shopping.

c. Competitors:

The success of an enterprise depends upon its ability to satisfy the needs and wants of consumers better than those of its competitors. The most common competition which a company's product now faces is from differentiated products of other companies. Philip

Kotler is of the opinion that the best way for a company to grasp the full range of its competition is to take the viewpoint of buyers. Due to the liberalization, the competitive environment in India has been undergoing a sea change. Many companies restructured their portfolio and strategies. In many industries where a seller's market existed a buyer's market has emerged.

d. Marketing Intermediaries:

These are the firms that help the company to promote, sell and distribute its goods and services to the final buyers. They include middlemen, physical distribution firms, marketing services agencies and financial intermediaries. Middlemen such as wholesalers and retailers buy merchandise and resell. Physical distribution firms such as warehouses and transportation firms help the company to stock and move goods from their point of origin to destination. Marketing service agencies such as marketing research firms, advertising agencies and marketing consulting firms help the company in targeting and promoting its products to the right markets. Financial intermediaries such as banks, credit companies and insurance companies help in financial transactions or insure against the risks associated with the buying and selling of goods. The company has to develop strong relationship with all these for the successful operation of its business.

e. Financiers:

Another important micro environmental factor is the financiers of the company. Besides the financing capabilities, their polices and strategies, attitudes (including attitude towards risk) ability to provide non-financial assistance etc. are very important.

f. Public:

A company has to protect the interest of certain public in its environment. The environmentalists, consumer protection groups, media persons and local people are some of the well known examples of public. In our country some companies are seriously affected by media public. Some companies are affected by local publics. Environmental pollution is an issue often taken up by a number of local publics. Non-government organizations (NGOs) have been raising protests against child labour, cruelty to animals, environmental problems, deindustrialization resulting from imports and so on.

g. Labour:

The companies, where hundreds of workers are employed, the labour force is organized in the form of trade unions. The trade unions interact with the management for higher wages and bonus, better working conditions etc. They pressurize the management for the fulfillment of their demand and even resort to go slow tactics such as strikes, gherao etc.

h. Regulatory Agencies:

The regulators include government department and other organizations which monitor the activities of business. The example is income tax department, other revenue departments, quality control departments etc. Besides these professional bodies such as Institute of Chartered Accountant of India may also prescribe certain standards and practices for the business in their respective areas.

2. Macro Environment:

Macro environment is also known as general environment. The macro forces are generally, more uncontrollable than the micro forces. When the macro environment is uncontrollable, the success of an enterprise depends on its adaptability to the environment. Important macro environment factors include:-

1. Economic environment,
2. Technological environment,
3. Natural environment,
4. Political and Governmental Environment,
5. Socio-cultural Environment,
6. Demographic Environment and
7. Global environment.

1. Economic Environment:

Economic environment of a business has reference to the broad characteristics of the economic system in which the business operates. The survival and success of a business enterprise is finally decided by the economic environment and various market conditions. The economic environment comprises a wide spectrum of items, namely land, availability of raw material, skilled labour, infrastructure, machinery and capital. In addition to these the other important external factors that affect the economic environment of a business are as follows.

a. Economic Condition:

The general economic conditions prevailing in the country viz., national income, per capital income, economic resources, distribution of income and assets, economic development etc are important determinants of the business strategies. Business cycles and economic growth of the economy are important factors defining the economic environment.

The stage of economic development decides the size of the local or domestic market. In economies where the income of the people is rising, the business prospects will be brighter and investment will get automatics attraction. Recently growing income of middle class in India has encouraged foreign investors to invest in India. Other important economic conditions are Human resources, Foreign exchange reserve position, Demand and supply trends, inflation/ Deflation etc.

b. Economic System:

The economic system operating in the country also affects the business enterprise to a very great extent. The economic system of a country may be capitalist, socialist, communist or mixed.

c. Economic Policies:

There are several economic policies which can have a very great impact on business. Important economic policies are industrial policy, trade policy, foreign exchange policy, monetary policy, fiscal policy and foreign investment and technology policy, business laws etc.

d. Industrial Policy:

Industrial policy can even define the scope and role of different sectors like private, public, joint and cooperation, or large medium, small and tiny. It may influence the location of industrial undertaking, choice of technology, scale of operation, product mix and so on. In India, until the liberalization ushered in 1991, the scope of private sector, particularly of large enterprises, was very limited. In pre-liberalization era, the 105 government policy was a severe constraint on the portfolio and growth strategies of companies. The liberalization has enormously expanded the business opportunities. It has at the same time tremendously increased the competition tending to make survival of the fittest the order.

e. Trade Policy:

Trade policy can significantly affect the fortunes of the firms. For example, a restrictive import policy or a policy of protecting the home industries, may greatly help the import competing industries, while a liberalization of the import policy may create difficulties for such industries. As part of economic liberalization and WTO compliance, India has very substantially liberalized imports. Domestic firms now face increasing competition from imports. Many Indian firms which do not come up to the international standards - in quality, cost, marketing, after sales service etc. will not be able to survive.

f. Foreign Exchange:

Policy Exchange rate policy and the policy in respect of cross border movement of capital are important for business. The abolition /liberalization of exchange controls all-round the world since the late 1970's has encouraged cross-border movement of capital. Foreign Investment and Technology Policy After 1991, foreign capital and technology policies have been substantially liberalized. It will increase the domestic competition. At the same time it would benefit many domestic firms- by permitting global sourcing of capital and technology.

g. Fiscal Policy:

Government's strategy in respect of public expenditure and revenue can have significant impact on the business. Public expenditure improves the infrastructure facilities within the country. Different taxation policy like Income Tax, VAT, excise duty etc. of the Government will affect the business/ industries.

h. Monetary Policy:

Monetary policy of the central bank like increase/decrease in Cash Reserve Ratio (CRR) or Statutory Liquidity Ratio (SLR), Repo rate etc will significantly affect the volume of loanable fund with the commercial banks.

2. Technological Environment:

Technological environment consist of those factors related to knowledge applied and the materials and machines used in the production of goods and services that have an impact on the business of an organization. Technological changes may enable a firm to achieve its objectives or threaten the existence of the firm .A firm which is not able to cope with changing technology may not survive. Fast changes in technological factors can create problems as they render plants and products obsolete very quickly. Technological development may increase the demand for some existing products. For example, voltage stabilizer helps to increase the sale of electrical appliances. The information technology has vastly transformed the marketing and financial marketing scenario. Technology often provides a competitive advantage success in many industries. Success in many industries has a lot to do with R&D and innovation. There are many factors which stimulate the innovative drive of a firm. These include the company's own strategy, demanding customers, competition, certain social forces, government policies etc. An important strategic issue confronting many firms is whether to be a technology leader or follower-there are a number of advantages and disadvantages associated with both. A Company may also source a technology externally, like from R&D Organizations, other firms (including foreign firms). While sourcing foreign technology the firms should ensure that the technology it chooses is the appropriate one and should be able to properly absorb the technology. Restrictions on foreign technology, scale of the operation, type of technology etc very adversely affected the Indian business in the past. The liberalization has significantly improved the situation.

3. Natural Environment:

As Watrick and Wood observe, "the natural environment ultimately is the source and support of everything used by business (and almost any other human activity)-every raw material, every energy source, every life-sustaining factor, even every waste disposal site". The geographical and ecological factors, such as natural resource endowments, weather and climate conditions, topographical factors, locational aspects in the global context, port facilities etc. are all relevant to business. Ecological factors have recently assumed great importance. The depletion of natural resources; environmental pollution and the disturbance of ecological balance have caused great concern.

4. Political and Government Environment:

Political and government environment has close relationship with the economic system and economic policy. In the present world, government intervention in business activity is a hard fact. Under a democratic set up, the ideology of the ruling party influences ownership, management and size of a business. Political stability of the country is another factor which affects business activities. Business thrives where there is political stability. All business firms are affected greater or lesser level by the changes in government programs at the central, State or local bodies. Such programs are usually the result of shifts in the political weather arising from changes in the attitudes, preferences and objectives of voters and political leaders. Businessmen try to anticipate changes in government policies or in the political forces at the back of them so that they may be able to operate successfully.

In many countries, there are a large number of laws that regulate the conduct of the business. These laws cover matters as standard of product, packing, promotion, ethics, ecological factors etc. For most countries, protecting the interest of consumers, governments have introduced so many regulations. There are so many statutory controls on business in India. Although the controls have been substantially brought down as a result of liberalization, a number of controls still prevail.

Governments pass legislation on such matters as wages and prices, employment opportunities, safety and health at work, location, what the plant can emit into the air, how much noise the product can make and other similar matters. The actions of the Government affect the strategic choices of business. They may increase or curtail business opportunities.

The following are some of the examples of opportunities that are created by the actions of Governments. –

- Governments are large purchasers of goods and services.
- Central as well as State Governments in our country provide subsidies and incentives to small-scale industries which help them to withstand competition from large industries
- Governments protect home industries against "unfair" foreign competition.

5. Socio-Cultural Environment:

The type of products to be manufactured and marketed, the marketing strategies to be employed, the way the business should be organized and governed, the values and norms it should adhere to, are all influenced by the social structure and culture of a society. The buying behavior of consumers, their preference, attitudes, beliefs, lifestyles and social values change over a period of time. These social and cultural changes affect the business strategies of an organization.

Culture, broadly determines the type of goods and services a business should produce. The type of food people eat, the cloth they wear and building material they use to construct houses, vary from culture to culture. The values and beliefs associated with colour also vary from culture to culture. Green is favourite colour in Arab countries, where as in Malaysia it is associated with illness. Red is a favourite colour in communist countries, where in many African countries, it is an unpopular colour. Therefore, while designing a product, the business must take into account the values and beliefs associated with colours.

Social changes also influence the business policies of an organization. Some examples are:- Once it was thought that three children are sufficient for a family. Now people prefer to have a small family with one child. This change has a big impact on baby food, toys and other such items. At one time, retired people lived with their children. Now the trend is to live alone. This has a big impact on builders. Newer attitude on the part of the workers and employees about how many hours they wish to work, what kind of supervisory style they expect etc, affect the strategy formulation of a business. The emergence of strong consumer movement is having its own impact on business strategy .The growth of strong consumerism in India has led to the passing of consumer protection Act, 1986.

6. Demographic Environment:

Demography refers to the study of the human population especially with reference to age structure, gender, income distribution, family size, family life cycle (for eg:-young, single, married, no children, young married with children…..),occupation, education, social class, religion, race, nationality etc. All these factors have very significant implications for business. All these informations relating to population help in selecting the items to produce, the channel of distribution, advertising media, choice of marketing methods and other business decisions. The choice of manufacturing or trading site would be influenced by the size of the population. Governments always look to the demographic considerations in terms of their licensing policy. Manufacturing units, particularly those which cause air or noise pollution are not permitted to operate in thickly populated area that is the reason why every State Government has established industrial estates away from residential areas.

If there is a change in population, there will be a change in the demand for products or services. If there are fewer people to buy a product or services, the primary demand for that product or service will be affected. In developed countries like U.S.A and Canada the population growth rate is declining. In the case of underdeveloped countries like India, population growth rate is increasing. This can affect a firm's location strategy.

7. International (Global) Environment:

The international environment mainly consists of those factors which have an impact on foreign trade of a country due to globalization and privatization. Those factors may be foreign policy, international treaties and foreign investment policy and various acts which are concerned with the dealings with other countries in trade matters. With the introduction of economic reforms and the policy of liberalization in our country, our exports have increased considerably and many foreign companies started to trade with our country. Globalization has both beneficial and harmful effects. Indian business suffers from a number of disadvantages in respect of globalization of business. The government policy and procedures in India are among the most complex, confusing and cumbersome in the world. Another problem is that the high cost / inadequacy of many vital inputs and other factors like raw materials and intermediates, power, finance, infrastructure facilities like port etc. tend to reduce the international competitiveness of the Indian business. There are also problems related to technology, small size and lack of experience of firms, poor quality, lack of R&D efforts etc. Although India has several handicaps, there are also a number of favourable factors for globalization of Indian business. These include the human resources, growing entrepreneurship, growing domestic market, growing foreign market for Indian products etc. The new economic policy of India is expected to encourage the internationalization of Indian business with removing all international environmental obstacles. The increasing domestic competition is compelling many companies to pursue international trade. The foreign collaboration is enabling Indian companies to upgrade their production methods. From the above discussions, it is clear that the business environment is dynamic. Many environmental factors change either frequently or periodically. Hence, business policy and strategy should be dynamic enough to meet the changing environment. The success or failure of an enterprise whether it is small or large, depends upon the support of favorable business environment where it operates.

5.6 SUMMARY

This unit gives an insight into business environment. It discuss about types of business environment. It also throws light upon micro and macro environmental factors. Further it speaks about internal and external environmental factor influencing business.

5.7 KEYWORDS

1. Environment
2. Micro Factors
3. Macro Factors

5.8 SELF ASSESSMENT QUESTIONS

1. Define Business Environment.
2. Explain the importance of business environment.
3. Illustrate types of business environment.
4. Give an account of impact of environment on business.

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5.10 CASE STUDIES

CASE STUDY NO.1

Williams URL Company Ltd.

Williams' case study begins in 2011, when he arrived to find a corporation (Aetna) in need of change having lost $280 million in the past year. He diagnosed key areas of failure and opportunity in Aetna's vast enterprise: orchestrating medical, dental and other health and insurance benefits in a network of 843 thousand health care professionals with 37 million members. Williams shaped a path to recovery, focusing on a better understanding of Aetna's current customers, from small employers to the largest corporations, and the best way of expanding into new markets such as retailers, banks and law firms. To do this, Aetna needed to build products and services suited for those groups, and Williams' strategy involved developing integrated information systems for both employers and consumers, to ensure cost effective and high quality health care delivery.

Williams repeatedly made the case for this new strategy directly with Aetna's staff. He pressed the issue of values: integrity, employee engagement, excellent service and high quality healthcare, and instigated employee surveys and biannual performance reviews. Employees were invited to answer whether they believed their supervisors held true to Aetna's values and whether they were proud to be working with the company. Williams has noted a marked improvement in responses over just a few years. External benchmarks reflect positive growth as well: Aetna has reached the number one spot as Fortune Magazine's most admired health care company, after occupying the bottom position. Williams invested a great deal in technology which he believes will "shape the future of health care."

He describes a Care Engine, containing an individual member's personal health record and up to–the minute journal information and health guidelines that are "converted into computer algorithms." This system can detect and fill gaps in care for patient's conditions that go undetected, tests that should be administered, and medicine that should not be prescribed. Williams has also given consumers the ability to find and compare the costs of tests and doctor visits. He believes we can check the trillions of dollars in health care spending through smart technology. For him, health care reform means we "get and keep everyone covered; maintain the employer based system reorient the system toward prevention, value, and quality of care; and use market incentives to improve coverage, drive down costs and make the system more consumer oriented."

QUESTIONS:

1. What is the impact of external as well as internal environment and why do organizations analyze it?
2. Analyze the overall case study and list out the environmental issues has been raised in the media company?

CASE STUDY NO. 2

Case Study on Business Environment

UK households amounted to over £500 billion in 2007, or 63% of gross domestic product. This level of expenditure is very closely related to conditions in the country's macro-economic environment. For marketers, it is crucial to be able to read the macro-economic environment and to predict the effects of change in demand for their goods and services. Identifying turning points in the economic cycle has become a work of art as well as science, as consumers frequently confound experts by changing their expenditure levels in a way which could not have been predicted on the basis of past experience.

During the Autumn of 2008, mortgage rates in the UK were falling; unemployment was close to its lowest level for two decades; pay rises were keeping ahead of inflation; and share prices were recovering from their recent falls. Yet expenditure by British households was falling sharply. For three consecutive months retail sales fell in value, with retailers such as Marks and Spencers and Storehouse reporting below expected levels of sales. Retailers have traditionally found excuses to justify poor sales to their shareholders, including weather which is too cold/too hot. Even the death of Diana Princess of Wales was widely blamed for keeping people out of the shops. Throughout 1998, prices of consumer goods had fallen significantly, with consumer durables down in price by an average of 2% in a year and clothing by 5%. Economic theory would have suggested that lower prices would have resulted in higher sales, especially considering the other favorable elements of the macro-environment. However, this did not appear to be happening.

What else could have been happening in the marketing environment to explain falling household expenditure? At the time, the media was full of reports of an impending global economic crisis, triggered by difficulties in the Asian economies. Consumer confidence is crucial to many high value household purchases such as houses and cars, with consumers reluctant to commit themselves to regular monthly repayments when their source of income is insecure. Even this may be only a partial solution, as a survey of consumer confidence carried out in October 1998 by GFK on behalf of the European Commission showed that although consumers were pessimistic about the state of the national economy, they were quite upbeat about their personal financial situation.

For companies who need to commit resources a long while in advance in order to meet consumers' needs, an accurate understanding of the market environment is crucial if stock surpluses and shortages are to be avoided. But this case shows that getting it right can still be very difficult.

QUESTIONS:

1. Identify all of the environmental factors that can affect the demand for consumer durables and assess the magnitude and direction of their impact.
2. How can a manufacturer of consumer durables seek to respond to environmental change as rapidly as possible?

5.11 NOTE

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UNIT - 6: ESTABLISHMENT OF NEW BUSINESS

Structure :

6.0 Objectives

6.1 Introduction

6.2 Steps for starting New Business

6.3 Policy Instruments

6.4 Assistance for MSMES Exports

6.5 Programmes and Schemes for MSMEs and Entrepreneurship Development

6.6 Summary

6.7 Keywords

6.8 Self Assessment Questions

6.9 Reference

6.10 Case Study

6.11 Notes

6.0 OBJECTIVES

After studying this unit, you should be able to;

- Identify the step for starting new business
- Discuss the policy instrument of the Government
- Give an account of assistance for MSMEs

6.1 INTRODUCTION

This unit provides an overview of all of the aspects associated with a business start-up. Through exposure to best practice and an exploration of the practical side of establishing a business, the module explores the complex and inter-related decisions a business owner has to make. Consideration is also given to the softer side of running a business, including personal resilience and motivation.

The potential entrepreneur would become an entrepreneurs only when he owns a enterprise. The business enterprise to be set up can be a manufacturing venture, a trading firm or a service establishment. The manufacturing venture encompasses the steps necessary for setting up a trading firm or a service establishment as well.

6.2 STEPS FOR STARTING NEW BUSINESS

As soon as a person decides to become an entrepreneur and to start a business, he is required to take a number of steps and formalities one after the other. They are as follows:

I Opportunity Analysis:

Establishment of a successful business unit begins with choosing a good idea for the business. This idea may be to produce something new or existing product; to buy and sell a new or an existing product; or to provide some existing or new service to the customers. But the question arises as to how would you decide on the product and the type of business activity you should take up. While selecting a particular product you have to conduct market and product analysis from the viewpoint of consumers. The data on consumers' preference and needs are to be collected by using various market research techniques. You may survey the local area to find out the demand for any product. If the existing demand is substantial in the area and growing then you may consider to select that product. You may also foresee some new opportunities expected to be arrived in near future due to any change in social, political and technological activities. The various developmental activities of the Government also generate other related activities. For example, when government decides to set up projects like oil refinery, cement plant, steel plant etc. then various other activities like transportation, availability of food, clothes and other items of daily need also come up. In any case, the selected venture must have the scope for a reasonable amount of sales volume and the possibilities for growth.

II Preparing a Plan of Action:

Once you have selected a specific product and decided to establish a business unit, you will have to prepare a plan of action. You will have to decide in advance each and every step you are going to take in that connection till it starts functioning. It will be helpful in avoiding delay at the initial stages of starting business. The following aspects of the action plan should be kept in view before deciding on the course of action:

1. Nature of Business:

At first, decision is to be taken about the nature of business. To decide about the nature of business you want to launch, you have to consider the following factors:

(i) Whether the business would be profitable;

(ii) How much capital would be required;

(iii) What would be the degree of risk;

(iv) Whether there would be sufficient market demand for the goods; and

(v) Whether there would be opportunities to grow and expand.

The above factors will help you to decide as to which line of business you can successfully pursue.

2. Choice of Form of Organization:

A small business may be organized as a sole proprietorship or a partnership firm. Advantages and disadvantages of both the forms will have to be considered and the decision taken. As a sole proprietor, you will have full authority in managing the business and will be entitled to get the entire profit generated, but then you will also have to bear the entire risk of loss involved. In case of partnership, there will be others to share the risk and contribute in Business capital and help in management. But then the profit earned will also have to be distributed among the partners. Sometimes company form of organization may also be considered for the purpose specially when one plans an industrial undertaking.

3. Financial Planning:

A business cannot be started and run without sufficient amount of capital. Capital is required to buy fixed assets like land, building, machines and equipment. Capital is also required to buy raw material and meet day to day expenses of the business like salary and wages, electricity charges, telephone bill, carriage, etc. An estimate has to made regarding the amount of capital required for the various purposes and decisions taken regarding the sources and methods of raising it. The amount to be contributed by the owners and the amount to be borrowed from financial institutions, banks, etc. must also be decided well in advance.

4. Location of Business:

Where to establish a business is also to be decided in advance. It primarily consists of decision regarding the choice of locality and selection of site. The deciding factors usually are nearness to the source of supply of raw material, nearness to the market, availability of labour, transportation and banking facilities. Selection of the site also depends on cost of land, development cost, etc.

5. Physical Facilities:

Decisions have to be taken regarding plant and machinery and equipments to be provided for the business, building and other physical facilities like water and power supply, transportation, etc. The factors that may affect the decisions in this regard are the size of business, techniques of production to be used, availability of funds, etc.

6. Plant Layout:

After selecting the machinery and equipments required, it is necessary to decide about their installation in a proper manner. This is called plant layout. A good layout makes the operations efficient and economical. It reduces the costs of material handling, storage of inventory, use of space, etc. It helps in optimum utilisation of all resources.

7. Manpower and Raw Materials:

The number and type of employees to be appointed have to be estimated and decided in advance and the process of their recruitment, selection and training duly planned. Raw materials are an important input for producing goods. To maintain continuity of production, raw materials must be available in adequate quantity and in nearby areas. Type, quantity and quality of materials to be purchased should be decided in advance, and their sources of supply ensured.

8. Production Process and Operations:

The whole production process is to be visualised and the various activities involved in its operation are to be planned well in advance.

III Choice of an Appropriate Form of Business Organisation:

Selection of a suitable form of business organisation on the basis of ownership and management is one of the important tasks of the entrepreneur. Once a form of organisation is chosen, it is very difficult to switch over to another form because it needs the winding up of the existing organisation and involves a lot of time, effort and money. Therefore, the form of organisation must be chosen after careful thought and consideration.

Now, the question arises as to how to choose a particular form for your business. How will you select it? You know that there are number of factors to be considered while selecting an appropriate form of business organisation. Some of these factors are:

i. The process of forming or starting a business organisation;

ii. Availability of financial, managerial, technical and other resources;

iii. The business risk and liability of the members;

iv. The stability of the business irrespective of existence of owners;

v. Flexibility in operation, i.e., readiness to adopt to the changes in environment;

vi. Maintenance of secrecy in operation of the business;

vii. Area of operation; and

viii. Independence from strict government regulation

IV Select the Location of Business:

Once the nature and suitable form of business has been decided, the decision will have to be taken regarding the location of the place of business. Special care should be taken while making such selection because the place of business cannot be changed easily. The factors that determine location are:

(a) Nearness to the source of raw material particularly when the cost of transporting the raw material is high and the materials are bulky or heavy in relation to their value and add little weight to the final product that you produce. Examples of such raw materials are timber, sugar cane, jute, iron ore, etc.

(b) Availability of rail or road transport facilities is another factor require special consideration. This will make it convenient to bring raw materials to the factory and transporting finished goods to the market.

(c) Availability of banking, postal and other communication facilities is absolutely necessary. Business cannot be run smoothly without such facilities in order to satisfactorily deal with buyers, dealers and suppliers. Apart from providing funds, the banks help in transmitting money, which is necessary to receive payments and make payments.

(d) Adequate supply of power and water is another requirement of a factory. Availability of power and water is also a deciding factor.

(e) Availability of both skilled and unskilled labour at reasonable cost and without difficulty is also a factor to be kept in view while deciding on the location. If labour is brought from far off areas, it would be expensive and the cost of the product would go up.

(f) Availability of civic amenities is another consideration. The recreational facilities, schools and colleges, religious institutions, medical facilities, hospitals, etc. are required both for the labour and the management.

(g) Preferably, the business unit should be located near the market. It is particularly important when the finished product is bulky and perishable. In case of a trading business, the best location is the place where there is enough scope of selling the products. It may be the main market areas of a commercial city or town. In rural area, the trading units may be opened at a place which is convenient to the customers.

(h) While selecting the site for a manufacturing unit, consideration should also be given to the facility for disposal of waste.

(i) The establishment of certain business in specific area attracts tax concession and other incentives. The Government also provides developed land and other facilities by establishing industrial estates. Hence, the businessman may also consider these factors while deciding upon the location of the business.

(j) The social and political conditions of the locality also influence the decision regarding location of the business.

(k) The climatic conditions like temperature, rainfall, humidity etc. are also considered before taking any final decision about the location of business. One may avoid establishing business in flood, cyclone and earthquake prone areas.

V. Identify and Arrange the Resources:

Once you have decided to establish a business unit and chosen the line of business, form of organisation, location and site of the business, you have to identify and arrange resources required to set it up. For any business the main resources required are – men, money, material, and physical facilities like plant and machinery, land and building etc. In the following sections let us have a brief idea about all these resources.

a. Supply of Manpower:

In most cases, the owner will have to employ some persons to help him in various business activities. These workers can be unskilled, semi–skilled and skilled. To run a business smoothly, it has to be ensured that sufficient requisite manpower is available at the right time and at competitive rates. The whole process, which ensures a regular supply of required manpower of right type, is called recruitment. The various sources of recruitment are:

(1) Employment Exchanges;

(2) Technical institutions and institutes of education and training like ITIs;

(3) Advertisement through newspaper, employment news, Internet etc.; and

(4) Placement Agencies.

These sources are useful for recruitment of skilled workers. For unskilled labour, sources of recruitment are (i) persons available at factory gate, (2) through contractors, (3) reference by the existing employees.

b. Financing of Business:

This step essentially involves two things: Estimating the requirement; and deciding about the sources and their proportion. You are well aware that business cannot be run capital. Adequate capital is required to establish any business whether it is small or big. The capital requirement of a business are of two types, (a) fixed capital; and (b) working capital. Fixed capital refers to funds required for acquiring fixed assets like land, building, machinery and equipments, whereas working capital is required to meet the routine expenditure like payment of salary, wages, electricity and telephone bill, purchase of raw materials, payment for transport, etc. The amount of capital required by a business depends upon a number of factors like nature of business, size of business, production process, technology used etc. Let us now make up some of these factors.

d. Supply of Raw Materials:

Depending on the nature of products, here may be need for different types of raw materials. For example, furniture making requires timber, for making ready-made garments cloth is required and so on. To maintain continuity of production, raw materials must be available in adequate quantity at regular intervals. Suppliers should be identified and enquiries made regarding price, cost of transport and terms of payment. Keeping in view the time taken by the suppliers to supply raw material, adequate stock has to be maintained. If there is apprehension of rise in price of raw materials, quantity of purchase can be increased. The various factors to be kept in view while deciding on the quantity to be held in stock are: (i) storage cost, (ii) availability of working capital, (iii) risk of loss or damage of materials held in stock, (iv) insurance premium to be paid, (v) discount available if purchased in bulk and so on.

e. Physical Facilities:

The success of any organisation also depends on the availability of physical facilities like land and building, plant and machinery, tools and equipments etc. The nature, size and quantity of physical facilities are decided on the basis of the nature of business, size of business, production process etc. The availability of funds also acts as decisive factors in this regard. When sufficient funds are available, the promoter may opt to buy the facilities provided it is beneficial for the long-term prospective of the business. Otherwise, he/she may go in for hire purchase or lease arrangement to get the required items. The promoter should always try to explore the market, try to find out the alternative and then select the best product.

VI. LEGAL FORMALITIES:

To establish a business unit many legal and other formalities are to be fulfilled which are as follows:

(A) Form of Organisation:

Sole Proprietorship: There is no legal formality necessary to set up a sole proprietorship business except in certain cases like chemists, restaurants.

Partnership: An agreement between the persons who want to form a partnership firm is necessary. As far as possible, it should be in writing and be registered with the Registrar of firms under the Indian Partnership Act 1932.

Joint Hindu Family Business: No legal formality is required. A Joint Hindu Family business is run as per Hindu Law. But it has to be registered with the Income tax department to avail certain tax concession. Joint Stock Company: It must be registered under the Indian Companies Act 1956. It may be a Private Limited Company or a Public Limited Company.

Co-operative Society: If the business is organised as a cooperative society, it is required to be registered with the Registrar of Cooperative Societies of the state in which society's registered office is to be situated.

(B) Other Legal Requirements and Formalities, which are applicable to all forms of organizations:

1. License is to be obtained from the Ministry of Industries if manufacturing activities are taken up. However industrial units employing less than 50 workers with power or less than 100 workers without power, have been given exemption.

2. Registration with the Registrar of Small Scale Industries of the State in which the unit is to be set up is compulsory.

3. Registration with the Labour Commissioner of the State in which the unit is set up is also compulsory. This is necessary so that there is compliance of various labour laws including the Factories Act.

4. Environmental clearance certificate has to be obtained from the State Pollution Control Board.

5. The industrial units are to be registered with the excise department so that it can get concession under General Excise Duty Exemption scheme.

6. The firm has to be registered with Sales or Trade Tax Authority of the concerned State.

7. If it is a trading concern it is to be registered with the Shop and Establishment Authority of the place.

8. The activities of business may affect the health and safety of the employees as well as public. So business unit may be registered with the local authority.

9. The business should always protect its own name and logo, along with any inventions, product designs or copyright. The others should not illegally use these things. So to avoid such practices the company/firm must go for patenting its intellectual properties like designs, copy rights, etc.

10. To cover the loss arising from unforeseen events, the businessman should go in for insurance of its plants and machinery, buildings, top executives etc.

6.3 POLICY INSTRUMENTS

Policy instruments adopted by the government to encourage the growth of SSI comprise:

(1) Financial incentives;

(2) Fiscal incentives;

(3) General incentives;

(4) Special incentives in backward areas; and

(5) Reservation of items for SSI.

(1) Financial Incentives:

SIDBI provides direct assistance, among others for specialized marketing agencies, industrial estates, acquisition of machinery/ equipment, both indigenous and imported, seed capital scheme and National Equity Fund Scheme, bills re- discounting and direct discounting scheme. State and Local Government provides financial subsidies like interest rate and capital subsidies, and water and electricity subsidies and subsidies for the acquisition of land.

(2) Fiscal Incentives:

These comprise investments allowance, tax holidays, additional depreciation for new plant and machinery and state and local Governments provide exemption from electricity tariffs.

3) General Incentives:

These include, among other things, reservation of items for exclusive purchases from SSI, price preference over medium and large units in public sector purchases and scheme for Self- Employment to Educated Unemployed Youths (SEEUY).

(4) Special Incentives in Backward Areas:

Some of the schemes which are operational are concessional finance scheme, transport subsidy scheme, interest subsidy scheme and income tax incentives, etc.

(5) Reservation of Items:

As per the policy certain items have been exclusively reserved for manufacturing in the MSME sector. The objective is to protect MSMEs engaged in the manufacturing of such items from the competition of medium and large- scale units.

Govt. has setup six exclusive boards, namely, (1) Khadi and Village Industries Board. (2) Handloom Board (3) Handicrafts Board (4) Coir Board (5) Seri Culture Board, and (6) Small Scale Industries Board.

6.4 ASSISTANCE FOR MICRO SMALL MEDIUM ENTERPRISES (MSMES) EXPORTS

Following are the assistance to MSME exports:

(a) MSMEs are helped in participating in trade exhibitions. The Govt. would meet the expenses in this regard on space rent, handling and clearing charges, insurance and shipment charges etc.

(b) MSMEs are given triple weightage for being recognized as Export Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses.

(c) Capital Goods Zero Duty Scheme is extended to MSMERs without any conditions.

(d) Marketing Development Assistance is given to MSMEs to facilitate market research, publicity etc.

Other Schemes:

Important schemes are briefly discussed as below.

(a) Integrated Infrastructural Development Scheme:

Under this scheme the Central Govt. would contribute Rs 5 crores in the ratio of 2:3 for the development of industrial infrastructure in rural and backwards areas. The objective of the scheme is to promote the location of MSMEs in rural and backward areas and facilitate linkage between agriculture and industry.

(b) Marketing Development Assistance Scheme:

MDA is a new scheme launched in August 2001. This scheme provides following five types of assistance:

1) Assistance to individuals for participating in overseas trade fairs and exhibitions.

2) Assistance to individuals to go on overseas study tours or as a member of a trade delegation going abroad.

3) Assistance for production of publicity material for overseas publicity.

4) Assistance to small industry association to conduct sector- specific market studies abroad, and

5) Assistance to SSI Associations to initiate/contest anti-dumping cases.

(c) Trade Related Entrepreneurship Assistance and Development for Women:

TREAD is a scheme for giving trade-related assistance to women entrepreneurs in the form of Loans, grants, trade-related training and information, counseling and extension services.

(d) Preferential Govt. Purchases:

It is made compulsory for various govt. departments and agencies to buy their requirements of a number of items from the constituents of the MSME sector.

6.5 PROGRAMMES AND SCHEMES FOR MSMES AND ENTREPRENEURSHIP DEVELOPMENT

The RBI and government of India have taken necessary measures to implement the recommendations made by Sub-Group on credit to improve the credit facilities to MSMEs. Government of India has created a separate ministry for MSMEs. The Ministry of MSMEs has been introduced and implemented various schemes and programmes to develop MSMEs sector along with better credit facilities. The 62 Ministry of MSMEs has a unique structure to implement the schemes and programmes.

The structure of implementation of programmes has given below:

I Ministry of MSME

II Development Commissioner MSME

III National Small Industry Corporation

IV Khadi and Village Industries Commission

V Coir Board

Each of the above heads has been introduced and implemented their own programmes and schemes.

I. Programmes and Schemes of Ministry of MSME:

The following programmes and schemes have been introduced by Ministry of MSME.

1. Scheme for International Cooperation:

The scheme has been implemented to promote MSMEs to compete at international level with wider international cooperation. The major objective of the scheme is to moderation of MSMEs and promotion of their exports. Under the scheme delegations have been sent to other counters for exploring new areas of technology and improving market of MSMEs products with foreign collaborations. The scheme provides assistance to Indian entrepreneurs to participate in international conferences, exhibitions, trade fairs and others international activities. The scheme also sponsors to conduct international conferences and seminars.

2. Market Development Assistance on Product Scheme:

This is a rebate scheme which provides discount on Khadi and Polyvastra at retail point. The rebate scheme has been examined by many committees to assess its effectiveness in increasing sale of khadi. Based on the suggestions and recommendations of these committees GOI has introduced the scheme of market development assistance on production. The scheme has been implemented from 1st April 2010.

3. Scheme for Assistance to Training Institution:

Entrepreneurship development is one of the key elements for promotion of micro and small enterprises, particularly, the first generation entrepreneurs. Entrepreneurship, and resultant creation of employment and wealth, is a major means for inclusive development. Hence, entrepreneurship development has been one of the priorities in countries the world wide. In order to ensure that young entrepreneurs are encouraged and suitably equipped to go into new ventures, the government has been providing assistance for establishment of Training Institution Entrepreneurship Development Institutes (EDIs) for imparting entrepreneurship and skill development training. These EDIs have been providing entrepreneurship and skill development training to the first generation entrepreneurs and helping and supporting them in the establishment of their enterprises. Government makes consistent and concerted efforts to accelerate and promote entrepreneurship by providing support for strengthening of training infrastructure as well as programme support.

4. Scheme of Found for Regeneration of Traditional Industries (SFURTI):

Government has recently launched the Scheme of Fund for Regeneration of Traditional Industries (SFURTI) under which 100 traditional industry clusters (of khadi, village industries and coir) would be taken up for comprehensive development over 5 year. The KVIC and the coir Board are the nodal agencies for the scheme, which will be the first comprehensive initiative for regeneration of the khadi and village industries sector, based on the cluster development methodology.

5. Rajiv Gandhi Udyami Mitra Yojana (RGUMY):

The objective of Rajiv Gandhi Udyami Mitra Yojana (RGUMY) is to provide handholding support and assistance to the potential first generation entrepreneur, who have already successfully completed EDP, SDP, ESDP or vocational training from ITIs, through the selected lead agencies i.e. 'Udyami Mitras', in the establishment and management of the new enterprise, in dealing with various procedural and legal hurdles and in completion of various formalities for setting up and running of the enterprise.

II Programmes and Schemes under Development Commissioner (MSME):

The following programmes and schemes have been introduced by Development Commissioner (MSME).

a. National Manufacturing Competitiveness Programme (NMCP):

The government has announced formulation of national competativeness programme in 2005 with an objective to support the small and medium enterprises in their endeavor to become competitive and adjust the competitive pressure caused by liberalization and modernization of the economy.

b. Micro and Small Enterprises Cluster Development Programme (MSE-CDP):

Development commissioner (MSME) launched MSME-CDP for holistic development of selected MSEs cluster through value chain and supply chain management on cooperative basis.

c. Credit Linked Capital Subsidy Scheme for Technology Up-gradation:

The scheme aims at facilitating technology up-gradation of micro and small enterprises by providing fifteen percent capital subsidy on institutional finance availed by them for introduction of well established and improved technology.

d. Credit Guarantee Scheme:

Collateral free loans upto a limit of individual MSMEs has been guaranteed under the scheme.

e. ISO 9000, ISO 14001 Certification Reimbursement Scheme:

The scheme provides incentive scheme of reimbursement of expenses for acquiring Quality Management System (QMS) ISO 9000 certification and Environment Management (EMS) ISO 14001 certification.

III Programmes and Schemes under National Small Industries Corporation (NSIC):

The following programmes and schemes have been introduced by National Small Industries Corporation (NSIC).

a. Marketing Assistance Scheme: Ministry of MSME, inter-alia, through national small industries corporation has been providing marketing support to MSEs under the scheme.

b. Performance and Credit Rating Scheme: A scheme for MSMEs has been formulated in consultation with Indian banks association (IBA) and rating agencies NSIC has been appointed the nodal agency for implementation the scheme through empanelled agencies.

IV Programmes and Schemes under Khadi and Village Industries Commission (KVIC):

The following programmes and schemes have been introduced by Khadi and Village Industries Commission (KVIC).

a. Prime Minister's Employment Generation Programme:

Government of India has introduced this scheme on 31st Programme for march 2008 for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. The programme has been provided services like raw material support, skill upgradation, training, quality control, testing facilities, marketing promotion, design and product development in order to strengthen the rural clusters.

Comprehensive Interest Subsidy Scheme: The GOI has been implemented a comprehensive interest subsidy scheme for institutional financing of the khadi and village industry programme.

The Khadi and Village Industries Commission (KVIC) also introduced the following programmes.

- Insurance for Khadi Karigar 'Janashree Bima Yojana'
- Scheme for Enhancing Productivity and Competitiveness of Khadi Indstry and Artisans.
- Scheme for "In House Test Laboratory" for Khadi Indstry and Industries.
- Scheme for implementation of "ISO 9001-2000".
- Scheme for implementation of R & D Projects"

V. Programmes Implemented by Coir Board:

- Rejuvenation, Modernization and technology up-gradation of the Coir Industry (REMOT)
- Scheme for Fund for Regeneration of Traditional Industries (SFURIT)
- Skill Up-gradation and Quality Improvement scheme
- Science and Technology Scheme
- Export Market Promotion Scheme
- Domestic Market Promotion Scheme
- Trade and Industry Related Functional Support service Scheme
- Welfare Measures Scheme

6.6 SUMMARY

The procedure for setting up a business is not the same for all types of businesses, there are certain steps which you have to take to start any small business. In this lesson you will learn some of the important steps in setting up of a small business unit. The Present chapter has also analyzed the incentives taken by Government of India to promote MSMEs activities and development of entrepreneurship. Government of India and Reserve Bank of India have been constituted various committees to make recommendations to develop entrepreneurship and increase the efficiency of finance to entrepreneurs development.

6.7 KEYWORDS

1. New Business
2. Policy Instruments
3. Schemes of MSMEs

6.8 SELF ASSESSMENT QUESTIONS

1. Briefly explain the major steps for starting new business.
2. Discuses the assistances provided by the government for MSMEs export.
3. Illustrate policy instruments adopted by the government to encourage the growth of SSI comprise in India.
4. List out the programmes and schemes for MSMEs and entrepreneurship development in India.

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6.10 CASE STUDY

Case Study No. 1

IBM Company Ltd

Mr. Sandy Carter, Vice-President of SOA & Web Sphere Strategy, Channels & Marketing the following are the details regarding the company as follows:

Location: Armonk, NY

Industry: Computing, B2B

Annual revenue: $103,630,000,000

Number of employees: 398455

When IBM had a sneaking suspicion that the faltering economy might have a dire effect on registrations for its annual IMPACT conference, it devised a plan that in addition to trying new promotional tactics involved forging better relationships with, and maximizing conversions among, those who could attend.

That strategy paid off in more ways than one, as you'll learn when you read how Sandy Carter turned a sweeping industry challenge into a long-term win for the organization.

The teams realized that communication between the company and the outside world was the single most important operational factor in an emergency. As a result, Equity Technologies purchased generators to power the phone system during utility outages and trained co-workers to set them up within seven minutes. Not only does the company have emergency plans and procedures in place, it has made a commitment to review the plans and tools each year at the start of the hurricane season. "We have the annual review on our corporate calendar," said Anderson-Giles. "Being prepared means being ready for any kind of emergency, be it hurricane, utility disruption or man-made disaster

The main Challenge faced by IBM is the world's leading provider of computer products and services. Nonetheless, in today's economy, even the big guns need to rethink marketing strategy if they are to keep pace with previous years' results.

QUESTIONS:

1. Briefly explain main impact of this case study?
2. Briefly analysis the strategies which IBM applied to create opportunities of new ventures?

Case Study No. 2

Creative Director of Balaji Telefilms; awarded with Ernst & Young Start up Entrepreneur of the Year award in 2001. Ekta Kapoor can be aptly called the reigning queen of Indian television industry. The serials produced by her company are a great hit with the masses and are dominating all the major T.V. channels. Ekta is the daughter of former Bollywood superstar Jeetendra and sister of the current Bollywood hero Tusshar Kapoor. Ekta did her schooling from Bombay Scottish School and later on joined Mithibai College.

She was not interested in academics and on the advice of her father ventured into TV serial production at the age of 19. Her company has produced more than 25 serials and each one is being shown, on an average, four times a week on different channels. Ekta Kapoor's serials have captured the imagination of the masses. She has broken all previous records of TV serial production and popularity in India. Ekta Kapoor has produced and co-produced numerous soap operas, television series and movies.

Today, Ekta Kapoor dominates Indian television, producing more than eight television soaps for STAR Plus, India's leading general entertainment channel. She has traversed a long way, pushing through a host of odds that have stood her way since her first musical game show Dhum Dhamaka went on air around 1994. The self-confessed control freak has moved on to making films, though the factor continues in her life, stronger than ever. From the small screen to the big, she still courts controversy with the way she deals with some of the subjects in her serials; she still hires and fires people. Though her dreams appeared to shatter as her creative products flopped on the small screen, her confidence in herself and her belief in the Almighty saw her pulling off success with a hilarious comedy show "Hum Paanch". After that there has been no looking back for this young wizard of Indian television.

Today, Balaji is no more a private limited enterprise but a public limited company. And no prizes for guessing how much sweat, toil and labour the largest and youngest single producer of television software in the history of India's entertainment industry has put in. Despite the popularity of her soaps, Ekta has received a lot of criticism for her controversial and bold scenes, the portrayal of female characters, false sophisticated sets and repetitive, frivolous plots. In the short span of her career this young entrepreneur of India has achieved many awards and civic honors. She was chosen to lead the Confederation of Indian Industries' (CII) entertainment committee. Truly, it is not Ekta Kapoor alone for the bull's eye success of Balaji Telefilms, rather there is a strong team of more than 300 professionals who are sincerely working behind the scenes and so the familiarity must have gone to the company and its team and not Ekta alone.

QUESTIONS

1. Write on short summary of up struggles and successful entrepreneurship story of Ekta Kapoor balaji telefilms?
2. Discuses the overall case and what are all the factors influencing to Ekta kapoor staring up of new venture in film industry?

6.11 NOTES

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UNIT – 7 : INDUSTRIAL ESTATES

Structure :

7.0 Objectives

7.1 Introduction

7.2 Meaning and Definitions of Industrial Estates

7.3 Objectives of Industrial Estates

7.4 Features of Industrial Estates

7.5 Types of Industrial Estates

7.6 Advantages of Industrial Estates

7.7 Industrial Estates in India

7.8 SEZ (Special Economic Zone)

7.9 Objectives of the SEZs

7.10 Salient Features of SEZs

7.11 Benefits of Indian Special Economic Zones

7.12 Incentives and facilities offered to the SEZs

7.13 Incentives and Subsidies

7.14 Summary

7.15 Keywords

7.16 Self Assessment Questions

7.17 References

7.18 Case Study

7.19 Notes

7.0 OBJECTIVES

After study this unit, you should be able to;

- Define the concept of industrial estates.
- Give an account on types of industrial estates.
- State the advantages of industrial estates in India.
- Describe the objectives and features of Special Economic Zone (SEZ)

7.1 INTRODUCTION

It is defined as a method of "Organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand and a variety of services and facilities to the occupants." In short, industrial estate is place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there. The first and foremost industrial estate was established at Rajkot in Gujarat in 1955.

7.2 MEANING AND DEFINITIONS OF INDUSTRIAL ESTATES

An industrial estate is a place where the required facilities and factory accommodation are provided by the government to the entrepreneurs to establish their industries there. In India, industrial estates have been utilised as an effective tool for the promotion and growth of small-scale industries. They have also been used as an effective tool to decentralise industrial activity to rural and backward areas. Industrial estates are also known by different names, e.g. industrial region, industrial park, industrial area, industrial zone, etc.

According to P.C. Alexander, "An industrial estate is a group of factories, constructed on an economic scale in suitable sites with facilities of water, transport, electricity, steam, bank, post office, canteen, watch and ward and first-aid, and provided with special arrangements for technical guidance and common service facilities".

According to Bredo, "An industrial estate is a tract of land which is sub-divided and developed according to a comprehensive plan for the use of a community of industrial enterprises."

The United Nations Industrial Development Organization (UNIDO) defines as "a tract of land development and sub-divided into plots according to a comprehensive plan with provision for roads, transports and public utilities with or without built up factories, sometimes with common facilities and sometimes without them for the use of a community of industrialists."

7.3 OBJECTIVES OF INDUSTRIAL ESTATES

The main objectives of the establishment of industrial estates are to:

1. Provide infrastructure and accommodation facilities to the entrepreneurs;
2. Encourage the development of small-scale industries in the country;
3. Decentralise industries to the rural and backward areas;
4. Encourage ancillarisation in surroundings of major industrial units; and
5. Develop entrepreneurship by creating a congenial climate to run the industries in these estates/area /township, etc.

7.4 FEATURES OF INDUSTRIAL ESTATES

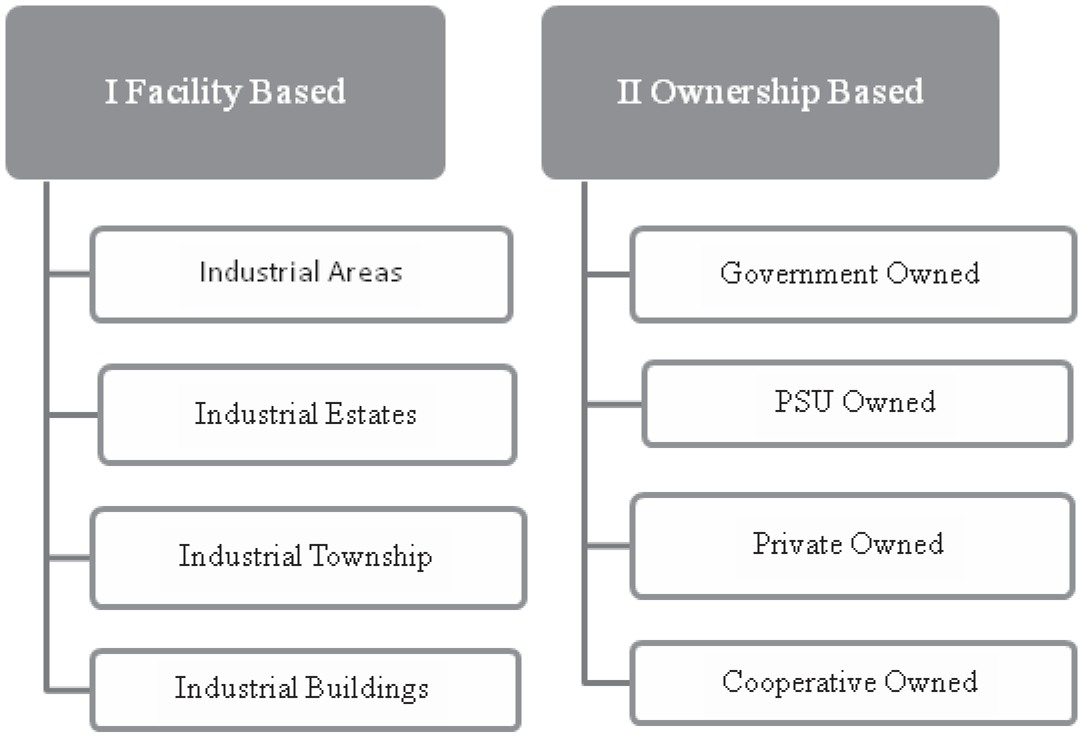
The following are the important features of industrial estates:

- It is a tract of land subdivided and developed into factory plots or sheds.
- It is a planned clustering of industrial units.
- It may be developed in urban, semi-urban or rural areas.
- It may be large, medium or small.
- It may be set up by the Government, or by co-operatives or even by private agencies.
- It provides several common infrastructural facilities such as water, power, roads, training, banks, repairs and maintenance etc.

7.5 TYPES OF INDUSTRIAL ESTATES

There are various types of industrial estates and industrial area in the range of small, big and very big types. Other methods of categorizing the estates is by way of facilities and ownership basis. In the last three decades and due to consistent increase in industrial activities the private entrepreneurship have been taking interest in developing industrial estates and multi-storied building complex of small industries. The private people however have developed the estates mainly in metro cities and industrial cities. The development work in towns and rural sector for industrialization continues to be the major responsibility of State Government. The types of industrial estates can broadly be categorized as under:

Types of Industrial Estates



I Facility Based Category:

a. **Industrial Areas:** A large area is provided by the State Government of private owners and demarcated hectare wise on sale or hire purchase scheme. Basic facilities of roads, electrification and water supply are arranged. The sheds and buildings would have to be constructed by the individual entrepreneurs as per the requirements and convenience.

b. **Industrial Estates:** These are the standard industrial estates seen on the outskirts of metro cities and industrial cities. In addition to the facilities mentioned for industrial areas different types of sheds are constructed to suit requirements of the entrepreneurs and some open sites are provided to enable other entrepreneurs to build the facilities as per their business requirements.

c. **Industrial Township:** This is one step more than the industrial estates in addition to the facilities of industrial estates workers and staff township, civic communities and trader shops are provided so that the workers and supervisors live within their working areas.

d. **Industrial Buildings:** In a metro cities there will be shortage of space or the cost of land will be prohibitive and hence big size industrial buildings are arranged to provide accommodation for various types of tiny and small industries.

II Ownership Basis Category:

a) Government Ownership: The majority of industrial estates come under this category in order to boost industrialization. The State Governments have started industrial estates in various cities and towns and hence the ownership is with the Government. The government has started these estates with a noble intention of regional development many of the estates are not doing well due to location, power and water problems, high cost of production and lack of skill amongst workers.

b) PSU ownership: ancillary industry buildings are normally started and owned by the public sector undertakings. The units and their productions are developed to suit the requirements of the respective PSU. Here gain any transfer of ownership of the ancillary the approval of PSU is essential.

c) Private Ownership: Some industrial estates are developed for small industries may be ancillary to big private or public sectors. Some of them could be catering to various industries. The building and common facilities ownership is with a private owner and the entrepreneurs have to pay the rent to the owner.

d) Co-operative ownership: Co-operative system is more common in the rural sector. For such industries there is necessity of developing small industries under co-operative sector to attend routine work related to maintenance and supply of spares and facilities.

7.6 ADVANTAGES OF INDUSTRIAL ESTATES

1) Economies of Scale:

It arises because all the industrial units enjoy common infrastructural facilities like water, roads, etc. As the size of the industrial units increases, the costs of estate development and administration per unit of each facility decrease.

2) External Economies:

Several industrial units are clustered together in an industrial estate. This enable them to enjoy the benefits of agglomeration and external economies like improved transport facilities, availability of trained labour, repair facilities, power and water etc.

3) Low Investment:

Even a small entrepreneur can acquire an industrial plot or shed on rent or hire purchase basis.

4) Less Risks:

Since all units enjoy common facilities and low capital investment, risks are relatively low.

5) Mutual Co-Operation:

All industrial units located in an industrial estate face common problems and seek to achieve common objectives.

6) Balanced Regional Development:

It is possible to secure a balanced regional development by developing industrial estates in industrially backward areas.

7) Saving Of Time and Effort:

An individual entrepreneur is relieved of trouble of searching for suitable space.

8) Entrepreneurial Development:

Industrial estates reduce risks and increase profitability through internal and external economies.

7.7 INDUSTRIAL ESTATES IN INDIA

Industrial estates are found more and are working actively in and around metro cities and industrial cities. The main responsibility of establishing industrial estates rest with the State Governments. The private sector have started industrial estates of different types mainly in the areas where they get very high rent. Whenever Govt. builds industrial estates there is a tendency by business houses, bureaucrats and politicians to book the sheds to sell at a later date for profits. It is observed that small entrepreneurs are financially not in a position to buy the sheds in industrial estates. Deferred payments so that in about 5-10 years they can become owners by installment payments. There is a vast difference between the industrial estates developed in rural and semi-urban areas compared to those developing cities. In the last two decades many private people have developed industrial complex industrial complexes which are know by specialisations like machining, electronics, computer hardware, tools The future industrial estates needs to have bigger area and provide wider roads.

7.8 SEZ (SPECIAL ECONOMIC ZONE)

Special Economic Zones in India were established in an attempt to accelerate foreign investment and endorse exports from India and recognizing the need of a global platform to expose the domestic firms and producers to the competitive world market. The announcement of formulating a Special Economic Zones policy in India was made by the government in April 2000 and was anticipated to be an overseas province for trade purposes, commercial operations, duties and taxes. SEZs when equipped are anticipated to provide premiere infrastructure services and sustenance services, besides permitting for the tariff free import of merchandize and raw materials. Furthermore, attractive financial subsidiaries and trouble-free custom tariffs, banking and other methods are provided in such business zones. Establishing SEZs is also recognized as communications development methods.

Organizational Set Up:

SEZs are controlled by a three tier Organizational Set-up described as under: Supreme controlling body in the Department is known as The Board of Approval At district level, The Unit Approval Committee tackles with SEZs development and other associated issues Every district is led by a Development Commissioner, who also controls the Unit Approval Committee.

7.9 OBJECTIVES OF SEZs

The main objectives of the SEZ Act are:

(a) Generation of additional economic activity;

(b) Promotion of exports of goods and services;

(c) Promotion of investment from domestic and foreign sources;

(d) Creation of employment opportunities; and

(e) Development of infrastructure facilities.

7.10 SALIENT FEATURES OF SEZ

Indian SEZs are developed by government, private and joint sector, unlike its international counterparts where zones are chiefly maintained by their respective governments. This provides equal prospects to both Indian and global players. Government has allocated a least favorable area of 1,000 hectares for green field SEZs. Although, there are no limitation in context of favorable area in constructing sector specific SEZs. 100% of Foreign Direct Investment is allowed for all endowments in Special Economic Zones, apart from activities cataloged under the unconstructive record. SEZ divisions are obligatory to be encouraging net foreign exchange yielders and are not entitle to any least amount of value addition guidelines or export responsibilities. Commodity surge from Domestic Tariff Area (DTA) into a SEZ is recognized as exports and commodity surge into DTA from SEZ are recognized as imports. BENEFITS Besides offering high end infrastructure and availability to a large skilled workforce, SEZ also offers attractive incentives and advantages to firms and developers.

7.11 BENEFITS OF INDIAN SPECIAL ECONOMIC ZONES

1. Full Income tax exemption for a period of 5 years and an extra 50% tax relief for additional two years.
2. Manufacturing industry is allowed an FDI influx of 100% via automatic channels excluding few industries.
3. Services to establish off-shore banking divisions in SEZs Service Tax and Central Sales Tax exemption
4. No import authorization obligations.
5. Services to sustain foreign exchange proof of payments of upto 100% in Exchange Earners' Foreign Currency Account.
6. SEZ franchisees are allowed100% FDI in offering customary telephone facilities in the areas.
7. No limitation of foreign endowments for small scale industry reticent products.
8. Tax relief from sectoral authorization obligations for goods reticent for SSI industry Tax relief from custom tariff on import of merchandize, raw products, spare parts etc
9. Tax relief from Central Excise tariff on acquirement of merchandize, raw products, spare parts etc from the local market No regular assessments by Customs for export and import freight.

7.12 INCENTIVES AND FACILITIES OFFERED TO THE SEZS

- The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-
- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act.

- External commercial borrowing by SEZ units upto US $ 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective State Governments.

SEZs in India:

At present there are eight functional SEZs located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh) in India. Further an SEZ in Indore (Madhya Pradesh) is now ready for operation. In addition 18 approvals have been given for setting up of SEZs at Positra (Gujarat), Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu), Kulpi and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (UP), Vishakhapatnam and Kakinada (Andhra Pradesh), Vallarpadam/Puthuvypeen (Kerala), Hassan (Karnataka), Jaipur and Jodhpur (Rajasthan) on the basis of proposals received from the state governments.

7.13 INCENTIVES AND SUBSIDIES

In India Entrepreneurs are offered a number of incentives because they fulfil two main objectives of economic development. Firstly, they facilitate decentralization of industries. They assist in the dispersal of industries over the entire geographical area of the country. Secondly, they facilitate the transformation of a traditional technique into modern technique characterized by improved skills, high production and higher standard of living.

Incentives:

It is the financial and promotional assistance provided by the government to the industries for boosting up industrial development in all regions particularly in backward areas. Incentives include concession, subsidies and bounties. 'Subsidy' denotes a single lump-sum which is given by a government to an entrepreneur to cover the cost. It is granted to an industry which is considered essential in the national interest. The term Bounty denotes bonus or financial aid which is given by a government to an industry to help it compete with other units in home market or in a foreign market. Bounty offers benefits on a particular industry; while a subsidy is given in the interest of the nation. The object of incentives is to motivate an entrepreneur to start new ventures in the larger interest of the nation and the society.

Advantages of Incentives and Subsidies:

They offer following advantages:

1. They act as a motivational force which makes the potential entrepreneur to enter into business activities.
2. They encourage the entrepreneur to start industries in the backward areas.
3. They help the government to get a balanced regional development.ü
4. They help to develop new enterprises which lead to economic development.
5. They make the entrepreneur to face competition successfully.
6. They help to reduce the overall problems of small scale entrepreneurs.

Need for Incentives and Subsidies:

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

1) To Remove Regional Disparities in Development:

Industries may be concentrated and overcrowded in some regions, in order to correct this regional balance, incentives are provided to entrepreneurs. They will start new ventures in such backward areas. Thus the backward areas become developed and regional imbalances are corrected.

2) To Provide Competitive Strength, Survival and Growth:

Several other incentives are provided for the survival and growth of industries. For example, reservation of products, price preference etc. will improve the competitive strength. Other concessions like concessional finance, tax relief etc., contribute their survival and growth.

3) To Generate More Employment and Remove Unemployment:

Market adjustments and external economies play a significant role in the economic development of a country. Subsidies cause movement of entrepreneurs from developed areas to developing or backward areas. In short, incentives and subsidies serve as a catalyst to start a dynamic process of development.

4) To Promote Entrepreneurship:

Industrial estates, availability of power, concessional finance, capital investment subsidy, transport subsidy etc, are few examples of subsidies which are aimed at encouraging entrepreneurs to take up new ventures.

Problems Relating to Incentives:

1. The antagonists argue that the incentive scheme may deteriorate into useless tax give away schemes if they are not implemented properly.
2. Empirical studies reveal that the incentive schemes are being highly misused rather than properly used. Some of the units are located in backward areas with a view to mainly avail the subsidies and concessions. The real objective of providing incentives is hardly achieved.
3. Favouritism and corruption have crept into the administrative machinery which has caused much financial strain on the exchequer.

Problems Relating to Subsidies:

Some problems may arise in devising and implementing a subsidy system. They are as follows.

1. If the administration is inefficient or corrupt, subsidy will not produce the desired results.
2. A subsidy may remain unutilized.
3. It is very difficult to measure the impact of subsidies.
4. Subsidies may lead to inefficiency in the long run.
5. Subsidies once introduced are difficult to withdraw.
6. The administrative procedure must be effective.
7. The cost of administering a subsidy should be considered.
8. The subsidy scheme should be communicated to prospective beneficiaries.
9. The quantum of subsidy should be adequate to produce the desired results.
10. The target groups to whom the subsidy is to benefit should be clearly determined.

7.14 SUMMARY

This unit gives an insight into industrial estates. It discuss about types of industrial estates. It also throws light upon special economic zones. Further it speaks about need and advantageous of incentives and subsidies provided to the entrepreneurs.

7.15 KEYWORDS

1. Industrial Estates
2. Special economic Zone(SEZs)
3. Incentives and subsidies.

7.16 SELF ASSESSMENT QUESTIONS

1. Define Industrial estates.
2. State the features and benefits of Indian special economic zones.
3. Illustrate the need and problems related to incentives and subsidies.

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7.18 CASE STUDY

Case Study No. 1

T-Sole Ltd produce fashion boots and industrial footwear, which are sold under the brand name of MDs. This footwear brand can only be bought in specialist retail outlets throughout the UK or from their own shop, which is situated in the heart of London. During the mid 1980s to the mid 1990s the company achieved huge successes. Their footwear range was particularly popular with the student segment of the market, because of their durability. Sales to other segments of the market were also increasing, as were their profits.

The managers of the company decided to expand their factory to cope with this increased demand, which also meant doubling their workforce.

The present situation their factory is situated in a rural area approximately 200 miles from their London store. New employees were recruited from the locality and are given one day's training in the production process when they first started. Management introduced a 'piecework' rate, which means employees are paid for each item of footwear they produce. The managers believed this system is an incentive to increasing productivity. However, the new recruits made many mistakes and a lot of the footwear produced had to be rejected.

The experienced workers started rushing their work in order to increase their wages and this led to an increased number of consumer complaints regarding faulty or poor quality goods. Added to this was the increased competition from trainer manufacturers. The MDs brand saw its sales figures drop by 50 per cent within three years, which was a huge loss of market share.

Two-thirds of the workforce have now been made redundant. Those remaining feel very insecure and are unhappy with their current working conditions. Production has been limited, which means they are losing out on wages. The equipment they use is constantly breaking down, leading to further time lost for which they are not being paid

The remaining workers have asked the management to change their payment system to a guaranteed weekly wage for the hours they work. They have threatened to withdraw their labour if conditions do not improve.

The company managers of sole traders going to adopt option for the future Change the payment system for the employees and improve maintenance procedures on the machinery. This would eat into their already reduced profits and would not be popular with the shareholders. Keep the present payment system for the employees and instead move into the casual footwear range and hope that the employees will accept the change. This would involve some modification and upgrading of existing machinery. Finance could be a problem.

QUESTIONS:

1. Explain **two** such pressures affecting the current situation of T-Sole Ltd in small business?

2. Explain the major Challenges for T-sole trader faces to start up and expansion of new entrepreneurial venture in business?

Case Study No. 2

Pure Tech India is a successful knowledge based venture dedicated to innovative design and manufacturing of specialty engineering equipments used for liquid pollution control incubated at TREC-STEP. The start-ups's products are positioned in the niche eco-sensitive domain of preventing the manufacturing liquid pollutants from causing grave harm to the environment by their indiscriminate disposal. The venture, recognizing and aiming to address critical pollution parameters, manufactures equipment for recovery and re-use of costly and depleting resources like Hydrocarbons. The company serves Engineering, Automobile, Food and Petrochemical companies and Treatment plants across the country and abroad. The key products designed innovatively and manufactured efficiently are Water-soluble Coolant recovery systems, Oil - water separators, water - oil separators, Advanced Oxidation reactors and Stainless Steel filter media cartridges. The company aims to be a one-stop source for a range of liquid recovery systems, to promote clean and green tech manufacturing in the country and abroad.

The most important aspects that attracted Pure Tech to TREC-STEP were the Motivation, Mentoring, specific inputs on Marketing and Business strategy formulation, Infrastructure support, Business contacts, Funding options, etc. The company within a short period of time has already exported the equipments to Malaysia, Singapore, Nigeria, Indonesia, Bangladesh, Kuwait, Dubai and Iraq. Currently, the equipments are being exported to Brazil and Mozambique, totally covering 10 countries.

QUESTIONS:

1. Analyze the overall case study and how the pure tech company has planned to started new venture?

2. Briefly explain the major issues and challegeous faced by pure tech company start new venture?

7.19 NOTES

UNIT – 8 : MARKETING ANALYSIS

Structure :

8.0 Objectives

8.1 Concept of Marketing

8.2 Marketing Process

8.3 The Principal Marketing Functions

8.4 Marketing Problems of Small Business

8.5 Institutional and Government Support to Market Products of Small Enterprises

8.6 Other Problems of SSEs in India

8.7 Government Support towards marketing

8.8 Recent Government 's Initiatives

8.9 Summary

8.10 Keywords

8.11 Self Assessment Questions

8.12 References

8.13 Case Study

8.14 Notes

8.0 OBJECTIVES

After completion of this unit, you should be able to;

- Define the concept of marketing.
- Explain the problems in small business.
- Describe the institutional and government support for small scale industries.

8.1 CONCEPT OF MARKETING

Marketing occupies an important place in the management of small scale industry. It is a key factor in determining the success of an industrial concern. Traditionally, marketing has consisted of "those efforts which effect transfers in ownership or goods and care for their physical distribution." In economic terms, marketing covers those activities which relate to the creation of time, place and possession of activities.

Marketing mechanism in small scale industries involves all the activities undertaken in the transferring of goods and titles from producer to consumer. The efficiency of marketing determines the sales and profits of the small scale industries. In fact, small scale industries are able to prosper with a very significant marketing system. The marketing mechanism differs from one industry to another, while tiny, industry and ancillary units opt for simple mechanism, some others opt for full scale marketing mechanism usually adopted by medium and large scale units. In some other cases, marketing of goods is entrusted to marketing agencies, specialized in such operations. The significance of marketing of small scale industry is the very basis of its industrial activity. Thus marketing is the key factor for the success of small scale industries.

8.2 MARKETING PROCESS

Marketing involves three basic inputs: the product, the promotional methods and distribution system. These three are the core inputs of the marketing programme and must be integrated to achieve maximum consumer satisfaction and optimum profits. The marketing process brings together producer and customer the two important segments in any exchange. An exchange or a transaction takes place when a market offering is acceptable to the customer who is prepared to give something in return for the product he purchases.

8.3 THE PRINCIPAL MARKETING FUNCTIONS

A marketing function may be defined as a major specialized activity or group of activities performed in the marketing of goods and services. Although the performance of a specific function may be inescapable, it is frequently transferable, in other words it has to be performed by someone regardless of his official title and responsibilities. Another characteristic of this function is that whereas its purpose may be unchanging, its content, in terms of the number and kinds of activities involved, may be subject to constant change. Newer and better ways of doing things and carrying out traditional functions are continually being developed. Traditionally marketing function include (a) the exchange functions of buying and selling; and (b) the physical distribution functions of transporting, warehousing and handling goods between producer and customer.

8.4 MARKETING PROBLEMS OF SMALL BUSINESS

Marketing is one the major stumbling blocks for small scale industries. The various problems which they face in marketing their products are enumerated below:

1. Lack of standardization;
2. Poor designing;
3. Poor quality;
4. Lack of quality control;
5. Lack of precision;
6. Poor furnish;
7. Poor bargaining power;
8. Lack of service after sales;
9. Sales of production;
10. Brand preferences;
11. Distribution contacts;
12. Lack of knowledge of marketing;
13. Competition;
14. Ignorance and potential markets;
15. Unfamiliarity with export activities – procedures and market know-how;

16. Financial weakness; Limited resources;
17. Lack of local market, heavy dependence on middlemen;
18. Lack of advertisement and promotion;
19. Lack of testing equipment;
20. Absence of a marketing strategy;
21. Illequipped marketing organization;
22. Delayed payment; and
23. Weak bargaining position.

As mentioned earlier, because of this weak financial base, a small industrialist cannot afford to spend as heavily as a large unit does on marketing his products. A rare exception is the pharmaceutical industry. In which the gap between the manufacturing cost and the selling price is very large. This is a special situation, in which marketing techniques are different and therefore the cost of marketing is very high, particularly the marketing cost of those drugs for which there is stiff competition. The small industrialists in this line have to follow this trend in order to survive.

In the absence of a marketing channel of their own, many small units sell their products to large selling houses. The large companies make handsome profits from marketing the products of small units by charging a much higher price from the consumer. In this respect, there is a need for a large number of marketing consortia, whose primary responsibility will be to assist small units.

8.5 INSTITUTIONAL AND GOVERNMENT SUPPORT TO MARKET PRODUCTS OF SMALL ENTERPRISES

Before they come up and for their sustenance, small industries need various supporting services, efficiently organized and promptly extended. Marketing guidance and assistance is one such services which is increasingly expected by newly established small units in areas which are far away from developed metropolitan cities. These industries are often not in a position to carry on market research, which is an essential pre-requisite in the marketing process. To encourage the small entrepreneur to take up the production and marketing of new products, the governments in the developing countries and their specialized institutions collect, collate and disseminate up-to-date and reliable marketing intelligence on a regular basis in the absence of which an entrepreneur would often operate either in dark or wander on an uncharted sea. As a matter of fact manufacturing units should be guided into the unexplored areas of assumed profit. This is the rationale behind the market intelligence bureau, which collects and disseminates relevant information about potential and profitable market areas.

The production and financial capacity of small industries are limited, so are their sustaining power and competitive strength. They can compete individually if the product is special and demand outstrips supply. In the case of products which are not special, and in lines where competition, particularly from the large scale sector is fierce, individual marketing becomes difficult. To contend against established large and even small units is not a easy job. The very small size of operations is then a handicap. But if several small units decide to pool their resources, their combined aggregate capacity would be larger than of even the largest industrial unit. In fact, some lines of production, the total installed capacity in small scale sector is higher than that in the large sector. Small units can then compete collectively and secure a share of the market, which is legitimately theirs. However, a collective of this type can succeed only if the participants are prepared to sacrifice a part of their individuality. This is more true of foreign markets, where one has to contend not only against all the other countries, but also against a vast, domestic market. Extensive organization is needed to reach potential areas, and to hold one's market. Extensive organization is needed to reach potential areas, and to hold one's market, extensive organization is needed to reach potential areas, and to hold one's own against the unfair competition from the large-scale sector. It is in this context that the consortium idea, which is still is an embryonic stage in India, is relevant. Government purchase from small industries would also go up tremendously if small entrepreneurs adopt this consortium approach. They would eliminate to a great extent competition amongst themselves in their own sector

1. Export Promotion Measures

To ensure a secure base for India's export, Government has initiated various measures that would

(i) Strengthen export production;

(ii) Encourage capacity expansion in export-oriented industries;

(iii) Augment bargaining power of our exporting community;

(iv) Encourage entry of our products in the new markets of both developed and developing countries;

(v) Improve our inherent competitive strength through imparting greater relative price stability of Indian economy.

One of the most important features of Government's measures has been to provide a stable base, uncertainties are removed and exporters are encouraged to take a long-term view about international marketing. Another noteworthy effort by involving various agencies of Central Government, public sector organization, state governments, financial institution and other national agencies engaged in different types of economic activities.

2. Quality Control:

Closely allied to the programme of modernization is the question of maintaining the quality of the product. Overseas buyers do not differentiate between goods manufactured by a small scale unit and a large scale unit. All they care about is the quality of the product. The quality of the products delivered to customers should conform to the sample design originally shown to them. The products, moreover, should be fit for use at the time specified therein. Recognizing that individual entrepreneurs are not in a position to establish laboratories to test their products.

3. Marketing:

Attempts have been made to obtain raw materials for small entrepreneurs, help them to update their products and ensure their quality. But not enough has been done to provide marketing facilities for them, particularly for the export of their products. The country become acute varied and complex when they enter international markets, These problems range from lack of export consciousness to the absence of infrastructural facilities in marketing abroad. Here, steps have to be taken, on an urgent basis, to assist the small entrepreneurs.

4. Export Consortia:

One way of overcoming the problems of marketing is through increasing participation of small entrepreneurs. They can adopt a group approach by forming themselves into export houses or export groups to maximize the opportunities available in the marketing of their products. Their combined efforts may lead to among other things, better packaging methods and overseas publicity campaigns. It is essentially things, better packaging methods and overseas publicity campaigns. It is essentially with a view to encouraging small scale industrialists to join together for this purpose that the Union Government has announced liberal concession for small scale export

5. Infrastructural Set-up:

The government has established adequate and appropriate institutions, mainly to assist export promotion in particular. They are:

1. Export Promotion Councils, fir the promotion of specific commodities or groups;
2. Commodity Boards for coffee, tea, cardamom, rubber, coir, silk, handicrafts and handloom;
3. The Board of Trade;
4. Chamber of Commerce and Industry;
5. The Trade Development Authority;
6. The Federation of Indian Export Organisations (FIEO);
7. Export Processing Zone;
8. Indian Institute of Trade;
9. Export Inspection Council;
10. Indian Council of Arbitration;
11. State Trading Corporation of India;
12. Free Trade Zones;
13. 100% Export oriented units;
14. Trade fair authority of India;
15. Export houses and Trading houses.

8.6 OTHER PROBLEMS OF SSES IN INDIA

Concurrent with an impressive growth SSEs face number of problems which are manifested in such a way that this sector fails to achieve the required amount of dynamism and growth. The problems of SSEs are discussed as follows:

1) Financial Problems:

Finance is the most important aspect for any industrial development. The scarcity of finance and credit is the main obstacle in the growth of SSEs. These enterprises are generally organized in sole-proprietary and partnership concerns and so have no access to the capital market. There exists insufficient equity type institutional support. Delays in institutional finance, unhelpful attitude of banks are the common problems of SSEs. The delay in sanctions of loans occur due to lengthy procedural formalities, insistence upon certificate from local authorities such as village office, block development officers etc and over-emphasis on collateral security. Banks generally avoid financing smaller SSEs due to high mortality rate, low overall recovery performance and high cost of servicing SSEs loans. In this scenario SSEs have to depend upon high interest non-institutional finance.

2) Slow Technological Progress:

Paucity of funds is the major area for the slow adoption of innovative practices in the business. The unsatisfactory technology delivery mechanism such as arrangement for demonstration of cost and use of new technology also cause low technical progress in SSEs. SSEs especially the cottage and village industries have to depend upon outdated and obsolete production technique. This adversely affects the quality of output and increases manufacturing cost.

3) Lack of Proper Planning:

Planning comprises of the outlay of the quantum of output, time framework of implementation, product and marketing strategies. The performance feasibility study are often neglected by SSEs due to time and cost factors. As a consequence, SSEs face large sickness at early stage of their operation.

4) Sickness:

There exists large level of sickness amongst SSEs. The incipient sickness (ie. Sickness at an early stage of existence) is largely due to lack of planning, professional management and financial problems. The sickness causes wastage of large amount of finances that remain locked into these units. Further, sickness also leads to various socio-economic problems such as lower production, employment and exports.

5) Shortage of Raw Material:

Raw material scarcity caused disruption in the production process. SSEs fail to make bulk purchases and thus have to pay higher price for inputs. The suppliers of scarce raw material give preference to buyers. SSEs have to depend upon low quality localized high price raw material. Further, SSEs fail to make alternative arrangements for critical inputs such as power due to financial constraints. These factors adversely affect product quality and cost of production.

6) Absence of organised marketing:

One major problem of small- scale industries is marketing. These units often do not possess any marketing organization and consequently their products compare unfavorably with the quality of the products of large-scale industries. Therefore they suffer from a competitive disadvantage vis a-vis large-scale units. In the absence of organised marketing, their products compare unfavourably with the quality of the product of large- scale units.

They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.

7) Absence of adequate infrastructure:

Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem. Thus absence of adequate infrastructure adversely affect the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.

8) Competition from large-scale units and imported articles:

Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product. 8. Other problems: Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems, lack of power, and lack of adequate warehousing, lack of information. Due to all these problems the development of small-scale industries could not reach a prestigious stage.

8.7 GOVERNMENT SUPPORT TOWARDS MARKETING

In order to provide market support to SSEs, Government has taken following measures:

(i) Preferential Purchases and Price Preferences by Government: The Government organizations are statutorily required to make specified level of purchase from SSEs and the same has to be disclosed in their annual reports. At present the number of items for exclusive purchase from SSEs stood at 358. Government also provides price preference to SSEs in their purchases over large scale units.

(ii) Financial Assistance is allowed for participation in the international trade fair by representatives of SSEs.

(iii) Training Programmes on various aspects of marketing like marketing management, export marketing etc are conducted by Government.

(iv) Institutional Marketing Support is provided by National Small Industries Corporation (NSIC) and Small Industries Development Organization (SIDO).

1. Institutional Support:

Government has established various organizations to help SSEs. These institutions assist SSEs in purchase of raw material, marketing of goods, technological and skill improvement and arranging credit. The important organization established are Khadi and Village Industries Commission and commodity specific organizations such Handloom Board, Cottage Industries Board, Coir Board etc. Specialized financial and consultancy institutions such as SIDBI, NABARD (for supporting rural industries), SIDOs, NSIC has been established to provide financial, marketing and managerial assistance to SSEs.

2. Raw Material Assistance:

The institutional support is provided to allow availability of raw material (both indigenous and imported) at fair price. The centers have been established to distribute scarce raw material to SSEs. Buffer stocks are maintained for raw materials. This has helped SSEs to focus on production of quality products.

8.8 RECENT GOVERNMENT'S INITIATIVES

In view of liberalization and globalization and reduced Government intervention in market-driven economy the protectionist policies has been replaced by supportive policies. The recent measures adopted by government are as follows:

1. Legislative Measures:

Micro, Small and Medium Enterprises Development Act, 2006 has been enacted to facilitate the promotion and development of SSEs. This Act seeks to facilitate promotion and development and enhancing competitiveness of these enterprises. It provides the first-ever legal framework for recognition of the concept of "enterprise" (comprising both manufacturing and services) and integrating the three tiers of these enterprises, namely, micro, small and medium. The basic purpose is to develop the consultative mechanism at the national level that represents stakeholders from three classes of enterprises. The act provides for the establishment of specific funds to support SSEs. The progressive credit policy with targetted growth of credit to SSEs has been incorporated in the Act. The mechanism has been designed to reduce the problems of delayed payment to SSEs.

2.Support for Cluster-Based Development:

The holistic approach is adopted to develop cluster of SSEs so as to provide common facilities in these clusters. The existing industrial infrastructure will be upgraded and new facilities will be created in the public-private partnership mode.

3. Technology and Quality Up Gradation:

The support is provided by establishing training-cum product development centers.

a. Strengthening of Entrepreneurial and Managerial Development Programmes:

Financial assistance is provided to B-schools to conduct tailor-made management courses for SSEs. Entrepreneurial clubs are established in the Colleges or Universities.

b. Empowerment of Women-Owned Enterprises:

The concessions, marketing and credit facilities on priority basis are provided to enterprises owned and managed by women.

b. Strengthening of Data base for SSEs:

It is decided to collect database on SSEs through annual sample surveys and quinquennial (i.e. happening every five years) census so that policy decisions can be framed for SSEs based on systematic provides inputs for systematic policy initiatives.

SSEs enjoy inherent advantages over their larger counterparts in terms of generation of employment opportunities, equality of income and wealth and greater export potential. The globalize economy has ushered in greater accessibility to the market, need of greater linkage of SSEs with larger companies and improved manufacturing techniques. The measure adopted by Government have been attempted to alleviate the problems of SSEs. The recent initiatives have changed the outlook of business from protection to liberalization. It has created a sense of competition amongst SSEs.

8.9 SUMMARY

This unit gives an insight into the concept of marketing and small business. It discuss about the marketing problems in small business. It also throws lights upon small scale industries. Further it speaks about institutional and government support towards SSIs and remedial measures towards the marketing problems in small business.

8.10 KEYWORDS

1. Marketing Problems.
2. Small scale Industries.
3. Government Initiatives.

8.11 SELF ASSESSMENT QUESTIONS

1. Define Marketing and small scale industry.
2. List out the marketing problems in small business.
3. Briefly explain the recent government initiative towards overcome marketing problems in small scale industries.

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8.13 CASE STUDY

CASE STUDY NO.1

FATHER AND SON PIZZERIA PVT Ltd

Pizzeria is a 900-square-foot, eight-table restaurant in Guttenberg, N.J., across the Hudson River from Manhattan. Opened in 1971, it was bought in 2007 by Carlos Vega, now 45, from its aging founder. Mr. Vega soon doubled sales by expanding the menu, improving service and selling the restaurant's "gravy," or red sauce, over the counter in 12-ounce Mason jars.

Mr. Vega bought the business, but not the building, for $75,000. He wasted little time expanding the menu beyond pizza, subs, chicken Parmesan sandwiches and spaghetti and meatballs. "I made it more of a full-blown Italian kitchen and added a dessert menu," he said.With room for only eight tables, Mr. Vega upgraded the takeout business, introducing

Internet orders, adding credit card sales, offering "take and bake pizzas" that customers could heat at home. Without a parking lot, and with on-street spots scarce, he started curbside pickup. He nudged the price of a pie up to $11.50 from $11 but held the line at $11 for his chicken francese. He doubted he could charge the going rate of $16 or so at nearby Italian restaurants that had tablecloths, servers, parking lots and liquor licenses.

The former owner had gotten by with a skeleton staff: his wife, himself and a dishwasher. Mr. Vega brought on a cook and a pizza maker, driving up expenses. But he made the sauce himself, tweaking the recipe he had learned years earlier as an employee. So many customers asked for extra sauce and for him to bottle the slow-simmered red sauces that Mr. Vega decided to comply. Soon, instead of making 40 quarts a week, he was making 40 quarts every two days. The jars, he said, "were flying off the counter." And the margins were higher for the red sauce than for his menu items.

Mr. Vega left a corporate job producing print publications for the financial industry to take over the pizzeria. He felt constrained by his business's size and location: a small restaurant without a parking lot on the six-block main street of a blue-collar town. Even with his improvements, the business was bringing in only about $10,000 a week. It was profitable, but only because he was working long hours, typically seven days a week, to hold down labor costs. Mr. Vega knew he couldn't continue like this. At preset Mr. Vega should continue to simply use the sauce line as an additional source of revenue and profit for his restaurant."

QUESTIONS:

1. Discuses the overall circumstance and list out challenges faced by Mr.Vega in his journey?
2. Give suggestions for accumulation of financial assistance to Mr. Vega for development of small business for future growth?

CASE STUDY NO.2

Sachin and Virag are two enterprising youth. They have passed out from IIM, Bangalore. They thought instead of doing a job, they will launch fresh vegetables in Indian markets. Having learnt of the future conventional foods, they decided to venture into cultivation of mushrooms. Mushrooms are known to be the best alternative food for vegetarians.

For Sachin and Virag fund raising was a serious handicap for mass production. However, the first trial batch of mushrooms that they produced was bought by Star Hotel in Bangalore. Further, the hotel placed orders for supply of 20 kgs every day. Now mushroom industry is run by small entrepreneurs, like Sachin and Virag. Another big player M/s Ashtavinayak Mushrooms, equipped with cold storage facility was more interested in the export market. Sachin and Virag have set their sights high.

They aim to sell mushrooms in a very big way all over India. Mushrooms have a great market potential and is a perishable food.

QUESTIONS:

1. How will you advise Sachin and Virag, as how to increase the consumer awareness about this new food?
2. What would be your suggestions for distribution channel for mushrooms?

8.14 NOTES

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DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

COURSE - 13

ENTERPRENEURIAL DEVELOPMENT AND SMALL BUSINESS

BLOCK

3

MICRO, SMALL AND MEDIUMENTERPRISES AND INSTITUTIONAL SUPPORT TO ENTREPRENEURS

UNIT - 9

MICRO, SMALL AND MEDIUM ENTERPRISES 1-19

UNIT - 10

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UNIT - 11

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UNIT - 12

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BLOCK – 3 : MICRO, SMALL AND MEDIUM ENTERPRISES AND INSTITUTIONAL SAPORT TO ENTREPRENEURS

The Micro Small and Medium Enterprises (MSMEs) are small sized entities, defined interms of their size of investment. They are contributing significantly to output, employment export etc.in the economy. They perform a critical role in the economy by providing employement to a large numbers of unskilled and semiskilled people contributing to exports, rising bigger industries by supplying raw material, basic goods, and finished parts.

This block provides learners with critical analysis of micro, small and medium enterprises and institutional support to entrepreneurs. Unit 9 mentioned MSMEs meaning, definitions, role and relevance, growth and performance, production and investment and strength and weakness. Unit10 on policy initiatives for MSMEs introduction, reservation/ de reservation of products for manufacture, NMCP, prime ministers task force on MSMEs public procurement policy for good produced and e- governance initiatives. Unit 11 explains sickness, revival and rehabilitation of MSMEs, introduction , local, regional and global factors , revival and rehabilitation of MSMEs. Unit 12 tells about institutional supporting entrepreneurs, introduction, importance, institutional support of entrepreneurship development

UNIT – 9 : MICRO, SMALL AND MEDIUM ENTERPRISES

Structure :

9.0 Objectives

9.1 Introduction

9.2 Meaning and Definitions

9.3 MSMEs- Role and Relevance in Economic Development

9.4 Growth and Performance of Small Scale Industries in India

9.5 Production and Investment in SMEs

9.6 Strength and Weaknesses of MSMEs

9.7 Case Study

9.8 Notes

9.9 Summary

9.10 Key Words

9.11 Self Assessment Questions

9.12 References

9.0 OBJECTIVES

Upon Complication of this unit, you shall be able to;

- Understand the role and importance of Micro, Small and Medium Enterprises (MEME).
- Introduce the concepts and definitions of MSME.
- Explain the recent policy initiations and other reforms with reference to MSME.
- Trace the growth and performance of MSME in India.
- Analysis the findings of the fourth All India Census of MSME.
- Discuss the problems and prospects of MSME.

9.1 INTRODUCTION

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country.

Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries (KVI) are two national heritages of India. One of the most significant aspects of KVI in Indian economy is that it creates employment at a very low per capita investment. The KVI Sector not only serves the basic needs of processed goods of the vast rural sector of the country, but also provides sustainable employment to rural artisans. KVI today represent an exquisite, heritage product, which is 'ethnic' as well as ethical. It has a potentially strong clientele among the middle and upper echelons of the society.

Coir Industry is an agro-based traditional industry, which originated in the state of Kerala and proliferated to the other coconut producing states like Tamil Nadu, Karnataka, Andhra Pradesh, Orissa, West Bengal, Maharashtra & Assam. The acceptability of Coir products has increased rapidly due to its 'environment friendly' image.

Ministry of Micro, Small & Medium Enterprises (M/o MSME) envision a vibrant MSME sector by promoting growth and development of the MSME Sector, including Khadi, Village and Coir Industries , in cooperation with concerned Ministries/Departments, State Governments and other Stakeholders, through providing support to existing enterprises and encouraging creation of new enterprises.

9.2 MEANING AND DEFINITIONS

The Micro, Small and Medium Enterprises Development (MSMED) Act was notified in 2006. The Act provides the first-ever legal framework for Recognition of the concept of "enterprise". Under the Act, enterprises have been categorized broadly into those engaged in (i) Manufacturing and (ii) providing/rendering services. Both the categories have been further classified into micro, small and medium enterprises based on their investment in plant or in equipment (for manufacturing enterprises) or in equipment (in case of enterprises providing or rendering services).

Manufacturing Enterprises: (a) Micro enterprises – investment up to Rs 25 lakh; (b) small enterprises – investment between Rs 25 lakh and Rs 5 crore; (c) Medium enterprises –investment between Rs 5 and 10 crores

The amendment bills of 2014 had a rise in the amount of investment in Manufacturing Enterprises for: (a) Micro enterprises – investment went up to Rs. 50 lakh; while (b) small enterprises – investment is between Rs. 50 lakh and Rs. 10 crore; (c) Medium enterprises – investment between Rs. 10 and 30 crores.

Service Enterprises: (a) Micro enterprises – investment up to Rs. 10 lakh; (b) small enterprises – investment between Rs. 10 lakh and Rs. 2 crore;(c) Medium enterprises – investment between Rs. 2 and 5 crores.

The amendment bills of 2014 had a rise in the amount of investment in Service Enterprises: (a) Micro enterprises – investment up to Rs. 20 lakh; (b) small enterprises – investment between Rs. 20 lakh and Rs. 5 crore;(c) Medium enterprises – investment between Rs. 5 and 15 crores.

The Act seeks to facilitate the development of these enterprises as also enhance their competitiveness. The Act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises; and with a wide range of advisory functions. Establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/programmemes for this purpose, progressive credit policies and practices, preference in Government procurements to products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the Act. This Ministry now designs policies and promotes/ facilitates programmemes, projects and schemes and monitors their implementation with a view to assisting MSMEs and helps them to scale up.

9.3 MSMEs– ROLE AND RELEVANCE IN ECONOMIC DEVELOPMENT

Micro, Small and medium enterprises are the backbone of industrial development. It is very important for both developed and developing country Micro, Small and medium enterprises always represented the model of economic development, which emphasized high contribution to domestic production, significant export earnings, low investment requirements, employment generation, effective contribution to foreign exchange earning of the nation with low import-intensive operations.

The contribution of small scale industries (SSIs) has been remarkable in the industrial development of the country. It has a share of 40% in the industrial production. 35% of the total manufactured exports of the country are directly accounted for by this sector. In terms of employment generated, this sector is next only to agriculture employing approximately 1,114.29 lakh people. . Overall, the small industry sector has done quite well and has enabled the country to achieve considerable industrial growth and diversification.

Small scale industries are less capital intensive and suit the Indian economic environment with scarce resources and large population base. In addition, it is highly and has a scope for labor intensive for building upon the traditional skill and knowledge.

Small scale industries have remained high on the agenda of all political parties, intelligentsia and policy makers since independence as a legacy of Gandhian philosophy.

The role of small and medium enterprises in economic development of a country can be explained with relevant parameters." Increase in the number, production, employment, and exports over a period of time could be common parameters to adjudge the role played by small enterprises in the country."

9.4 GROWTH AND PERFORMANCE OF SMALL SCALE INDUSTRIES IN INDIA

Pre- and Post-liberalization Periods

The level of output by the SSIs went up from Rs 28,060 crore in 1980-81 to Rs.16,53,622 crore by the end of 2010-2011, showing an large increase over a period of 30 years. Exports have also gone up by nearly 40 times over a period of three decades. The contribution of SSI in exports was high during the period, especially up to the year 1995. The trend reversed during the period 1995-2000 when the growth rate recorded a declining trend.

Performance of SSIs, Year 1990-91 to 2004-05

Sl.No	Year	Total SSI Units (Lakhs)	Fixed Investment (Rs. Crore)	Employment (Lakh Person)	Exports (Rs. Crore)
1	1990-91	67.87	93555	158.34	9664
2	1991-92	70.63	100351	165.99	13883
3	1992-93	73.51	109623	174.84	17784
4	1993-94	76.49	115795	182.64	25307
5	1994-95	79.60	123790	191.4	29068
6	1995-96	82.84	125750	197.93	36470
7	1996-97	86.21	130560	205.86	39248
8	1997-98	89.71	133242	213.16	44442
9	1998-99	93.36	135482	220.55	48979
10	1999-00	97.15	139982	229.10	54200
11	2000-01	101.1	146845	238.73	69797
12	2001-02	105.21	154349	249.33	71244
13	2002-03	109.49	162317	260.21	86013
14	2003-04	113.95	170219	271.42	NA
15	2004-05	118.59	178699	282.57	NA

Performance of MSMEs, Year 2006-07 to 2013-14

Sl. No	Year	**Total Working Enterprises** (in Lakh)	**Employment** (in Lakh)	**Market Value of Fixed Assets** (Rs. In Crore)
1	2006-07	362.76	805.23	868,543.79
2	2007-08#	377.36	842.00	920,459.84
3	2008-09#	393.70	880.84	977,114.72
4	2009-10#	410.80	921.79	1,038,546.08
5	2010-11#	428.73	965.15	1,105,934.09
6	2011-12#	447.64	1,011.69	1,182,757.64
7	2012-13#	447.54	1,061.40	1,268,763.67
8	2013-14#	488.46	1,114.29	1,363,700.54

The Table including activities of wholesale/retail trade, legal, education and social services, hotel and restaurants, transports and storage & warehousing (except cold storage) for which data were extracted economic censes 2005, central statistaics office, MOSPI#- Projected

Comparison of SSI Sector with the Overall Industrial Sector, Year 1993-94 to 2004-05

Year	Growth Rate of SSI Sector (%)		Growth Rate of Overall Industries Sector
1993-94	5.7		6.0
1994-95	10.0		9.1
1995-96	11.5		13.0
1996-97	11.3		6.1
1997-98	9.2		6.7
1998-99	7.8		4.1
1999-00	7.1		6.7
2000-01	8.0		5.0
2001-02	6.1		2.7
2002-03	7.7		5.7
2003-04	8.6		6.9
2004-05	9.96		8.4

The growth rate in employment in the 551 sector over the years had been on the decline. An all time decrease was seen between 1995 and 2000.

It would also be worthwhile to look at the progress of the 551 sector in the post-liberalisation period compared to that of the 1980s. The increase in production and exports was more impressive than that of the number of units and employment. A stagnation or reversal of trend is noticeable in the performance of the SSI industries after 1995 in creation of employment as well as in the number of units set up.

A comparison between the growth rates in the performance level of the SSIs between the two periods (Table above) indicates wide disparities. The pace of growth during the 1990s was relatively lower compared to that of the pre-liberalisation period.

CONTRIBUTION OF MANUFACTURING OUTPUT OF MSME IN GDP (at 2004-05 prices)

Year	Gross Value of Output of MSME Manufacturing Sector (Rs. In Crore)	Share of MSME Sector in Total GDP (%)			Share of MSME Manufacturing output in total Manufacturing Output (%)
		Manufacturing Sector MSME	Services Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50

Source:

1. Fourth All India Census of MSME 2006-07
2. National Accounts Statistics (2014), CSO, MOSPI and
3. Annual Survey of Industries, CSO MOSPI

The MSME sector continues to remain an important sector of the economy with a noteworthy contribution to GDP, industrial production, employment generation and exports. The performance of the MSME sector based on the final results of the fourth All India Census of MSMEs, 2006-07, and National Accounts Statistics 2014 is given in Table above. As per the Census of registered units held for the year 2013- 14, there were 488.46 lakh MSME units in the country. Their contribution to production was Rs 16,53,622 crore and 1,114.29 lakh persons to employment. The share of MSME sector in total GDP (%) was 7.39 from manufacturing sector, 29.30 from services sector in 2010-2011. The share of MSME Manufacturing output in total manufacturing output (%) is 38.50 in 2010-2011.

MSMEs industries have registered phenomenal growth in their number, production, employment and exports over the years. The government of India has been attaching increasing importance to the development of MSMEs industries by way of supportive measures adopted from time to time.

A look at the group-wise classification of MSMEs shows Retail Trade, Export of Motor Vehicles & Motorcycle; Repair of Personal & Household goods units at the top list with accounting for a little over 39.85% of the total number of units. Manufacturing of Wearing Apparel; Dressing & Dying are far behind with 8.75% of the total.

The share of Manufacturing of Food Products & Beverages is close to 6.94%. Share of all other groups are of single digit and smaller the share.

Total Employment of SME's and Production Per Employee

Total Employment of SME's and Production Per Employee		
Year	**Employment (in MN)**	**Production Per Employee**
FY03	**26.37**	**116**
FY04	**27.53**	**122**
FY05	**28.76**	**130**
FY06	**30.00**	**140**
FY07P	**31.25**	**151**

9.5 PRODUCTION AND INVESTMENT IN SMES

The total production of the SMEs showed a phenomenal growth in FY07 as compared to the previous year. The production at current prices experienced a growth rate of around 18% against 15.8% in the previous year, thereby raising its share to India's GDP up to15.5% during the year.

Economic activities such as export market, growing domestic consumption, conducive policy measures, improving production methods, technology, development of SME clusters have fuelled production and hence their share to India's GDP. SMEs have maintained an equal growth rate visa- vis the overall industrial sector during FY03-07, which grew at a CAGR of around 17%.

The SME sector has also registered a consistently higher growth rate than the overall manufacturing sector. In fact, it plays a dual role since the output produced by SMEs is not only about final consumption but also a source of capital goods in the form of inputs to heavy industries. The table below indicates the growing significance of SMEs in the Indian economy.

The output of SMEs is not only increasing, but also the productivity in terms of per unit is also growing at a higher rate in the last four years. The relative advantage of SMEs is well recognized *by* the resurgence of the manufacturing sector in India during the last two fiscals and is poised for higher growth in this fiscal, thus denoting the importance of SMEs to sustain it for a long time.

To assess the response of MSMEs Sector and its ability to reposition itself in changed business environment a SWOT (Strength, weakness, opportunity, Threat) analysis of micro small & medium enterprises sector is carried out. The micro small and medium scale sector is a key and vital constituent of the economy. Therefore government always had been strongly supporting MSME through government policies.

9.6 STRENGTH AND WEAKNESSES OF MSMEs

Major strength of Micro, Small Medium Enterprises observed are flexibility, owner management, inexpensive labor, less overhead and favorable capital- output ratio.

Flexibility

Micro, Small and Medium Enterprises can easily absorb new innovation and adapt new method. The cost of changing the existing system is also relatively less.

Owner management

In Micro, Small and Medium Enterprises owner management is a possibility, which ensures quick decision making. This ensures speed and reduces redtapism. (Dalu & Deshmuke)

Inexpensive labor and less over head

The main reason for sickness of large scale industry is its labor problem and escalating wage bill. Micro, Small and medium enterprises strength is its cheap labor and less over head.

Favorable capital- output ratio

Micro, Small and medium enterprises are labor intensive. Through proper utilization of resources Small and medium enterprises can keep low level of capital investment per unit of output (Gowda and Krishnamoorthy).

Weaknesses

Lack of quality consciousness:

It is the major weakness of the MSMEs. Micro, Small and Medium Enterprises pay less attention to total quality programme and hence importance is less felt leading to quality problem (Derrick).Study reports show that under utilization capacity leads to reduction in level of productivity in Small and Medium Enterprises sector in India.

Lack of Financial Strength

The Micro, Small and Medium nor brand image and hence mobilizing capital through other sources is a challenge in Enterprises depend largely on banking finance. They don t have corporate image.

Lack of Industrial Work Culture

Labors give more weight-age to their personal work and don t maintain regularity, discipline in reporting on time. Getting and continuing with trained workers and satisfying them is difficult.

Study reports show that in India many micro small and medium enterprises are sick and some are closing down. The main reason is lack of quality and increasing competition. It is necessary for Micro Small and medium enterprises to face new challenges by adopting best strategies Hence the SMEs should take immediate step to create quality awareness, and adoption of continuous improvement techniques.

9.7 CASE STUDY

Tirupur Cluster

The Indian MSME sector has developed itself in the form of clusters, gaining the benefit of economies of scale, while at the same time working in a competitive environment. The United Nationals Industrial Development Organization (UNIDO) defines a cluster as, "a sectoral and geographical group of enterprises and companies, small and medium enterprises, who face similar opportunity and treats." Firms in one cluster usually produce similar or related goods and services. According to UNIDO, there are several factors that have facilitated the growth of clusters in India. The majority of clusters are market based and are turned as natural clusters. A few of them come up due to the infrastructure provided and are formed by government support; these are termed "induced clusters." These are mainly seen in the areas of software, electronic, biotechnology and floriculture. The remaining clusters are resources based and depend on the availability of raw material and skilled labor.

Tirupur Textiles:

The international known Tirupur cluster, located in Tamil Naidu has emerged as the knitwear capital of India. The textile clusters at Tirupur is spread across the town and there are as many as two thousand MSME engaged in some form or other of Business related to textiles. After China, Tirupur has become the second choice for international buyers wanting to source cotton knitwear. Around 70 % of India total cotton knitwear exports originate from here with annual exports of over Rs. 6000 crore. The success story of Tirupur begin in 1940, when small enterprises started producing a kind of inner wear known as banian for the domestic market. The exporting of knitwear started in the early 1980's. In 1985, the turnover was just Rs. 1500 lakh and touched Rs. 5,70, 000 lakh in 2008-09.

Tirupur Knitwear Clusters:

Tirupur, popularly known as the "Banian City" of south India, is located 60Km away from Coimbatore city. It is 7^{th} largest town in Tamil Naidu and is well connected by road and rail. The first unit in Tirupur started in 1937. Its size increased 230 units by 1960. Till 1970 the clusters was catering to the domestic market. Merchant exports started during 1972. The turning point for the industry came into 1978, when Antony Verona from Italy came to Tirupur realizing the potential of Tirupur, he supported manufacturers in their efforts to export to Europe in the subsequent years. Impressed with quality of the garments manufacturing, C & A, a major European retail chain, came to Tirupur in 1981 to buy garments. In 1987, the export revenue of Tirupur was Rs. 7500 lakh. Since then, in has not looked back and the exports during 2004 touched a figure of more than Rs.5,00,000 lakh, contributing almost 70 to 80 % of the country's exports in this sector.

The statistics disclosed by the Tirupur export association (TEA) states that exports from the Triupur knitwear cluster had lead forged form Rs.1,18,000 lakh in 2009-10 to Rs.1,25,000 lakh in 2010-11. The cluster provides direct employment to 3500 workers. However, the export centric cluster is exposed to volatilities in foreign markets.

Tirupur products category mainly comprises apparel such as knitted garments, polo T shirts and T-shirts. The manufactures are specialized in the fabrication of knitted apparels, which are known worldwide for their unmatched design. They also undertake customize orders as per the exact requirements of clients. A range of knitted readymade garments and knitted apparel are available at competitive prices. Polo T Shirts are made of 100% pure cotton from superior quality fabric with matching tread and skillful stitching. The manufacturer also offer services such as fabric yarns and the printing of fabrics.

Tirupur Exporters' Association (TEA):

The Tirupur Exporter's Association was established in 1990 exclusively for exports of cotton knitwear with production facilities in the Tirupur cluster. From a modest beginning, the TEA has grown into a strong body of knitwear exporters. Presently, the TEA comprises 658 lifetime members and 155 associate members. The TEA mainly focuses on the development of infrastructural needs for Tirupur, the multilateral growth of the knitwear industry and exports, the implementation of schemes for the benefit of society, promoting participation in industrial trade fairs and exhibitions, upgrading of technology, and supporting research and development.

Issues:

Despite the concerted efforts of the TEA to improve the infrastructure in the cluster, budgetary constraints did not results in any major investments. As a result, infrastructure services were below desired levels in terms of quality and reliability. Electricity is the major energy source for the units in the cluster. There is an acute power shortage with daily cuts of 30-45 minutes for two or three times a day. The majority of the units manufacturing grey fabric, which operate looms, do not have any power backup systems. Sourcing of labour is the major issues as the majority of the units operate on job-work basis. The current practice of water usage, effluent treatment, discharge and sludge storage, and disposal in the cluster are not sustainable and could cause irreparable damage to the ecosystem while threatening the livelihood of the farmers in the vicinity of the textile units.

Questions:

1. Discuss the contribution of MSME to the Tirupur Cluster.
2. What are the major issues found in the Tirupur Clusters?
3. What are the possible solutions to solve these problems?

Sources: Foundation of MSME Clusters (2006) Working Together Works New Delhi: Foundation for MSME Clusters

9.8 NOTES

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9.9 SUMMARY

MSME are witnessing a paradigm shift from the comparative to the competitive era. The MSME sector, over the past eight decades, has acquired a prominent place in the socioeconomic transformation of the country. It is a well-Known fact that the MSME sector provides the maximum opportunities for both self employment and jobs after the agricultural sector. The contribution of the MSME sector to manufacturing output, employment and export of the country is quite significant. According to estimates, in terms of value, the sector accounts for about 45 per cent of the manufacturing output, 40 per cent of the total exports of India, and employs about 1,114 lakh people in over 488 lakh units throughout the country. The micro, small and medium enterprises development (MSMED) Act, 2006, seeks to facilitate the development of MSME and also to enhance their competitiveness. According to this Act, MSME are classified according to the level of investment in plant and machinery for the manufacturing and service sectors.

The MSME sector in India is heterogeneous, dispersed and mostly organized. The common problems faced by the MSME are the absence of equity capital, infrastructural bottlenecks, inadequate capital, lack of financial support, delayed settlement of dues, technology up gradation problems, informational inefficiency, inadequate research and development support, procurement problems, problems related to marketing and difficulty in competing in global markets.

9.10 KEY WORDS

MSME - Micro, Small and Medium Enterprises

KVI - Khadi and Village Industries

Coir Industry

MSMED - Micro, Small and Medium Enterprises Development Act

Micro Enterprises

Small Enterprises

Medium Enterprises

Cluster

MSME Performance Pre- and Post-liberalization Periods

9.11 SELF ASSESSMENT QUESTIONS

1. Explain the significance of MSME in India.
2. Comment on the statement “Small is Beautiful”.
3. Which are the five Fortune 500 companies that began as small enterprises? Explain.
4. Discuss five strategies to promote the development of MSME in India.
5. Analysis of MSME based on their Strength?

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UNIT – 10 : POLICY INITIATIVES FOR MICRO, SMALL AND MEDIUM ENTERPRISES

Structure :

10.0 Objectives

10.1 Introduction

10.2 Reservation/De-Reservation of Products for Manufacture in the Micro and Small Enterprise Sector

10.3 National Manufacturing Competitiveness Programme (NMCP)

10.4 Prime Minister's Task Force on Micro, Small and Medium Enterprises (PM's Task Force on MSMES)

10.5 Public Procurement Policy for Goods Produced and Services Rendered by MICRO and Small Enterprises (MSES)

10.6 E-Governance Initiatives

10.7 Case Study

10.8 Notes

10.9 Summary

10.10 Key Words

10.11 Self Assessment Questions

10.12 References

10.0 OBJECTIVES

Upon Complication of this unit, you shall be able to;

- Introduce the concepts and definitions of MSME Act, 2006.
- National Manufacturing Competitiveness Programme (NMCP)
- PM's Task Force on MSMEs
- Public Procurement Policy for Goods Produced and Services Rendered By Micro and Small Enterprises (MSES)
- E-Governance Initiatives

10.1 INTRODUCTION

Implementation of micro, small and medium enterprises development act, 2006:

The MSME Development Act 2006 came into effect on 2nd October 2006. Subsequently both the Central and State Governments have taken effective steps towards implementation of the Act. While the Central Government has framed a number of Rules and issued Notifications in respect of the Act; different State Governments have also issued notifications under the Act as detailed below:-

(i) Notification of Authority for receiving Memoranda for Micro and Small Enterprises (MSEs):

All states & UTs except the newly created state 'Telangana' have issued the necessary Notifications nominating the authority for receiving Entrepreneurs Memorandum for MSEs.

(ii) Notification of Rules of MSE-Facilitation Council (MSEFC):

All States & UTs with the exception of Arunachal Pradesh, Assam and Manipur have issued the Notifications providing for Rules of Micro and Small Enterprises Facilitation Council (MSEFC).

(iii) Notification of Constitution of Micro and Small Enterprises Facilitation Council (MSEFC):

All States & UTs except the newly created state 'Telengana' have issued the Notifications for constitution of Micro and Small Enterprises Facilitation Council (MSEFC).

10.2 RESERVATION/DE-RESERVATION OF PRODUCTS FOR MANUFACTURE IN THE MICRO AND SMALL ENTERPRISE SECTOR

The Policy of Reservation of Products for Exclusive Manufacture in SSI (now MSEs) was initiated in 1967 with the objective of achieving socio-economic development, through development and promotion of small units all over the country. This was expected to result in countering the challenges of regional industrial imbalances, employment generation through self-employment ventures, increased productivity, etc. However, with the gradual opening up of the economy, de-reservation had to be resorted to for providing opportunities to MSEs for technological upgradation; promotion of exports and achieving economies of scale. Accordingly, the MSEs are being encouraged to modernize and enhance their competitiveness for facing the challenges arising out of liberalization and globalisation of the economy.

The items are reserved/de-reserved in accordance with Section 29(B) of the Industries (Development & Regulation) Act, 1951, which, inter-alia, provides for the constitution of an Advisory Committee headed by the Secretary (MSME). The Advisory Committee makes its recommendations for reservation/de-reservation in light of the factors like economies of scale; level of employment; possibility of encouraging and diffusing entrepreneurship in industry; prevention of concentration of economic power and any other factor which the Committee may think appropriate. At present, only 20 items are reserved for exclusive manufacture in micro and small enterprise sector.

10.3 NATIONAL MANUFACTURING COMPETITIVENESS PROGRAMME (NMCP)

Providing competitive edge to the units in the MSME Sector in the global environment has been one of the important cornerstones of the policies being pursued by the Government for sustenance of the sector. With a view to build the capacity of the Indian micro, small and medium manufacturing enterprises for overcoming competition in the global markets and facing challenges being posed by the entry of the multi-nationals in the domestic markets, the M/o MSME is implementing the National Manufacturing Competitiveness Programme (NMCP). The objective of NMCP is to ensure healthy growth of the MSME Manufacturing Sector. There are eight components of NMCP which address the entire gamut of manufacturing in the sector.

10.4 PRIME MINISTER'S TASK FORCE ON MICRO, SMALL AND MEDIUM ENTERPRISES (PM'S TASK FORCE ON MSMES)

The Prime Minister had announced setting up of the Task Force in August, 2009 when representatives of prominent MSME associations had met him to highlight their issues and concerns. Accordingly, the Task Force under Shri T. K. A. Nair, the then Principal Secretary to Prime Minister was constituted on 2nd September 2009 to reflect on the issues raised by the associations and formulate an agenda for action after discussions with all stakeholders. Its members included Member, Planning Commission, Secretaries of concerned Government Departments, Deputy Governor, RBI, Chairman and Managing Director, SIDBI and representatives of associations.

The detailed recommendations cover major thematic areas including credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development and taxation. A separate section covers the development of MSMEs in the North-East and Jammu & Kashmir. The implementation of these recommendations was being monitored periodically by the Steering Group constituted under the Chairmanship of Principal Secretary to the Prime Minister. Action has been completed on a substantial number of recommendations. Further, a Council on Micro, Small and Medium Enterprises (MSMEs) under the chairmanship of Hon'ble Prime Minister has been set up in the Prime Minister's Office to lay down broad policy guidelines and review the development of the MSME sector.

10.5 PUBLIC PROCUREMENT POLICY FOR GOODS PRODUCED AND SERVICES RENDERED BY MICRO AND SMALL ENTERPRISES (MSES)

In exercise of the powers conferred under section 11 of the Micro, Small and Medium Enterprises Development Act, 2006, the Government of India has notified Public Procurement Policy for Micro & Small Enterprises (MSEs) Order, 2012 which is applicable for every Central Ministry / Department / PSU for effective implementation w.e.f. 1st April, 2012.

The Policy mandates that every Central Ministry / Department / Public Sector Undertaking shall set an Annual goal of procurement from Micro and Small Enterprises from the financial year 2012-13 and onwards, with the objective of achieving an overall procurement of minimum of 20 percent of total annual purchases of products produced and services rendered by Micro and Small Enterprises in a period of three years. Policy has also earmarked a sub- target of 4% out of the 20%, from MSEs owned by SC/ ST Enterprises. Further, Micro and Small Enterprises shall be facilitated by providing them tender sets free of cost, exempting Micro and Small Enterprises from payment of earnest money to reduce transaction cost of their business.

Every Central Government Ministry / Department / PSU shall report the goals set with respect to procurement to be met from MSEs and the achievement made thereto in their respective Annual Reports. They shall also prepare Annual Procurement Plan for purchases and upload the same on their official website so that Micro and Small Enterprises may get advance information about requirement of procurement agencies. All the Chief Minister of State Governments have also been advised to formulate similar policy for MSEs in their states. A Grievances cell has been constituted for the Redressal of the grievances for MSEs.

The policy will help to promote MSEs by improving their market access and competitiveness through increased participation by MSEs in Government purchases and encouraging linkages between MSEs and large enterprises.

10.6 E-GOVERNANCE INITIATIVES

With a view to strengthening communications between stakeholders, and improving efficiencies in service delivery, the following initiatives have been launched: First ISO 9001: 2008 quality standards have been adopted for the entire Ministry (first ever) and the processes completed with M/s TUV India has certified our processes. e-Office initiative has been introduced to achieve paperless office in the Ministry. Movement of e-files has been started and digitalization of existing physical files for converting the same into electronic files is under process.

Aadhar-based Bio-metric Attendance System for all employees (98% coverage) of the Ministry was started w.e.f. 20th August, 2014 resulting in punctuality of attendance.

A National Portal for filing of EM-I and EM-II is ready for launch. A Video Conference with all States and UTs was held recently wherein it was found that out of 658 districts and 644 DICs, very few are having online system which is workflow based system of filing. States are being encouraged to adopt National Portal and share the database for decision support system and planning for MSMEs. This will allow the MSMEs to register online, making it easier to do business.

Virtual Cluster web portal has been made available at www.msmsecluster.in. It will provide facilities like common application forms, credit scoring models etc. and a platform for Industry-Academia linkages. So far 121 Domain experts, 212 academic institutions and 25530 MSME enterprises have been registered.

An Employment Facilitation Portal (www.memsenaukri.com) set up by NIESBUD was launched by the Minister (MSME) on 11th July, 2014. This enables matching of job providers and job seekers. So far 10,151 youth seeking jobs and 191 employers have been registered. This is being linked to MSME Training Data-base in a searchable format as Career Centre.

B2C web portal of NSIC was launched on 31st July, 2014. This portal will market MSME products exclusively.

All the forms and guidelines of the schemes implemented by the Ministry have been placed on the website. Online applications have been introduced in respect of large number of schemes and it would be the endeavor of the Ministry to cover all the schemes. First Ministry to launch mobile friendly website for quicker access http://msme.gov.in/mob/home.aspx

10.7 CASE STUDY

Growing need for Agri Produce – Domestic and International

There is a growing need for agricultural products from India - both at the domestic and international level. This sector can create employment opportunities both at the production and marketing stages, which would eventually improve the social and physical infrastructure of India. This would also help enhance the income of farmers and create food surpluses.

Apart from being a major source of agricultural products like rice, coffee, tea, sugar, flowers; the increase in environmental concerns has also improved the sales of products made of jute and cotton bags, which are currently replacing the plastic bags.

The current market is also very favorable for processed meat, spices and fruits. Enabling mass production with modem technology and intense marketing can improve both domestic and international markets. With modernization, innovation and incorporation of latest trends and technology in this sector, the total production capacity of agricultural products in India and the world is likely to double by the next decade.

India is the second largest producer of food in the world. Whether it is canned food, processed food, food grains, dairy products, frozen food, fish, meat or poultry, the Indian agricultural industry has a huge potential, the significance and growth of which will never cease. Some of the other products which have shown marked growth in recent years are sea fishing, aqua culture, milk and milk products, meat and poultry.

The packaged food segment is also gaining prominence in the recent years. Near to completion, products have not only found a strong foothold in the domestic sector, but also in the international scenario. The increase in the younger population with higher incomes, new technologies and a growing middle class has lead to the increased sales of packaged foods. It is estimated that an average Indian spends around 53% of his/her income on food. The domestic market for processed food is estimated to be worth $90 billion.

The overall prospects for the agricultural sector look promising with an increase in the sales of the products (both domestic and international). Coupled with government's policies. and reforms in this sector, to meet the growing population (expected to reach 1.4 billion by 2020), the agricultural sector is all set to achieve a higher growth rate targeted at 4% per annum on a sustainable basis.

Questions:

1. What are the main challenges or obstacles that discourage the youth (especially the educated ones) to not consider agriculture industry as favorable to starting their venture?
2. Analyze the various opportunities that are present in the agricultural industry. Come up with possible maps to capitalize the opportunity.
3. When the core aspect of farming is facing extreme pressure from a variety of direction such as labor shortage, unpredictable weather and monsoons, constantly changing regulatory and policy mandates - why are so many entrepreneurs focused on solving only the supply chain issue of connecting the farm produce to the end consumer. Is cutting the middle man the solution to our woes in the agricultural industry?
4. Can you come up with 10 feasible solutions to reduce the farmer suicide rates in India?

Source: Entrepreneurship theory and practice by Raj Shankar, Vijay Nicole Imprints Private Ltd,

10.8 NOTES

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10.9 SUMMARY

The MSME Development Act 2006 came into effect on 2nd October 2006. Subsequently both the Central and State Governments have taken effective steps towards implementation of the Act. While the Central Government has framed a number of Rules and issued Notifications in respect of the Act; different State Governments have also issued notifications under the Act. The Policy of Reservation of Products for Exclusive Manufacture in SSI (now MSEs) was initiated in 1967 with the objective of achieving socio-economic development, through development and promotion of small units all over the country.

With a view to strengthening communications between stakeholders, and improving efficiencies in service delivery, the following initiatives have been launched: First ISO 9001: 2008, e-Office initiative and digitalization of existing physical files for converting the same into electronic files is under process.

10.10 KEY WORDS

- MSME Act 2006
- Reservation Policy
- NMCP- National Manufacturing Competitiveness Programme
- PM's Task Force for MSME's
- Procurement Policy
- E- initiatives
- EM-I & EM-II

10.11 SELF ASSESSMENT QUESTIONS

1. Do you Feel that the product be reserved to be manufactured at MSME's?
2. Explain your opinion about policy changes to improve MSME's in India?
3. Describe the Initiatives take by the Shri Narendre Modi Prime Minister of India?

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UNIT – 11: SICKNESS, REVIVAL AND REHABILITATION OF MICRO SMALL AND MEDIUM ENTERPRISES

Structure :

11.0 Objectives

11.1 Introduction

11.2 Local Factors

11.3 Regional Factors

11.4 Global Factors

11.5 Revival and Rehabilitation of Micro, Small and Medium Enterprises

11.6 Case Study

11.7 Notes

11.8 Summary

11.9 Key Words

11.10 Self Assessment Questions

11.11 References

11.0 OBJECTIVES

Upon Complication of this unit, you shall be able to;

- Identify problems faced by entrepreneurs.
- Understand the effects of Industrial Sickness.
- Explain the Sick Industrial Companies Act (SICAL).
- Identify the causes of sickness and explain the remedies to avoid sickness
- Explain the rehabilitation package avail able to enterprises.

11.1 INTRODUCTION

After independence, the Govt. took up the policy of accelerating industrialization since Second Five Year Plan. The Policy resolution 1948 emphasized that cottage and small-scale industries can ensure best utilization of local resources, achieve 'local-self-sufficiency' in production, increase employment generation through rehabilitation of displaced persons and ensure balanced economic growth. Industrial Policy Statement 1977 introduced the concept of District Industries Centers (DICs) for SSIs to ensure supply of raw materials and machinery, market survey of the district, generating new business ideas, arrangement of credit facility, maintenance of quality of products etc. The Industrial Policy Statement 1980 took some path breaking measures like increase in Investment limit for tiny, small, and ancillary units, withdrawal of industrial location restriction, elimination of provisions regarding expansion, increase in private participation.

The New Industrial Policy in 1991 emphasized on raising the investment ceiling for the purpose of definition of a small unit to 6 million (Rs 7.5 million if the unit concerned undertakes to export 30 percent of its output or if it is an ancillary unit i.e. a firm supplying at least 50 percent of its output to large scale industries) , allowing other investors (including large-scale enterprises and foreign investors) 24 percent equity participation in a small-scale unit, introduction of the Act on delayed payment to small and ancillary enterprises, encouraging banks to open specialized SSI Branches and giving better priority to the sector in their annual credit budgets .

Comprehensive Policy Package for SSIs and Tiny Sector 2000 increased the exemption for excise duty limit from 50 lakhs to Rs One crore to increase competitiveness, conducted the third census of small-scale industries and motivated the SSI associations to develop and operate testing laboratories. As per the Policy Package for SME 2005-06 Small and Medium Enterprises were recognized in the services sector, and treated at par with SSIs in the manufacturing sector and emphasized on Cluster Development Model.

In spite of Policy formulations and sincere efforts made by the Government, SMEs still face a range of obstacles; many of them are the result of existing bad implementation of policies. As on the date, the Electric Power is still less-reliable and more-expensive in India, than in competitive nations. Taxes and Import Duties have been obstructing the productivity and the cascading effect of indirect taxes continued to burden SMEs. Stringent Labour Laws continue to deter entrepreneurs from hiring workers.

The biggest problem faced by SMEs is inadequate availability of credit – Government tried to propose a number of initiatives like, strengthening the financial/managerial base of State Financial Corporations and Small Scale Industrial Development Organization, to enable them to provide better services to SME sector. Competition has increased under the WTO arena and poses a threat to many obsolete and uncompetitive SMEs which may lead to closure of some of them. Undoubtedly, SMEs have to depend on the State Electricity Board for meeting out their power requirements however, in turn the board does not supply the adequate and uninterrupted power to this sector.

There has been a lack of effective coordination among various supporting organizations set up over the specified period of time for promotion and development SME Sector. Tariff on production material of steel, Cement, Chemical, plastic, paper etc. remains high. In return, it causes a significant hike in tariff structure. Owing to absence of marketing organizations, their products are compared with those of quality products of large companies and products of multi-national companies. Poor condition of approach roads and vast delay in octroi, on every entry points have the most lasting adverse effect on SSI sector.

Poor infrastructural facilities, low competitive strength and slow technological up-gradation, ignorance of WTO norms, lack of international exposure and flow of costly credit are the major issues/factors responsible for low manufacturing/service performance in SMEs. Inadequacies of credits arise due to commercial banks which are reluctant to meet credit need of SMEs. These commercial banks do not really comply with RBI provisions and continue to seek collaterals from Small & Medium Enterprises. The State Financial Corporations have become defunct and SIDBI has a very limited branch network. The process of economic liberalization and market reforms have opened up the SME Sector to the international competition. It is, therefore, essential to increase the competitive strength and financial support to SMEs with an objective to overcome from the problem of Sickness, to this sector, being faced.

The problem of sickness/closure of Small & Medium Enterprises is because of shortage of raw-material, non-availability of adequate working capital and organized markets, frequent change of Technology, constraint of infrastructural facilities like power.

Deficient managerial/technical skills are also responsible for sickness/closure of SMEs. With the introduction of WTO norms, problems of SME sector have risen further, as these are to be exposed to the competition with foreign goods and goods produced by the Multi-nationals.

While interacting with the business Icons and Authorities in neighboring region of the Karnataka state, during the course of study, the following reasons/causes of industrial sickness/closure have been observed.

11.2 LOCAL FACTORS

Financial Inadequacy

SMEs face the problem of inadequate funds since long. Undoubtedly, the Government has extended a good number of incentives/awards for proper growth of the industries however, some persons feel that in order to obtain more and more finances/concessions/relaxations and exemptions, the Small and Medium Entrepreneurs run from pillar to post – one agency to another agency and do not pay proper attention or, concentrate on his/her own industry. Presently, it has been observed that SMEs are found indulged with Private Financers. Resultantly, these entrepreneurs are found facing with the problems – like, financial indiscipline, poor financial resources, deficiency of funds, adverse Debt Equity Ratio, faculty costing, inadequate working capital with ineffective collection mechanism. It bears the local impact.

Problem of Labour

Lack of properly trained labour is the major problem being faced in SMEs. Somehow, it is not balanced in industrial sector – in some industrial units, there is excessive labour, while in some units, labour is short, in the light of standards. It has also been observed that there is an inefficient handling of labour problems in SMEs, in view of high wage structure. Therefore, SMEs are not free from Such a problem of serious nature. The need has been felt that there should not only be the trained manpower/labour but also the competent technical manpower/labour so as to lower the cost of production. It is the local factor that makes the impact on production.

Lack of Proper Management

SMEs, no doubt, are victimized of non-professional management. In today's competitive arena, professional approach of management is becoming the need of the hour which is lacking in even modern industrial houses, to monitor the overall game of production, and to handle the sub-ordinate staff at appropriate level. So trained supervision and competent monitoring is very much required. It is the local factor which makes the impact.

No Speedy Clearance of Dues from the Buyers/Government

The finished products of SME sector is procured either by the large big industrial houses or, by the Government at its own level. Dues from the SMEs are cleared by the entrepreneurs in the form of application fee, security deposits, bank guarantee, IT/ST clearance certificates etc. but on the other hand, when dues are returned after procurement of finished products, it is usually, delayed from big industrial houses or, by the Government which causes a big problem for these small entrepreneurs having limited working capital with them. It is the local factor that makes the impact on production.

Problem of Under Utilization of Installed Capacity

Often, it is seen that SMEs do not be able to utilize its installed capacity because of one reason or, the other. It is to be utilized in full of its prescribed/arranged capacity of production. SMEs need proper support for full utilization of established capacity of installed plants and machineries by every possible means. It may be termed as local factor.

Manipulative Attitude of Inspectors/Officers of State Pollution Control Board

Sometimes, it becomes very tedious for entrepreneurs who maintain specially the treatment plants with in industrial premises – either how to continue the business with impediment(s) or, how to handle these manipulative minds of pollution control board. It puts the businessmen in hot-water, and it comes as a great challenge on way to small business how to make the balance, in-between. It is the local factor which influences the production adversely.

11.3 REGIONAL FACTORS

Inadequate/Interrupted Electrify Power Supply

Production capacity of SMEs could not be utilized appropriately because electricity cuts and power inadequate supply make obstacle in production. Sometimes it is announced but sometimes, it is undeclared power cut. SME face the problem of shortage of electricity supply frequent changes in timings of power supply. It has been observed that power supply is an integral part of production; considered a necessary requirement of industrial production. If it is required by the authorities, the cuts should be the least and properly be announced/ notified prior to cut so that entrepreneur may make plan of production conveniently accordingly and production be kept at optimum level. It may be termed as regional factor.

Inadequate Knowledge of Technical Know - How

Industrial production as well as quality is adversely affected in case expertise is borrowed for betterment of outcome. Either entrepreneur is found unable to arrange technical know-how or, incapable to borrow the services of technical expert, in view of inadequacy of finances. It is now-a-days, becoming need of the hour to adapt with latest technological innovations in the industrial arena; in absence of which the global competition of indigenous goods may not be made possible. It is, therefore, the basic problem of not having technical expertise adversely affect the quantity/quality of the product. It bears the regional impact.

Inadequate Infrastructural Facilities

It is the basic problem of SMEs not to have sufficient infrastructural facilities in industrial premises. It has been observed that SMEs, in the region are lacking proper storage facility or, proper space for having installation of plant and machineries for the required level of production. It may be said to be the regional factor.

Irregular, Inadequate and Poor Quality Supply of High Cost Raw Material

It is usually observed that SMEs receive the raw-material for production, not in time when required; what requires, is not received sufficiently; sometimes, it is received the costly raw-material, but not of good quality which makes the manufacturing goods, not up to the mark, as needed for global competition. This problem needs to be addressed appropriately in view of W.T.O requirements. It bears the regional impact.

Non-Availability of Demanding Suitable Market

For full consumption/demand of produced goods, there is a requirement of suitable market; not only local or, regional market but approachable real markets which may be placing regular requirement of the products to the SMEs, because only local/regional market may not place the full demand for regular annual production of units in SMEs. It has been observed that Hosiery/Woolen Industrial units of Ludhiana are facing a lot because the demand of the woolen/Hosiery items if fetched in J&K market only. Some of them are reported to be closed because of limited market is now saturated. It is considered the Regional Factor.

Problem of Transportation

Usually, materials in Small/Medium Enterprises are required in piecemeal in Small and Small qualities at regular intervals. However, it can not be arranged in time, sometimes due to the problem of transportation. Obviously, when raw-material is received late, the finished projects will be reaching late to the markets, owing to transportation problem. Sometimes, due to financial crises, costly affair of transportation is not appropriately arranged; and delivery becomes late. It is having the regional impact.

Adversity of Labour Union/Strikes/Natural Calamities/ Abrupt Change(S) In Government Policies

Production is directly or, indirectly affected by any of all above mentioned reasons, adversely. It is thought by observations, all is beyond human/individual's reach, but it affects the production certainly. It bears the regional impact.

Hard Norms, Rigid Rules and High Taxation Policies of the Government

It is remarkably observed that number of Small Industrial units are either sick or, closed because of bad impact of abovementioned factors-reason being the rigid rules, hard norms and taxation policies of the Government affect the business - Small business in particular, directly. Since it becomes out of reach of the entrepreneur(s), they become helpless and nervous. It is said to be the regional factor which makes an impact.

11.4 GLOBAL FACTORS

Technological Advancement on Global Basis

Finished Goods produced with the help of new advanced and big machines in developed / rich countries are poured out in India. While in our country, old fashioned machineries are still in existence, so demand on indigenous products in and outside the country is reduced. Thus, it is observed the global factor that bears the impact.

Emerging of Business Crisis

By deliberation with the persons who are associated with SMEs either they are entrepreneur or, Government officer or, Financial Authority or, Association leader, it was observed that business crisis may arise at any time, entrepreneur has to face and to beat it. If not, he/she has to face losses. Such crisis situation leads the business in other direction, towards declining. Hence, the entrepreneur must be knowing about it and should try to remain vigilant every time. Some crisis situations are elaborated as under:-

Starting Crisis

An entrepreneur of a new venture makes certain mistakes owing to which business does not make growth – or, he/she has to wind up the venture – it is called starting crisis. And, it may become the main reason for failure of an industrial enterprise. Reasons for emerging business crisis may be :-

i. Lack of managerial experience; SSIs may not manage exports at every moment, due to financial problems

ii. Decision mistake in selection of the business;

iii. Lack of complete study of market feasibility;

iv. Wrong estimation of required capital for the project;

v. Wrong selection of technology/material/project

vi. Lack of knowledge of tax liability;

vii. Lack of knowledge of legal provisions; and

viii. Carelessness in maintaining books of accounts.

Cash Crisis

Cash is actually a lifeblood of a business. It keeps the business alive. Due to cash only, an entrepreneur can make the routine payments, in time. When an enterprise has not sufficient cash in hand, cash crisis arises. Reasons for cash crisis may be explained as thus:

i. Increase in Cash out flow/decrease in Cash inflow as a result of credit sales.

ii. Imbalanced more investment in Fixed Assets – Cash Flow goes below the desired level.

iii. Not getting adequate Loan from the bank.

iv. Expansion of business without planning, not at right time or, at right stage.

v. Spending more cash in paying interest because of continuous fluctuation in interest rates.

vi. At initial stage, entrepreneur gives more importance to increasing production, sales, profits, investment etc. and becomes careless about purchase of raw-materials, cost of production and payment to the parties.

Delegation Of Authority Crisis

One of the important principles of management is proper delegation of powers/ authorities a balance between authority and responsibilities. If an entrepreneur does not delegate the authority/responsibility towards subordinate officers/ counterparts, it leads to delegation crises. It happens because of following reasons:-

i. Some entrepreneurs have aptitude of not delegating authority/responsibility and keeping all decision making power with themselves, because they have no faith on them and having opinion that secrecy will come out;

ii. Lack of inter-personal relationship; egoistic approach;

iii. Lack of proper training;

iv. Entrepreneur to move with increased responsibility; the owner wants to carry out all business – all risks at his/her own business increase.

v. Difficult to take the delegated authority back, if subordinate officers do not perform well, sometime, it becomes very difficult for the entrepreneur to take it back. If takes back, inter-personal relationship is broken.

Leadership Crisis

Leadership is to direct subordinate's efforts towards good achievement voluntarily, to provide incentives and to appreciate/motivate them. If he/she does not follow an ideal leadership style, many problems arise at one time. Since subordinates do not get proper leadership, it adversely affects industrial peace, industrial discipline and psychological level of workforce. This crisis deepens due to following reasons:-

i. owner does not utilize sound leadership style, his workload increases and subordinates do not get proper direction;

ii. When owner does not delegate proper authority;

iii. When owner does not create an environment of learn work – managerial team to function;

iv. When owner keeps on old routine working style, tries to arrange close monitoring/ checks – having no faith on them;

v. For sound leadership, two way communication is an essential requirement – when entrepreneur finds it difficult to maintain the two way communication very freely;

Financial Crisis

Borrowed capital when increases the owned Capital or, when an entrepreneur does not have surplus funds for growth of business, it is called 'Financial Crisis;. Reasons for financial crisis are as thus :-

i. Dependence of entrepreneur on borrowed capital; interest burden increases;

ii. Utilizing risky resources – an entrepreneur fails to collect capital by the safe resources;

iii. Utilizing surplus funds for over ambitious/unreal expansion of the business;

iv. When public is rushed to take the investment back from the Firm on wrong rumor of poor performance of the Enterprise.

Prosperity Crisis

When entrepreneur is earning profits continuously since long but fails to monitor the enterprise carefully and its prosperity, the enterprise is said to be facing Financial crisis. Reasons may be as follows:

i. Satisfying with circumstantial success and subsequently circumstances change;

ii. Sudden decline in sale of goods or, market share;

iii. Becoming over-joyous, over-confident, over-ambitious of success in market, but the prosperity does not remain for long time;

iv. Sudden death of Entrepreneur;

v. Happening of continuous natural disaster;

vi. Lack of Research and Development.

vii. No adaptability to changing new market, demand and competition.

Managerial Succession Crisis

When an entrepreneur dies all of a sudden and suffers a serious set-back, not in position to continue the business or, becomes incapable to work, succession crisis arises. In companion to large business houses, Small and Medium Enterprises face such crisis very deeply. Reason for emerging managerial succession crisis may be as follows:-

i. When successor has no controlling power;

ii. When successor does not handle taxation/legal matters appropriately;

iii. Problem of succession right among more than one successor;

iv. When there is no successor in family of original entrepreneur after his/her sudden death or, disappearance;

v. When there is no efficient successor of original one after his/her sudden death. The above mentioned reasons/causes have been very commonly observed responsible for Industrial Sickness / Closure.

11.5 REVIVAL AND REHABILITATION OF MICRO, SMALL AND MEDIUM ENTERPRISES

How we define Sick MSMEs:

According to RBI guidelines credit facilities sanctioned by banks may turn out to be out of order irregular due to various reasons which may be minor or major, temporary or of a more lasting nature. Depending upon the type of irregularity, necessary remedial measures are to be taken.

In broad terms the irregularity may be due to:

- Unsatisfactory conduct of the account like non-submission of stock statements, non-payment of installments and interest on due dates etc.
- Sticky tendencies like suspended operations in the account, lack of periodic intimations/ submissions to the Bank, lack of financial discipline, etc.

As per the revised definition, a Micro or Small Enterprise (as defined in the MSMED Act 2006) may be said to have become,, Sick' if –

1. Any of the borrowal account of the enterprise remains NPA for three months or more

OR

2. There is erosion in the net-worth due to accumulated losses to the extent of 50% of its net-worth during the previous accounting year.

In recognition of the problems being faced by the MSEs particularly with respect to rehabilitation of potentially viable sick units and also to hasten the process of identification of a unit as sick, early detection of incipient sickness and to lay down a procedure to be adopted by banks before declaring a unit as unviable, revised guidelines are issued by RBI vide its circulars No. RPCD.CO.MSME & NFS.BC.40/06.02.31/2012-13 dated November 1, 2012 and No. RPCD.MSME & NFS.BC.No.74/06.02.31/2012-13 dated May 9, 2013.

What exactly are the causes of sickness?

The causes of sickness in an Industrial Unit can be broadly classified into two categories:

a. Internal causes are those causes which can be attributed to the management of the unit.

b. External causes are those which are attributed to factors outside the purview / control of the promoters / management / banks etc.

Any unit on account of willful miss default unauthorized diversion of funds, disputes among partners/promoters etc; would normally not considered for rehabilitation.

What is a Non-Performing Asset: An asset, including a leased asset, becomes nonperforming when it ceases to generate income for the bank.

A non performing asset (NPA) is a loan or an advance where;

i. interest and/ or installment of principal remain overdue for a period of more than 90 days in respect of a term loan,

ii. the account remains 'out of order', in respect of an Overdraft/Cash Credit (OD/CC), if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts should be treated as 'out of order'.

iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

iv. the installment of principal or interest there on remains overdue for two crop seasons for short duration crops,

v. the installment of principal or interest there on remains overdue for one crop season for long duration crops,

vi. the amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation dated February 1, 2006.

vii. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Banks should, classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

What is incipient stress: According to the RBI the identification of detecting early symptoms of sickness have been given as:

a. There is delay in commencement of commercial production by more than six months for reasons beyond the control of the promoters. The company incurs losses for two years or cash loss for one year, beyond the accepted time frame. The capacity utilization is less than 50% of the projected level in terms of quantity or the sales are less than 50% of the projected level in terms of value during a year.

b. Identification by Banks or creditors - Before a loan account of a Micro, Small and Medium Enterprise turns into a Non-Performing Asset (NPA), banks or creditors are required to identify incipient stress in the account by creating three sub-categories under the Special Mention Account (SMA) category as given in the Table below:

SMA Sub-category	Basis for classification
SMA-NF	Non-financial (NF) signals of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

Identification by the Enterprise - Any Micro, Small or Medium Enterprise may voluntarily initiate proceedings under this Framework if enterprise reasonably apprehends failure of its business or its inability or likely inability to pay debts and before the accumulated losses of the enterprise 'equals to half or more of its entire net worth. The application for initiation of the proceedings under this Framework shall be verified by an affidavit of authorized person. When such a request is received by lender, the account should be processed as SMA-O and the Committee under this Framework should be formed immediately.

Non-financial Signals of Stress by RBI:

Illustrative list of any one of the following signals that may lead to categorise an account as SMA-NF:

1. Delay of 90 days or more in (a) submission of stock statement / other stipulated operating control statements or (b) credit monitoring or financial statements or (c) non-renewal of facilities based on audited financials.

2. Actual sales / operating profits falling short of projections accepted for loan sanction by 40% or more; or a single event of non-cooperation / prevention from conduct of stock audits by banks; or reduction of Drawing Power (DP) by 20% or more after a stock audit; or evidence of diversion of funds for unapproved purpose; or drop in internal risk rating by 2 or more notches in a single review.

3. Return of 3 or more cheques (or electronic debit instructions) issued by borrowers in 30 days, on grounds of non-availability of balance / DP in the account or return of 3 or more bills / cheques discounted or sent under collection by the borrower.
4. Devolvement of Deferred Payment Guarantee (DPG) instalments or LCs or invocation of BGs and its non-payment within 15 days.
5. Third request for extension of time either for creation or perfection of securities as against time specified in original sanction terms or compliance with any other terms and conditions of sanction.
6. Increase in frequency of overdrafts in current accounts.
7. The borrower reporting stress in the business and financials.

What is a Corrective Action Plan? What are its terms?

The Committee may explore various options to resolve the stress in the account. The intention is to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans and also to allow the enterprise to continue with its business. During the period of operation of Corrective Action Plan (CAP), the enterprise shall be allowed to avail both secured and unsecured credit for its business operations.

The options under Corrective Action Plan (CAP) by the Committee may include: (i) Rectification - regularize the account so that the account does not slip into the non-performing asset (NPA) category, (ii) restructuring the account if it is prima facie viable and the borrower is not a willful defaulter, and (iii) recovery - Once the first two options at (i) and (ii) above are seen as not feasible, due recovery process may be resorted to.

Micro, Small and Medium Enterprises has availed of credit facilities from more than one bank. Whom do they apply for revival?

The bank which has given maximum loan to the MSME

How do you resolve the disagreement between the participating banks or affected creditors?

In case of a disagreement between the participating banks/affected creditors on any issue before the Committee or any matter contemplated in this Order, such disagreement shall be resolved in accordance with regulations prescribed by the Reserve Bank.

Is committee bound to admit all the applications?

The eligibility criteria and the grounds for filling an application and the time limits within such application shall be made to be in accordance with the regulations prescribed by the Reserve Bank of India and only the applications meeting the said eligibility criteria and grounds shall be admitted by the committee.

What is Enterprise debt restructuring:

If the Committee decides restructuring of the account as CAP, it will have the option of either referring the account to Enterprise Debt Restructuring (EDR) Cell after a decision to restructure is taken or restructure the same independent of the EDR mechanism. If the Committee decides to restructure an account independent of the EDR mechanism, the Committee should carry out the detailed Techno- Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP.

What is the time frame for a final decision on Enterprise Debt Restructuring Plan by Empowered Group?

The cases referred to EDR Cell by Committee will have to be finally decided by the EDR Empowered Group within the next 30 days.

What is Enterprise Debt Restructuring Empowered Group:

The EG comprises Executive Director (ED) level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd., State Bank of India as standing members, in addition to ED level representatives of financial institutions (FIs) and banks which have an exposure to the concerned company.

What is the decision time frame of Enterprise Debt Restructuring Empowered Group:

Enterprise Debt Restructuring Empowered Group takes the decision within a period of 90 days, which can be extended up to maximum of 180 days from the date of reference to EDR Cell.

Who evaluates the Techno- Economic viability of the restructuring package? What if the exposure is Rs.10 crore and above? What if the exposure is less than Rs.10 crore?

Independent external evaluators evaluate the Techno- Economic viability in case of exposure is above Rs. 10 Crore. In case of exposure less than 10 Crore, it is evaluated by the Enterprise Debt Restructuring Empowered Group.

What is Techno-Economic Viability:

Techno-Economic viability is a risk mitigation task undertaken in respect of any industrial activity prior to the restructuring decision taken by bank. This is also done before a new project is approved for funding by a bank.

What is the role of the Indian banks association?

Indian banks association communicates the composition of Independent evaluation committee to the banks.

Who can file Debt Restructuring Application:

MSMEs and Bank both can file for Debt Restructuring application upon sensing the incipient stress.

What are the eligibility criteria and grounds for filing Debt Restructuring application?

The MSME should be sensing the incipient stress in the account. Such cases come under special mention account. SMA is categorized into three sub categories as mentioned below.

SMA Sub-category	Basis for classification
SMA-NF	Non-financial (NF) signals of incipient stress
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

What about ex-parte during the restructuring?

This refers to the one sided decision by the committee. If the enterprise does not respond within the stuipulated time frame i.e. 15 working days of receipt of the notice, the committee may proceed ex-parte and no appeal.

What are suitable provisions for tax and statutory dues:

The suitable provisions for payment of taxation or any other statutory dues are to be made in the corrective action plan and the enterprise shall take necessary steps to submit such plan to the concerned taxation or statutory authority and obtain approval of such payment plan.

What are the options for resolving the stress in the account?

The Committee may explore various options to resolve the stress in the account. The intention is to arrive at an early and feasible solution to preserve the economic value of the underlying assets as well as the lenders' loans and also to allow the enterprise to continue with its business. During the period of operation of Corrective Action Plan (CAP), the enterprise shall be allowed to avail both secured and unsecured credit for its business operations.

The options under Corrective Action Plan (CAP) by the Committee may include: (i) Rectification - regularize the account so that the account does not slip into the non-performing asset (NPA) category, (ii) restructuring the account if it is prima facie viable and the borrower is not a willful defaulter, and (iii) recovery - Once the first two options at (i) and (ii) above are seen as not feasible, due recovery process may be resorted to.

Who are wilful defaulters?

According to RBI the persons involed in willfull default are termed as wilfull defaulters. A "wilful default" would be deemed to have occurred if any of the following events is noted:

a. The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.

b. The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.

c. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

d. The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given by him or it for the purpose of securing a term loan without the knowledge of the bank/ lender.

What are viability parameters:

The viability of the account should be determined by the Committee based on acceptable viability benchmarks determined by them. Illustratively, the parameters may include the Debt Equity Ratio, Debt Service Coverage Ratio, Liquidity/Current Ratio and the amount of provision required in lieu of the diminution in the fair value of the restructured advance, etc.

What is the procedure of restructuring? When committee refers the account to Enterprise Debt Restructuring Cell?

If the Committee decides restructuring of the account as CAP, it will have the option of either referring the account to Enterprise Debt Restructuring (EDR) Cell after a decision to restructure is taken or restructure the same independent of the EDR mechanism. If the Committee decides to restructure an account independent of the EDR mechanism, the Committee should carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP.

Can a committee drop a plan for required financial resources during restructuring? What happens when existing promoters are not in a position to bring in additional funds?

Yes, it can. When the existing promoters are not in a position to bring in additional funds they are permitted to raise secured or unsecured loans and create a charge on its assets for such loans.

What are the options available to the committee when it decides to restructure the account?

If the Committee decides restructuring of the account as CAP, it will have the option of either referring the account to Enterprise Debt Restructuring (EDR) Cell after a decision to restructure is taken or restructure the same independent of the EDR mechanism. If the Committee decides to restructure an account independent of the EDR mechanism, the Committee should carry out the detailed Techno-Economic Viability (TEV) study, and if found viable, finalise the restructuring package within 30 days from the date of signing off the final CAP.

What are the options for Enterprise Debt Restructuring Cell when restructuring a loan?

The Committee may consider the following options when a loan is restructured:

a. Possibility of transferring equity of the company by promoters to the lenders to compensate for their sacrifices;

b. Promoters infusing more equity into their companies;

c. Transfer of the promoters’ holdings to a security trustee or an escrow arrangement till turnaround of enterprise. This will enable a change in management control, should lenders favor it.

What is the time frame for the review of the application by the committee?

A fifteen working day period is given to the committee for the review of the decision from the date of receipt of the decision of the Committee, in case of recovery.

11.6 CASE STUDY

Travel Right cab private operating taxi

'Travel Right' cab, owned by Mr.Nagesh started its operations in 1998 in Chennai with just seven vehicles. By 2000, it had three more branches in the city and the fleet had grown to 30 vehicles. 15 of these were Ambassadors while of the remaining, 10 were Omni and 5 were Tata Sumo. The company had 10 full time drivers. When it required, it would hire drivers on a daily rate basis. The turnover in 2000, 2001 and 2002 were 30 Lakhs, 40 Lakhs and 42 Lakhs respectively. The company had a net profit margin of 20%.

When everything was going just right. By the end of 2002, 'Travel Right' started feeling the heat of stiff competition from the 'dial a cab' format companies. By 2005, the revenues had fallen and by mid 2006, Mr.Nagesh closed his Teynampet and Annanagar offices and now operated only from Nungambakkarri. From 2008, Mr.Nagesh has been barely making profits. The margins have reduced to 7%, and the revenue in the year 2010 recorded an all time low in the last 5 years of37.5 Lakhs.

Discussion Points

1. What are the options that seem open in front of Mr.Nagesh? Attempt to redraw the opportunity and the idea to opportunity map.
2. What is the business model adopted by the 'Dial A Cab' format companies which make the 'Travel Right' model redundant?
3. What changes to 'Travel Right' business model could you suggest to combat competitive pressure?
4. What are the primary challenges or questions that stand in the way of Mr. Nagesh to sellout his business and look at a different opportunity? Discuss both rationale and emotional reasons.

Source: Entrepreneurship theory and practice by Raj Shankar, Vijay Nicole Imprints Private Ltd,

11.7 NOTES

11.8 SUMMARY

A unit is considered sick (Non-SME) if it has accumulated losses equal to or exceeding its entire net worth as at the end of the latest financial year. A micro or small enterprises (as defined MSME Act, 2006) may be said to have become sick, if any of the borrowal accounts of the enterprise remains a non-performing asset for three month or more or there is erosion in the net worth due to accumulated losses to the extent of 50% of the net worth. The sick industrial companies act (SICA) 1985, after being amended twice, was replaced by the Sick Industrial Companies (Special Provisions) Repeal Act, 2003. The work of revival and rehabilitation was entrusted to the National Company Law Tribunal (NCLT) constituted under the Company Act, 1956. Any appeal against the order of the NCLT will now be made to the National Company Law Appellate Tribunal (NCLAT). In India, the Tiwari Committee report categories the causes of Industrial Sickness in several factors. These causes can be broadly classified into two categories; internal causes and external causes.

The symptoms of industrial sickness may be in the form of financial distress starting with short term liquidly problems, revenue losses, operating losses, and moving in the direction of over use of external credit until it reaches a stage were the industry is over burden with debt and is unable to generate sufficient funds to meets its obligation. In case of large units how shares are quoted in stock exchanges, a signal of sickness is sent when dividends are skipped and shares prices sharply declines. The symptoms of industrial sickness act as leading indicators of sickness, and if immediate remedial actions are not taken, the sickness will grow to the extent that the organization will faces its natural death. The symptoms of industrial sickness can be observed from the leading indicators, which suggests that the units is potentially sick unit. In order to identify measurable parameters that can be used for predicating the sickness, the methods that are generally used are univariate analysis and multivariate analysis.

The industrial unit passes through various stages before it becomes sick and gets closed. The various stages of sickness are: tending towards sickness, incipient sickness, sick, and total sickness. The revival and rehabilitation of the sick unit is implemented based on a detailed and through viability study to ensure that the revival program will really bear fruits. The viability study compresses a technical appraisal and commercial appraisal, a financial appraisal and the management appraisal.

11.9 KEY WORDS

- Sickness
- Problems of Sickness
- Local factors of sickness
- Regional factors of sickness
- Global factors of sickness
- Non-Performing Asset
- Corrective Action Plan
- Techo-Economic Viability
- Restructuring

11.10 SELF ASSESSMENT QUESTIONS

1. Discuss the symptoms that can be used to identify industrial Sickness?
2. Explain the causes of Industrial Sickness.
3. "Thinking about an exit strategy while starting a business is too early to be doing it." Comment.
4. Discuss turnaround strategy with an example.
5. Name the circumstances responsible for the winding up of the company.
6. Explain Government support in restructuring the sick industry.

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UNIT – 12 : INSTITUTIONAL SUPPORTING ENTREPRENEURS

Structure :

12.0 Objectives

12.1 Introduction

12.2 A Catalytic Agent

12.3 Importance in Development

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12.4.2 National Small Industries Corporation Ltd.

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12.4.4 State Small Industries Development Corporations

12.4.5 State Financial Corporations

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12.4.7 Small Industry Extension Training Institute (SIETI)

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12.4.9 Industrial Development Bank of India (IDBI)

12.4.10 Small Industries Development Bank of India (SIDBI)

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12.4.15 The World Bank's Involvement

12.4.16 Asian Development Bank (ADB)

12.5 Case Study

12.6 Notes

12.7 Summary

12.8 Key Words

12.9 Self Assessment Questions

12.10 References

12.0 OBJECTIVES

Upon Complication of this unit, you shall be able to;

- Identify the central-level institutions/agencies supporting business enterprises.
- Discuss the state-level institutions/agencies supporting business enterprises.
- Explain various other agencies supporting business enterprises.

12.1 INTRODUCTION

Industrialisation is widely recognised as one of the important means to usher in economic and social transformation in the developing countries, albeit there are controversies about the weightage to be given to industrialisation as an element of the development mix. The industrial revolution which enabled the advanced countries of today to take off to economic prosperity has given us quite a few lessons in development. However, the nature and problems of industrialisation of the developing countries are not the same as the historial experience of the developed economies. The developing nations, in general, are confronted with strangling competition from industrialised countries, fast depleting resource base, falling productivity and rising costs in certain sectors, inter-sectoral conflicts within the economy and so on. Yet, industrialisation, hard the task as it is, indispensable for survival and growth.

Industrialisation is essential not only for generation of employment and achieving industrial self-sufficiency but also for the accelerated development of agriculture and other sectors through the backward and forward linkages. Industrialisation can also play a role in improving the balance of trade of a nation. The social impacts of industralisation are of no less significance. Industrialisation, of course, brings with it a number of economic, social, ecological and even political problems.

Industrial development depends on the entrepreneurs, capital, human resources, infrastructure, geographic and climatic factors, agricultural development, market, technology, innovation, natural resources, and Government policies and programmes. In the developing countries, the Government plays the entrepreneurial role.

In the developing countries, where the infrastructural facilities for development are inadequate and entrepreneurial activities are scarce, the promotional role of the government assumes special significance. The State will have to assume direct responsibility to build up and strengthen the necessary development infrastructures such as power, transport, finance, marketing, institutions for training and guidance and other promotional activities, etc.

The promotional role of the State also encompasses the provision of various fiscal, monetary and other incentives, including measures to cover certain risks, for the development of certain industries in the core sector of the economy. More importantly, the Government builds up a sound institutional infrastructure and fosters entrepreneurship and thus accelerates the process of industrialisation on an ongoing basis.

12.2 A CATALYTIC AGENT

An entrepreneur is one of the important segments of economic growth. Basically, an entrepreneur is a person who is responsible for setting up a business or an enterprise. In fact, he is one who has the initiative, skill for innovation and who looks for high achievements. He is a catalytic agent of change and works who looks for high achievements. He is a catalytic agent of change and works for the good of people. He puts up new grainfield projects that actually creates wealth, opens up employment opportunities and fosters other sectors.

The entrepreneur brings in overall change through innovation for the maximum social good. Human values remain sacred and inspires him to serve society. He has firm belief in social betterment and he carries out this responsibility with conviction. In the process, he accelerates personal, economic as well as human development. The entrepreneur is a visionary and an integrated man with outstanding leadership qualities. With a desire to excel, the entrepreneur gives top priority to Research and Development. He always works for the well-being of the society. More importantly, entrepreneurial activities en-compass all fields/ sectors and foster a spirit of enterprise for the welfare of mankind.

Thus, emerges the notion of the "genius entrepreneur" whose success is in a large measure caused by his unswerving dedication to setting high goals and to reaching for them. He has vision on which he bases his own objectives and sets his own goals. And he does this not simply on the basis of last year's results plus some growth factor, but on the basis of his own perception, of his own capabilities and to satisfy his own needs.

Among other distingushing attributes of entrepreneurship are a willingness to assume risk; a sense of acquisitiveness or unceasing curiosity; insight into the relationship between concepts, objectives, needs; and needs satisfaction; sound judgement as to what is central and peripheral to attaining his objectives, initative and creativity; problem-solving ability; ability to marshall resources needed to achieve his objectives and goals; and the administrative ability to organize those resources to accomplish his goals and satisfy his minor needs.

12.3 IMPORTANCE IN DEVELOPMENT

Entrepreneurial development is a subject that has assumed great importance and is bound to be one of the dominant topics of discussion during the decades to come. This is as it should be in the context of rapid industrialisation in India. But to create an atmosphere of spontaneous will to co-operate is not all that easy. Resistance to change can be resolved by involving people in the process. The remedy lies in fostering an entrepreneurial spirit among the people.

An entrepreneur is one of the most important as well as significant inputs in the economic development of a country or of a region within a country. Entrepreneurial competence makes all the difference to the rate of economic growth. The need for a broad-based entrepreneurial class in India arises from the need to speed up the process activating the factors of production, dispersal of economic activities, creating employment opportunities — all of which are capable of leading to higher rate of economic growth. It is now well recognised that entrepreneurs can be developed through appropriately designed entrepreneurship development programmes.

12.4 INSTITUTIONAL SUPPORT

The scale and scope of operations of entrepreneurs and the far-reaching developments in the economic climate have brought to the fore, importance of institutional assistance at various levels. In fact, the success of entrepreneurship depends solely on the well-established institutional set-up.

The instititions fostering entrepreneurial development can be classified into (i) Promotional, (ii) Financial, (iii) Technical, (iv) Marketing, (v) Training, (vi) Others and (vii) Associations.

They are as follows:

Promotional

1. Directorate of Industries of State Governments.
2. The Small Industries Development Organisation.
3. National Small Industries Corporation.
4. The State Industrial and Investment Corporations.
5. Udyog Mitra.
6. The Small-Scale Industries Board.

7. The National Industrial Development Corporation.
8. The National Productivity Council.
9. The Indian Bureau of Standards.
10. The District Industries Centre's.
11. The State Industrial Development Corporations.
12. Coir Board.
13. District Industries Centre's.

Financial

1. The State Financial Corporations.
2. Industrial Development Bank of India
3. National Small Industries Corporation Ltd
4. The Industrial Finance Corporation of India.
5. The Small Industries Development Bank of India.
6. Leasing Companies.
7. The National Bank for Agriculture and Rural Development.
8. The Khadi and Village Industries Commission.
9. Venture Capital Finance.
10. The Housing Development Finance Corporation Ltd.
11. The World Bank.

Technical

1. The Industrial and Technical Consultancy Organisation.
2. The Controller or General Patents, Designs and Trade Marks.
3. Pollution Control Boards.
4. The Central Institute of Tool Design.
5. The Institute for Design for Electrical Measuring Instruments.
6. The National Institute of Design.
7. The Technology Development and Information Company of India Ltd.
8. The Products and Process Development Centre's.

Marketing

1. The Indian Investment Centre's.
2. The Export Promotion Councils.
3. Commodity Boards.
4. Export Houses.
5. The Indian Institute of Packaging.
6. The Export Inspection Council.
7. The Jute Corporation of India.
8. The State Trading Corporation of India.
9. The Minerals and Metals Trading Corporations of India.
10. The Export-Import Bank of India.
11. The Indian Institute of Foreign Trade.
12. Export Credit Guarantee Corporation of India Ltd.

Training

1. The Centre for Entrepreneurship Development.
2. The Entrepreneurship Development Institute of India.
3. The Management Development Institute.
4. The Institute of Management.
5. Institute of Entrepreneurship Development.
6. The National Institute for Entrepreneurship and Small Business Development.
7. The Science and Technology Entrepreneurship Parks.
8. The National Institute of Small Industry Extension Training.
9. The Integrated Training Centre (Industrial).
10. Industrial Training Institutes.
11. Training of Rural Youth for Self-Employment.
12. The Indian Institute of Entrepreneurship.
13. EDPs of SIDBI.

14. The National Institute of Fashion Technology.
15. The Central Footwear Training Institute, Agra.

Others

1. The Bureau of Industrial Costs and Prices.
2. The Indian Council of Arbitria;on.
3. The Credit Rating Information Services of India Ltd.
4. The OTC Exchange of India.

Financial Institutions

1. Industrial Development Bank of India (IDBI)
2. Industrial Finance Corporation of India (IFCI)
3. Small Industries Development Bank of India (SIDBI)
4. National Small Industries Corporation Ltd (NSIC)
5. State Small Industries Corporation (SSIC)
6. Regional Rural Banks (RRBs)
7. State Financial Corporations (SFCs)
8. State Industrial Development Corporations (SIDCs)
9. Cooperative Banks and Gramin Banks

Institutions for technical guidance

1. Small Industries Development Organisation (SIDO)
2. District Industries Centres (DICs)
3. Technical Consultancy Organisations (TCOs)
4. Small Industries Service Institutes (SISIs)
5. State Small Industries Development Corporations (SSIDCs)
6. Industrial Development Corporation (IDCo)
7. Agricultural Promotion and Investment Corporation of Orissa Limited (APICOI)

Training Institutions

1. Small Industries Service Institute (SISI)
2. National Bank for Agriculture and Rural Development (NABARD)
3. Council for Advancement of Peoples Action and Rural Technology (CAPART)
4. District Industries Centre (DIC)

The success of industrialization to a great extent, goes to these institutions. The role of the various institutions set up, especially to foster the growth of industries in general and small enterprises in particular is quite unique. In this chapter, an attempt has been made to have an overview of the institutions fostering the development of small enterprises and rapid growth of entrepreneurship in India.

12.4.1 The Small Industries Development Organisation (SIDO)

The Small Industries Development Organisation (SIDO) functions as a policy-formulating, co-ordinating and monitoring agency for the development of small-scale industries. It maintains a close liaison with the relevant Central Ministries, the Planning Commission, State Governments, financial institutions and other organisations which are involved in promoting the development of the small-scale sector. Its activities relate to all the small-scale industries, excluding those which fall within the purview of specialised Board or agencies, viz., the All-India Handloom and Handicrafts Board, the Coir Board, the Central Silk Board and the Khadi and Village Industries Commission.

The SIDO provides a comprehensive range of consultancy services and technical, managerial, economic and marketing assistance to the small-scale units through its network of twenty-five Small Industries Service Institutes, twenty Branch SISs, forty-one Extension

Centre's, four Regional Testing Centre's, one Product and Process Development Centre, three Footwear Training Centre's and five Production Centre's.

The main functions of the Small Industries Development Organisation (SIDO) include: (i) co-ordination, (ii) industrial development and (iii) industrial extension service.

The organisation co-ordinates the work relating to the development of small-scale industries on an all-India basis by:

(i) Evolving an all-India policy and programme for the development of small-scale industries;

(ii) Co-ordinating the policies and programmes of various State Governments;

(iii) Acting as a liaison between different States and between the States and Central Ministries, the Planning Commission and the Reserve Bank and the State Bank;

(iv) Co-ordinating the programme for the development of large and small-scale industries;

(v) Co-ordinating the programme for the development of industrial estates and ancillaries all over the country.

The major activities of SIDO include the following:

- Advising the Government in formulation of policies and programmes/ projects/schemes for the promotion and development of the MSME.
- Providing techno-economic and managerial consultancy, common facility and extension services to the MSME.
- Providing support for technology upgradation, modernization, quality improvement and infrastructure facilities.
- Assisting the MSME in human resource development through training and skill upgradation.
- Providing economic information services to the MSME.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other organizations concerned with the development of the MSME.
- Evolving implementing and co-ordinating policies and programmes for development of the MSME as ancillaries to large and medium industries.
- Providing testing and calibration services to the MSME.
- Implementing / monitoring the flagship schemes of:

- Credit Guarantee Fund
- Credit Linked Capital Subsidy for Technology Upgradation
- Small Industries Cluster Development Programme.

Consultancy and Workshops Services

The SIDO offers a comprehensive range of technical services to the small-scale sector on improved technical processes, production planning, selection of machinery use of modern machines and processes, preparation of factory layouts and designs, materials handling, etc.

Modernisation of Selected Industries

The SIDO has been implementing a programme of modernisation of selected industries and of others on the basis of concentration in certain areas. Under this programme, motivational programmes — seminars, workshops, industrial clinics, modernisation courses, etc., have been arranged and literature and other publicity materials have been disseminated. Quick and intensive in-plant studies have been conducted with a view of assisting selected small-scale units in implementing the suggestions made by various study teams.

Consultancy Services, Management Development & Training

One of the important activities of the SIDO has been the provision of consultancy services and training in various disciplines to help improve the competitive strength of the small entrepreneurs and enable them to keep abreast of the latest developments in their respective fields. Such services were offered in the field of management, cost accounting, personnel management, documentation, etc.

A panel of consultants was drawn up for each SISI discipline when such expertise was not available with the SIDO, and provision was made for the payment of consultancy fees and travelling expenses to the consultants by the SIDO. In backward areas, the entire cost is borne by SIDO. In others, small entrepreneurs have to pay 75 per cent of the cost; the balance (25 per cent) is borne by the SIDO.

Entrepreneurial Development

The salient activities of the SIDO in respect of the development of entrepreneurship include the organisation of training programmes for engineer entreprenurs, unemployed graduates, diploma-holders and science graduates, and of preliminary and advanced courses for entrepreneurial development amongst students, the war widows, scheduled castes/ scheduled tribes, ex-servicemen, and people from backward, rural, tribal and hilly areas.

Government Stores Purchase Programme

The SIDO continued its efforts to encourage small-scale units to participate in the Government Stores Purchase Programme and give them the necessary guidance, market advice, and assistance in fulfilling various formalities. The NSIC registers units and issues competency certificates to them. The Bureau of Public Enterprises announced certain concessions for small units and participated in their purchase programme. Hereafter, the small units enlisted with the NSIC would be treated on par with those registered by the SIDC and would be exempt from the payment of earnest money and security deposits.

The SIDO's important activities for the promotion exports related to the provision of consultancy services, the identification and encouragement of small units processing the necessary equipment and skills to undertake the production of items having an export potential, and the organisation of training facilities, workshops and seminars. A quarterly Small Industries Export Bulletin, too, was brought out by SIDO for the information of units engaged in the manufacture of items for export.

Economic Information Services

The SIDO assists a large number of entrepreneurs, artisans and technocrats in selecting new items of production or in the expansion of their existing activities by furnishing them the requisite economic information.

An important activity of the SIDO relates to studies of the impact of reservation of selected items for the small-scale sector. By the end of the year 1980, evaluation studies of 150 reserved items were completed by the SIDO. The committee on the reservation of items, with the Chairman, Bureau of Industrial Costs and Prices, as the head, was reconstituted with the DC(SSI), representatives of the Department of Industrial Development, the DGTD and the Planning Commission as members. A number of reviews, undertaken by the Standing Committees, of the SIDO have established that while it is feasible to manufacture a number of sophisticated items in small-scale sector, a comprehensive support must be offered to this sector.

For co-ordination purposes, the SIDO undertakes the implementation of the various recommendations of the Small-Scale Industries Board and other Committees.

The Central Organisation technical assistance which is required by the State Governments for preparing schemes within the overall Plan allocations. It assist the Ministry in regulating the Central assistance to the States for the development of small-scale industries. It also watches the progress in the expenditure incurred by the State Governments on the development of small-scale industries.

The co-ordination on an all-India level is effected in special fields of development like Industrial Estates, Ancillaries etc.

For the development of ancillary industries, the SIDO establishes liaison with public and private undertaking and with the DGTD, etc., to ensure a proper utilisation of the existing production capacity in the small-scale sector.

An important function of the SIDO is to suggest a pattern of small-scale industries development for the country as a whole. This involves responsibilities for indicating the lines of manufacture which are suitable for the small-scale sector, and giving it such assistance as it may need in the form of promotion, procurement of raw materials and machinery, and technical advice from time to time.

The following are the important functions of the SIDO:

1. The approve the production programme of specifically selected industries and of such items as come under the Common Production Programme;
2. To assess the requirements of indigenous and imported raw materials and components for the small-scale sector and to arrange their supplies;
3. To secure reservations of certain products for the small-scale sector;
4. To assist and advise the Ministry of I.D. and C.A. in regard to cases of foreign collaboration, both technical and financial, in the small-scale sector and to work in close liaison with the Development Wing (DGTD) with a view to arranging the distribution of raw materials from indigenous production Centre’s in the country;
5. To assist and advice the C.C. & E in regard to the issue of import licences and the imposition of restrictions on the import of various products whose manufacture has already been undertaken indigenously by the existing or developing new units;
6. To collect data on consumer items which are imported and encourage the setting up of new units by giving them co-ordinated assistance; and
7. To prepare model schemes, project reports and other technical literature for prospective entrepreneurs.

The DCSSI is represented on different Licensing Committees, Development Council and other bodies, and seeks to safeguard the interests of the small-scale sector.

The main components of the Industrial Extension Service are Technical Advisory Service Management Consultancy Service, Economic Information and Economic Investigation Services, Marketing Assistance, and provision of training facilities to help the small industries sector to overcome its basic drawbacks and improve its productivity and competitive strength. At the State level, the Small Industries Service Institute functions as the apex agency, rendering a co-ordinated industrial extension service to small industries. The service Institutes work in close co-operation with the State Directorates of Industries. The extension Centre's are miniature service institutions, in the sense that their activities are limited to one or more specific industries within a definite area, which is generally a small part of a State.

Each Small Industries Service Institute at the State level is headed by the Director, who is generally a technical expert. He is assisted by a number of competent technical officers of the rank of Deputy Directors, Assistant Directors and Field Officers, who have specialised in various fields. The development of technical staff in the Institutes depends upon the concentration of particular industries in a State.

The Extension Centre's are well-equipped with workshop and laboratory facilities to provide technical assistance and guidance as well as training facilities for selected industries. Apart from common trades like general engineering, carpentry and smithy, brass and metal products, metal finishing, etc., these Centre's cover such industries as manufacture of tin containers and tin printing, footwear and leather goods in mechanised units, thermometers and scientific glass apparatus, electric motors and machine tools.

12.4.2 National Small Industries Corporation Ltd.

The National Small Industries Corporation Ltd. (NSIC) was set-up by the Government of India in 1955 with the objective of promoting and developing small-scale industries in the country. Various activities undertaken by NSIC include supply of indigenous and imported machines on easy hire-purchase and lease terms, marketing of the products of small industries on consortia basis, export marketing of small industries products, developing export worthiness of small-scale units, enlistment of small-scale units for participation in Government stores purchase programme development and modernisation of preto types of machines, equipment and tools supply and distribution of indigenous and imported raw materials, training in various tools technical trades and co-operation with other developing countries in setting-up of small scale projects on turn-key basis.

Formerly, the Corporation had four subsidiary corporations at Delhi, Mumbai, Kolkata and Chennai. However, since 1961, all the subsidiary corporations have been amalgamated with the main Corporation, and three Branch Offices have been set-up at Mumbai, Kolkata and Chennai. The Delhi subsidiary corporation has been merged with the parent Corporation, and its work is looked after by a separate Delhi Cell set-up in it. The National Small Industries Corporation provides a complete package of financial assistance and support in the following areas:

Supply of both indigenous and imported machines on easy hire-purchase terms. Special concessional terms have been introduced for units promoted by entrepreneurs from weaker sections of the society, women entrepreneurs, ex-servicemen and those units located in the backward areas.

- Marketing of Small Industries products within the country.
- Export of Small Industries products and developing export worthiness of Small-Scale Units.
- Enlisting competent units and facilitating their participation in Government Stores Purchase Programme.
- Developing prototypes of machines, equipment and tools which are then passed on to Small-Scale Units for commercial production:
- Technical training in several industrial trades, with a view to create technical culture in the young entrepreneurs.
- Development and upgradation of technology and implementation of modernisation programmes.
- Supply and distribution of indigenous and improved raw materials.
- Supply of both indigenous and imported machines on easy lease terms to existing units for diversification and modernisation.
- Providing of Common Facilities through Prototype Development & Training Centre's.
- Setting-up Small-Scale Industries in other developing countries on turn-key basis.

With a view to giving a fillip to development efforts and to supplement the activities of State Small Industries Corporations and District Industries Service Institutes, the NSIC has opened its offices in some of the States in which the (NSIC) Corporation has been hitherto under-represented. In the central region, offices have been opened in Bhopal and Raipur in Madhya Pradesh. Four development executives and six field inspectors have been recently posted in the backward areas of the western region to serve as "contact points" and to work in close co-operation with DICs and other developmental agencies in the area. Of these, three field inspectors have been posted in Raigad, Ratnagiri, Satara, Yeotmal, Chandrapur, Bhandara, Buldhana, Aurangabad, Nanded, Beed, Osmanabad, etc. — all backward districts in Maharashtra.

The NSIC has taken up the challenging task of promoting and developing small industries almost from the scratch and has adopted an "integrated approach" to achieve its socio-economic objectives. It has created a proper "industrial" atmosphere and has infused confidence in the small entrepreneurs to prepare schemes for the manufacture of products or identify the balancing equipment for purposes of modernisation and or diversification. The small unit, because it is small, is always short of resources. The NSIC, therefore, supplies machinery and equipment, marketing inputs and technical support to small units. And so the seedling comes up as — a "factory" which provides jobs for the unemployed or underemployed.

Over the years and particularly during this decade, the NSIC, with its deliberate and concentrated efforts, has developed an unsurpassed reputation of an effective and efficient nodal agency for providing assistance to the vibrant small-scale sector. All these years, through its dynamic approach and the package of assistance, it has been significantly contributing to the development of entrepreneurs, building up of strong industrial base, spreading of technical culture, promoting balanced regional growth, development of rural and backward areas, etc., as well as in employment generation, in all parts of the country.

12.4.3 State Industrial Development Corporations

The State Industrial Development Corporations (SIDCs) were established under the Company Act, 1956 in the sixties and early seventies' as wholly-owned State Government undertakings for promotion and development of medium and large industries. SIDCs act as catalysts for industrial development and provide impetus to further investment in their respective States. SIDCs provide assistance by way of term loans, underwriting and direct subscription to shares/debentures and guarantees. They undertake a variety of promotional activities such as preparation of feasibility reports, industrial potential surveys, entrepreneurship development programmes and developing industrial areas/estates. SIDCs' are also involved in setting up of medium and large industrial projects in the joint sector in collaboration with private entrepreneurs or as wholly owned subsidiaries. The SIDC's activities have now widened to include equipment leasing, providing tax benefits under State Government's Package Scheme of Incentives, merchant banking services and setting-up of mutual funds. Some of the SIDCs also offer a package of developmental services such as technical guidance, assistance in plant location and co-ordination with other agencies.

Of the 28 SIDCs operating in the country, nine are twin-function SDICs functioning also as SFCs to provide assistance to small scale units as well as act as promotional agencies. The twin-function SIDCs are in Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura, Goa, Pondicherry and Sikkim. Seven SIDCs are also involved in infrastructure development and other extensions, services for the small sector.

The SIDCs are agent of IDBI and SIDBI for operating its seed capital scheme. Under the scheme, equity type assistance is provided to deserving first generation entrepreneurs who possess necessary skills but lack adequate resources required towards promoter's contribution.

The major functions of these Corporations include:

- Providing risk capital to entrepreneurs by way of equity participation and seed capital assistance;
- Grant of financial assistance to industrial units by way of loans, guarantees and of late, lease finance by some Corporations;
- Administering incentive schemes of Central/State Governments;
- Promotional activities such as identification of project ideas through industrial potential surveys, preparation of feasibility reports, selection and training of entrepreneurs; and
- Developing industrial areas/estates by providing infrastructure facilities.

Since the actual range of activities being undertaken by individual SIDC depends upon the specific responsibilities entrusted by the respective State Union Territory, there is considerable diversity in activities among the different SIDCs.

12.4.4 State Small Industries Development Corporations

The State Small Industries Development Corporations (SSIDCs) established under the Companies Act, 1956, are State Government undertakings, responsible for catering to the needs of the small, tiny and cottage industries in the Statel/Union Territories under their justification. SSIDCs enjoy operational flexibility and can undertake a variety of activities for development of the small sector. As at present, 18 SSIDCs are in operation.

Some of the important activities undertaken by SSIDCs includes: (i) procurement and distribution of scarce raw materials, (ii) supply of machinery on hire-purchase basis, (iii) providing assistance for marketing of the products of small scale units, (iv) construction of industrial estates/sheds, providing allied infrastructure facilities and their maintenance, (v) extending seed capital assistance on behalf of the State Governments, and (vi) providing management assistance to production units.

A change in the role of SSIDCs has been prompted by the new Industrial Policy. SSIDCs are gearing up to change themselves from raw material distributors to organisations that will take care of various aspects of small industry development, especially marketing. SSIDCs would, thus, help the tiny and small industries increase their market share. The new policy calls for establishment of counselling and common testing facilities and provision of a mechanism to allow corporation of the latest technology in the small sector. SSIDCs are also planning to set-up Centre's for display of/and information dissemination on SSI products, and for providing small office spaces for SSIs in need. Information for the analysis/discussion that follows, pertains to 11 SSIDCs located in Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Jammu & Kashmir, Himachal Pradesh, Kerala, Punjab, Rajasthan and Tamil Nadu.

12.4.5 State Financial Corporations

State Financial Corporations (SFCs), operating at the State-level, form an integral part of the development financing system in the country. They function with the objective of financing and promoting small and medium enterprises for achieving balanced regional socio-economic growth, catalysing higher investment, generating greater employment opportunities and widening the ownership base of industry.

At present, there are 18 SFCs in the country, 17 of which were set up under the SFCs Act, 1951. Tamil Nadu Industrial Investment Corporation Ltd., set up in 1949 under the Companies Act as Madras Industrial Investment Corporation also functions as a full-fledged SFC. SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees, and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBI/ SIDBI which include schemes for artisans, special target groups like SC/ ST, women, ex-servicemen, physical handicapped, etc., and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc. Over the years, the SFCs have extended their activities and coverage of assistance.

Concerns Eligible for Assistance

Industrial concerns eligible for financial accommodation under the State Financial Corporation Act, 1951 are those which are engaged in the following activities: (a) Manufacture of goods; (b) preservation of goods; (c) processing of goods; (d) mining; (e) generation of distribution of electricity or any other form of power; (f) hotel industry; (g) transport of passenger or goods by road or by water or by air; (h) maintenance, repair, testing or servicing of machinery of any description of vehicles or vessels or motor boats or, trawlers or tractors; (i) assembling, repairing or packing any article with the aid of machinery or power; (j) the development of any contiguous area of land as an industrial estate; (k) fishing or providing shore facilities for fishing or maintenance thereof; (1) providing special or technical knowledge or other services for the promotion of industrial growth.

SFCs extend financial assistance to industrial units by way of term loans, direct subscription to equity/debentures, guarantees and discounting of bills of exchange. SFCs operate a number of schemes of refinance and equity type of assistance formulated by IDBVSIDBI which include schemes for artisans, social target groups like SC/ST, women, ex-servicemen, physically handicapped, etc., and for transport operators, setting up hotels, tourism-related activities, hospitals and nursing homes, etc.

Objectives and Functions

- The main function is to provide term loans for the acquisition of land, building, plant and machinery, pre-ops and other assets.
- Promotion of self-employment.
- To encourage new and technically/professionally qualified women entrepreneurs in setting up industrial projects.
- To finance expansion, modernisation and upgradation of technology in the existing units.
- To provide financial assistance for the rehabilitation of sick units financed by the Delhi Financial Corporation.

KSFC OPERATIONS AT A GLANCE (Amount: Rupees in Crore)

Particulars	2012-2013	2013-2014	2014-2015	Since Inception upto 31.03.2015
Paid up capital at the year end	658.56	658.56	658.56	---
Gross Sanctions a. Number	1,598	1,426	1,092	1,69,244
b. Amount	944.06	909.26	675.15	13,810.68
Assistance to Micro & SSIs a. Number	1,271	1,157	915	1,11,294
b. Amount	606.96	575.41	482.15	7,753.07
Disbursements	734.70	707.47	553.62	10,821.12
Loans Outstanding	1,938.21	2,073.37	1,836.15	---
Recoveries	792.89	836.52	814.00	13,908.42
% age of NPA (net)	2.78	2.57	5.07	---
Income	284.42	284.59	317.23	--
Expenditure	267.36	273.09	272.68	--
Net Profit	17.02	11.42	44.47	

12.4.6 Directorates of Industries of the State Governments

It should be mentioned here that the small-scale industries sector is a State subject under the Indian Constitution and, as such, the primary responsibility for all executive action in regard to its development and the implementation of the programme of assistance to it is that of the State Government. The work relating to the development of industries in general and small-scale industries in particular is looked after by the Directorate of Industries in each State and in each Union Territory. There are 22 such Directorates all over the country. Each organisation is staffed with administrative and technical officers at the State Headquarters and by a District Industries Officer, with appropriate supporting staff, in each District. The State Directorates run various training schemes, production schemes and common facilities schemes.

They also provide facilities of developed industrial land and built-up factory sheds in industrial estates, allocate quotas of scarce raw materials, certify import requirements and organise industrial co-operatives. Their functions are varied and have growth with the development and diversification of the small industries sector. Each State Director of Industries is assisted by an Additional Directors or a Joint Director and a number of Deputy Directors, Assistant Director's and Technical Officers in charge of specific fields of activities. At the district level, the work is looked after by the District Industries, Officer or the Assistant Director of Industries. He is assisted by one or two inspectors, depending upon the quantum of work and the industrial importance of the district. The district industries staff looks after not only the small-scale industries programme but also other programmes, e.g., handicrafts, village industries, etc. In a number of states there are, at the block level, Extension Officers for industries to act as liaison officers between the District Industries Office and the field.

The Directorate of cottage and small-scale industries provides a wide variety of assistance. The details are given below:

General Assistance

- Entrepreneurial Development Programmes
- Industrial Accommodation
- Priority on Telephone and Power
- Supply of Machinery on Hire-purchase
- Scarce raw materials
- Recommendation for import
- Research grant and Award of Prizes
- Modernisation.

Marketing Assistance

- Export and Marketing assistance
- Reservation of items for State Government purchase
- Single point registration of NSIC
- Earnest money exemption
- 15% price preference
- Quality marking.

Financial Assistance

- Loan under BSAI Act
- Central/State Investment Subsidy
- Subsidy towards fees of consultants
- Subsidy on rent for sheds/land
- 25% subsidy on captive generation sets
- 20% subsidy on HT/LT powerline
- 30% subsidy on power bill
- 3% interest subsidy on working capital
- 25% interest subsidy on Term Loan
- Rebate on Handicrafts raw materials units
- 15% subsidy on new employment
- Subsidy on stamp duty/registration
- Return of Octroi/Entry Tax
- Sales Tax exemption and loan
- 5% extra subsidy for Scheduled Castes/Scheduled Tribes
- Margin Money Loan
- 20% margin money to sick units.

For Cottage Section

- Rebate/grant/loan to Khadi and Village Industries
- Financial Assistance for tools/implements
- Rebate on Handicrafts/Khadi
- Training, common facilities, design development
- Financial Assistance to Co-operatives
- Rural artisans programme/IRDP.

12.4.7 Small Industry Extension Training Institute (SIETI)

The Small Industry Extension Training Institute (SIETI), Hyderabad, was set-up as an autonomous body in 1962 and was registered under the Societies Registration Act. It is engaged mainly in training Central and State Government officers who are entrusted with the responsibility of implementing the small industry development programmes. The Institute conducts courses in industrial management and area development techniques. It also conducts intensive courses in certain aspects of industrial management — in production management, financial management, cost accounting, etc. The Institute undertakes research in fields which are related to development of small industries.

12.4.8 Small – Scale Industries Board (SSIB)

The Government of India invited in 1953, an international team of experts sponsored by the Ford Foundation to study the problems of small-scale industries for the purpose of recommending a programme of development in view of their importance in the national economy. The recommendations of the team fall under three categories, viz., (a) those relating to the provision of technical know-how and knowledge of business methods and management; (b) those that bear on the financial assistance to be provided in the form of credit facilities; and (c) those that are concerned with other forms of aid and services, such as assistance in securing Government contracts, market facilities and research and supply of modern machine tools on easy instalment terms. Among the many steps the Central Government took in pursuance of these recommendations was the setting-up of the Small-Scale Industries Board in November 1954 to advise it on the programme and work of the different agencies looking after the development of small-scale industries in the country.

Set-up

The Board has at present 50 members, including representatives of the Central and State Governments, the Reserve Bank of India and the State Bank of India, non-officials, etc.

The Union Minister for Industries is the Chairman of the Board. Besides co-ordinating the activities of the National Small Industries, Corporation and the Small Industries, which have been set-up by Government to assist in the executing of policies bearing on the development of small industries, the Board reviews at its periodical meetings the work of the various development agencies, discusses such weaknesses as may be located in planning' or execution, and offers advice on modifications or improvements. A Standing Committee of the Board was set-up in 1957, which meets at least once in two months. The Committee, as recently reconstituted, consists of 10 members, including the Union Minister for industries, who is its Chairman. For implementing the recommendations and policies laid down by the Small-Scale Industries Board a separate officer of the rank of Joint Secretary (with the designation of Development Commissioner for Small-Scale Industry) has been appointed in the Ministry of Commerce and Industry. The activities of the National Small Industries Corporation and the Small Industries Service Institute are controlled by him.

Similar Boards have also been established in all the States except Kerala, West Bengal and Madhya Pradesh. In Kerala, the State Co-ordination Committee for Small-Scale Industries discusses all matters relating to these industries. A high power Small-Scale Industries and Handicrafts Co-ordination Committee has been set-up in West Bengal. The Joint Development Commissioners. Directors of Small Industries Service Institutes have been appointed as members of the State Board in Tamil Nadu, Bihar, Orissa, Punjab, Andhra Pradesh, Assam, Maharashtra and Karnataka.

Activities of the Board

The Small-Scale Industries Board is concerned with the development of industrial undertakings which have capital investment of less than Rs. 5 lakhs and which employ less than 50 persons per shift when using power and less than 100 persons per shift when not using power. Match-manufacturing co-soperative societies, tailoring co-operative societies and sports-goods manufacturing units are, however, considered to be small-scale undertakings irrespective of the number of workers employed in them, provided that the capital investment in these unit does not exceed Rs. 5 lakhs. These Boards, however do not cover such village industries as wool, handmade paper, palm gur, Khandsari sugar, rice husking, oil pressing by ghanies, bee-keeping etc., and certain other industries like handloom, khadi, handicrafts, coir and silk for which separate All-India Boards have been constituted.

The Small-Scale Industries Board and its Standing Committees have examined a large number of problems faced by small-scale industries and have taken decisions regarding the action to be taken by various agencies: Central and State Governments, National Small

Industries Corporation, Small Industries Service Institutes etc. Some of the more important decisions taken by the Board are briefly set out in the following paragraphs:

Credit Facilities: The question of providing adequate credit to small industries on liberal terms has been under the consideration of the Board for a long time. The terms and conditions under which loans were sanctioned under the "Liberalised Scheme" evolved by Government in June 1955 have since been further liberalised, with the result that it is now possible for small industrialists in most States to get loans up to Rs.1,000 on personal bond; up to Rs. 5,000 by offering one or more sureties, and above Rs. 5,000 against the security of land, buildings, plant, machinery, stocks and other assets (including the assets to be created out of the loan) up to 75 per cent of the value of the assets offered as security. The concessional rate of interest payable by industrial co-operatives is 2 V2 per cent for amount up to Rs. 2 lakhs, while for others, it is 3 per cent for amount up to Rs. 50,000.

In 1991, some measures were taken to increase the flow of funds, particularly to village, cottage, tiny and small-scale units, at specified rates of interest. These measures are:

- Bank credit to artisans, village and cottage industries and small-scale industries in the tiny sector would be treated as composite term loan for equipment or working capital or both, up to Rs. 25,000, with a repayment period of 7 to 10 years or more.
- The rate of interest on term loans has been uniformly brought to 15 per cent.
- On the credit for working capital above Rs. 25,000 but less than Rs. 100 lakhs granted to artisans, village and cottage industries and small-scale industries in the tiny sector, the rate of interest would not exceed 12 1/2 per cent per annum.
- Simplified interview-cum-appraisal form for small units would be available.
- Applications for would-be available small loans will be disposed of within a period of 30 days at the district level.
- To get over the difficulty of delayed payments, the RBI has issued instructions that the accounts of the creditors should be bifurcated to show the dues of the SSI units and those remaining unpaid for over 120 days. Banks have been advised to fix separate credit limits for purchases made from small-scale units.

12.4.9 Industrial Development Bank of India (IDBI)

The Industrial Development Bank of India (IDBI) was established on 1st July 1964 as a wholly-owned subsidiary of the Reserve Bank of India under the IDBI Act, 1964. With the recent enactment of the Public Financial Institutions Laws (Amendment) Act, 1975, the entire issued capital of the IDBI (Rs. 50 crores) held by the Reserve Bank of India will stand transferred to and vest in the Central Government. In accordance with the provisions of this Act, the IDBI has become the principal financial institution for co-ordinating, in conformity with national priorities, the working of institutions engaged in financing, promoting or developing industries.

The IDBI's statute enables it to have a considerable operational flexibility. It can finance all types of industrial concerns engaged or to be engaged in the manufacture, processing or preservation of goods; or in mining, transport, generation and distribution of power; or in fishing, providing shore facilities for fishing; or in the hotel industry; or in the maintenance, repair, testing or servicing of machinery or vehicles or vessels or motor boats or trailers or tractors. There are no restrictive provisions in the IDBI Act regarding the nature and type of security to be obtained from the assisted concerns. Also, no upper or lower limit for assistance to any concern or of the size of concern itself has been prescribed though, for operational reasons, certain criteria are generally kept in view.

Management and Organisation

The direction and management of the IDBI's affairs are vested in a Board of Directors. Apart from its Head Office in Mumbai, the IDBI has three Regional Offices in Kolkata, Chennai and New Delhi. Besides, it has twelve branch offices at Ahmedabad, Bangalore, Bhopal, Bhubaneshwar, Chandigarh, Cochin, Gauwahati, Hyderabad, Jaipur, Jammu, Kanpur and Patna, which function as initial contact points between the IDBI and the local industrialists, entrepreneurs and various State and other agencies concerned with industrial progress.

A special fund, called as the Development Assistance Fund, has been set-up in the IDBI under its statute for assisting, with the prior approval of the Central Government, specially deserving projects to which banks and other financial institutions are not likely to advance the requisite finance in ordinary course of business. This assistance includes:

i. Direct assistance;

ii. Refinance of industrial loans;

iii. Bills rediscount assistance;

iv. Export finance; and

v. Subscription to shares and bonds of financial institutions.

12.4.10 Small Industries Development Bank of India (SIDBI)

The idea of setting up Small Industries Development Bank of India (SIDBI), in response to a long-standing demand from the small scale sector as an apex-level national institution for promotion, financing and development of industries in the small scale sector, embodied an opportunity to set up a proactive, responsive and forward looking institution to serve the current and emerging needs of small scale industries in the country. As a precursor to the setting up of the new institution, the Small Industries Development Fund was created by Industrial Development Bank of India (IDBI) in 1986 exclusively for refinancing, bills rediscounting and equity support to the small scale sector. The outstanding portfolio of the order of Rs. 4,200 crore from IDBI was transferred to SIDBI in March 1990. SIDBI started off from a strong base: percentage of IDBI, backing of a special statute - the Small Industries Development Bank of India Act of 1989, a large capital base of Rs. 450 crore, availability of experienced manpower endowed with development banking skills carved out of IDBI's professional staff and ready availability of a vast network of institutional infrastructure and enduring financial linkages with State Financial Corporations (SFCs), commercial banks and other institutions; all these augured well for the growth of the nascent institution. SIDBI became operational on April 2, 1990.

The Environment

Indian economy has been in transition for most part of the last five years: the industrial policy, fiscal policy, public sector policy, foreign investment policy, trade policy and monetary and credit policies have been in various stages of liberalisation. Decontrol, deregulation and delicensing have given enormous scope for private initiative and market forces to come to play. New relationships within and between different sectors in the economy are being evolved; the small scale sector has been an important constituent of such a liberalisation in the country, Government of India formulated a set of new policies aimed at harnessing the potential of the small scale sector in August 1991 - a-year-and-half after the establishment of SIDBI. The prescriptions of the policy focused at removal of impediments affecting the growth of small scale sector together with consolidation of the strengths, in the context of the emerging economic order. SIDBI has been refining its strategies and business policies in alignment with the policy changes which have been taking place at the national level.

Operational Strategy

Stepping up of flow of credit to the units in the small scale sector through direct and indirect financing mechanisms and ensuring speedy disbursement have remained the main plank of the operational strategy of SIDBI. Over the years, the share of direct assistance in the total assistance has steadily gone up.

The new schemes designed and implemented were directed at filing the gaps in the existing credit delivery system focusing on new target groups and activities. These are targeted at addressing some of the major problems of SSIs, in areas such as marketing, infrastructure development, delayed realization of bills, ancillarisation, obsolescence of technology, quality improvement, export financing and venture capital assistance. The terms of assistance under various schemes have been substantially liberalised based on an ongoing review process. The procedures have been simplified with gradual decentralisation and progressive delegation of powers aimed at higher levels of operational efficiency and better customer service.

To mitigate the difficulties faced by SSIs on account of delayed payments, two factoring companies, *viz.,* SBI Factors and Commercial Services Pvt. Ltd. and Canbank Factors Ltd., have been established with SIDBI as a partner with 20% shareholding, SIDBI has enlarged the list of institutions eligible for refinance in order to widen its reach. It enrolled itself as an institutional member of Over The Counter Exchange of India (OTCEI). This facilitates SS1s to access capital market through the route of OTCEI in raising resources in a cost-effective manner. SIDBI has also been granted the status of Category I Merchant Banker by Securities and Exchange Board of India. SIDBI extends resource support to Non-Banking Finance Companies by way of lines of credit against their assistance to units in the small scale sector by way of leasing, hire-purchase and bought-out deals.

The operational priorities of SIDBI, therefore, were to build up a financial portfolio reflecting a high order of health and strength based on quality or assets. SIDBI maintains an organisational structure which is lean, functional and capable of adapting to the state-of-the-art technology to remain efficient and competitive. The strength of SIDBI is reflected in the quality of its portfolio; over 97% of its portfolio consists of standard assets. SIDBI has obtained a high investment grade rating 'AAA' by The Credit Rating Information Services of India Ltd., for its unsecured bonds. There has been consistent growth in the gross income and profits of SIDBI in the last five years. Though of a modest scale, SIDBI has been transferring to IDBI surplus of its profits after appropriations as return on capital. SIDBI is one of the development financial institutions in the country with a high capital adequacy ratio. It is a matter of satisfaction that in respect of resource mobilisation efforts during the last 5 years, leading international aid giving and lending agencies have lent considerable resource support to SIDBI. There has been a significant shift in approach with regard to the working relationship with commercial banks. Besides using the branch network of banks to reach ultimate beneficiaries, SIDBI now focuses on a collaborative effort so as to facilitate timely flow of credit both by way of term loans and working capital to the small scale units. To reinforce such a relationship on a lasting basis. Memoranda of Understanding have been signed by SIDBI with many leading banks.

Growing Operations

From a predominantly refinancing and bills rediscounting institution, SIDBI has emerged as a major purveyor of a wide variety of financial services to the small scale sector. At present, financial assistance being provided by SIDBI covers direct equity participation, equity type loan on soft terms, term loan, working capital — both rupee finance and foreign currencies, bills discounting, venture capital support and different forms of resource support to banks and other institutions. The proportion of direct assistance in the total portfolio of SIDBI has increased significantly.

Support Services

Over the years, the scope of promotional and developmental activities has been enlarged to encompass several new activities. Technology adoption, technology exchange, transfer and upgradation, quality promotion, enlarging marketing capabilities-both domestic and international, entrepreneurship development, management development, environment management, rural industrialisation, support to self-help groups, information dissemination through publication of project profiles for tiny and hi-tech small industrial units are now covered under promotional and developmental services. In such activities, SIDBI operates in collaboration with voluntary organisations, non-government organisations, technology firms, consultancy organisations and multilateral international agencies to enhance the level of overall impact of such activities on the sector.

The Impact

The overall economic impact of SIDBI's operations during the last 5 years has been in terms of cumulative investment catalysed of the order of Rs. 34,380 crore and fresh employment opportunities for about 86 lakh persons. The visible impact of promotional and developmental activities of SIDBI in select clusters of SSIs such as lock, leather, glass, brass and readymade garments has been noticeable with commensurate improvement in overall productivity, product quality levels and process standards in such clusters. Significant achievements made in these spheres will be buttressed with new initiatives in the years to come.

12.4.11 Khadi and Village Industries Commission (KVIC)

The Khadi & Village Industries Commission established by an Act of Parliament is a statutory organization engaged in promoting and developing khadi and village industries for providing employment opportunities in the rural areas and thereby strengthening the rural economy. It took over the activities from the erstwhile All India Khadi Village Industries Board on 1^{5}t April, 1957. The KVIC has been identified as one of the major organizations in decentralized sector for generating non-farm employment opportunities in the rural areas at low per capita investment.

Main Objectives

- The social objective of providing employment in rural areas;
- The economic objective of producing saleable articles; and
- The wider objective of creating self-reliance amongst the people and building up a strong rural community spirit.

Functions

i. to plan and organize training of persons employed or desirous of seeking employed employment in khadi and village industries;

ii. to build up reserves of raw materials and implements and supply them to persons engaged or likely to be engaged in production of handspun yarn or khadi or village industries at such rates as the Commission may decide;

iii. to encourage and assist in the creation of common service facilities for the processing of raw materials or semi-finished goods and for otherwise facilitating production and marketing or khadi or products of village industries;

iv. to promote the sale of marketing or khadi or products of village industries or handicrafts and for this purpose forge links with established marketing agencies wherever necessary and feasible;

v. to encourage and promote research in the technology used in khadi and village industries, including the use of non-conventional energy and electric power with a view to increasing productivity, eliminating drudgery and otherwise enhancing their competitive capacity and to arrange for dissemination of salient results obtained from such research;

vi. to undertake directly or through other agencies studies of the problem of khadi or village industries;

vii. to provide financial assistance to institutions or persons engaged in the development and operation of khadi or village industries and guide them through supply of designs, prototypes and other technical information for the purpose of producing goods and services for which there is effective demand in the opinion of the Commission;

viii. to undertake experiments or pilot projects which in the opinion of the Commission are necessary for the development of khadi and village industries;

ix. to establish and maintain separate organizations for the purpose of carrying out any or all of the above matters; to promote and encourage co-operative efforts among the manufacturers of khadi or persons engaged in village industries;

x. to ensure genuineness and to set up standards of quality and ensure that products of khadi and village industries do conform to the said standards, including issue of certificates or letters or recognition to the concerned persons; and

xi. to carry out any other matter incidental to the above.

Organisational Set Up

The Central Office of the KVIC is at Mumbai with one Zonal Office at Guwahati and 29 State Offices. Functional directorates have been constituted to co-ordinate the functions like training, marketing, accounts, khadi, economic research, Rural Employment Generation Programme (REGP), etc,

KVIC also undertakes training activities through its 43 departmental and non-departmental training centers (NDTCs). Marketing is taken up through its 12 departmentally run Khadi Gramodyog Bhawans and 7050 institutional sales outlets located in different parts of the country. Six Central Silver Plants provide quality raw material to khadi institutions.

Implementing Agencies

Khadi and Village Industries (KVI) programmes are implemented through 5549 registered institutions, cooperative societies, 33 State/Union Territories (UTs) Khadi and Village Industries Boards (KVIBs) and 27 public sector banks, regional rural banks and a few selected co-operative banks.

The khadi programme is implemented through institutions registered either with the KVIC or the State KVIBs.

In the case of village industries, the KVIC implements the Rural Employment Generation Programme (REGP).

Grouping of Industries

While the khadi programme comprises hand spun and hand woven cotton, woollen, muslin and silk varieties, the village industries programmes have been classified into seven broad groups. These are:

(i) Mineral Based Industry;

(ii) Forest Based Industry;

(iii) Agro and Rural industry;

(iv) Polymer and Chemical Based Industry;

(v) Rural Engineering and Bio Technology;

(vi) Hand Made Paper & Fibre Industry;

(vii) Service Industry.

Industries connected with meat (slaughter) i.e., processing, canning and/or serving items made therefrom, production/ manufacturing or sale of intoxicant items like beedi/pan/ cigar/cigarette, etc., any hotel or dhaba or sales outlet serving liquor, preparation/producing tobacco as raw materials, tapping of toddy for sale, manufacturing of polythene carry bags of less than 20 microns thickness and manufacturing of carry bags or containers made of recycled plastics for storing, carrying, dispensing or packaging of food-stuff etc., are not assisted 'under KVI programme as these are either not eco-friendly or against the ideology and ethos of Mahatma Gandhi.

Budgetary Support to KVIC

The Government of India through the Ministry of Agro and Rural Industries provides funds to KVIC for undertaking its various activities under Plan and Non-Plan heads.

These funds are provided primarily by way of grants and loans and in turn KVIC re-allocates them to implementing agencies, namely the State KVIBs, institutions registered under the Societies Registration Act, 1860, and co-operative societies registered under the Co-operative Acts of the State Governments-implementing banks, etc. The Commission's administrative expenditure including pension payment, is net out of Non-plan Government budgetary Support.

Budgetary Support to KVIC (in Rs. crore)

Year	Allocation (RE)		Funds Released	
	Plan	Non- Plan	Plan	Non- Plan
2011-12	1494.22	185.22	1258.46	184.72
2012-13	1543.79	162.85	1466.20	160.85
2013-14	1395.67	219.28	1204.88	218.23
2014-5(BE)	1962.96	229.09	1152.37*	151.47*

*UPTO 31 December 2014

Physical Performance of the KVI Sector

The physical is evidence form the following tables:

Performance of KVI Sector

YEAR	Production (Value in Rs crore)		Sales (Value in Rs crore)		Cumulative Employment (in lakh persons)	
	KHADI	V. I.	KHADI	V. I.	KHADI	V. I.
2011-12	716.98	21135.06	967.87	25829.26	10.45	108.65
2012-13	761.93	23262.31	1021.56	26818.13	10.71	114.05
2013-14	811.08	25298.00	1081.04	30073.16	10.98	119.40
2014-15*	674.52	21001.37	792.00	27961.20	10.69	132.72

*upto 31 December 2014

Major Schemes being implemented by KVIC

1. Rural Employment Generation Programme (REGP)
2. Interest Subsidy Eligibility Certification (ISEC) Scheme
3. Rebate Scheme
4. Product Development, Design Intervention and Packaging (PRODIP).
5. Rural Industries Service Centre's (RISC)
6. Janashree Bima Yojana (KBY)
7. Quality Control in Khadi
8. Exhibitions
9. Government Supply
10. Research and Development
11. Rural Industrial Consultancy Service (RICS)
12. Setting us of raw material godowns
13. People Education Programme (PEP)
14. Credit Guarantee Trust Fund for Small industries
15. System for Programme Analysis and Reporting for KVIC (SPARK)
16. Scheme for enhancement of productivity and competitiveness of khadi industry and artisans.

12.4.12 Commercial Banks

The Indian commercial banking system consists of 297 scheduled banks. As on June 30, 2000, the total number of branches of SCBs was 65,340 of which 32,771 were in rural areas.

Lending is an important strategy of banking. Lending sets in motion a chain of economic activities, both direct and indirect, and fosters new services, which are conducive to accelerated socio-economic growth.

Commercial banks have been in the forefront in fostering the growth of small-scale industries. Apart from finance, they provide a package of ancillary services to small scale industry both in urban and rural areas.

Commercial banks provide working capital, venture capital medium, long term financial assistance and export credit to new and existing small industries for construction of factory buildings, purchase of machinery, raw materials, marketing and advances in four-forms viz. cash credits, overdrafts, loans and packing credit. Loans are also extended for setting up industrial estates.

The banks have been opening specialised small-scale industries branches to enable them to provide financial assistance at the single point. The SSI specialised branches were already functioning in 23 of the 85 identified districts with high concentration of small units.

Commercial banks play an important role in extension of financial assistance particularly for meeting the working capital requirements of the sector. As per the extant policy, the SSI sector is accorded priority status for grant of loans. The position of balance outstanding by Public Sector Banks (PSBs), Foreign banks and private sector banks is furnished in the following tables.

The RBI has listed the following short comings of banks. The major short comings relate to lack of appropriate discretionary powers with officers, delay in sanctions of limits and completion of formalities and not computing working capital limits in accordance with RBI guidelines. The corrective action by the banks will improve flow of credit to the small scale sector.

Commercial banks and assistance to small scale industry is quite unique in the coming years, banks' operations will be attuned to the priorities of small scale industries and will seek to coverage their assistance to the maximum extent possible. Banks participation in the growth of small-scale industry has been meaningful and fruitful.

Type of Bank	No of Banks	No of Offices	No of Employees
Scheduled Commercial Bank	89	92114	1096984
Nationalized Bank	20	54478	507694
(includes IDBI Bank)			
Public Sector Bank	26	75779	801659
SBI and Its Associated	6	21301	293965
Private Bank	20	16001	269941
Foreign Bank	43	334	25384

12.4.13 District Industries Centre's

The Industrial Policy Statement of 1977 proposed the setting-up of a district level institution called the District Industries Centre (DIC) to provide, under one roof, all the services and support required by small and village entrepreneurs. Accordingly, a number of DICs have been set-up. The DIC undertakes economic investigation of the potentials for development of the district, including its raw materials and other resources, supply of machinery and equipment, provision of raw materials, effective arrangements for credit facilities, marketing assistance, quality control, research, extension and entre-preneurial training. The Centre has a separate wing for looking after the special needs of cottage and household industries as distinct from small industry. The Rural Industries Project and Rural Artisans Programme would be merged with programme of the District Industries Centre's. Each DIC would have a General Manager and a number of managers of different disciplines for looking after planning and economic investigation, credit, marketing etc.

Presently, there are 430 DICs functioning in the country. Under DIC programme, Government of India shares the expenditure with the state governments on a 50:50 basis and 100 per cent expends on DICs of UTS are borne by the centre limited to Rs. 4 lakhs per DIC.

At present, the DICs are being operated by respective states. The extension services provided by DIC, include (i) Dissemination of information *(ii)* Supply of machinery and equipment *(iii)* Provision of raw materials and quality inputs (iv) Arrangements for credit facilities (v) Marketing and, (vi) Consultancy.

12.4.14 Technical Consultancy Organisations

A network of Technical Consultacy Organisations (TCOs) was set-up in seventies and eighties by IDBI, IFCI, and ICICI in association with state-level financial/development institutions and commercial banks with the objective of making available under a single roof inexpensive consultancy services to small and medium scale industry and new entrepreneurs.

At present, there are 17 TCOs in the country, some of which cover more than one state. In addition, Technical Consultancy Services Organisation of Karnataka, functions for Karnataka.

TCOs render consultancy services to individual entrepreneurs, Government apartments and agencies, various State-level development/financial institutions, commercial banks and other institutions in their promotional tasks for industrial development. Initially, the major trust of TCO's activities was in the area of pre-investment studies. However, over the years, TCOs have diversified their consultancy services. Their services now encompass areas of project consultancy, management, market and export consultancy. Project consultancy covers identifying industrial potential through area studies/surveys, preparing project profiles, feasibility reports, pre-investment studies, identifying potential entrepreneurs and providing them with technical and management assistance. Management consultancy includes project supervision and where necessary, rendering technical and administrative assistance. It also includes undertaking diagnostic studies of sick units for rehabilitation purposes. Under their market consultancy services, TCOs undertake market research and surveys for specific products. Their export consultancy services include assignments for export-oriented projects based on modern technology. TCOs also undertake assignments on turn-key basis, and take up energy audit and energy conservation assignments.

12.4.15 The World Bank's Involvement

The World Bank finances industry through three loosely co-ordinated channels:

(i) Through direct loans or credits from the Bank or the International Development Association (IDA), usually of $ 50 million or more, for major industrial projects, often government-owned or sponsored;

(ii) Through loans and investment by the International Finance Corporation (IFC) in private sector projects provided that these are smaller than those financed directly by the Bank but relatively large in the country; and

(iii) Through lines of credit (and some equity investments by the IFC) for national or regional development finance companies (DFCs), which retail credits to local enterprises in accordance with the terms and criteria agreed upon with the Bank and subject to the Bank's supervision and approval.

The last channel, which delegates the responsibility for day-to-day loan appraisal and subsequent administration to DFCs in the respective developing countries, enabled the bank to serve the needs of a much greater number of smaller and more dispersed enterprises than would be possible for it to deal with directly. Nevertheless, even through these locally based institutions, the Bank's finance has generally been available only for the larger and relatively capital intensive segment of industry; perhaps the top 20 per cent in number - firms which may be small by the standards of industrial countries but which are large in the local economy.

Most World Bank projects for assistance to small enterprises in incorporate a variety of non-financial elements and provide credit and (sometimes) equity financing. Loan was offered to specially approved comprehensive project early in 1978. It comprised:

(i) A credit and guarantee programme to enable small and medium-sized firms to obtain the necessary equipment and working capital. Loans are made and administered by the commercial banking network and are reviewed and guaranteed by a special national entity.

(ii) An expanded programme for providing risk capital on a temporary and minority-shareholder basis to strengthen the financial viability of promising small firms.

(iii) A programme of leasing plant and equipment to small and medium-sized enterprises with a view to ensuring that they tie up as little capital as possible in the initial or expansion phases of development.

(iv) The establishment and training of a corps of industrial development extension agents to help small entrepreneurs to identify and diagnose their problems, to prescribe solutions where possible, or to introduce or refer entrepreneurs to appropriate sources of financial and/or technical assistance.

These elements appear in most other small enterprise development projects financed by the Bank - sometimes introduced simultaneously, sometimes in stages, and often building on or supplementing domestic initiatives or the efforts of other aid-givers. The Bank frequently undertakes or assists studies of the incentive structure, Government procurement policies, sub-contracting policies and procedures, and other institutional questions which may substantially affect the development of small enterprises.

However, in attempting to address itself the problem of urban and off- farm rural proverty by expanding employment in industrial and related activities, the Bank has been led to examine in greater depth the industrialisation strategies appropriate for countries with different characteristics and at different stages of development. The result has been partly a greater emphasis on the support of small enterprises through a variety of intermediaries, and on clarifying the desirable balance and interaction between small and large enterprise in order to maximise the yield of both employment and output for the benefit of the countries in question. These findings, as they emerge, are being incorporated into the Bank's policy dialogue with member governments. It is hoped that they may stimulate initiatives of much broader scope, with roots deeper in the local soil, than the Bank would conceive or carry out. This fractional contribution, if it is indeed seminal, will justify the effort.

12.4.16 Asian Development Bank (ADB)

The Asian Development Bank was established in 1966 to help accelerate economic and social development in the Asia-Pacific region. The Bank has 52 members, 18 are developed and 34 are developing nations. It fosters economic growth by providing financial and technical assistance for projects which will contribute to economic development of its developing member countries (DMCs).

In 35 years of operations, the Bank has become a major catalyst in promoting the development of the most populous and fastest-growing region in the world today. The Bank's principal functions are: *(i)* to make loans and equity investments for the economic and social advancement of developing member countries; *(ii)* to provide technical assistance for the preparation and execution of development projects and programmes and advisory services; *(iii)* to promote investment of public and private capital for development purposes; and *(iv)* to respond to requests for assistance in co-ordinating development policies and plans of member countries. In its operations, the Bank is also required to give special attention to the needs of the smaller or less developed countries and give priority to regional, sub-regional and national projects and programmes which will contribute to the harmonious economic growth of the region as a whole.

The Bank's operations cover the entire spectrum of economic development, with particular emphasis on agriculture, energy, capital market development, transport and, communications and social infrastructure. Most Bank financing is designed to support specific projects. However, the Bank also provides programme sectorial and multi-project loans.

The Bank actively pursues co-financing activities with official as well as commercial and export credit sources. The Bank has also entered into equity investment operations.

The ADB supports the development of SMI's through loans to development finance institutions. Indirect support is extended through infrastructural development projects. And, ADB is instrumental in improving business infrastructure required by SMI's to expand and upgrade their operations.

The Bank attaches importance to strengthening intra-regional trade, investment and co-operation. The Bank will continue and, where practical, expand its regional role from the current focus on research and training to include support for regional initiatives such as strengthening transport links or tackling common environmental problems.

The Bank has learned a great deal over the past 25 years. Project monitoring and post-evaluation have been two important tools of the Banks to assess the effectiveness of its assistance and to draw lessons from them. This experience will be the foundation upon which to build for the future.

12.5 CASE STUDY

India Co. A Business Incubator with the difference

India Company is an investment management firm listed on the Bombay Stock Exchange. The promoters of India Company have a long history in India. It was the first company in India to launch a private incubator in 2000. In 2002, this incubator was recognized by the World Bank Group and also received support from the Department of Science and Technology, Government of India.

Business incubation is a business support process that facilitate in the successful development of startups and early growth stage companies by providing entrepreneurs with an array of resources and services through its network of contacts. A business incubators main goal is to produces successful firms that will leave the project financially viable and self sustaining.

The promoters of India Company aim to provide transparency and regularize a new model for private equity markets. They invest the capital required to frame the new business model of the acquired company. India Company has had the experiences of working with incubators across different geographical location. Based on its experience, the most common problems that business incubators face in developing countries are the lack innovative high growth projects; non availability of capital; lack of basic operating infrastructure and problems of self sustenance. Institutional marketing for incubators is a major challenge in most developing countries.

Since its inception India Company has been active in the area of incubation and technology transfer. The key success factors of India Company are the entrepreneurial experience of the founder; visionary leadership; strategic positioning in the domestic and international markets; good management teams; and milestone-based e-mentoring. India Company functions as a 'Venture Creation Engine' for high-tech startups and early-stage companies. It provides the infrastructure and network to translate research into innovative products to support entrepreneurs. The international network at India Co is made available to the companies even before they graduate from the incubator.

The traditional model of business incubators consists of a group of start-up firms that are located in a common physical space sharing various resources and mentorship. India Co follows an equity model unlike most incubators. It deploys its funds and investments directly through the holding company into the portfolio companies. This structure provides the flexibility to invest in the holding company, a sector of choice, or just the company of choice.

Questions:

1. Analysis the business model of India Company
2. List the key success factors for the success of India Company
3. Critically examine India Company enables new venture creation.
4. Why is India Company a Business Incubator with the difference?

12.6 NOTES

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12.7 SUMMARY

A number of support institutions set by the central and state governments of the country and various other agencies help entrepreneurial development in various ways. The activities of support institutions cover a wide range of services such as financing, equipment support, technical assistance, training, marketing and providing subsidy and grants. The various institutions supporting entrepreneurial activities in India are divided into central level, state level and other institutions.

The Central Level Institutions for supporting entrepreneurial activities are setup by the central government. They are: National Board for Micro, Small & Medium Enterprises (NBMSME); Khadi and Village Industries Commission (KVIC); Coir Board; Micro, Small and Medium Enterprises Development Organization (MSME-DO); National Small Industries Corporation (NSIC); National Science and Technology and Entrepreneurship Development Board (NSTEDB); National Productivity Council (NPC); Entrepreneurship Development Institutes of India (EDII); National Research Development Cooperation of India (NRDCI); and National Entrepreneurship Development Institutes.

The State Level Institutions for supporting entrepreneurial activities are setup by the various state governments in India. They are: State Directorate of Industries; District Industries Centre (DIC); State Financial Corporation (SFCs); State Industrial Development Corporation (SIDC); and State Industrial Area Development Board (SIADB).

Apart from central and state level institutions, there are various other institutions supporting entrepreneurial activities in India. They are: National Bank of Agriculture and rural Development (NABARD); Housing and Urban Development Corporation (HUDO); Technical Consultancy Organization (TCOs); Small Industries Development Bank of India (SIDBI); Export Promotion Council (EPC); Industry Associations; Non Government Organizations (NGO); and Business Incubators.

12.8 KEY WORDS

- Institutions Supporting Promoting Activities
- Institutions Supporting Financial Activities
- Institutions Supporting Technical Activities
- Institutions Supporting Marketing Activities
- Institutions Supporting Training Activities
- SIDO – The Small Industries Development Organization

- National Small Industries Corporations
- State Industrial Development Corporation
- State Small Industries Development Corporation
- State Financial Corporation
- Small Scale Industries Board
- Industrial Development Bank of India
- Small Industries Development Bank of India
- Khadi and Village Industries Commission
- Commercial Banks
- Asian Development Bank

12.9 SELF ASSESSMENT QUESTIONS

1. Describe the institutional setup for entrepreneurial development in India.
2. Discuss the need for institutional support for MSME.
3. What are District Industries Centre's (DIC)? Explain the functions of DIC.
4. Do you feel that these institutions are making the mark in entrepreneurship changes?

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DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

COURSE - 13

ENTERPRENEURIAL DEVELOPMENT AND SMALL BUSINESS

BLOCK

4

RURAL WOMEN AND SOCIAL ENTREPRENEURSHIP

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BLOCK -4 : RURAL WOMEN AND SOCIAL ENTREPRENEURSHIP

India is Gradually recognizing that women are not just equal citizens in the society, but are vital agents of direct social transformation globally. In the current scenario, women are equal participants in bringing about a direct impact in the society.

The fourth block of this course rural woman and social entrepreneurship includes 04 units (13-16) Unit 13 specifies Rural entrepreneurship concept, meaning and definitions, development, policy implications, challenges, problems and prospects of rural entrepreneurs, developmental strategies, TRYSEM, micro finance and self-help groups, micro finance. Unit 14 on women entrepreneurship Introduction, Concept, government and institutional support, significance, reasons, challenges, problems, remedies and measures. Unit 15 describes industrial policy and entrepreneurship development, introduction, objectives, evolution of industrial policy and licensing policy, and the concept, objectives, process, problems entrepreneurship development in India. Unit 16 enlighten social entrepreneurship, introduction, history, chacteristics, need, types, benefits the concept and negative impact.

UNIT – 13 : RURAL WOMEN AND SOCIAL ENTREPRENEURSHIP

Structure :

13.0 Objectives

13.1 Introduction to Rural Entrepreneurship

13.2 Concept and Development of Rural Entrepreneurships

13.3 Definitions and Meaning of Rural Entrepreneurship

13.4 Development of Rural Entrepreneurship in India

13.5 Policy Implications for Rural Entrepreneurship

13.6 Challenges Faced by Rural Entrepreneurship in India

13.7 Entrepreneurship in Agri Related Business

13.8 Problems and Prospects of rural Entrepreneurs

13.9 Developmental Strategies for Rural Entrepreneurship

13.10 Training of Rural Youth for Self-Employment (TRYSEM)

13.11 Micro Finance and Self Help Groups

13.12 Role of Micro Finance in India

13.13 Self Help Groups (SHGs)

13.14 Importance and Role of Self Help Groups

13.15 Progress of SHGs in India

13.16 Problems Faced by SHGs

13.17 Case Study

13.18 Notes

13.19 Summary

13.20 Self Assessment Questions

13.21 References

13.0 OBJECTIVES

After study this unit, you should be able to;

- Define basic rural entrepreneurs.
- Give an account on challenge us of rural entrepreship.
- Describe the developmental strategies of rural entrepreneurship.
- Explain the basic problems and prospects of rural entrepreneurship.

13.1 INTRODUCTION TO RURAL ENTREPRENURSHIP

Rural entrepreneurs are those who carry out entrepreneurial activities by establishing industrial and business units in the rural sector of the economy. In other words, establishing industrial and business units in the rural areas refers to rural entrepreneurship. In simple words, rural entrepreneurship implies entrepreneurship emerging in rural areas. Or, say, rural entrepreneurship implies rural industrialization. Thus, we can say, entrepreneurship precedes industrialization.

Many examples of successful rural entrepreneurship can already be found in literature. Diversification into non-agricultural uses of available resources such as catering for tourists, blacksmithing, carpentry, spinning, etc. as well as diversification into activities other than those solely related to agricultural usage, for example, the use of resources other than land such as water, woodlands, buildings, available skills and local features, all fit into rural entrepreneurship. The entrepreneurial combinations of these resources are, for example: tourism, sport and recreation facilities, professional and technical training, retailing and wholesaling, industrial applications (engineering, crafts), servicing (consultancy), value added (products from meat, milk, wood, etc.) and the possibility of off-farm work. Equally entrepreneurial, are new uses of land that enable a reduction in the intensity of agricultural production, for example, organic production.

13.2 CONCEPT AND DEVELOPMENT OF RURAL ENTREPRENURSHIPS

The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development, without it other factors of development will be wasted or frittered away. However, the acceptance of entrepreneurship as a central development force by itself will not lead to rural development and the advancement of rural enterprises. What is needed in addition is an environment enabling entrepreneurship in rural areas. The existence of such an environment largely depends on policies promoting rural entrepreneurship.

The effectiveness of such policies in turn depends on a conceptual framework about entrepreneurship. Rural development is more than ever before linked to entrepreneurship. Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institutions and individuals seem to agree on the urgent need to promote rural enterprises: development agencies see rural entrepreneurship as an enormous employment potential; politicians see it as the key strategy to prevent rural unrest; farmers see it as an instrument for improving farm earnings; and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support. To all these groups, however, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment.

India is a country of villages. About three-fourth of India's population are living in rural areas out of which 75% of the labor force is still earning its livelihood from agriculture and its allied activities. Land being limited is unable to absorb the labor force in agriculture. Therefore, there is a need to develop rural industries to solve rural unemployment and rural migration to cities. Growth and development of rural economy is an essential pre-condition to development of the nation as a whole. The gap between rural urban disparities should be lessened. The standard of living of the rural people should be increased. Entrepreneurship in rural sector provides an answer to the above problems. Indian rural sector is no longer primitive and isolated. Therefore, entrepreneurship in the rural and tribal areas looms large to solve the problems of poverty, unemployment and backwardness of Indian economy. Rural industrialization is viewed as an effective means of accelerating the process of rural development. Government of India has been continuously assigning increasing importance and support for the promotion and growth of rural entrepreneurship.

The economic hardships created by the government officials and their staff in every demolition of slums are not desirable from a sane government. Moreover, when a slum is demolished people do not move out of urban localities. They only relocate to a nearby place because they are entrenched in the economy of the town or city. Though governments have tried out various schemes for generating incomes in the rural areas such as government initiatives have not stopped people from moving out of villages to cities. This is because such government initiatives are not on their own capable of enabling people to earn adequately and ameliorate their conditions. There has to be some committed enterprising individual or a group of people.

The problem is essentially lopsided development which is a development of one area at the cost of development of some other place, with concomitant associated problems of underdevelopment. For instance, we have seen unemployment or underemployment in the villages that has led to influx of rural population to the cities. What is needed is to create a situation so that the migration from rural areas to urban areas comes down. Migration per se is not always undesirable but it should be the minimum as far as employment is concerned. Rather the situation should be such that people should find it worthwhile to shift themselves from towns and cities to rural areas because of realization of better opportunities there. In other words, migration from rural areas should not only get checked but overpopulated towns and cities should also get decongested. If it is so, ways can always be found out. One is by forcibly stopping villagers from settling in the slums of towns and cities, making use of all powers to clear the slums so the villagers are forced to go back. But such practices have not achieved the desired results in the past.

Apart from causing suffering to the poor people and adding to the expenditure of the Government, social tensions and economic hardships created by the government officials and their staff in every demolition of slums is not desirable from a sane government. Moreover, when a slum is demolished people do not move out of urban localities. They only relocate to a nearby place because they are entrenched in the economy of the town or city. Though governments have tried out various schemes for generating incomes in the rural areas such as government initiatives have not stopped people from moving out of villages to cities. This is because such government initiatives are not on their own capable of enabling people to earn adequately and ameliorate their conditions. There has to be some committed enterprising individual or a group of people.

The basic principles of entrepreneur which applied the rural development are:

- Optimum utilization of local resources in an entrepreneurial venture by rural population - Better distributions of the farm produce results in the rural prosperity.
- Entrepreneurial occupation rural population to reduce discrimination and providing alternative occupations as against the rural migration.
- To activate such system to provide basic ‘6 m’- manpower, money , material, machinery, management and market to the rural population.

13.3 DEFINATIONS AND MEANING OF RURAL ENTREPRENURSHIP

Defining entrepreneurship is not an easy task. To some, entrepreneurship means primarily innovation, to others it means risk-taking? To others a market stabilizing force and to others still it means starting, owning and managing a small business. An entrepreneur is a person who either creates new combinations of production factors such as new methods of production, new products, new markets, finds new sources of supply and new organizational forms or as a person who is willing to take risks or a person who by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand or as one who owns and operates a business

Rural industries and business organizations in rural areas generally associated with agriculture and allied activities to agriculture. According to KVIC (Khadi and Village Industry Commission), "village industries or Rural industry means any industry located in rural areas, population of which does not exceed 10,000 or such other figure which produces any goods or renders any services with or without use of power and in which the fixed capital investment per head of an artisan or a worker does not exceed a thousand rupees".

The modified definition of rural industries has been given by Government of India in order to enlarge its scope. According to Government of India, "Any industry located in rural area, village or town with a population of 20,000 and below and an investment of Rs. 3 crores in plant and machinery is classified as a village industry."

13.4 DEVELOPMENT OF RURAL ENTREPRENURSHIP IN INDIA

Rural entrepreneurship plays an important role for economic development in developing countries such as that of India. Rural entrepreneurship helps in developing the backward regions and thereby removing poverty. Government should go for appraisal of rural entrepreneurship development schemes and programmes in order to uplift rural areas and thereby increasing economic development. It can be stated that the reason why rural entrepreneurship finds it difficult to take off is due to lack of connectedness among the elements crucial to the fostering of capital accumulation, risk taking and innovation. The rural development programs should combine infrastructure development, education and health services, investment in agriculture and the promotion of rural non-farm activities in which women and rural population can engage themselves.

Rural entrepreneurship is entrepreneurship that emerges in the local rural area in the field of rural industry, agriculture and handicrafts. Rural population has a multitude of wants. To satisfy theses wants the rural population requires adequate income. This requires employment and more particularly self employment. It is true that employment opportunities in urban areas are relatively more because in urban places capital, skilled labor, technology, power, water, transport, communication and other facilities, which are necessary for industrial development are easily and adequately available. On the other hand, in rural places these industrial requirements are almost absent or inadequate. Employment opportunities are very limited. It therefore, becomes necessary to adopt positive and proactive policies for developing rural entrepreneurship. To be precise, rural entrepreneurship is local initiative in agriculture, rural industry and hand crops involving rural resources and traditional as well as modern technology

A staggering 75 per cent of the world's poor live in rural areas. And yet, resources and policies continue to be biased in favour of urban development. An imbalance in development is the consequence, with detrimental effects on both rural and urban people. Hence, reducing urban-rural disparities and gender inequalities is a crucial element for any poverty reduction strategy. Mobilizing the potential productivity of rural people and particularly of women is indispensable to achieve the resilient economic growth that will pull people above the poverty line.

The rural local leaders and NGOs and who are committed to the cause of the rural people have been catalytic agents for development. Though their efforts need to be recognized yet much more needs to be done to reverse the direction of movement of people, i.e. to attract people in the rural areas. It means not only stopping the outflow of rural people but also attracting them back from the towns and cities where they had migrated. This is possible when young people consider rural areas as places of opportunities. Despite all the inadequacies in rural areas one should assess their strengths and build on them to make rural areas places of opportunities. This is much to do with the way one sees the reality of the rural areas. The way a survivor or job seeker would see things would certainly be different from those who would like to do something worth while and are ready to go through a difficult path to achieve their goals. It isn't that there is a dearth of people with such a mindset. But with time they change their minds and join the bandwagon of job seekers due to various compilations.

Rural entrepreneurs are those who carry out entrepreneurial activities by establishing industrial and business units in the rural sector of the economy. In other words, establishing industrial and business units in the rural areas refers to rural entrepreneurship. In simple words, rural entrepreneurship implies entrepreneurship emerging in rural areas. Or, say, rural entrepreneurship implies rural industrialization. Thus, we can say, entrepreneurship precedes industrialization.

Most of the rural population depends, directly and indirectly, on small-scale food crop agriculture, fishery, pastoral animal husbandry or rural wage labour associated with plantations and ranches, and ancillary activities linked to rural townships. Many rural families need to diversify their sources of income and employment in view of increasingly smaller parcels of land, low agricultural productivity, volatile weather conditions and soil erosion. The rural non-farm economy plays an important role for wealth creation and well-being across countries. UNIDO promotes poverty-reducing growth strategies to diversify rural economic activities, including the development of non-farm economic activities and facilitating the transition of informal activities into the formal growth sector.

13.5 POLICY IMPLICATIONS FOR RURAL ENTREPRENEURSHIP

According to Petrin (1994), the creation of such an environment starts at the national level with the foundation policies for macro-economic stability and for well-defined property rights as well as international orientation. The policies and programs targeted specifically to the development of entrepreneurship do not differ much with respect to location. In order to realize their entrepreneurial ideas or to grow and sustain in business, they all need access to capital, labor, markets and good management skills. What differs is the availability of markets for other inputs.

The inputs into an entrepreneurial process- capital, management, technology, buildings, communications and transportation infrastructure, distribution channels and skilled labor, tend to be easier to find in urban areas. Professional advice is also hard to come by. Consequently, entrepreneurial behavior, which is essentially the ability to spot unconventional market opportunities, is most lacking in those rural areas where it is most needed i.e., where the scarcity of 'these other inputs' is the highest.

Rural entrepreneurship is more likely to flourish in those rural areas where the two approaches to rural development, the 'bottom up' and the 'top down', complement each other. The 'top down' approach gains effectiveness when it is tailored to the local environment that it intends to support. The second prerequisite for the success of rural entrepreneurship, the 'bottom up' approach, is that, ownership of the initiative remains in the hands of members of the local community. The regional development agencies that fit both criteria can contribute much to rural development through entrepreneurship.

The National Spatial Strategy (NSS), the national planning framework for Ireland for the next 20 years (2002-2020), recognizes the importance of making the most of cities, towns and rural places to bring a better spread of opportunities and a better quality of life. It advocates the following features as appropriate rural enterprise policy elements:

I. The nature of the enterprise encouraged to locate in rural areas must be appropriate to those areas in economic, social and environmental terms, e.g., location of overly large enterprises in rural areas should properly be avoided;

II. Enterprise policies must be flexible to facilitate local circumstances rather than being rigid national ones;

III. Policy towards enterprise must involve features which go beyond the bounds of traditional enterprise policy, eg, in relation to social infrastructure to attract and retain the necessary workforce;

IV. Policies in relation to enterprise in rural areas and in smaller towns should be seen as an integrated package. There must also be flexibility in relation to how smaller towns' enterprise functions are perceived. These vary depending on the nature of the area;

V. Policy towards rural enterprise should encompass all rural enterprise and not just traditionally grant-aidable manufacturing, i.e., in a rural context any rural enterprise is in principle equally desirable;

VI. There is a need to focus on new rural enterprises other than tourism. There is a danger that an overly heavy burden in terms of expectations is being placed on the shoulders of rural tourism as the only viable alternative to farming;

VII. There will need to be consistency and co-ordination regarding the choice of rural enterprise locations among the various bodies involved rather than each having its own unilaterally chosen list.

13.6 CHALLENGES FACED BY RURAL ENTREPRENURSHIP IN INDIA

1) **Family Challenges:** Convincing to opt for business over job is easy is not an easy task for an individual. The first thing compared is – Will you make more money in the business of your choice or as a successor of family business. This is where it becomes almost impossible to convince that you can generate more cash with your passion than doing what your Dad is doing.

2) **Social Challenges**: Family challenges are always at the top because that is what matter the most but at times social challenges also are very important. Let us say you and your friend graduated at the same time. You opted for entrepreneurship and your friend opted for a job. He now has a flat, car and what not because he could easily get those with a bank loan but you still have nothing to show off and this is where the challenge comes.

3) **Technological Challenges**: Indian education system lags too much from the Job industry as a whole but then it lags even more when it comes to online entrepreneurship. What technology would be ideal and how to use that technology effectively?

4) **Financial Challenges:** (Difficulty in borrowing fund): Financial challenges are a lot different in India especially for online entrepreneurs. When you are starting out as an entrepreneur you don't opt for venture funding but try to go to funding for small to medium business people. Many such non-technical business people don't understand the online business models as a whole and so getting an initial business funding from them becomes challenging. The other option you can think of is a loan but bank loan is not at all an option in India for new online entrepreneurs.

5) **Policy Challenges**: Now and then there is lots of changes in the policies to change in the government. Problems of TRIPS and TRIMS. Problems of raising equity capital, Problems of availing raw-materials, Problems of obsolescence of indigenous technology Increased pollutions Ecological imbalanced. Exploitation of small and poor countries etc.

13.7 ENTREPRENURSHIP IN AGRI RELATED BUINESS

Agriculture is the main source of living for a large majority of rural population. However, traditional agriculture based on seasonal rains does not maintain the farmers and their families satisfaction for the whole year. It, therefore, becomes necessary to develop agricultural entrepreneurship in rural areas. Agricultural entrepreneurship is developing agricultural and agro-based productive activities and professions at the local level. Agricultural enterprise includes projects and schemes which are listed below:

Agriculture- food grains, oilseeds, pulses, sugarcane and cotton and their processing and marketing. Although, share of agricultural income in total national income has come down to 22 percent, even now agriculture supports almost 65 percent of population. However, despite green revolution a large part of Indian agriculture is underdeveloped, dependent on uncertain rains, using out dated-technology, low yielding seeds, inadequate credit and uneconomical size holdings. All these factors lead to low agricultural productivity and a great deal of open and disguised unemployment. Against this background- it needs to be high-lighted that in India we need great agro industrial enterprises for following reasons:

i. Food security – It is one of the basic responsibilities of state to provide appropriate food of proper quality on a regular basis to the national population. With increasing population it becomes necessary to grow more food grains for the increasing population. This necessitates rural industrial enterprise.

ii. Getting foreign exchange – For rapid economic development, it is necessary to have more and more foreign exchange, which can be obtained by increasing agricultural and agro-oriented exports to other countries. This requires rural industrialization.

iii. Animal husbandry- Milk cattle, poultry, ship rearing, pigoury and fishery. Industrial development- Most of the industries depend on agriculture for supply of raw material supply of food grains as also labour for their development. It is evident that agricultural development through agro-industrial enterprise will create encouraging atmosphere for industrial development.

iv. Employment generation- Rural industrialization will create local employment which will minimize migration of rural population to urban areas.

v. Development of farmers- Because of dependence of nature, backward technology, low agricultural productivity, economic conditions of Indian farmers are very poor. Therefore, it becomes necessary to develop agro-industrial enterprises to make the economical conditions of Indian farmers better. Agriculture must be supported by agro-based industrialisation.

vi. Industrial development- Most of the industries depend on agriculture for supply of raw material supply of food grains as also labor for their development. It is evident that agricultural development through agro-industrial enterprise will create encouraging atmosphere for industrial development.

vii. Greater share in national income- with increasing agro-based industrial enterprise in rural areas, contribution of agriculture to gross domestic product will increase and keep control on excess migration to urban areas.

viii.Opportunities for global trade – With the actual implementation of World Trade Organization schemes in 1995, the global trade has become open not only for agriculture but for agro-based industrial exports, particularly based on organic technology. To exploit these opportunities increasing rural industrial enterprise has become necessary.

ix. Revival of social importance of agriculture- In Indian culture at one time agriculture was considered to be the top priority economic activity. Gradually, this has changed. It is only by revival of rural industrial enterprise based on modern technology that agriculture will again acquire a position of importance as in the past.

13.8 PROBLEMS AND PROSPECTS OF RURAL ENTREPRENEURS

According to a study by Tarling et al (1993), in rural UK, a number of potential weaknesses in the competitiveness of rural firms, in particular certain aspects of the operating environment and the firms' responses to them have become evident. In this respect, Vaessen and Keeble, (1995), also point out that the external environment in the more remote rural areas particularly, presents challenges for SMEs, which they need to adapt to if they are to survive and grow. These include the limited scale and scope of local market opportunities which make it necessary for firms to be particularly active in developing non-local markets if they are to grow. Another aspect of the external environment in these remote rural areas is the labor market, in which relatively low wage levels in comparison with urban areas combined with qualitative characteristics of the rural labor force (e.g. loyalty to the firm) reduce the incentive for firms to invest in labor saving process innovations, particularly in the more craft-based sectors.

A further characteristic of the remote rural business environment is the lack of a local industrial and service milieu which means that there are fewer opportunities for firms to subcontract out locally than in an urban context. From the point of view of innovation specifically, the low density of the business population results in a small number of potential collaborating firms locally, as well as more sparsely distributed research and development, educational institutions and business support providers compared with some other types of location. This raises questions about the extent to which the characteristics of remote rural environments constrain innovative activity in SMEs; another issue which concerns the implications of these features for the type of policy response that is likely to be effective.

The National Spatial Strategy of Ireland (2002) also indicates the following issues as key constraints in the development of rural enterprise in Ireland:

1) The issue of transport and accessibility in general, and of remoteness.

2) The low skill base of many rural areas emerged as important.

3) The lack of sufficient funding continues to be perceived as a major constraint.

4) The low enterprise base in many rural areas is seen as a key issue, and there is a general feeling of being caught in a vicious circle where an existing lack of enterprise contributes to a low degree of enterprise potential.

5) The absence of facilities and services both for enterprises and for their workforces emerged as important.

6) Competition from larger centers was seen as crucial in a number of areas. In some cases it was suggested that the proximity to such areas can to some extent be a disadvantage from this perspective.

7) Issues of planning and zoning were seen in some areas as significant as was the fact that it may be more difficult to obtain planning permission for certain types of enterprises in rural areas.

8) Inadequate credit availability due to indifferent attitudes of modern financial institutions.

9) Obsolete technology – Rural techniques of production are quite primitive and have become obsolete, production based on this is of no quality and cannot compete in modern markets because of high cost per unit.

10) The quality of rural production is substandard, Rural entrepreneurs are not aware of the importance of quality production.

11) In rural areas infrastructural facilities are either absent or very poor. This relates to roads, railways, power, water, transport and communication as also education and training.

12) Ignorance- Rural population is burdened with ignorance, lack of educational facilities and lack of training in industrial skills.

13) Adverse social attitude- In rural areas people give more respect to salary earning employees than self employed farmers and local craftsmen.

14) Problem of markets- Even though there may be some industrial activity in rural areas. They find it very difficult to sell their output because of lack of effective market locally and absence of safe, cheap and quick transport facilities.

13.9 DEVELOPMENTAL STRATERGIES FOR RURAL ENTREPRENURSHIP

While developing strategy for industrial enterprise in rural areas, it is necessary to take into consideration the totality of rural reality in terms of resources physical and human as also environmental. It is believed that following approaches can be used for formulating strategy for rural industrial enterprise:

i. Identification of rural entrepreneurship – In this regard, it is necessary to scout for rural entrepreneurs, rural industrial opportunities through industrial camps and publicity campaign.

ii. Credit supply- It becomes necessary for banking and non-banking agencies to provide cheaper credit to local enterprise.

iii. Technological facilities – It is necessary to develop ways and means to make available modern technology to rural entrepreneurs.

iv. Facilities for higher education- It is also necessary to create higher educational facilities including facilities for technical education and vocational training in rural areas.

v. Co-ordination between small and large industries. local industrial enterprise should be encouraged to establish links with large scale urban industrial enterprise for proper marketing through contracts, technical collaboration etc.

vi. Co-ordinate govt. efforts- It is necessary to synchronize working of different government agencies which work for rural development. Govt. offices should adopt positive and proactive policies for rural industrialization.

vii. Trade organizations- There should be trade organizations at local levels which create liaison with regional and national level trade organizations for getting regular feed back in mutual manner. Such organizations should collect and make available information regarding opportunities for rural industrialization.

viii. Management co-operation- For rural industrialization it is necessary to evolve methods of co-operation and co-ordination between agencies like district industries centers, entrepreneurship development centers, universities and trade organizations. Facilities for management education must be made available. it can ensure survival in a competitive market system in India.

13.10 TRAINING OF RURAL YOUTH FOR SELF-EMPLOYMENT (TRYSEM)

TRYSEM is perhaps the largest scheme launched by the Government of India to address the problem of training the rural youth for employment. The scheme - TRYSEM aimed at providing basic technical and entrepreneurial skill to the rural poor in the age group of 18-35 years enable them take up income generating activities (self/wage employment). It had been laid down that the coverage of youth from SC/ST communities should be at least 50% of rural youth trained. Out of the total beneficiaries, at least 50% should be women. The scheme had been merged into Swarnajayanti Gram Swarojgar Yojana (SGSY) with IRDP, DWCRA etc. from April, 1999.

Training of Rural Youth for Self-Employment has been an ambitious project initiated by the Government of India to provide technical and vocational training to the rural youth so that they are able to start their own small scale business. The overall idea of this project is to provide basic managerial and technical training to the rural youth so that they take useful self-employment in various fields such as agriculture, construction and other related sectors. In this way, the rural youth of the country gets wage employment according to their area of expertise such as industries, business and services. At the same time, the project aims to provide basic education, financial capital and technical skills to all the uneducated rural youth so that they get accustomed to start their own set-up.

13.11 MICRO FINANCE AND SELF HELP GROUPS

Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. Most poor people manage to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself.

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition bankers tend to consider low income households a bad risk imposing exceedingly high information monitoring costs on operation.

Over the last ten years, however, successful experiences in providing finance to small entrepreneur and producers demonstrate that poor people, when given access to responsive and timely financial services at market rates, repay their loans and use the proceeds to increase their income and assets. This is not surprising since the only realistic alternative for them is to borrow from informal market at an interest much higher than market rates. Community banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance one of the most effective poverty reducing strategies.

Microfinance institutions can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. Savings facilities make large scale lending operations possible. On the other hand, studies also show that the poor operating in the informal sector do save, although not in financial assets, and hence value access to client-friendly savings service at least as much access to credit. Savings mobilization also makes financial institutions accountable to local shareholders. Therefore, adequate savings facilities both serve the demand for financial services by the customers and fulfill an important requirement of financial sustainability to the lenders. Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide savings facilities to tap small savings in a flexible manner.

Microfinance institutions are engaged in deposit taking in order to mobilize household savings, they become financial intermediaries. Consequently, prudential financial regulations become necessary to ensure the solvency and financial soundness of the institution and to protect the depositors. However, excessive regulations that do not consider the nature of microfinance institution and their operation can hamper their viability. In view of small loan size, microfinance institutions should be subjected to a minimum capital requirement which is lower than that applicable to commercial banks. On the other hand, a more stringent capital adequacy rate (the ratio between capital and risk assets) should be maintained because microfinance institutions provide uncollateralized loans.

Governments should provide an enabling legal and regulatory framework which encourages the development of a range of institutions and allows them to operate as recognized financial intermediaries subject to simple supervisory and reporting requirements. Usury laws should be repelled or relaxed and microfinance institutions should be given freedom of setting interest rates and fees in order to cover operating and finance costs from interest revenues within a reasonable amount of time. Government could also facilitate the process of transition to a sustainable level of operation by providing support to the lending institutions in their early stages of development through credit enhancement mechanisms or subsidies in India context.

13.12 ROLE OF MICRO FINANCE IN INDIA

Microfinance institutions are those which provide credit and other financial services and products of very small amounts to poor in rural, semi-urban and urban areas for enabling them to raise their income and improve their standard of living.

i. **Credit to Rural Poor:-**Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.

ii. **Poverty Alleviation:-**Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.

iii. **Women Empowerment:** - Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.

iv. **Economic Growth:**-Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.

v. **Mobilization Of Savings**:-Microfinance develops saving habits among people. Now poor people with meager income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilized to provide loans and advances to its members. Thus microfinance helps in mobilization of savings.

vi. **Development of Skills:** Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.

vii. **Mutual Help and Cooperation**: Microfinance promotes mutual help and cooperation among members. The collective efforts of group promote economic interest and helps in achieving socio-economic transition.

viii. **Social Welfare:** With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare or betterment of society.

13.13 SELF HELP GROUPS (SHGs)

A Self Help Group (SHG) is a small economically homogeneous group of 10 to 20 persons of rural poor who come together to mutually contribute to common funds for meeting their emergency needs. The fund created by collective contribution is used to provide collateral free loans to members on terms decided by group. All decisions are made collectively. Conflicts and disputes are resolved through collective leadership and discussion.

SHGs have been traditionally supported by NGOs or by government agencies. They are considered as agents of change, which are expected to change the lives of poor. The main objective of SHGs is to provide small loans to poor in order to help them invest in their livelihood. In 1992 with the support of RBK SHG - Bank linkage programme was launched by NABARD.

Formation of Self Help Groups is a path breaking initiative that can transform the lives of millions of poor Indians. However, the government should concentrate of regulating the formation process to ensure better financial viability The SHG model emerged in the 1980s and 1990s. With the tremendous support from the Government of India, state governments, NABARD, the banking sector and NGOs, the movement spread like anything. Even such a situation arise that the Indian Government Budget presentation has emphasized on SHG bank linkage each year as in many cases it gave the ruling party a political mileage.

The failure of SHG movement points out to a number of causes. We Indians are good followers and we blindly follow lots of thing. Sixty years have gone but our planners have not yet realized the fact that we are having a diverse culture all over and one thing accepted in any part, among a particular community may not be accepted in the other part or among the other community.

13.14 IMPORTANCE AND ROLE OF SELF HELP GROUPS

SHGs have been successful in making number of rural women economically, socially and politically more empowered as follows**.**

1) **Reduction Of Poverty**:-SHGs help to overcome the problem of poverty, especially in rural areas. It is assumed that investments made would generate income and contribute significantly to family earnings.

2) **Employment Generation** :-SHG generates employment, including self-employment. The members are encouraged to start Micro-enterprises. Small rural enterprises help in reducing the incidence disguised and seasonal unemployment.

3) **Empowerment of Women**: SHGs have been successful in making no. of rural women economically, socially and politically more empowered**.** Many women's have participated in panchayat elections and won.

4) SHGs have been successful in making number of rural women economically, socially and politically more empowered**.** Many women's have participated in panchayat elections and won.

5) **Promotes Savings And Banking Habit**: SHGs play a very important role in linking them to banking system by promoting savings habit in rural areas. People are motivated to save because of benefits of SHGs.

6) **Reduction of Unorganized Sector**: Traditionally rural people were dependent oh moneylenders, indigenous bankers etc. for their financial requirements. Now SHGs have made a difference in reducing the influence of this sector by providing bank support to poor.

7) **Social And Economic Justice:** SHGs help to reduce poverty and promote economic justice. They empower women, people belonging to scheduled castes, tribes and minorities. Thus they promote social justice.

8) **Community Actions:** Studies have shown that women in SHGs have been motivated to improve community services, including education, health, water supply, village roads, infrastructure, protecting natural resources, stopping sale and consumption of alcohol etc. SHGs also makes srusral poor aware about their rights and help them to fight exploitation

9) **Improves Credit System:** SHG has been promoted to improve credit delivery system. It provides credit on large scale to very large no. of people. This reduces transaction cost and promotes efficiency of credit system.

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15) **Mobilization of Resources**: A large number of rural poor do not have access to banks. SHGs play an important role in mobilizing savings of poor. They help them in linking them to banking system by promoting savings.

16) **Under the SHG** - Bank Linkage Programme as on March, 2009.SHG held total savings of Rs.5,545crore with banks.

17) **Beneficial to Financial Sector:** The linking of SHGs with financial sector benefitted the banking sector. Banks are able to tap into a large market.

13.15 PROGRESS OF SHGs IN INDIA

I. **Linkage Model**: SHG - Bank Linkage Programme was launched in 1992by NABARD. This was first time SHGs were directly financed by banks. According to NABARD about 5.8 crore poor households have been linked with banking system through this model. The Indian Model is a “Linkage Model”, as it is based on strengths of various partners: - The NGOs, the rural poor and banks

II. **Financial Support:**-RBI advises commercial banks to consider lending to SHGs as part of their rural credit operations. Many apex bodies or wholesalers provide loans to financial intermediaries for on-lending to SHGs. Some of these institutions are: - SIDBI, RashtriyaMahilaKosh, Housing Development Finance Corporation, Regional Rural Banks and Co-operative Banks etc.

III. **Swarnaiavanti Gramswaroigar Yoiana (SGSY)** :-In 1999, the Government of India introduced SGSY by restructuring various self-employment programmers. SGSY promotes the creation of SHGs by Swarozgaries and finance them by banks at different stages. As on 31st March, 2009, the share of SGSY in SHG savings accounts formed 25% of SHGs having savings accounts in banks.

IV. SHG Federations:-Federations of SHGs have been developed by some promoters. Federations improve the bargaining power of SHGs and are financially supported by NABARD. About 15 to 50 SHGs make up a cluster or village organization with either one or two representatives from each SHG. Several clusters come together to form a apex body or an SHG federation.

V. Regional Growth:-In 2006-07, Andhra Pradesh, Tamil Nadu, Kerala and Karnataka accounted for 52% of SHG credit linked. In order to reduce Imbalance in the spread of SHG - Bank Linkage Programme, NABARD identified 13 states with large population for focusing attention.

VI. Physical And Financial Growth:-About 41 million poor households have gained access to microfinance. During 2007-08, 87,852 SHGs have been credit linked taking the cumulative figure to 3.01 million. Currently commercial banks have the largest share of 55% in credit linked SHGs followed by RRBs by 31%.

VII. Support to Banks:-NABARD continued to provide 100% refinance assistance to banks for financing SHGs. During 2008-09, Rs. 1,22,535.1 million was disbursed as loan to SHGs by various banking institutions.

VIII. Individual Rural Volunteers As SHGs:-Where NGOs are not sufficient, a special initiative has been launched by NABARD that the socially committed individual volunteers like retired and active teachers, village elders etc. should form SHG and link them with Banks. This scheme has being implemented in 20 states. Volunteers are provided help of Rs.1,200/- per SHG for formation and linking. As on March, 2009, about 47 lakh Self - Help Groups, Comprising of Women, have been able to access the formal banking sector in a sustainable and cost-effective manner.

IX. Composition Of SHGs: Generally a SHG consist of 10-20 persons. However, in areas like deserts, hills and areas with scattered and sparse population and in case of minor irrigation and disabled persons, this no. may be from 5 to 20.

13.16 PROBLEMS FACED BY SHGs

1. **Regional Imbalance:**-The success of SHG programme is limited. The Southern States account for 70% of funds. There is a need for better linkage efforts in northern, central, eastern and north eastern states. These states have high concentration of rural poor.

2. **Poor Management:**-Many SHGs suffer due to poor management. In many cases internal controls are lacking. There has been poor management of cash flows. Roles and responsibilities of members and office bearers are not defined properly.

3. **Problem of Micro Enterprises:** - Many micro enterprises developed by SHGs lack skills and strategy to survive. Even the NGOs fail to provide them with necessary linkage and market survey report.

4. **Dropouts** :-There are many incidences of dropouts from groups. The main causes are migration for employment and inability to make regular savings. The dropout rate is 11% for very poor and 7% for non-poor.

5. **Lack of Business Attitude:**-Many banks supporting SHGs treat the projects as a social or developmental programme and not as a business proposition. This has restricted the spirit of entrepreneurship among members.

6. **Regulations**:-SHGs are governed by multiplicity of regulations. This makes their formation and functioning difficult. Micro Financial Sector Bill 2009 is expected to sort out this problem by making NABARD the single regulatory body for SHGs. .

7. **Lack of Political Support:**-Usually political parties are after Cooperative Societies as they serve vote banks. A SHG does not contain enough votes to be inspired by politicians.

8. **Sustainability:** - Sustainability of SHGs depend on the quality of SHGs and the support given by Self Help Promoting Institutions (SHPIs). Many SHPIs have been supporting SHGs, but only to achieve targets. This affects its sustainability in long run.

The Government of India and state authorities alike have increasingly realized the importance of devoting attention to the economic betterment and development of rural women in India. The Indian Constitution guarantees that there shall be no discrimination on the grounds of gender. In reality, however, rural women have harder lives and are often discriminated against with regard to land and property rights and in access to medical facilities and rural finance. Women undertake the more onerous tasks involved in the day-to-day running of households, including the collection of fuel wood for cooking and the fetching of drinking water, and their nutritional status and literacy rates are lower than those of men. They also command lower wages as labor: as rural non-agricultural laborers, women earn 44 rupees per day compared to 67 rupees for men. Women's voice in key institutions concerned with decision making is also limited. In 2007, only 8 per cent of all seats in the national parliament were occupied by women.

Rural development is more than ever before linked to entrepreneurship. Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institutions and individuals seem to agree on the urgent need to promote rural enterprises: development agencies see rural entrepreneurship as an enormous employment potential; politicians see it as the key strategy to prevent rural unrest; farmers see it as an instrument for improving farm earnings; and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support. To all these groups, however, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment in India.

13.17 CASE STUDY

Easkey community, Co. Sligo (Rural Entreprenurship)

Easkey is a small, attractive coastal area located in County Sligo, in northwest Ireland. It faced the typical problems of rural decline resulting from such problems as: high dependence on small-scale, low income farming; little emphasis on tourism activities; lack of alternative employment; underemployment leading to persistent out-migration; and poor infrastructure. It is prominently positioned on the banks of the tranquil Easkey River? a prolific salmon fishing area. In the 1800s, the village was a prosperous merchant centre with a strong agriculture base, evidenced by the size and type of houses found in or close by the village. Its decline was caused by the ravages of economic depression with ensuing social depression. The village had also been an important economic centre but lost a considerable amount of its economic status due to, among other things, the development of the neighboring town of Enniscrone as a tourist resort.

In 1986, the Easkey Community Council was established in an attempt to address what the members saw as a decline in the rural community. Local interest grew dramatically from 1990-92 and by 1993, it found itself in a position to begin its rejuvenation. Realising the potential value of the natural and human resources within the area and desiring a coherent village development plan, the Council requested assistance in the preparation of a Community Development Plan in conjunction with an Architectural and Enhancement Plan.

A task force was established comprised of Easkey Community Council, Moy Valley Resources and Sligo County Council and Enterprise Board. In July 1993, three architectural students from University College Dublin (under the supervision of the renowned town planner) lived in the village for ten weeks to prepare the plan. They evaluated the architectural strengths and weaknesses of the area and considered the various possibilities upon which local development projects could be organized and enhanced. Simultaneously Moy Valley Resources, in conjunction with Easkey Community Council, prepared a Community Development Plan, focusing on the community's natural resources, strengths and weaknesses and proposed future development with strong emphasis on tourism as a potential revenue generator.

The possibility of tourism as a resource was recognized by the Euradvice Consultants (1994): "Many of the major tourist attractions and most of the scenic touring routes are located in remote areas of great natural beauty with little prospects for industrial or farming employment but which can enjoy the benefits of an expanded tourism industry .... Tourism developments should be seen as part of a holistic process of community development, involving as wide as possible participation of community members. Planning for tourism should be based on indigenous local resources, be based on producing quality products, pay full regard to environmental and cultural sustainability and should in particular avoid particular trivialization of cultural values. Tourism plans should pay particular attention to marketing and promotion programmes and should be developed between a number of local groups at county or regional levels."

QUESTIONS:

1. Write out the impact and consequences of this case study?
2. Analyze the case and list out the issues and challenge us of rural entrepreurship?

CASE STUDY NO.2

SHAHNAZ HUSAIN - SHAHNAZ HUSAIN HERBALS

There are perhaps few others who can stand testimony to the truth of these words, as Shahnaz Husain, India's pioneer in herbal cosmetics. Credited with single-handedly placing Indian herbals on the world cosmetic map, her success story-that of young girl from a conservative Muslim family who rose to become an international trailblazer in the field of herbals- is by now historyPresident of CIDESCO, the first Asian to enter Selfridges in London and break a 40 year old sales record, GQM Commitment to Quality award, FICCI's outstanding woman entrepreneur, US magazine Success's World's Greatest Women Entrepreneur – the list of accolades and achievements is endless.

An entrepreneur in the truest spirit of the word, the lady has a whopping 80 percent of the domestic herbal market, and sales counters in the best stores internationally, be it the Seibu chain in Japan, Bloomingdales in the US, Galeries Lafayette in Paris, Harrods and Selfridges in London … it goes on. "Though I was married at a very young age, I always knew that I was made for something more," begins Shahnaz. Not prepared to sit back as a housewife and mother the age of 16, the young Shahnaz set about writing for magazine to earn money so that she could fund her education. Staying with husband Nasir in Tehran, Shahnaz found the ideal opportunity in the international beauty schools there. After studying cosmetic chemistry in international beauty schools in certain centres including London, Paris and Denmark for close to eight years,

Husain hit upon the idea of exploring the 4000 year old Indian ayurvedic system, so that she could research and develop herbal cures and treatments. "I had seen the debilitating effect of synthetic cosmetics abroad; there was no doubt in my mind that the herbal system would work," recalls Shahnaz. She returned to India to set up shop in one room, with a start up investment of Rs.35, 000, she borrowed from her father. The going was tough – Shahnaz had priced her product well above the existing market. "I began with just one product – Shalife, a massage cream. My facial were priced at Rs.100, while you get one the market for a paltry Rs.6," reminisces Husain. However, that did not stop the crowds from coming in, and soon, Shahnaz had more clients she could handle

"I would go to a place for one day, offer free prescriptions and advice, inaugurate the salon, and go back," says Shahnaz. It worked – today, there are more than 600m salons in India and abroad. The Shahnaz group of companies has acquired a global presence, with exports to 132 countries including those in the Middle East, South East Asia, Australia and all over Europe. Recently, the company has been approved by a Fortune 500 investment company to explore business opportunities. The strategy was one she applied with great success internationally as well – at one point, during a makeup demonstration in Russia, Shahnaz was asked to stop as the floor was caving in under the pressure of the people who had turned up to watch. Interestingly, Shahnaz has never advertised her products, a fact that had Harvard in the US wanting to use her marketing system as a case study.

QUESTIONS:

1. Give a brief account major impact of this case study?
2. Explain the rural development strategies of shahnaz products in this case study?

13.18 NOTES

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13.19 SUMMARY

This unit discussed about the basic concepts of rural entrepreneurship and the role of micro finance and self help groups are discussed in the length .An account of developmental strategies of rural entrepreneurship and progress of self help groups is also given in this unit.

13.20 SELF ASSESSMENT QUESTION

1. Define rural entrepreneurship and explain concept of developmental strategies of rural entrepreneurship?
2. Explain the major challenge us of rural entrepreneurship in India?
3. Explain the problems and prospects of rural entrepreneurship in India?
4. Explain the role of self help groups in India?

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UNIT - 14 : WOMEN ENTREPRENURSHIP

Structure :

13.0 Objectives

14.1 Introduction

14.2 The Concept of Women Entrepreneurship

14.3 Government and Institutional Support for Women Entrepreneurships

14.4 Significance of Women Entrepreneurship

14.5 Reasons for Women Entrepreneurs

14.6 Challengious Women Entrepreneurs

14.7 Problems of Women Entrepreneurs

14.8 Remedies to Salve the Problems of Women Entrepreneurs

14.9 Measures Taken for the Development of Women Entrepreneurship in India

14.10 Case Study

14.11 Notes

14.12 Summary

14.13 Key Words

14.14 Self Assessments Questions

14.15 References

14.0 OBJECTIVES

After study this unit, you should be able to;

- Define the concept of women entrepreneurship.
- Give an account on institutional support for women entrepreurship.
- Encount the problems and prospects of women entrepreneurship.

14.1 INTODUCTION

Women entrepreneurs are key players in any developing country particularly in terms of their contribution to economic development. Women entrepreneurship has been recognized as an important source of economic growth. Women entrepreneurs create new jobs for themselves and others and also provide society with different solutions to management, organization and business problems. However, they still represent a minority of all entrepreneurs. Women entrepreneurs often face gender-based barriers to starting and growing their businesses, like discriminatory property, matrimonial and inheritance laws and/or cultural practices; lack of access to formal finance mechanisms limited mobility and access to information and networks, etc. Women's entrepreneurship can make a particularly strong contribution to the economic wellbeing of the family and communities, poverty reduction and women's empowerment, thus contributing to the Millennium Development Goals (MDGs). Thus, governments across the world as well as various developmental organizations are actively undertaking promotion of women entrepreneurs through various schemes, incentives and promotional measures.

Women constitute about 50% of the world population. In traditional societies, they are confined to performing household activities. Hence women are generally called home makers. But today, in modern society, they have moved out of the house and are taking part in all areas of life. Today, the entrepreneurial world is open to the womenfolk. Thailand tops the list with 18.5% of women as entrepreneurs followed by India with 14.1% women entrepreneurs. Japan has the lowest rate of women entrepreneurs with just 0.6% women as entrepreneurs.

It is a general belief in many cultures that the role of women is to build and maintain the homely affairs like task of fetching water, cooking and rearing children. Since the turn of the century, the status of women in India has been changing due to growing industrialization, urbanization, spatial mobility and social legislation. With the spread of education and awareness, women have shifted to higher level of professional activities.

14.2 THE CONCEPT OF WOMEN ENTREPRENUERSHIP

According to the general concept, women entrepreneur may be defined as a women or a group of women who initiate, organize and operate a business enterprise. The Government of India has defined a women entrepreneurship as "an enterprise owned and controlled by a women having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to women". Kerala Government defined women industrial units as units owned/ organized by women and engages in small scale and cottage industries with not less than 80% of the total workers as women. With effect from 6th Feb. 1992, the definition of 'Women Entrepreneurs' Enterprises is as follows: "A small scale industrial units/industrially related services or business enterprise managed by one or more women entrepreneurs in proprietary concerns in which she/they will individually or jointly have share capital of not less than 51% as partners/ shareholders / directors of private limited company, members of co-operative society".

Entrepreneurship has been a male-dominated phenomenon from the very early age, but time has changed the situation and brought women as today's most memorable and inspirational entrepreneurs. In almost all the developed countries in the world women are putting their steps in line with the men in the field of business. Except some Islamic countries of the world the law of the country has been made in favour of the development of women entrepreneurship.

Women Entrepreneurs may be defined as the women or a group of women who initiate, organize and operate a business enterprise. Government of India has defined women entrepreneurs as an enterprise owned and controlled by women having a minimum financial interest of 51% of the capital and giving at least 51% of employment generated in the enterprise to women. Like male entrepreneurs women entrepreneurs have many functions. They should explore the prospects of starting new enterprise undertake risks, introduction of new innovations, coordination administration and control of business and providing effective leadership in all aspects of business.

14.3 GOVERNMENT AND INSITUTIONAL SUPPORT FOR WOMEN ENTREPRENEURS

Entrepreneurship does not differentiate the sex. A number of facilities and assistance are offered to the entrepreneurs. However, certain additional incentives or facilities offered to women entrepreneurs are discussed as follows.

1. SMALL INDUSTRIAL DEVELOPMENT ORGANISATION (SIDO)

SIDO through a network of SISIs conduct the EDPs exclusively for women entrepreneurs. The aim is to develop entrepreneurial traits and qualities among women and enable them to identify entrepreneurial opportunities etc. SIDO is created for development of various small scale units in different areas. SIDO is a subordinate office of department of SSI and ARI. It is a nodal agency for identifying the needs of SSI units coordinating and monitoring the policies and programmes for promotion of the small industries. It undertakes various programmes of training, consultancy, evaluation for needs of SSI and development of industrial estates. All these functions are taken care with 27 offices, 31 SISI (Small Industries Service Institute) 31 extension centers of SISI and 7 centers related to production and process development.

The activities of SIDO are divided into three categories as follows:

A. Coordination activities of SIDO:

1. To coordinate various programmes and policies of various state governments pertaining to small industries.
2. To maintain relation with central industry ministry, planning commission, state level industries ministry and financial institutions.
3. Implement and coordinate in the development of industrial estates.

B. Industrial development activities of SIDO:

1. Develop import substitutions for components and products based on the data available for various volumes-wise and value-wise imports.
2. To give essential support and guidance for the development of ancillary units.
3. To provide guidance to SSI units in terms of costing market competition and to encourage them to participate in the government stores and purchase tenders.
4. To recommend the central government for reserving certain items to produce at SSI level only.

C. Management activities of SIDO:

1. To provide training, development and consultancy services to SSI to develop their competitive strength.
2. To provide marketing assistance to various SSI units.
3. To assist SSI units in selection of plant and machinery, location, layout design and appropriate process.

4. To help them get updated in various information related to the small-scale industries activities.

2. SMALL INDUSTRIES SERVICE INSTITUTES (SISI):

The small industries service institutes have been set up in state capitals and other places all over the country to provide consultancy and training to small entrepreneurs both existing and prospective. The main functions of SISI include:

1) To serve as interface between central and state government.
2) To render technical support services.
3) To conduct entrepreneurship development programmes.
4) To initiate promotional programmes.

The SISIs also render assistance in the following areas:

1) Economic consultancy/information/EDP consultancy.
2) Trade and market information.
3) Project profiles.
4) State industrial potential surveys.
5) District industrial potential surveys.
6) Modernization and in plant studies.
7) Workshop facilities.
8) Training in various trade/activities

3. NATIONAL SMALL INDUSTRIES CORPORATION (NSIC) :

The H.P. scheme of NSIC provides preferential treatment to women entrepreneurs. It also conducts Entrepreneurs and Enterprise Building programmes for women. NSIC was set up in 1955 to support the growth of small scale industries in the country. Since then it has been assisting SSI through a number of schemes. Due to increased competition in post-globalisation period, NSIC restructured its activities from financing to promotion of marketing.

Mentoring and advisory services: NSIC has provided the support of experienced mentors who provide the guidance to the units facing the problems in the areas of production, management and marketing. Half of the expenses required for this guidance are reimbursed by the corporation. Financial support programme, NSIC provides finance for purchase of indigenous as well as imported and machinery for setting up of new industry and technical up gradation of existing units on easy terms through its hire purchase scheme.

The corporation has started Composite Term Loan Scheme to provide as follows:

- **Single window service**. The scheme is mainly designed to encourage setting up of new SSI in the country. Under raw material assistance scheme, the corporation provides finance to SSI for the purchase of raw material against the security of bank guarantee.
- **Training and development**: The Corporation provides training and development in the areas of machine tools, design and testing, rural technology, computer applications, leather and footwear, domestic electrical appliances etc
- **Exports:** the corporation assists in exporting the products of SSIs. NSIC is engaged in project exports also on turnkey basis and is a major supplier of relief items of India to United Nations and other international agencies. The corporation organizes international exhibitions related to specialized products and technology, to facilitate the marketing of SSI products.
- **Campaigns:** NSIC organizes awareness campaigns at various locations near industrial estates in the states and also in the areas ideal for setting up new industries
- **Marketing assistance programme** Government purchase registration: Government being the biggest buyer of any product, NSIC provides a registration to small scale unit, making them eligible for the following benefits:
    - Tender at free of cost
    - Exemption from Earnest money deposit
    - Exemption from security deposit
    - 15% price preference over large and medium unit

4. INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI) :

IDBI is the apex institution in the field of industrial finance. It was established under the IDBI act 1964 as a wholly owned subsidiary of Reserve bank of India. It started its operations from 1st July 1964. It was de-associated from RBI under Public Financial Institution Laws (Amendment) Act 1976 and restructured as the principal financial institution of the country with the following objectives. Create a principal institution for long term finance IDBI is the apex institution in the field of industrial finance. It was established under the IDBI act 1964 as a wholly owned subsidiary of Reserve bank of India. It started its operations from 1st July 1964. It was de-associated from RBI under Public Financial

Institution Laws (Amendment) Act 1976 and restructured as the principal financial institution of the country with the following objectives. Create a principal institution for long term finance.

The schemes of IDBI for women entrepreneurs are summarized as follows: The IDBI set up the ***Mahila Udyan Nidhi (MUN)*** and ***Mahila Vikas Nidhi (MVN)*** schemes to help women entrepreneurs. IDBI conduct programmes of training and extension services through designated approved agencies and association with other development agencies like EDII, TCOs, KVIC etc.

IDBI coordinates the working of institutions engaged in encouraging, financing, promoting and developing industries. IDBI undertakes/ supports wide-ranging promotional activities including entrepreneurship development programmes for new entrepreneurs, provision of consultancy services for small and medium enterprises, up gradation of technology and programmes for economic upliftment of the under privileged. Since entrepreneurship development is the precondition to industrial development, IDBI played a major role in setting up of the Entrepreneurship Development Institute of India for promoting entrepreneurship in the country. IDBI also provides financial support to various organizations in conducting studies and surveys beneficial for industrial development.

5. SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI)

SIDBI has special schemes for financial assistance to women entrepreneurs. It provides training and extension services. It gives financial assistance at concessional terms in setting up tiny and small units. For ensuring larger flow of financial and non-financial assistance to the small scale sector, the government of India set up the Small Industries Development Bank of India (SIDBI) under Special Act of Parliament in 1989 as a wholly owned subsidiary of the IDBI. The SIDBI has taken over the outstanding portfolio of the IDBI relating to the small scale sector.

The important functions of IDBI are as follows:

I. To initiate steps for technological upgradation and modernization of existing units.

II. To expand the channels for marketing the products of SSI sector in domestic and international markets.

III. To promote employment oriented industries especially in semi-urban areas to create more employment opportunities and thereby checking migration of people to urban areas. The SIDBIs financial assistance to SSIs is channeled through existing credit delivery system comprising state financial corporations, state industrial development corporations,

6. KARNATAKA INDUSTRIAL AREAS DEVELOPMENT BOARD (KIADB)

The Karnataka industrial areas development board is statutory board constituted under the Karnataka industrial area development act of 1996. Since then it is in the business of apportioning land for industries and gearing up facilities to carryout operations. The KIADB now acquires and provides developed land suited for industrialization, by drawing up well laid-out plots of varying sizes to suit different industries with requisite infrastructure facilities. The facilities include roads, drainage, water supply etc.

The amenities such as banks, post offices, fire stations, police outposts, ESI dispensaries etc are also provided. It also plans to initiate the provision of common effluent treatment plants wherever necessary. KIADB has acquired a land of 39,297 acres out of which 21,987 acres had been developed till March 1996. Developed industrial plots had been allotted to 7882 units. Application forms for the allotment of land may be obtained from the executive member, KIADB Bangalore or general manager DIC of concerned district or from the Zonal office of KIADB located at Mysore, Mangalore, Dharwad, Gulbarga, Bidar, Hassan and Belgaum. Applications duly filled must be accompanied by:

(a) A brief project report.

(b) Details of constitution of the company

(c) Provisional registration certificate

(d) EMD of Rs 500/- per acre, subject to a maximum of Rs 10,000/- along with 20%, 15% and 5% of the land cost for various districts. On receipt of applications for all districts other than Bangalore, a discussion with the promoters regarding the project will be held in the concerned district headquarters.

The district level allotment committee will take a decision on allotment of land to the SSI units. In case of Bangalore, the screening committee comprising of executive member KIADB, director of SISI, chief advisor TECSOK with discuss the project and make necessary recommendation to a sub-committee. The sub-committee will in turn allot the land. Once land is allotted the remaining payment should be made within six months of the date of issue of allotment letter. The industry should be started after obtaining the necessary license/ clearance/ approval from the concerned authorities. Plans for the proposed factory/ building or other structure to be erected on the allotted sites are executed only after prior approval of the board. On being satisfied that the land is not being put to the prescribed use, the board reserves the right to re-enter and take procession of the whole or any part of the land. If necessary the leasehold rights on the allotted land may be offered as security in order to obtain financial assistance from the government or corporate bodies. However, prior permission of the board has to be obtained for creating second and subsequent charges of the land.

7. KARNATAKA STATE FINANCIAL CORPORATION (KSFC)

The KSFC was established by the government of Karnataka in 1956 under the state financial corporation act 1951 for extending financial assistance to set up tiny, small and medium scale industrial units in Karnataka. Since 1956 it is working as a regional industrial development bank of Karnataka. KSFC has a branch office in each district; some districts have more than one branch. KSFC extends lease financial assistance and hire purchase assistance for acquisition of machinery / equipment /transport vehicles. KSFC has merchant banking department which takes up the management of public issues underwriting at shores, project report preparation, deferred payment guarantee, and syndication of loans, bill discounting and similar tasks. KSFC give preference to the projects which are:

a) Promoted by technician entrepreneur.

b) In the small-scale sector.

c) Located in growth centers and developing areas of the state;

d) Promoted by entrepreneurs belonging to scheduled castes and scheduled tribes, backward classes and other weaker sections of society.

e) Characterized by high employment potential.

f) Capable of utilizing local resources; and

g) In tune with the declared national priorities.

The eligible industrial concerns for financial assistance from KSFC are those engaged/ to be engaged in manufacture, preservation, processing of goods, mining, power generation transport, industrial estate, hotels, R & D of any product or process of industrial concern, weigh bridge facilities, power laundries, photocopying, hiring of heavy material handling equipment, cranes and other earth moving equipments, hospitals, nursing homes, medical stores, computers, tourism related activities, construction of roads, tissue and horticulture software development, software parks, block board vehicles, office construction, go down and warehouse construction, mobile canteens, commercial complexes, training institutes, office automation and so on.

8. DISTRICT INDUSTRIES CENTERS (DIC)

The District Industries Centers (DIC's) programme was started in 1978 with a view to provide integrated administrative framework at the district level for promotion of small scale industries in rural areas. The DIC's are envisaged as a single window interacting agency at the district level providing service and support to small entrepreneurs under a single roof. DIC's are the implementing arm of the central and state governments of the various schemes and programmes. Registration of small industries is done at the district industries centre and PMRY (Pradhan Mantri Rojgar Yojana) is also implemented by DIC. The organizational structure of DICS consists of General Manager, Functional Managers and Project Managers to provide technical services in the areas relevant to the needs of the district concerned. Management of DIC is done by the state government.

The main functions of DIC are:

1) To prepare and keep model project profiles for reference of the entrepreneurs.
2) To prepare action plan to implement the schemes effectively already identified.
3) To undertake industrial potential survey and to identify the types of feasible ventures which can be taken up in ISB sector, i.e., industrial sector, service sector and business sector.
4) To guide entrepreneurs in matters relating to selecting the most appropriate machinery and equipment, sources of it supply and procedure for importing machineries.
5) To provide guidance for appropriate loan amount and documentation.
6) To assist entrepreneurs for availing land and shed equipment and tools, furniture and fixtures.
7) To appraise the worthness of the project-proposals received from entrepreneurs.
8) To help the entrepreneurs in obtaining required licenses / permits / clearance.
9) To assist the entrepreneurs in marketing their products and assess the possibilities of ancillarization.
10) To conduct product development work appropriate to small industry.
11) To help the entrepreneurs in clarifying their doubts about the matters of operation of bank accounts, submission of monthly, quarterly and annual returns to government departments.
12) To conduct artisan training programme.
13) To act as the nodal agency for the district for implementing PMRY (Prime Minister Rojgar Yojana).

14) To function as the technical consultant of DRDA in administering IRDP and TRYSEM programme.

15) To help the specialized training organizations to conduct Entrepreneur development programmes. In fine DIC's function as the torch-bearer to the beneficiaries/ entrepreneurs in setting up and running the business enterprise right from the concept to commissioning. So the role of DIC's in enterprise building and developing small scale sector is of much significance.

14.4 SIGNIFICANCE OF WOMEN ENTREPRENUSHIP

Women owned businesses are highly increasing in the economies of almost all countries. The hidden entrepreneurial potentials of women have gradually been changing with the growing sensitivity to the role and economic status in the society. Skill, knowledge and adaptability in business are the main reasons for women to emerge into business ventures. „Women Entrepreneur is a person who accepts challenging role to meet her personal needs and become economically independent. A strong desire to do something positive is an inbuilt quality of entrepreneurial women, who is capable of contributing values in both family and social life. With the advent of media, women are aware of their own traits, rights and also the work situations.

The challenges and opportunities provided to the women of digital era are growing rapidly that the job seekers are turning into job creators. They are flourishing as designers, interior decorators, exporters, publishers, garment manufacturers and still exploring new avenues of economic participation. In India, although women constitute the majority of the total population, the entrepreneurial world is still a male dominated one. Women in advanced nations are recognized and are more prominent in the business world. But the Indian women entrepreneurs are facing some major constraints such as,.

a) Imaginative: It refers to the imaginative approach or original ideas with competitive market. Well-planned approach is needed to examine the existing situation and to identify the entrepreneurial opportunities. It further implies that women entrepreneurs have association with knowledgeable people and contracting the right organization offering support and services.

b) Attribute to work hard: Enterprising women have further ability to work hard. The imaginative ideas have to come to a fair play. Hard work is needed to build up an enterprise.

c) Persistence: Women entrepreneurs must have an intention to fulfill their dreams. They have to make a dream transferred into an idea enterprise; Studies show that successful women work hard.

d) Ability and desire to take risk: The desire refers to the willingness to take risk and ability to the proficiency in planning making forecast estimates.

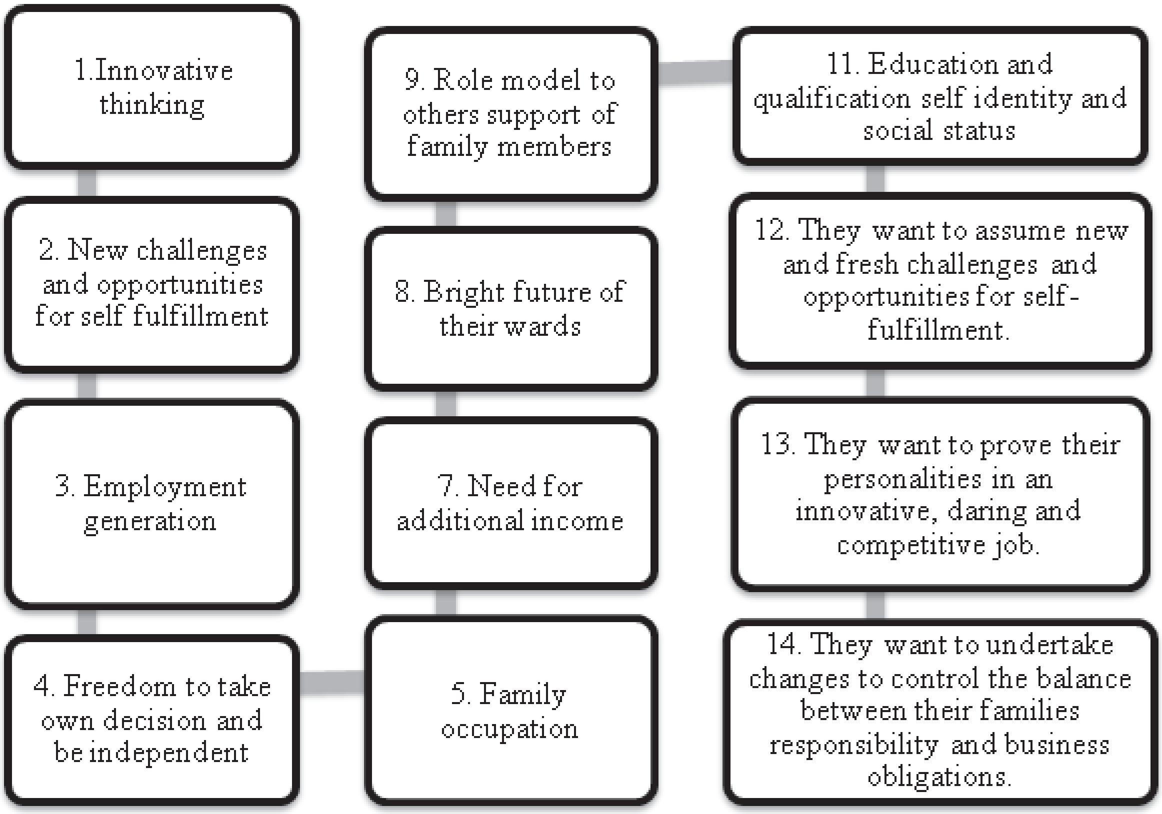
e) Profit earning capacity: She should have a capacity to get maximum return out of invested capital.

f) Exploration of the prospects of starting a new business enterprise.

- o Undertaking a risk and handling of economic uncertainties involved in business.
- o Introduction of innovations, imitations of innovations.
- o Co ordination, administration and control and Supervision and leadership.
- o Lack of confidence in their strength and competence.
- o Socio-cultural barriers
- o Market-oriented risks
- o Motivational factors
- o Knowledge in Business Administration
- o Awareness about the financial assistance
- o Exposed to the training programs
- o Identifying the available resources;

14.5 REASONS FOR WOMEN ENTREPRENURS

The following diagram shows the reasons for becoming women entrepreneurs:



Sources: Vasanth Desai "Dynamics of Entrepreneurial Development and Management.

14.6 CHALLEGEOUS AND WOMEN ENTREPRENURS

Entrepreneurship is not a walk in the park for anyone and it can be even more challenging are of the "female persuasion". Even with all of the advancements that women have made in the business world, there is still a long way to go before the success rate is level between male and female entrepreneurs. Below are some of the top challenges that female entrepreneurs need to overcome in general in order for woman-owned businesses to be more successful as a whole.

A. Not Being Taken Seriously:

Within the business world, women's opinions and advice are not always viewed as "expert" compared to a man's opinion. And when a female starts a business, sometimes family, friends, and others in the business community can view it as a hobby or a side project to family duties, rather than a bona fide business. Seeking out extra support can help to help overcome this bias, but women need to realize that this is a true gender bias obstacle.

B. Letting Fear Stand in the Way:

In general, women can be less prone to taking risks and can let their own fears (such as the fear of failure, fear of success, fear of being on their own etc.) stand in the way of "going for it" and pursuing the path of entrepreneurship. Confidence is a great way to combat these fears and the best way to feel confident in what you are doing is to make sure that you are as prepared as possible before you start your business endeavor. Also, believe in what you bring to the table and value your time, efforts and capabilities.

C. Wanting to Please Everyone:

Females are often taught to "be nice" and "people pleasers", which can lead to seeking the approval of others. Subsequently, women can have a harder time saying "No", which can lead to under-charging for their products/services or being too giving of their time and help in general. This typically comes at the expense of their own needs, business or otherwise.

D. Wearing Too Many Hats:

In their personal lives, women have a tendency to try to be everything to everyone and wear so many different hats that juggling everything becomes very difficult. So, when women add "entrepreneur" and "business owner" into the mix, this tendency is further magnified. Women can feel like they have to "do it for themselves" or are the best person for every job and have a tougher time delegating responsibilities to others. This causes more time to be spent working in their business, rather than on their business. This is a major hurdle to overcome in order to have a successful business.

E. Conflicts between Work and Domestic Commitments :

Women's family obligations also bar them from becoming successful entrepreneurs in both developed and developing nations. "Having primary responsibility for children, home and older dependent family members, few women can devote all their time and energies to their business" (Starcher, 1996)

F. Gender gaps in education :

While women are making major strides in educational attainment at primary and secondary levels, they often lack the combination of education, vocational and technical skills, and work experience needed to support the development of highly productive businesses.

G. **Lack of finance** :

Access to finance is one of the most common challenges that entrepreneurs face and this is especially true for women who are further impeded by lack of personal identification, lack of property in their own name and the need for their husband's countersignature on many documents.

H. **Legal constraints in family law** :

The institutional and legal environment is critical to the growth of female-owned enterprises. Laws regulating the private sphere specifically those regarding marriage, inheritance and land can hinder women's access to assets that can be used as collateral when securing a loan.

I. Heavy household responsibilities leave a demand on women especially those in rural areas who have more children. They are required to perform their traditional role as housewives and therefore, they have fewer hours of free time than men, both during the weekend and on weekdays.. An ILO report on women entrepreneurship identifies the following problems faced by women entrepreneurs.

J. **Lack of family support** :

Sometimes the family may make the women feel guilty of neglecting household duties in her pursuit of business obligations. Cultural traditions may hold back a woman from venturing into her own business.

K. **Lack of capital-traditional sources** of finance like banks are reluctant to lend to women entrepreneurs especially if they do not have any male or family backing. This is especially true of lower income females. Women do not have adequate finance or legal knowledge to start an enterprise.

L. **Lack of confidence** and faith-lack of role models undermines the self confidence of women entrepreneurs. The activity of selling is considered abhorrent to the female gender.

M. Lack of right public/ private institutions-

Most public and private incentives are misused and do not reach the woman unless she is backed by a man. Also many trade associations like ministries, chambers of commerce do not cater to women expecting women's organizations to do the necessary thing.

14.7 PROBLEMS OF WOMEN ENTREPRENEURS

The basic problem of a woman entrepreneur is that she is a woman. Women entrepreneurs face two sets of problems specific to women entrepreneurs. These are summarized as follows.

1) **Shortage of Finance**: Women and small entrepreneurs always suffer from inadequate fixed and working capital. Owing to lack of confidence in women's ability, male members in the family do not like to risk their capital in ventures run by women. Banks have also taken negative attitude while lending to women entrepreneurs. Thus women entrepreneurs rely often on personal saving and loans from family and friends.

2) **Shortage of Raw Material:** Women entrepreneurs find it difficult to procure material and other necessary inputs. The prices of many raw materials are quite high.

3) **Inadequate Marketing Facilities:** Most of the women entrepreneurs depend on intermediaries for marketing their products. It is very difficult for the women entrepreneurs to explore the market and to make their product popular. For women, market is a 'chakravyuh'.

4) **Keen Competition**: Women entrepreneurs face tough competition from male entrepreneurs and also from organized industries. They cannot afford to spend large sums of advertisement.

5) **High Cost of Production**: High prices of material, low productivity. Under utilisation of capacity etc. account for high cost of production. The government assistance and subsidies would not be sufficient for the survival.

6) **Family Responsibilities**: Management of family may be more complicated than the management of the business. Hence she cannot put her full involvement in the business Occupational backgrounds of the family and education level of husband has a direct impact on the development of women entrepreneurship.

7) **Low Mobility:** One of the biggest handicaps for women entrepreneur is her inability to travel from one place to another for business purposes. A single women asking for room is looked upon with suspicion. Sometimes licensing authorities, labor officials and sales tax officials may harass them.

8) **Lack of Education:** About 60% of women are still illiterate in India. There exists a belief that investing in woman's education is a liability, not an asset. Lack of knowledge and experience creates further problems in the setting up and operation of business.

9) **Low Capacity to Bear Risks**: Women lead a protected life dominated by the family members. She is not economically independent. She may not have confidence to bear the risk alone. If she cannot bear risks, she can never be an entrepreneur.

10) **Social Attitudes**: Women do not get equal treatment in a male dominated society. Wherever she goes, she faces discrimination. The male ego stands in the way of success of women entrepreneurs. Thus, the rigid social attitudes prevent a woman from becoming a successful entrepreneur.

11) **Low Need for Achievement**: Generally, a woman will not have strong need for achievement. Every women suffers from the painful feeling that she is forced to depend on others in her life. Her pre-conceived notions about her role in life inhibit achievement and independence.

12) **Lack of Training**: A women entrepreneur from middle class starts her first entrepreneurial venture in her late thirties or early forties due to her commitments towards children. Her biggest problem is the lack of sufficient business training.

13) **Lack of Information**: Women entrepreneurs sometimes are not aware of technological developments and other information on subsidies and concessions available to them. They may not know how to get loans, industrial estates, raw materials etc.

14.8 REMEDIES TO SOLVE THE PROBLEMS OF WOMEN ENTREPRENEURS

The following measures may be taken to solve the problems faced by women entrepreneurs in India:

I. In banks and public financial institutions, special cells may be opened for providing easy finance to women entrepreneurs. Finance may be provided at concessional rates of interest.

II. Women entrepreneurs' should be encouraged and assisted to set up co-operatives with a view to eliminate middlemen.

III. Scarce and imported raw materials may be made available to women entrepreneurs on priority basis.

IV. Steps may be taken to make family members aware of the potential of girls and their due role in society.

V. Honest and sincere attempts should be undertaken by the government and social organizations to increase literacy among females.

VI. In rural areas self employment opportunities should be developed for helping women.

VII. Marketing facilities for the purpose of buying and selling of both raw and finished goods should be provided in easy reach.

VIII. Facilities for training and development must be made available to women entrepreneurs. Family members do not like women to go to distant place for training. Therefore mobile training centres should be arranged. Additional facilities like stipend, good hygienic chreches, transport facilities etc., should be offered to attract more women to training centres.

14.9 MEASURES TAKEN FOR THE DEVELOPMENT OF WOMEN ENTREPRENURSHIP IN INDIA

Women empowerment should be one of the primary goals of a society. Women should be given equality, right of decision-making and entitlements in terms of dignity. They should attain economic independence. The most important step to achieve women empowerment is to create awareness among women themselves. Development of women can be achieved through health, education and economic independence. Realizing the importance of women entrepreneurs, Govt. of India has taken a number of measures to assist them. Some of the important measures are outlined as follows:

1) **TRYSEM:** Training of Rural Youth For Self Employment was launched on 15th August 1979 which is still continuing. The objective of TRYSEM is to provide technical skills to rural youth between 18 and 35 years of age from families below the poverty line to enable them to take up self employment in agriculture and allied activities, industries, services and business activities. This is a sub scheme of IRDP. Training given through ITIs, Polytechnics, Krishi Vigyan Kendra, and Nehru Yuva Kendras etc has helped many rural women set up their own micro enterprises with IRDP assistance.

2) **BANKS:** Banks particularly commercial banks have formulated several schemes to benefit women entrepreneurs. These includes Rural Entrepreneurship Development Programmes and other Training programmes, promotion of rural non-farm enterprise, women ventures etc.

3) **NABARD**: NABARD as an apex institution guides and assists commercial banks in paying special attention to women beneficiaries while financing. It has also been providing which could be deployed for the purpose of financing women beneficiaries.

4) **INDUSTRIAL POLICY**: The new Industrial policy of Government has specially highlighted the need for conducting special entrepreneurship programme for women.

5) **INSTITUTIONS AND VOLUNTARY ASSOCIATION**: Several voluntary agencies like FICCI Ladies Organization (FLO), National Alliance of Young Entrepreneurs (NAYE) and others assist women entrepreneurs. ***NAYE*** has been a leading institution engaged in the promotion and development of entrepreneurship among women. It convened a conference of women entrepreneurs in November 1975. It assists the women entrepreneurs in:

a) Getting better access to capital, infrastructure and markets.

b) Identifying investment opportunities.

c) Developing managerial and productive capabilities.

d) Attending to problems by taking up individual cases with appropriate authorities.

e) Sponsoring participation in trade fairs, exhibitions, special conference etc.

6) **NATIONAL POLICY FOR THE EMPOWERMENT OF WOMEN, 2001:** As to the commitments made by India during the Fourth World Conference on women held in Beijing during September, 1995, the Department of women and children has drafted a national policy for the empowerment of women. This is meant to enhance the status of women in all walks of life at par with men.

Women entrepreneurs face many problems in various aspects of finance, marketing, health and family. After independence, law guaranteed equal rights and equal opportunities in education and employment for women. Women entrepreneur sector occupies nearly 45% of the Indian population. But their number as entrepreneurs is too diminutive. At this juncture, effective steps are needed to provide entrepreneurial awareness, orientation and skill development programmes to women. Steps are to be taken to promote women entrepreneurship. Renaissance of entrepreneurship is the need of the hour and this is possible only by educating women strata of population, spreading awareness and consciousness amongst women to outshine in the enterprise field. They should be made to realize their strengths, and important position in the society and the great contribution they can make for the entire economy.

14.10 CASE STUDY

Shahnaz Husain (Shahnaz) was another successful woman entrepreneur of India. She popularized herbal treatments for beauty and health problems. Her company, Shahnaz Husain Herbals, was the largest of its kind in the world and had a strong presence in over 100 countries, from the US to Asia. By 2002, the Shahnaz Husain Group had over 650 salons around the world, employing about 4200 people. The net worth of the Group was $100 million. Shahnaz

Husain was born into a royal Muslim family which originally came from Samarkand (in Pakistan) and later held important posts in the princely kingdoms of Bhopal and Hyderabad before India's independence. Shahnaz's father, Justice N.U Beg, was a progressive man who instilled in her a love for poetry and English literature. Shahnaz Husain received her schooling in an Irish convent. A western education coupled with a traditional family background gave Shahnaz Husain wide exposure and developed her into a well rounded personality. She was married at the age of 15 and had a child by the next year.

When her husband was working in Iran, Shahnaz Husain became interested in cosmetology. After she began her training, she realized that chemical cosmetics had a harmful effect on the human body. As a result, she turned her attention towards ayurveda, the ancient Indian system of medicine, which used natural substances and extracts to heal and improve the body. Subsequently, she trained extensively in cosmetic therapy for 10 years in some of the leading institutes of London, Paris, New York and Copenhagen. On her return to India in 1977 she set up her own salon at her house in Delhi with an initial investment of Rs 35000. Instead of offering chemical treatments like other salons, Shahnaz Husain's salon offered Ayurvedic treatments. Shahnaz's custom made natural products for skin and hair problems quickly became successful.

Shahnaz Husain pioneered the commercialization of ayurvedic cosmetics. Until she started her business, ayurveda was practiced in peoples' homes or by local ayurvedic doctors. The commercialization of ayurveda was relatively unknown in the 1970s when Shahnaz Husain entered the business. Shahnaz Husain capitalized on this deficiency. She identified ayurveda as a niche market and catered to it. Her products gained popularity in India, and her treatments were booked months in advance. Encouraged by her success in India,

Shahnaz Husain started exploring avenues abroad. She was disturbed by the fact that India was not represented in any of the international beauty forums. Determined to change the situation, she represented India for the first time in the CIDESCO beauty congress, where she was appointed President for the day's proceedings. She used this opportunity to focus the world's attention on India and ayurveda.

The turning point in her business came when she represented India at the Festival of India in 1980. Her team was given a counter in the perfumery section of Selfridges in London. She managed to sell her entire consignment in three days and also broke the store's record for cosmetics sales for the year. As a result, she was offered a permanent counter in Selfridges. Shahnaz Husain was also the first Asian whose products were retailed in the Galeries Lafayette in Paris and to be featured in the 18-foot shop window of the store.

Although it was not easy to enter the highly competitive western markets and especially difficult to attract attention to the Indian system of ayurveda, she was able to gain a firm foothold in the markets. Shahnaz Husain products were carried by many prestigious stores across the world, such as Harrods and Selfridges in London, the Galeries Lafayette in Paris, Bloomingdales in New York, the Seiyu chain in Japan, Sultan Stores in the Middle East and other exclusive outlets in the Middle East, Asia and Africa.

QUESTIONS:

1. What are all the major factors influencing to shahaz Husain to become a successful women entrepreneur in India?
2. Encounter the major problems and prospects are faced to become a successful women entrepreneur in India?

CASE STUDY NO.2

Discovering Young Women Entrepreneurs (Mercy Corps)

Mercy Corps is implementing the Discovering Young Women Entrepreneurs (DYWE) program, a training program in Haiti, in collaboration with the Fondation Être Ayisyen (FEA), a local organization. The objective of the program is to empower 200 of Haiti's young women, eventually reaching 600 women, to increase entrepreneurial capacity, job creation and revenue generation to further Haiti's economic recovery. The training program works in several stages. In the first stage, 200 women receive Level 1 entrepreneurship training over five days. At the end of this, each woman takes an Entrepreneurial Finance Lab (EFL) test and writes a concept paper on their business.

The top 100 participants to receive high ranks, according to the scores of the concept papers and EFL test, are selected to do a four-minute business pitch to a panel of judges. Based on presentation, originality, social impact, and feasibility of the idea, a panel of judges select 40 women to participate in Level 2 training, which is a much more extensive seven-week program covering a range of business development topics that include marketing, ICT (using Intel's Easy Steps Program), finance, and customer care, to name a few. It also includes mentoring workshops where female entrepreneurs participate in peer mentoring sessions to discuss challenges and solutions to common business challenges as well as linkages with local financial institutions. Participants of the Level 2 training are enrolled in the MicroMentor.org online platform where they become part of a network of entrepreneurs and are able to seek business advice from fellow entrepreneurs and access local business resources.

Once the Level 2 training is complete, the 40 women present their final business plans and 12 winners are selected based on the feasibility and strength of their business plans. These 12 winners receive cash grant prizes ranging from $500 to $5,000 and one-on-one business mentoring from experienced Haitian entrepreneurs to help them launch new businesses or expand their existing small enterprises. Other than meeting criteria for sex and age (participants must be female and 18-35 years of age) there no other criteria applied to the registration process. Outreach for the program was done primarily by FEA through a large-scale promotion campaign which included posters, flyers, local radio and television interviews, and caravan visits to target areas with mobile units. The program has just completed the Level 1 training and is preparing for the Level 2 stage. Mercy Corps is using the results of focus group discussions with the participants of the Level 1 training to make some changes that address challenges faced by women. Some of the changes envisioned include providing lunch to the participants and scheduling training for three days a week instead of five.

QUESTIONS:

1. Discuses and analysis the overall circumstances and significances of women entrepreneurship in this case study?
2. What are all the measures has been taken to development of women entrepreneurs in this case study?

14.11 NOTES

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14.12 SUMMARY

This unit discussed about the concepts of women entrepreneurship and significance and challenges us faced by the women entrepreneurs in India are discussed in the length .An account measures taken by the measures taken for the development of women entrepreneurship given in this unit.

14.13 KEY WORDS

Women Entrepreneurship

Small Industries

SIDBI

KSFC

DIC

14. 14 SELF ASSESSMENT QUESTIONS

1. What is women entrepreneurship ?
2. Expand SIDBI?
3. What are the faction of DIC's ?

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UNIT - 15: INDUSTRIAL POLICY AND ENTREPRENURSHIP DEVELOPMENT

Structure :

15.0 Objectives

15.1 Introduction

15.2 Objectives of the Industrial Policy

15.3 Evolution of the New Industrial Policy

15.4 Industrial Licensing Policy

15.5 The concept of Entrepreneurship Development

15.6 Objectives of entrepreneurship Development

15.7 Process of Entrepreneurial Development

15.8 Entrepreneurial Motivation

15.9 Problems and Measures of Entrepreneurship Development

15.10 Entrepreneurship Development Programme in India

15.11 Case Study

15.12 Notes

15.13 Summary

15.14 Key Words

15. 15 Self Assessment Question

15.16 References

15.0 OBJECTIVES

After study this unit, you should be able to;

- Describe the objectives of industrial policy.
- Give an account on evolution of entrepreneurship development.
- Explain the evolution of new industrial policy in India.

15.1 INTRODUCTION

The industrial policy of a country, sometimes denoted IP, is its official strategic effort to encourage the development and growth of part or all of the manufacturing sector as well as other sectors of the economy. Industrial policies are sector-specific, unlike broader macroeconomic policies. Examples of the latter, which are horizontal, economy wide policies, are tightening credit and taxing capital gains, while examples of industrial policy, which involves vertical, sector-specific policies, include protecting textiles from imports and subsidizing export industries. Industrial policies are intervention it measures typical of mixed economy countries.

Industrial policy is a statement which defines the role of government in industrial development. The place of the public and private sectors in industrialization of the country. The relative role of large and small industries. In brief, it is a statement of objectives to be achieved in the area of industrial development and the measures to be adopted towards achieving these objectives. The industrial policy thus formally indicates the spheres of activity of the public and the private sectors. It lays down rules and procedures that would govern the growth and pattern of industrial activity. The industrial policy is neither fixed nor inflexible. It is amended, modified and redrafted according to the changed situations, requirements and perspectives of developments.

The Industrial Policy Statement of July 1980, which is based as the Industrial Policy Resolution of 1956, spells out the following socio-economic objectives:

(i) Optimum utilization of installed capacity;

(ii) Maximum production and achieving higher productivity;

(iii) Higher employment generation;

(iv) Correction of regional imbalances;

(v) Strengthening of the agricultural base through agro based industries and promotion of optimum inter-sectoral relationship;

(vi) Promotion of export-oriented industries;

(vii) Promotion of economic federalism through equitable spread of investment and dispersal of returns; and

(viii) Consumer protection against high prices and bad quality.

15.2 OBJECTIVES OF THE INDUSTRIAL POLICY

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

- Liberalizing the industry from the regulatory devices such as licenses and controls.
- Enhancing support to the small scale sector.
- Increasing competitiveness of industries for the benefit of the common man.
- Ensuring running of public enterprises on business lines and thus cutting their losses.
- Providing more incentives for industrialization of the backward areas, and
- Ensuring rapid industrial development in a competitive environment.

The New Industrial Policy has made very significant changes in four main areas. Industrial licensing role of public sector, foreign investment and technology and the MRTP act. The major provisions of this policy are discussed below.

1. Rapid Industrial Development:

The industrial policy of the Government of India is aimed at increasing the tempo of industrial development. It seeks to create a favorable investment climate for the private sector as well as mobilize resources for the investment in public sector. In its way the government seeks to promote rapid industrial development in the country.

In 1948, immediately after Independence, Government introduced the Industrial Policy Resolution. This outlined the approach to industrial growth and development. It emphasized the importance to the economy of securing a continuous increase in production and ensuring its equitable distribution. After the adoption of the Constitution and the socio-economic goals, the Industrial Policy was comprehensively revised and adopted in 1956. To meet new challenges, from time to time, it was modified through statements in 1973, 1977 and 1980.

2. Balanced industrial Structure:

The industrial policy is designed to correct the prevailing lopsided industrial structure. Thus, for example, before independence, India had some fairly developed consumer goods industries. But the capital goods sector was not developed at all and basic and heavy industries were by and large absent. So the industrial policy had to be framed in such a manner that these imbalances in the industrial structure are corrected. Thus by laying emphasis on heavy industries and development of capital goods sector, industrial policy seeks to bring a balance in industrial structure.

3. Prevention of Concentration of Economic Power:

The industrial policy seeks to provide a framework of rules, regulations and reservation of spheres of activity for the public and the private sectors. This is aimed at reducing the monopolistic tendencies and preventing concentration of economic power in the hands of a few big industrial houses.

4. Balanced Regional Growth:

Industrial policy also aims at correcting regional imbalances in industrial development. It is quite well-known that some regions in the country are industrially quite advanced e.g., Maharashtra and Gujarat while others are industrially backward, like Bihar, Orissa. It is the task of industrial policy to work out programmes and policies which lead to industrial development or industrial growth.

5. Abolition of Industrial Licensing:

In the earlier industrial policy, industries were subjected to tight regulation through the licensing system. Though some liberalization measures were introduced during 1980's that positively affected the growth of industry. Still industrial development remained constrained to a considerable extent. The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation.

To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to health security and strategic concerns that require compulsory licensing. Thus the industry has been almost completely made free of the licensing provisions and the constraints attached with it.

6. De-reservation of Industries for Public Sector:

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses. Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty. The new industrial policy seeks to limit the role of public sector and encourage private sector's participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector industries:

7. Reduced reservation for public sector:

Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries. Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy. However, if need be even some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the national interest so demands.

8. Efforts to revive loss making enterprise:

Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

9. Disinvestment in selected public sector industrial units:

As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers. For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment. On the basis of recommendations of the 'Disinvestment Commission' the government sells the shares of public enterprise.

10. Greater autonomy to public enterprises:

The New Industrial Policy seeks to give greater autonomy to the public enterprises in their day-to-day working. The trust would be on performance improvement of public enterprises through a mix of greater autonomy and more accountability.

11. Liberalized Policy Towards Foreign Capital and Technology:

The inflow of foreign capital and import of technology was tightly regulated under the earlier Industrial policy. Each proposal of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept very low so that majority of ownership control remains with Indians. But such a policy kept the inflow of foreign capital very small and industrial development suffered for want of capital resources and technology. The July, 1991 Industrial policy made several concessions to encourage flow of foreign capital and technology into India, which are follows:

12. Relaxation in Upper Limit of Foreign Investment:

The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation. In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalized and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbours etc.Recent decision taken to further liberalize FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ's), some activities in telecom see tor etc.

13. Automatic Permission for Foreign Technology Agreement:

The New Industrial Policy states that automatic permission will be granted to foreign technology agreements in the high priority industries. Previously technology agreement by an Indian company with foreign parties for import of technology required advance clearance from the government. This delayed the import of technology and hampered modernization of industries. Now the Indian companies could enter into technology agreements with foreign companies and import foreign technology for which permission would be automatically granted provided the agreements involved a lump sum payment of upto Rs. 1 crore and royalty upto 5 percent on domestic sales and 8 per cent on exports.

14. Changes in the MRTP Act:

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to obtain clearance from the MRTP Commission for setting up any new industrial unit, because such companies (called MRTP companies) were allowed to invest only in some selected industries. Thus, besides obtaining a license they were also required to get MRTP clearance. This was a big impediment for industrial development as the big business firms which had the resources for development could not grow and diversify their activities.

The Industrial Policy, 1991 has put these industries on par with others by abolishing those provisions of the MRTP Act which mediate mandatory for the large industrial houses to seek prior clearance from MRTP Commission for their new projects. Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are unfair and restrict competition to the detriment of consumer s interests. No prior approval of or clearance from the MRTP Commission is now required for setting up industrial units by the large business houses.

16. Greater Support to Small-Scale Industries:

The New Industrial Policy seeks to provide greater government support to the small-scale industries so that they may grow rapidly under environment of economic efficiency and technological up gradation. A package of measures announced in this context provides for setting up of an agency to ensure that credit needs of these industries are fully met.

It also allows for equity participation by the large industries in the small scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to provide small scale sector an access to the capital market and to encourage their upgradation and modernization the government would also encourage the production of parts and components required by the public sector industries in the small-scale sector

17. Other Provisions:

Besides above discussed measures, the Industrial Policy 1991 announced some more steps to promote rapid industrial development. It said that the government would set up a special board (which was established as Foreign Investments Promotion Board—FIPB) to negotiate with a number of international companies for direct investment in industries in India. It also announced the setting up of a fund (called National Renewal Fund) to provide social security to retrenched workers and provide relief and rehabilitate those workers who have been rendered unemployed due to technological changes.

The New Policy also removed the mandatory convertibility clause under which the Public Sector Financial Institution were asked to convert the loans given by them to private industries in equity (shares) and thus become partners in their management. This removed a big threat to the private sector industries as they were always under threat that their management and control could pass on into the hands of the Government owned financial institutions.

15.3 EVALUTION OF THE NEW INDUSTRIAL POLICY

- The New Industrial Policy 1991 aims to unshackle Indian's industrial economy from the cobwebs of unnecessary bureaucratic control. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays. Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'Licence-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.
- The public sector's role has been confined largely to industries of defence, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The industry is thus expected to grow faster under the new industrial policy 1991.
- The Industrial policy of 1948, which was the first industrial policy statement of the Government of India, was changed in 1956 in a public sector dominated industrial development policy that remained in force till 1991 with some minor modifications and amendments in 1977 and 1980. In 1991, far reaching changes were made in the 1956 industrial policy. The new Industrial Policy of July 1991 heralded the framework for industrial development at present.
- The Industrial Policy Resolution of 1948 was followed by the Industrial Policy Resolution of 1956 which had as its objective the acceleration of the rate of economic growth and the speeding up of industrialization as a means of achieving a socialist pattern of society. In 1956, capital was scarce and the base of entrepreneurship not strong enough. Hence, the 1956 Industrial Policy Resolution gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development.
- The Industrial Policy Statement of 1973, inter alia, identified high-priority industries where investment from large industrial houses and foreign companies would be permitted.
- The Industrial Policy Statement of 1977 laid emphasis on decentralization and on the role of small-scale, tiny and cottage industries. 6. The Industrial Policy Statement of 1980 focused attention on the need for promoting competition in the domestic market, technological up gradation and modernization.

- The policy laid the foundation for an increasingly competitive export base and for encouraging foreign investment in high-technology areas. This found expression in the Sixth Five Year Plan which bore the distinct stamp of Smt. Indira Gandhi. It was Smt. Indira Gandhi who emphasized the need for productivity to be the central concern in all economic and production activities.
- These policies created a climate for rapid industrial growth in the country. Thus on the eve of the Seventh Five Year Plan, a broad-based infrastructure had been built up. Basic industries had been established. A high degree of self-reliance in a large number of items - raw materials, intermediates, finished goods - had been achieved. New growth centers of industrial activity had emerged, as had a new generation of entrepreneurs. A large number of engineers, technicians and skilled workers had also been trained.
- The Seventh Plan recognized the need to consolidate on these strengths and to take initiatives to prepare Indian industry to respond effectively to the emerging challenges. A number of policy and procedural changes were introduced in 1985 and 1986 under the leadership of Shri Rajiv Gandhi aimed at increasing productivity, reducing costs and improving quality.
- The accent was on opening the domestic market to increased competition and readying our industry to stand on its own in the face of international competition. The public sector was freed from a number of constraints and given a larger measure of autonomy. The technological and managerial modernization of industry was pursued as the key instrument for increasing productivity and improving our competitiveness in the world. The net result of all these changes was that Indian industry grew by an impressive average annual growth rate of 8.5% in the Seventh Plan period.
- Government is pledged to launching a reinvigorated struggle for social and economic justice, to end poverty and unemployment and to build a modern, democratic, socialist, prosperous and forward-looking India. Such a society can be built if India grows as part of the world economy and not in isolation.
- While Government will continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through our own foreign exchange earnings. Government is also committed to development and utilization of indigenous capabilities in technology and manufacturing as well as its up gradation to world standards.
- Government will continue to pursue a sound policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through

investment in research and development, bringing in new technology, dismantling of the regulatory system, development of the capital markets and increasing competitiveness for the benefit of the common man. The spread of industrialization to backward areas of the country will be actively promoted through appropriate incentives, institutions and infrastructure investments.

- Government will provide enhanced support to the small-scale sector so that it flourishes in an environment of economic efficiency and continuous technological up gradation.
- Foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base.
- Government will endeavour to abolish the monopoly of any sector or any individual enterprise in any field of manufacture, except on strategic or military considerations and open all manufacturing activity to competition.
- The Government will ensure that the public sector plays its rightful role in the evolving socioeconomic scenario of the country. Government will ensure that the public sector is run on business lines as envisaged in the Industrial Policy Resolution of 1956 and would continue to innovate and lead in strategic areas of national importance. In the1950s and 1960s, the principal instrument for controlling the commanding heights of the economy was investment in the capital of key industries. Today, the State has other instruments of intervention, particularly fiscal and monetary instruments. The State also commands the bulk of the nation's savings. Banks and financial institutions are under State control. Where State intervention is necessary, these instruments will prove more effective and decisive.
- Government will fully protect the interests of labour, enhance their welfare and equip them in all respects to deal with the inevitability of technological change. Government believes that no small section of society can corner the gains of growth, leaving workers to bear its pains. Labour will be made an equal partner in progress and prosperity. Workers' participation in management will be promoted. Workers cooperatives will be encouraged to participate in packages designed to turn around sick companies. Intensive training, skill development and up gradation programmes will be launched.
- Government will continue to visualise new horizons. The major objectives of the new industrial policy package will be to build on the gains already made, correct the distortions or weaknesses that may have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness. The pursuit of these objectives will be tempered by the need to preserve the environment

and ensure the efficient use of available resources. All sectors of industry whether small, medium or large, belonging to the public, private or cooperative sector will be encouraged to grow and improve on their past performance.

15.4 INDUSTRIAL LICENSING POLICY

Industrial Licensing is governed by the Industries (Development & Regulation) Act, 1951. The Industrial Policy Resolution of 1956 identified the following three categories of industries those that would be reserved for development in the public sector, those that would be permitted for development through private enterprise with or without State participation, and those in which investment initiatives would ordinarily emanate from private entrepreneurs. Over the years, keeping in view the changing industrial scene in the country, the policy has undergone modifications. Industrial licensing policy and procedures have also been liberalised from time to time. A full realisation of the industrial potential of the country calls for a continuation of this process of change.

In order to achieve the objectives of the strategy for the industrial sector for the 1990s and beyond it is necessary to make a number of changes in the system of industrial approvals. Major policy initiatives and procedural reforms are called for in order to actively encourage and assist Indian entrepreneurs to exploit and meet the emerging domestic and global opportunities and challenges. The bedrock of any such package of measures must be to let the entrepreneurs make investment decisions on the basis of their own commercial judgment. The attainment of technological dynamism and international competitiveness requires that enterprises must be enabled to swiftly respond to fast changing external conditions that have become characteristic of today’s industrial world. Government policy and procedures must be geared to assisting entrepreneurs in their efforts. This can be done only if the role played by the Government were to be changed from that of only exercising control to one of providing help and guidance by making essential procedures fully transparent and by eliminating delays.

The winds of change have been with us for some time. The industrial licensing system has been gradually moving away from the concept of capacity licensing. The system of reservations for public sector undertakings has been evolving towards an ethos of greater flexibility and private sector enterprise has been gradually allowed toenter into many of these areas on a case by case basis. Further impetus must be provided to these changes which alone can push this country towards the attainment of its entrepreneurial and industrial potential. This calls for bold and imaginative decisions designed to remove restraints on capacity creation, while at the same time, ensuring that over-riding national interests are not jeopardized.

In the above context, industrial licensing will henceforth be abolished for all industries, except those specified, irrespective of levels of investment. These specified industries will continue to be subject to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues, manufacture of products of hazardous nature and articles of elitist consumption. The exemption from licensing will be particularly helpful to the many dynamic small and medium entrepreneurs who have been unnecessarily hampered by the licensing system. As a whole the Indian economy will benefit by becoming more competitive, more efficient and modern and will take its rightful place in the world of industrial progress.

15.5 THE CONCEPT OF ENTREPRENURSHIP DEVELOPMENT

The term entrepreneurship is defined in the previous chapter of this book. It is the risk taking ability of an individual coupled with creativity and innovative ideas. He discovers new business ideas and investment opportunities. He materializes his ideas and opportunities in time, leading to the launching of new business which he organizes skillfully and effectively. These qualities and traits of an individual constitute entrepreneurship. This kind of entrepreneurship needs to be developed in the society for overall economic development of the country.

Entrepreneurship development means creating entrepreneurship attitude in individuals through searching for prospective entrepreneur and promoting that attitude to make an individual a real entrepreneur. It motivates to identify new business ideas and investment opportunities under changing economic environment. It helps to transform the idea or opportunity into enterprise. Ultimately it leads to the development of industrial sector of the economy. Thus the concept of entrepreneurship development may be defined as follows:

"Entrepreneurship development is a process through which entrepreneurial qualities are injected with necessary motivational drives of achievements to transform business ideas or opportunities into enterprise and to manage uncertain and risky situations of business undertakings."

The above definition highlights following express and implied features of entrepreneurship development:

- It is a process of searching prospective entrepreneurs and their entrepreneurial qualities
- It is a process of training through which new ideas of business and investment Opportunities are exposed to these prospective entrepreneurs.
- It is motivation for transforming idea or opportunity into business enterprise.

- It is boosting confidence among prospective entrepreneurs by providing counseling on management, marketing, finance and technical aspects of business enterprise.
- It is an instrumental tool for making an individual a real entrepreneur.
- It is a continuous and on-going activity of government and non-government organizations.
- It aims at industrial and economic growth of the country.

Entrepreneurs play a predominant role in accelerating the socio-economic development of a country. They are regarded as the nation builders and wealth creators. They are the change agents who initiate economic activities to create wealth. They undertake the business initiative, employ themselves in that business and open up employment avenues for others. Therefore, the role of entrepreneur is of fundamental importance to a country like India where the twin problems of poverty and unemployment coexist. During early sixties, the small scale sector was considered as exclusively an employment-generating sector, but gradually this sector began to be recognized as the crucial tool for tapping latent entrepreneurial talent and now in the post-liberalization period, there seems to be ample opportunities for entrepreneurship and entrepreneurial growth. Considering the importance of small scale industries in employment creation and economic development, the Government of India envisaged promotional packages to facilitate setting up of new enterprises.

15.6 OBJECTIVES OF ENTREPRENEURSHIP DEVELOPMENT

The definition and the features of entrepreneurship development outline its scope and nature. It is meant for economic growth of the country. Hence the objectives of entrepreneurship development may be enlisted as follows:

- To promote entrepreneurial qualities and traits among youth through training and expert consulting.
- To search and develop entrepreneurial opportunities and business ideas for potential entrepreneurs.
- To motivate and guide individuals for launching new business undertakings.
- To provide and conduct new programmes for stimulating new ventures in rural and urban areas.
- To provide managerial skills, marketing techniques and technical knowhow for prospective and existing entrepreneurs
- To make available different kinds of project reports for new ventures.

- To provide information regarding different facilities, concessions, schemes sponsored by State Government, Central Government, Institutes etc. for promoting entrepreneurship.
- To promote and maintain entrepreneurial culture among different sections of society in particular and in the nation in general.
- To promote the development of small and medium enterprises in different sectors of economy.
- To generate employment and self-employment through entrepreneurial development and growth of small-scale industries.
- To contribute for economic and industrial development of the country through first-generation entrepreneurs.

All these objectives of entrepreneurial development highlight the importance of entrepreneurial development in national economy.

In order to bring about entrepreneurial growth, the policy mailers and financial institutions started thinking in terms of imbibing entrepreneurship culture through training interventions. Thus, Entrepreneurship Development Programmes (EDPs) Corporation (GIIC) and other agencies who have organized a three-month entrepreneurship development programme in late sixties. The programme was conducted for a selective group of energetic and potential entrepreneurs who had the willingness and desire to achieve the goal set by them. The objectives laid down for the above programmes were as follows:

a. To set up small scale ventures.

b. To manage them effectively.

c. To earn adequate profit from these ventures

d. To undertake personal responsibility of the business.

e. Accelerating industrial development by enlarging the supply of entrepreneurs.

f. Developing entrepreneurial qualities and motivating the prospective entrepreneurs to achieve the goal.

g. Enhancing the growth of small-and medium-scale enterprise sectors which offer better potential for employment generation and dispersal of industrial unit.

h. Providing productive self-employment avenues to a large number of educated and low educated young men and women coming out of schools and colleges.

i. Improving performance of small-and medium-scale industries by the supply of carefully-selected and trained entrepreneurs and diversifying sources of entrepreneurship.

j. Enterprise development in rural and no-industry areas where local entrepreneurship is not really available and entrepreneurs from nearby towns are not easily lured.

15.7 PROCESS OF ENTREPRENEURIAL DEVELOPMENT

Entrepreneurial Development is an important activity in the economic field of a nation. Hence state and central governments put all efforts for Entrepreneurial Development at all levels. Different programmes are organized and sponsored from village level to national level. Of course training is the core activity under Entrepreneurial Development. It includes promotional, supportive and developmental programmes. But the process of Entrepreneurial Development is subdivided into three major stages as follows:

1. Pre-training stage:

Under the first stage of the process, the activities for conducting Entrepreneurial Development training programmes are undertaken. Hence it is termed as pre-training stage of the process. It includes following activities:

1) Planning Entrepreneurial Development training programmes required by local needs.

2) Preparing training manual and circulars.

3) Making proper publicity of the programmes for attracting potential entrepreneurs.

4) Providing information and guidance to the interested individuals.

5) Chalk out details of the training programmes.

6) Calling applications, making the scrutiny and selection of applicants for the training.

7) Organize necessary tools and equipments for training purposes.

8) Communicating with the applicants for attending the training.

9) Invite expert resource persons for the training programmes.

10) The pre-training activities are to be organized in systematic manner for the success of the training programmes.

2. The training stage:

The second stage of the process is conducting the training programmes as per schedule. The training programmes are conducted especially at local level which may be village, Taluka or District level. Government Agencies and non-government organizations organize such kind of Entrepreneurial Development training programmes. The District Industries Centre or Maharashtra Centre for Entrepreneurship Development are government agencies which organize the Entrepreneurship Development training programmes in Maharashtra. Of course some reasonable fees are charged, against which training literature, printed manual, refreshment, meals etc. are supplied to the participants. Under this stage, following activities are undertaken.

1) Registration of participants and distribution of training literature, manuals and training schedules.

2) Arrangement of lectures by resource persons and experts.

3) Explaining the preliminary formalities and procedures for launching new business or undertaking.

4) Exposing new ideas and new investment opportunities to the participants.

5) Providing the information about supportive institutes and agencies to the prospective entrepreneurs.

6) Providing the information regarding different schemes, concessions, facilities available for launching new business.

7) Injecting high stimulation among participants to become successful entrepreneurs.

8) Increasing morale and confidence of the participants for launching and managing new business.

9) Providing and injecting managerial skills, marketing techniques and technical knowledge to prospective and existing entrepreneurs.

10) Promoting entrepreneurial and creative qualities among participants for transforming them into successful entrepreneurs.

11) Preparation of different project reports as a model project and guide the participants for making project report of the proposed business.

Along with the above activities, necessary supportive and subsidiary activities are also organized under this stage. Practical's, demonstrations and visits to factory sites are also organized under the training programmes. This stage attempts to make an individual an entrepreneur. Hence it is the most important stage in the process of Entrepreneurship Development.

3. Post Training Stage :

Entrepreneurship Development aims at making prospective entrepreneur a real one and real entrepreneur into a successful one. It means that the object of Entrepreneurship Development is not only making entrepreneur, but making him successful entrepreneur. It is equally essential to sustain the development of entrepreneurship by making the existing entrepreneurs successful. From that point of view, post-training stage is equally important. Under the stage, the follow-up and nursing activities are undertaken. Searching prospective entrepreneurs and to train them and make them real entrepreneur is a continuous process of Entrepreneurship Development. Further the new entrepreneur with his new business must sustain himself with the business under adverse and uncertain situations also. Post-training activity decides the rate of success of the Entrepreneurship Development programmes. Under this stage, following activities are conducted:

A. Follow-up activities to transform trained prospective entrepreneurs into real entrepreneurs.

B. Follow-up for launching a new business or undertaking by the participants of the training programme.

C. Assisting the prospective entrepreneurs to prepare the project report and see that it is approved by the concerned authorities.

D. Guiding the prospective entrepreneurs to prepare the necessary documents, comply with the legal and technical formalities for starting a business.

E. Providing the assistance for registration of the undertaking with competent authority.

F. Assisting to organize all necessary resources including machineries, raw materials, technical knowledge etc.

G. Assisting for making available the required funds and finance.

H. Providing managerial and technical advice for launching and managing the new business.

I. Marking available the market for the proposed products and guiding in marketing problems.

J. Expert counseling for expansion and growth of the existing business of a new entrepreneur.

K. Providing guidance and assistance for rehabilitation of the sick unit launched by new entrepreneurs.

15.8 ENTREPRENEURIAL MOTIVATION

It is very interesting to know what motivates people to go into business. Why do they become ready to accept the risk? Several research studies have been conducted worldwide to identify the factors that inspire the people to undertake business activities. Though, to earn money is an important in motivating force, people do not go into business and become entrepreneurs solely to make money. There are indeed several other factors that motivate people to become entrepreneurs. Let's study what is exactly meant by entrepreneurial motivation and what factors motivate people to become entrepreneurs.

The term 'motivation' has been derived from the word 'motive' which means an inner state of our mind that moves or activates or energizes or directs our behavior towards our goal. Thus, motivation is an inner spirit that activates the person's behavior towards the goals. Motivation may be defined as the process that motivates a person into action and induces him to continue the course of action for the achievement of goals.

Michael Julius defines motivation as "the act of stimulating someone or oneself to get a desired course of action." 'Motive', 'behavior' and 'goal' are regarded as three basic elements of the process of motivation. The motives that stimulate the people to undertake entrepreneurial activities may be called the entrepreneurial motivation. Entrepreneurship is a very risky proposition but even then some people take it up, because, there are strong motives or motivating factors that stimulate them to do so. The behavioral theories propounded by behavioral scientists explain what motivates an individual to behave entrepreneurially.

15.9 PROBLEMS AND MEASURES OF ENTREPRENEURSHIP DEVELOPMENT

The need of Entrepreneurship Development was highly underlined after the independence. The Central Government highlighted the significance of Entrepreneurship Development in its first industrial policy and announced its policy on Entrepreneurship Development. Further it is also stressed in all the subsequent industrial policies of the government. Accordingly central and state governments had undertaken the campaign of Entrepreneurship Development all over the country for more than 60 years. But unfortunately it has not gained substantial success. We find certain problems and drawbacks in the process and policies of Entrepreneurship Development which may be listed as follows:

a) Lack of co-ordination in the Entrepreneurship Development organized by different institutes and agencies.

b) Unwarranted number of institutes for Entrepreneurship Development leading to confusion about their area of functioning.

c) Lack of priorities of requirements for a new entrepreneur.

d) Lack of experts for guiding and counseling the prospective entrepreneurs.

e) Lack of long-term Entrepreneurship Development of the state and central government.

f) Lack of commitment on the part of Entrepreneurship Development institutes and state government.

g) Non-availability and lack of resources for Entrepreneurship Development training programmes.

h) Lack of follow-up the participants and Entrepreneurship Development training up the participants and Entrepreneurship Development training programmes.

i) Low rate of success of Entrepreneurship Development programmes.

j) Increasing number of sick units from small-scale industries sector.

Remedial Measures:

The problems of Entrepreneurship Development need to be attended and be solved without delay. The state government and the central government has adopted certain remedial measures for doing away the problems. Some important measures are suggested as follows:

a) Effective co-ordination in the activities of Entrepreneurship Development is essential. The state government shall initiate in this regard for effective coordination.

b) Single window scheme shall be introduced for prospective entrepreneurs.

c) Priorities of requirements for launching a business by new or prospective entrepreneurs shall be fixed.

d) Experts of particular area be appointed or be invited instead of government officials.

e) Long term policy of Entrepreneurship Development be formulated by the central as well as by the state governments.

f) Nursing activities for newly started business be initiated by the Entrepreneurship

g) Development institutes to sustain the rate of successful entrepreneurs.

h) Budgetary provision and allocation of more funds by the state and central government is essential.

i) Post training follow-up need to be attended more meticulously.

j) Rehabilitation of SSI sick units be undertaken and more facilities be granted to new or first-generation entrepreneurs.

k) Differential schemes of Entrepreneurship Development programmes be introduced at district level viz. Entrepreneurship Development programmes for engineering graduates, programmes for science graduates, programmes for arts graduates, programmes for under-graduates etc.

l) The above measures if implemented seriously will certainly accelerate rate of Entrepreneurship Development.

15.10 ENTREPRENEURSHIP DEVELOPMENT PROGRAMME IN INDIA

The government of free India declared its commitment to accelerate the rate of development of the economy. The central government in its first industrial policy (1948) had given priority for Entrepreneurship Development in express statements. Even in all its subsequent Industrial Policies, special stress was given on Entrepreneurship Development. Accordingly, the state government also chalked out the policies for Entrepreneurship Development and further they established institutional network for it. Entrepreneurship Development Programmes (EDP) were organized at different levels. The Review of EDP in India is taken in the following paragraphs.

1) Entrepreneurship Development Programmes at National Level:

Central government, as per its industrial policies set up the institutional network of Entrepreneurship Development institutes at national level. These institutes were given the responsibility of undertaking Entrepreneurship Development Programmes at national level. NIESBUD, (New Delhi) EDII (Ahamdabad), NISIET (Hydrabad), SIDO, KVIB, TCO, SISI, REDI, SIDBI, IIC are some of the national institutes shouldering the responsibility of Entrepreneurship Development Programmes successfully. The different kinds of Entrepreneurship Development programmes viz. Training programmes, Orientation programmes, vocational guidance, Management Development, Trainees training, Officers training etc. are organised by these institutes. Most of the institutes conduct research activities for Entrepreneurship development programmes. These Entrepreneurship Development programmes contributed much for the growth of small, medium and cottage industries of India.

2) Entrepreneurship Development Programmes at State Level:

State governments also set up many institutes for Entrepreneurship Development Programmes purposes. Maharashtra Centre for Entrepreneurship Development (MCED) is one of the institute working for Entrepreneurship Development in per requirement of the state. They conduct training programmes for youth to identify prospective entrepreneurs. Necessary services and facilities with managerial and technical guidance are provided to the prospective entrepreneurs. Even consultancy services are provided for existing entrepreneurs.

3) Entrepreneurship Development Programmes at District and Local Level:

State and central institutes sponsor different kinds of Entrepreneurship Development Programmes at District and Taluka levels. As India is a country of villages, training programmes for villages are also organized. Certain programmes are developed for rural youth including men & women. Especially training programmes for handicrafts and cottage industries are conducted at village level. District Industries Centers are assigned Entrepreneurship Development Programmes and activities in the districts.

4) Entrepreneurship Development Programmes by NGOs:

Non-government organizations (NGOs) are also playing appreciable role for organizing Entrepreneurship Development Programmes. These NGOs conduct Entrepreneurship Development Programmes at all levels i.e. from national to local level. Especially those NGOs which are closely related with business, industries and commerce, had taken greater initiatives for Entrepreneurship Development Programmes. Indian Chamber of Commerce and Industries, National Youth Entrepreneurs Organization, Indian Women Entrepreneurs Organization, Self

Employed Women Association, Maharashtra Women Entrepreneurs Organization, Rotary clubs, Educational Institutes, Charitable Trusts etc. organize different kinds Entrepreneurship Development Programmes. Sometimes it may be in collaboration with government organization. The central and state governments had made substantial financial provisions for Entrepreneurship Development Programmes in all five year plans. The Central government has set up “National Entrepreneurship Development Board” for formulating national policy on Entrepreneurship Development.

15.11 CASE STUDY

ENTREPREURSHIP DEVELOPMET

At the ripe old age of 82 years, Maggie Mogase is no ordinary gogo. he is the entrepreneurial co-founder of Maggie's Original Mageu, a business which manufactures and distributes the traditional, maize-based fermented drink. After starting on a small scale in 2006, Maggie accessed assistance from Seda and funding from the Technology Transfer Fund, which has enabled her to grow the concern and supply supermarkets across Garankuwa and neighbouring areas.

Mageu is the generic name for the non-dairy, non-alcoholic energy-giving beverage used by many of the maize-consuming populations in Africa. "My recipe was first formulated by my loving grandmother, the late Mrs Sapula Pooe, during the great famine of 1933," says Maggie. "This was a difficult time in our history where crops failed, scores of livestock perished and lots of people died of starvation. Faced with the challenge of feeding fourteen grandchildren, my grandmother decided to make a tasty nourishing meal for us. This is how our Original Mageu was born and like my grandmother, I have passed the recipe down to my grandchildren who are now my business partners.

Maggie was referred to Seda and was encouraged to apply for funding from the Technology Transfer Fund in 2006. The Technology Transfer Fund assists small businesses to improve their competitiveness through technology transfer and pays for technical training. After being assessed by a Seda Technology Fund project officer, Maggie's Original Mageu received funding to acquire bottling, labelling, cooling and flavouring equipment, which enabled the business to scale up production whilst improving capacity, quality and efficiency.

Seda is currently assisting the business with a quality management assessment, and will continue to provide advice and support as the business grows. Maggie's story proves that you're never too old to start a business! Aspiring entrepreneurs like Maggie can access information, resources and services through Seda branches.

QUESTIONS:

1. Why do you think was it necessary for Maggie to scale up production?
2. How does the Technology Transfer Fund help small businesses?

CASE STUDY NO.2

The Entrepreneurship and Development Program (EDP) at the American University in Cairo (AUC) runs a number of entrepreneurship-focused programs. These programs are not particularly targeted at women, but they do ensure that at least 30 percent are women.

EDP offers presentations by seasoned entrepreneurs to earlier stage entrepreneurs in weekly sessions along with help in preparing for international business competitions. They also provide an accelerator program for which they partner with Sawari Ventures for a two-week training session that culminates in a pitch to angel investors. The accelerator program covers financial analysis, pitching to investors, business strategy, marketing, and a number of other key areas related to launch of a business.

Additionally they hold a national business idea competition called Fekrety that includes two weeks of training and presentations from faculty and seasoned entrepreneurs. This covers a large number of sectors with businesses in IT, education, health, clean tech, etc. At the onset, the program consists of 400 entrepreneurs who are divided into categories based on the different phases of their ideas. About 30 percent of ideas come from women and 70 percent of the teams have at least one woman. The program also includes a speed mentoring match system and meetings with VCs and angel investors. Most of the curriculum for training sessions is provided by Intel, covering subjects such as finance, networking, marketing, customer care, strategy, and operations.

This program has 35 finalists who then compete and are given the fast track to other competitions. The target beneficiaries are potential entrepreneurs with good business ideas.EIP accomplishes outreach efforts through social networks, AUC websites and each of the individual programs. They also make use of word of mouth through entrepreneurs already in their database, AUC students and alumni. These avenues tend to reach women equally given that many AUC students and alumni are women. Additional ways to target women are through marketing programs at women's clubs, nurseries and catering places.

QUESTION:

1. What is the main impact of entrepreneurship development programme in this case study?
2. Give suggestion regarding entrepreneurial strategies related to this case study?

15.12 NOTES

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15.13 SUMMARY

This unit discussed about the evolution of industrial policy and problems and measures of the entrepreurship development are discussed in the length .An account of developmental revolution of new industrial policy also given in this unit.

15.14 KEY WORDS

Industrial Policy

Development

Motivation

Industrial Licensing

MRTP

15.15 SELF ASSESSMENT QUESTIONS

1. Explain the concept of evolution of new industrial policy in India?

2. Briefly explain the various types of entrepreurial development programme in India?

3. What do you mean by entrepreneurial motivation?

4. Explain the process of entrepreneurial development programme?

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UNIT - 16: SOCIAL ENTRPRENURSHIP

Structure :

16.0 Objectives

16.1 Introduction

16.2 History of Social Entrepreneurship

16.3 Characteristics of Social Entrepreneurship

16.4 Need for Social Entrepreneurship

16.5 Types of Social Entrepreneurship

16.6 Benefits of Social Entrepreneurship

16.7 The Concept of Social Capital in Social Entrepreneurship

16.8 Negative Impact of Social Entrepreneurship

16.9 Case Study

16.10 Notes

16.11 Summary

16.12 Key Words

16.13 Self Assessment Questions

16.14 References

16.0 OBJECTIVES

After study this unit, you should be able to;

- Describe the basic concept of social entrepreurship.
- Give an account on need and types of social entrepreurship.
- Explain the negative and positive impact of social entrepreurship.

16.1 INTRODUCTION

Social entrepreneurship is the attempt to draw upon business techniques to find solutions to **social** problems. Social entrepreneurship is distinct from the concept of entrepreneurship, yet still shares several similarities with the classic concept. A economist, defined an entrepreneur as a person who "undertakes" an idea and shifts perspectives in a way that it alters the effect that an idea has on society. An entrepreneur is defined by Peter F. Drucker as someone who "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." The difference between "entrepreneurship" and "social entrepreneurship", however, stems from the purpose of a creation. Social entrepreneurs seek to transform societies at large, rather than transforming their profit margin, as classic entrepreneurs typically seek to do. Social entrepreneurs use a variety of resources to bring societies into a better state of well-being.

The concept of "social entrepreneurship" is not a novel idea, but it recently has become more popular among society and academic research, notably after the publication of "The Rise of the Social Entrepreneur" .Many activities related to community development and higher social purpose fall within the modern definition of social entrepreneurship. Despite the established definition nowadays, social entrepreneurship remains a difficult concept to define, since it may be manifested in multiple forms. A broad definition of the concept allows interdisciplinary research efforts to understand further and constantly challenge the notion behind social entrepreneurship. No matter in which sector of society certain organizations are (i.e. corporations or unincorporated associations and societies), social entrepreneurship focuses on the social impact that an endeavor carries. Whether social entrepreneurship is altruistic or not is less important than the effect it has on society.

Social entrepreneurship in modern society offers an altruistic form of entrepreneurship that focuses on the benefits that society may reap. Simply put, entrepreneurship becomes a social endeavor when it transforms social capital in a way that affects society positively. It is viewed as advantageous because the success of social entrepreneurship depends on many factors related to social impact that traditional corporate businesses do not prioritize. Social entrepreneurs recognize immediate social problems, but also seek to understand the broader context of an issue that crosses disciplines, fields, and theories. Gaining a larger understanding of how an issue relates to society allows social entrepreneurs to develop innovative solutions and mobilize available resources to affect the greater global society. Unlike traditional corporate businesses, social entrepreneurship ventures focus on maximizing gains in social satisfaction, rather than maximizing profit gains. Both private and public agencies worldwide have had billion-dollar initiatives to empower deprived communities and individuals. Such support from organizations in society, such as government-aid agencies or private firms, may catalyze innovative ideas to reach a larger audience.

Applying the mindset, processes, tools, and techniques of business entrepreneurship to the pursuit of a social and/or environmental mission. Brings to bear the passion, ingenuity, innovativeness, perseverance, planning, boot-strapping abilities, and focus on growth that are characteristic of business entrepreneurs to the work of meeting society's most pressing challenges. Embodies the enterprising spirit of the private sector and uses the power of economic markets to generate and deliver solutions to problems.

A business with a social mission whose surpluses are principally reinvested in the business or in the community for that purpose rather than being driven by the need to maximize profits for shareholders and owners: o Profitability – financially self-sufficient o Mission-Driven – social impact o Sustainability – environmental impact

Activities for Social Entrepreneurship:

a. Offer social or environmental goods or services

b. Trade to provide (or cross-subsidize) such goods or services

c. Work for social benefit (social value creation).

A social entrepreneur identifies and solves social problems on a large scale. Just as business entrepreneurs create and transform whole industries, social entrepreneurs act as the change agents for society, seizing opportunities others miss in order to improve systems, invent and disseminate new approaches and advance sustainable solutions that create social value. Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change.

The social entrepreneur should be understood as someone who targets an unfortunate but stable equilibrium that causes the neglect, marginalization, or suffering of a segment of humanity; who brings to bear on this situation his or her inspiration, direct action, creativity, courage, and fortitude; and who aims for and ultimately affects the establishment of a new stable equilibrium that secures permanent benefit for the targeted group and society at large.

Social Entrepreneurship is a course designed to give a broad understanding of how entrepreneurs can form enterprises that address societal challenges. Students will learn theories, tools, and practices used to identify opportunities, innovate solutions, and gather resources to build sustainable social business models. The course will focus on creating solutions that address the root of social issues, with the goal of alleviating the problems rather than providing short term relief, therefore creating more consumers and citizens who are self sufficient and not dependent. It will examine how one social enterprise can have a compounding impact by providing business models for others to replicate and also by generating profits that can be reinvested in solving other social challenges. Social innovation will also be discussed as a form of intrapreneurship, as well as an additional element that can be integrated into the traditional corporate structure. When social innovation becomes the norm for all businesses, rather than for the exceptional few, the benefits are far-reaching, long lasting, and exponentially greater for society as a whole.

16.2 HISTORY OF SOCIAL ENTREPREURSHIP

Social entrepreneurship is a kind of entrepreneurship initiative that aims at taking up a social problem for bringing about a transformation in the same. The person who takes up the challenge is called a social entrepreneur and he / she uses principle of entrepreneurship with the intent of creating social capital and not being essentially profit centered. The aim of social entrepreneurship is to promote the cause of social and environmental goals that have an impact in either in the present or the times to come. Such entrepreneurs are generally a part of or associated in some way with some nonprofit organizations (NGO's). Although profit making is also as aspect of this concept but it may not be the sole purpose of the organization.

Andrew Mawson worked extensively upon the concept of social entrepreneurship and extended the same to bring about reform in the community structure. He also laid the foundation of the Bow center in east London. For this he was conferred upon the peerage of Lord Mawson and he works for developing partnerships for regeneration work initiated by him. Social entrepreneurship is relatively a new term. It came in to notice just a few decades ago. But its usage can be found throughout the history.

In fact, there were several entrepreneurs who established social enterprises to eliminate social problems or bring positive change in the society. Vinoba Bhave, the founder of India’s Land Gift Movement, Robert Owen, the founder of cooperative movement and Florence Nightingale, founder of first nursing school and developer of modern nursing practices might be included in this category. They had established such foundations and organizations in 19th century that is much before the concept of Social Entrepreneurship used in management.

There were entrepreneurs during nineteenth and twentieth centuries who made efforts to eradicate social evils. Apart from this, there are many societies and organizations that work for child rights, women empowerment, save environment, save trees, treatment of waste products, etc. Apart from addressing the social issues, social entrepreneurship also includes recognition and addressing the environmental problems and financial issues for rural and urban poor. These days, the concept of social entrepreneurship has been widely used and that too in different forms. The establishment of Grameen Bank by Muhammad Yunus, Ashoka: The Innovators for the Public by Bill Drayton, Youth United by Jyotindra Nath, Rand De by Ramakrishna and Smita Ram, SKS Microfinance by Vikram Akula and Roozi.com by Nick Reder, Brent Freeman and Norma La Rosa has popularized the term.

In fact, all big brands and companies are adopting the concept of social entrepreneurship and trying to address the issues in our society by opening schools in far flung areas, educating women for family planning, making it possible for farmers and poor individuals to access low interest credits, establishing plants for waste treatment, planting trees and going green. The concept of Social Entrepreneurship has also been included as a separate branch of management courses. Even youth is also looking forward to volunteering their services and brilliant ideas to bring a social change through social entrepreneurship.

16.3 CHARACTERISTICS OF SOCIAL ENTREPRENURSHIP

- **Creativity** – They must have goal-setting creativity, meaning being able to envision how to create a long-term systemic change to solve the problem. They also must have problem-solving creativity. To reach the end goal, every social entrepreneur will have to solve countless problems and overcome many obstacles along the way.
- **Entrepreneurial Quality** – According to Bill Drayton, this criterion, by Ashoka standards, is the hardest one to meet. Someone with entrepreneurial quality will be able to change a pattern or a system on a large scale. They will relentlessly pursue their idea until it is working in all of society, not just in one place. To have this quality Drayton says they must be 1) possessed by an idea and 2) able to answer “how” they will take their idea to each level of success on the path to their end goal.

- ♦ **The Social Impact of the Idea** – Will the idea work and can it be duplicated in other areas to have a widespread, long-term impact? The Foundation is looking for people who can have a profound effect on a large number of people.
- ♦ **Ambitious:** Social entrepreneurs tackle major social issues, from increasing the college enrollment rate of low-income students to fighting poverty in developing countries. These entrepreneurial leaders operate in all kinds of organizations: innovative nonprofits, social purpose ventures such as for-profit community development banks, and hybrid organizations that mix elements of nonprofit and for-profit organizations.
- ♦ **Mission driven:** Generating social value-not wealth-is the central criterion of a successful social entrepreneur. While wealth creation may be part of the process, it is not an end in itself. Promoting systemic social change is the real objective.
- ♦ **Strategic:** Like business entrepreneurs, social entrepreneurs see and act upon what others miss: opportunities to improve systems create solutions and invent new approaches that create social value. And like the best business entrepreneurs, social entrepreneurs are intensely focused and hard-driving-even relentless-in their pursuit of a social vision.
- ♦ **Resourceful:** Because social entrepreneurs operate within a social context rather than the business world, they have limited access to capital and traditional market support systems. As a result, social entrepreneurs must be exceptionally skilled at mustering and mobilizing human, financial and political resources.
- ♦ **Results oriented:** Ultimately, social entrepreneurs are driven to produce measurable returns. These results transform existing realities, open up new pathways for the marginalized and disadvantaged, and unlock society's potential to
- ♦ **Ethical Fiber** – This criterion focuses on the person. The person must have a high level of integrity and be completely trustworthy. As Ghandi believed, "ethics should be grounded not in rules, but in empathy." The motivation of the social entrepreneur comes from that empathy, and the same empathy should be the foundation of every ethical decision that the social entrepreneur makes.

- Social entrepreneurs find gaps where needs are not being met.
- Social entrepreneurs address this need with creativity and imagination.
- Social entrepreneurs build networks by recruiting other people to the cause.
- Social entrepreneurs are able to successfully secure the resources they need.

- Social entrepreneurs overcome obstacles that their specific need presents.
- Social entrepreneurs introduce systems to make the venture sustainable and accountable.

16.4 NEED FOR SOCIAL ENTREPRENURSHIP

Social entrepreneurship has been around for – well probably forever, in one form or another, but the emergence of it as its own discipline is relatively new. And what it really is, or should be, is a topic of great debate. First, let's clarify some terms. Social entrepreneurship in essence is referring to the person–the social entrepreneur.

The company or organization is a social enterprise. Again, the definition of a social enterprise is not fully agreed on by everyone, but its typical definition and the one we will use throughout this course is an organization that is solving a Social problem in a sustainable way, applying business principles to do so, and Generating revenue from some of its activities. Sustainable in this context means that The solution is sustainable– it solves a problem for the long— term in a way that addresses the root of the problem. Providing temporary aid to people who have a problem is not what we consider sustainable.

16.5 TYPES OF SOCIAL ENTREPRENURSHIP

- **Community Enterprises:** enterprises which serve a particular geographical community or community of interest and have representatives from the community on their board of directors.
- **Social Firms:** which aim to integrate people who might otherwise find it difficult in the mainstream job market, such as people with learning disabilities or mental health problems.
- **Co-operatives:** organization owned, controlled, and run for the benefit of their members.
- **Credit Unions:** community based financial institutions providing savings and loan facilities for their members.
- **Community Development Finance Institutions:** providers of loans and other types of investment primarily for social enterprises and other small businesses.
- **Development Trusts:** community enterprises which aim to develop a community, usually through the ownership and management of property.

- ♦ **Public sector spin-outs:** independent social enterprises set up to deliver services that were previously provided by public sector organizations. Also known as 'externalized' services.
- ♦ **Trading arms of charities:** set up to undertake trading activity in order to raise money for their charity parent company e.g. charity shops, catalogues, training and consultancy.
- ♦ **Fair Trade organizations:** committed to ensuring that producers are paid a fair price for what they produce.
- ♦ **Other types of social enterprise:** businesses with social objectives as central as their economic objectives.

16.6 BENEFITS OF SOCIAL ENTREPRENURSHIP

Social entrepreneurs use their business and creative skills to help identify and solve social problems on a large scale. According to the Schwab Foundation for Social Entrepreneurship, a social entrepreneur is a passionate risk taker who applies innovative and practical solutions to benefit society through their business practice. There are several benefits to being a social entrepreneur from both a business and societal standpoint.

- **Implementing Societal Change:**

Perhaps the most rewarding advantage of being a social entrepreneur is the impact you can have on society. Social entrepreneurs create businesses in a variety of industries that can have a positive impact on society, including alternative energy, health awareness and education. According to David Bornstein, the author of "How to Change the World: Social Entrepreneurs and the Power of New Ideas," social entrepreneurs view communities as the solution and not as the beneficiaries of products and services. Social entrepreneurs provide the resources and expertise that help communities improve their qualities of life.

- **Creating Inspiring Solutions:**

Another benefit of becoming a social entrepreneur is the freedom to explore and create innovative solutions that can inspire change. Social entrepreneurs are constantly on the lookout for new and inventive solutions to problems and often enlist leaders within their field to assist in project development.

- **Working as Your Ownership:**

Entrepreneurs do not work under a boss, so they have the freedom to trust their own intuitions and make their own decisions. According to the PBS website, there has been a surge of both entrepreneurship and social sector competition since the last decade of the

20th Century. Social entrepreneurs are zealous problem solvers whose leadership skills and passionate nature might cause them to feel unsatisfied in a traditional employer-employee relationship.

- **Creating Jobs and Income Streams:**

As business owners, social entrepreneurs benefit the economy by generating jobs and income. In addition to providing jobs, social entrepreneurs also use part of their profits to fund projects that can benefit the community as a whole. This combination of business acumen and social awareness is a big lure to many people interested in becoming social entrepreneurs.

The following are the main advantages of social entrepreneur as follows:

- Social entrepreneurs find it easier to raise capital. There are huge incentives and schemes from the government for the same. Since the investment industry here is ethical, it is easier to raise capital at below market rates.
- Marketing and promotion for these organizations is also very easy. Since a social problem is being tackled with a solution, it is easier to attract attention of the people and media. The degree of publicity often depends on the degree of uniqueness of the solution.
- It is easier to garner support from likeminded individuals since there is a social side to the enterprise. It is also easier to get people onboard at lower salaries than compared to other industry.
- Services in whichever section they may be offered are customized better to suit the needs of the individual or the problem. This is also designed in harmony with all other systems like the environment, society or the people.
- Cost effectiveness is another advantage of a social enterprise. The solutions offered by these organizations in the form of either products or services are reasonable than compared to the same service provided by a profit making organization. No wonder basic amenities like healthcare, education etc have become very affordable to people world over with the help of these institutions. Micro finance, for example, today caters not to the poor but to the poorest.

16.7 THE CONCEPT OF SOCIAL CAPITAL IN SOCIAL ENTREPRENURSHIP

Social Capital is a concept that aims at emphasizing the importance of social contacts between groups and within groups. It primarily means that social networks have a value associated and that they are not always detrimental in nature as previously thought of. The concept of social capital also stresses that social networks lead to increased productivity in individuals, teams and organizations. This increased productivity can be both financial and otherwise. This means that social contacts can lead to increase in confidence, fulfillment by fostering positive relationships. The essence being that just like any other capital form (human, physical, financial) social capital is also important and beneficial to the sustenance of society.

The term social capital has been used in varied forms in various disciplines. World Bank, for example, uses it to define societal and economic development. Corporate pundits similarly use it to mean an approach of organization development. Judson Hanifan championed the use of social capital. He used it in his discussions of rural school community centers. He promoted the importance of social intercourse among people for building goodwill and sympathy among fellow members and to promote cooperation.

16.8 NEGATIVE IMPACT OF SOCIAL ENTREPRENURSHIP

Although social capital has been defined in several different ways by different experts, however, most commonly it can be called as the outcome of social relations. It not only comprises of financial benefit but also includes expectative benefits that are derived from the cooperation between various groups and individuals.

The major difference between the financial capital and social capital is that the latter fosters positive relationships and thus enhances the fulfillment and the confidence. Even after having so many benefits, social capital can also produce some unwanted results. Yes, it is surprising but true that when we analyze the other side of social capital, we may find that it can put burdens on the society. how social capital can be detrimental to the society and can bring about the negative consequences.

Social capital producing negative outcomes is generally called as negative social capital. The potential downsides include restrictions on individual freedom, excess claims on group members and exclusion of outsiders. Additionally, instead of focusing on creating the bond between the two worlds - rich and poor, it emphasizes on bridging the gap between them. The result is that it is deepening the gap between the two. It also puts a barrier in social mobility.

Individuals working in social enterprises need to abide by certain rules and regulations and are supposed to do only what is expected. Their personal development and new ideas in most cases are not welcome. In such a scenario, it gives a sense as if it were creating unwanted results. Though every feature of social capital produces desired results but along with this, it also produces a liability too.

Social capital is all about bridging the gap between the rich and the poor. Yes, it definitely improves the economic conditions of the poor but also increases the gap between the two. The individuals who are benefitted by social capital almost lose their mobility. There is a slight change in their condition but they are stuck in the same employment all through their life. Apart from this, outsiders are totally excluded. It means that benefits of social capital can be availed by only a particular section of the society. Robert D. Putnam, the author of 'Bowling Alone' links social capital to the decline in American political participation. According to him, the political institution and democracy are overpowered by the social groups and this lead to the adverse outcomes. In normal circumstances, it isolates certain communities from rest of the world but social capital group which is extremely strong can become the reason for the isolation of a particular ethnic group from the society.

Later works of Robert D. Putnam also emphasize on the fact that the rise of social capital can also result in increased racial diversity in communities. The negative effect of social capital can also be seen in society. Earlier, women did not vote at the similar levels as that of men but the difference between them is almost diminishing. Social capital is available to all types of communities regardless of their nature and slowly it is becoming a way for women to participate in local politics. Now the scenario is that they are more engaged in politics and have an informal way to operate. What is negative is not their participation in politics but it is their way that is keeping this activity off the radar. They are not focused on national or international politics. Apart from this, there are several other negative effects of social capital in the field of internet, civil society and educational achievements.

There can be a multitude of reasons that can act as barriers to social capital creation or development. These factors vary across geographies and cultures. For example in developing or third world countries social networks remain nucleated around family and identity. There is little or no social capital creation across families and castes. This is on account of the mistrust between two families or strata that is detrimental to the very idea of social capital.

There is a strong body of evidence that goes to suggest that social capital leads societies and individuals to prosperity economically and allows the development to be stable. World Bank believes that social capital when utilized properly can enhance the efficacy and sustainability of projects. This they believe can be achieved through a collaboration of communities' efforts and its ability to work together. It also promotes greater transparency in the overall system, fosters a better bonding and increases the overall accountability.

Social entrepreneurs are individuals with innovative solutions to society's most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps. Social entrepreneurs often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else. Each social entrepreneur presents ideas that are user-friendly, understandable, ethical, and engage widespread support in order to maximize the number of local people that will stand up, seize their idea, and implement with it. In other words, every leading social entrepreneur is a mass recruiter of local change makers, role model proving that citizens who channel their passion into action can do almost anything. Over the past two decades, the citizen sector has discovered what the business sector learned long ago: There is nothing as powerful as a new idea in the hands of a first-class entrepreneur.

A social entrepreneur is someone who recognizes a social problem and uses entrepreneurial principles to organize, create, and manage a venture to make social change (a social venture). Whereas a business entrepreneur typically measures performance in profit and return, a social entrepreneur focuses on creating social capital. Thus, the main aim of social entrepreneurship is to further social and environmental goals. However, whilst social entrepreneurs are most commonly associated with the voluntary and not-for-profit sectors, this need not necessarily be incompatible with making a profit.

16.9 CASE STUDY

Social Entrepreurship

Mercy Charitable Foundation This NGO established a high quality, health conscious, for-profit restaurant. It supplies up to 110 free meals a day while training clients in culinary job skills. Profits are used to support a hunger relief program, teach healthy lifestyles and provide jobs to Mercy's clients. Mercy focuses assistance on low-income families as a means to prevent homelessness for at-risk children and offering services to the elderly and substance abusers. With the exception of McDonald's, Mercy's Kovcheg Café is the only place in Ukraine where people can enjoy a meal in a smoke- and alcohol-free environment.

Since launching the café, Mercy has started new social enterprises: three thrift shops that sell secondhand goods donated by the public and collected though the churches. Through the experience Mercy has learned how to leverage its assets and now rents the vehicles it uses to distribute humanitarian assistance to other NGOs when they are idle. Mercy has also invested in a farm to provide vocational training and rehabilitation to former drug addicts and alcoholics. The farm provides a refuge for people in recovery. The farm, though not yet an income-generating venture, provides agricultural products to the café and to Mercy's free meals program. Mercy received grants from CAP to assist with marketing and product development.

QUESTIONS:

1. Discuses the circumstances for this case and give suitable suggestions for growth of social entrepreneurship?
2. What are all the negative impact of social entrepreneurship related to this case study?

CASE STUDY NO.2

The Micro-enterprise Support Project implemented in Peru by the World Bank and UN Women, in partnership with four local organizations,21 looked to improve the business capacity and economic status of female micro-entrepreneurs in urban Lima. A feasibility study undertaken during project design found that 45 percent of the intended project beneficiaries22 classified themselves as entrepreneurs and 59 percent generated some income through small enterprises or shops.23 Since the project started in metropolitan Lima, the implementing agency developed a communication campaign that included flyers and radio spots to target female entrepreneurs in local markets. The campaign began before the training program to raise awareness and identify potential project beneficiaries.

Approximately 680 micro-entrepreneurs were trained in the pilot program. All of the trainees received a basic training package that consisted of three modules: The Business Development module provided general business skills such as book-keeping, marketing and product costing; the module on Productivity Enhancements focused on improving technical capacities and also provided soft skills training on customer service and hygiene; and the last module, Personal Development, provided life skills training with a particular focus on providing guidance to strengthen women's self-esteem. The basic training package was delivered in 36 three-hour classroom sessions delivered three times per week. Half of the women that received the basic training package were also given an enhanced training package that consisted of individualized technical assistance in the areas covered in the three main modules and including digital literacy training and support for the creation of investment groups.

The pilot's impact evaluation found that the training led women participants to make important adjustments in their business practices that differed according to the treatment received. Those that received only regular training were more likely to close losing businesses. Those with enhanced training were more likely to plan and execute innovations, increase their association with business peers and use informal credit. Sales improved for all trainees, but those that received the enhanced training package saw the highest increase, selling 19 percent more products in a normal month. The effects on business income and practices were greater for beneficiaries with relatively larger businesses. The impact evaluation did not find any significant impact on household decision-making or gender relations in the home, which suggests a need to strengthen the entrepreurship in India.

QUESTIONS

1. Give brief account of social entrepreurship in this case study?
2. Explain the benefits social entrepreurship in this case study?

16.10 NOTES

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16.11 SUMMARY

This unit discussed about the in depth history and need of social entrepreurship and benefits and types of social entrepreurship are discussed in the length. To highlight the negative and positive impact of social entrepreurship is also summarized in this unit.

16.12 KEY WORDS

Social Entrepreurship

Credit Unions

Social Capital

16.13 SELF ASSESSMENT QUESTIONs

1. Explain the concept of social entrepreurship?
2. State the characteristics of social entrepreurship?
3. Briefly explain the types of social entrepreurship?
4. Mention the benefits and negative impacts of social entrepreurship in India?

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DEPARTMENT OF STUDIES AND RESEARCH IN MANAGEMENT

M.B.A III Semester

COURSE - 13

ENTERPRENEURIAL DEVELOPMENT AND SMALL BUSINESS

BLOCK

5

FINANCING NEW VENTURES

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BLOCK – 5 : FINANCING NEW VENTURES

Venture capital financing is a type of financing by venture capital. It is private equity capital provided as seed funding to early- stage, high-potential, growth companies (startup companies) or more often it is after the seed funding round as a growth funding round.

This block explains financing new ventures. Unit 17 on sources of capital introduction types of equity financing, debt financing and internal and external funds. Unit 18 funding from bank and financial institutions tells about introduction, types of funds from bank and financial institutions. Unit 19 elucidates government and development sources, various schemes of government of India of ventures capital different types of loans and government loan schemes for small business. Unit 20 venture capital enlightens meaning and definitions, history, funding, financing stages, venture, capitalists, structure, types, structure of funds, role nature, advantages and disadvantages types of private equity fund and angel invests.

UNIT -17 : SOURCES OF CAPITAL

Structure :

17.0 Objectives

17.1 Introduction

17.2 Equity Financing

17.2.1 Personal Savings

17.2.2 Life Insurance Policies

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17.2.4 Friends and Relatives

17.2.5 Venture Capital

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17.3 Debt Financing

17.3.1 Friends and Relatives

17.3.2 Banks and Other Commercial Lenders

17.3.3 Commercial Finance Companies

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17.4.1Internal Funds

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17.4.3 Bank Loans

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17.4.7 The Advantages & Disadvantages of External Financing

17.5 Note

17.6 Summary

17.7 Key Words

17.8 Self-Assessment Questions

17.9 Reference

17.0 OBJECTIVES

After studying this unit, you should be able to;

- Study the different sources of finance for new venture
- Examine the difference between debt & equity as method of financing
- Examine the difference between Internal & External Sources of Finance

17.1 INTRODUCTION

Sources of Capital – an overview

Financing is needed to start a business and ramp it up to proûtability. There are several sources to consider when looking for start-up ûnancing. But ûrst you need to consider how much money you need and when you will need it.

The ûnancial needs of a business will vary according to the type and size of the business. For example, processing businesses are usually capital intensive, requiring large amounts of capital. Retail businesses usually require less capital.

Debt and equity are the two major sources of ûnancing. Government grants to ûnance certain aspects of a business may be an option. Also, incentives may be available to locate in certain communities and/or encourage activities in particular industries.

17.2 EQUITY FINANCING

Equity ûnancing means exchanging a portion of the ownership of the business for a financial investment in the business. The ownership stake resulting from an equity investment allows the investor to share in the company's proûts. Equity involves a permanent investment in a company and is not repaid by the company at a later date.

The investment should be properly deûned in a formally created business entity. An equity stake in a company can be in the form of membership units, as in the case of a limited liability company or in the form of common or preferred stock as in a corporation.

Companies may establish different classes of stock to control voting rights among shareholders. Simi-larly, companies may use different types of preferred stock. For example, common stockholders can vote while preferred stockholders generally cannot. But common stockholders are last in line for the company's assets in case of default or bankruptcy. Preferred stockholders receive a predetermined dividend before common stockholders receive a dividend.

17.2.1 Personal Savings

The ûrst place to look for money is your own savings or equity. Personal resources can include proût-sharing or early retirement funds, real estate equity loans, or cash value insurance policies.

17.2.2 Life insurance policies

A standard feature of many life insurance policies is the owner's ability to borrow against the cash value of the policy. This does not include term insurance because it has no cash value. The money can be used for business needs. It takes about two years for a policy to accumulate sufûcient cash value for borrowing. You may borrow most of the cash value of the policy. The loan will reduce the face value of the policy and, in the case of death, the loan has to be repaid before the beneûciaries of the policy receive any payment.

17.2.3 Home equity loans

A home equity loan is a loan backed by the value of the equity in your home. If your home is paid for, it can be used to generate funds from the entire value of your home. If your home has an existing mortgage, it can provide funds on the difference between the value of the house and the unpaid mortgage amount. For example, if your house is worth Rs.150,000 with an outstanding mortgage of Rs. 60,000, you have Rs. 90,000 in equity you can use as collateral for a home equity loan or line of credit. Some home equity loans are set up as a revolving credit line from which you can draw the amount needed at any time. The interest on a home equity loan is tax deductible.

17.2.4 Friends and Relatives

Founders of a start-up business may look to private ûnancing sources such as parents or friends. It may be in the form of equity ûnancing in which the friend or relative receives an ownership interest in the business. However, these investments should be made with the same formality that would be used with outside investors.

17.2.5 Venture Capital

Venture capital refers to ûnancing that comes from companies or individuals in the business of investing in young, privately held businesses. They provide capital to young businesses in exchange for an ownership share of the business. Venture capital ûrms usually don't want to participate in the initial ûnancing of a business unless the company has management with a proven track record. Generally, they prefer to invest in companies that have received signiûcant equity investments from the founders and are already proûtable.

They also prefer businesses that have a competitive advantage or a strong value proposition in the form of a patent, a proven demand for the product, or a very special (and protectable) idea. Venture capital investors often take a hands-on approach to their investments, requiring representation on the board of directors and sometimes the hiring of managers. Venture capital investors can provide valuable guid-ance and business advice. However, they are looking for substantial returns on their investments and their objectives may be at cross purposes with those of the founders. They are often focused on short-term gain.

Venture capital ûrms are usually focused on creating an investment portfolio of businesses with high-growth potential resulting in high rates of returns. These businesses are often high-risk investments. They may look for annual returns of 25 to 30 percent on their overall investment portfolio.

Because these are usually high-risk business investments, they want investments with expected returns of 50 percent or more. Assuming that some business investments will return 50 percent or more while others will fail, it is hoped that the overall portfolio will return 25 to 30 percent.

More speciûcally, many venture capitalists subscribe to the 2-6-2 rule of thumb. This means that typically two investments will yield high returns, six will yield moderate returns (or just return their original investment), and two will fail.

17.2.6 Angel Investors

Angel investors are individuals and businesses that are interested in helping small businesses survive and grow. So their objective may be more than just focusing on economic returns. Although angel inves-tors often have somewhat of a mission focus, they are still interested in proûtability and security for their investment. So they may still make many of the same demands as a venture capitalist.

Angel investors may be interested in the economic development of a speciûc geographic area in which they are located. Angel investors may focus on earlier stage ûnancing and smaller financing amounts than venture capitalists.

17.2.7 Government Grants

Federal and state governments often have ûnancial assistance in the form of grants and/or tax credits for start-up or expanding businesses.

17.2.8 Equity Offerings

In this situation, the business sells stock directly to the public. Depending on the circumstances, equity offerings can raise substantial amounts of funds. The structure of the offering can take many forms and requires careful oversight by the company's legal representative.

17.2.9 Initial Public Offerings

Initial Public Offerings (IPOs) are used when companies have proûtable operations, management stability, and strong demand for their products or services. This generally doesn't happen until compa-nies have been in business for several years. To get to this point, they usually will raise funds privately one or more times.

17.2.10 Warrants

Warrants are a special type of instrument used for long-term ûnancing. They are useful for start-up companies to encourage investment by minimizing downside risk while providing upside potential. For example, warrants can be issued to management in a start-up company as part of the reimbursement package.

A warrant is a security that grants the owner of the warrant the right to buy stock in the issuing com-pany at a pre-determined (exercise) price at a future date (before a speciûed expiration date). Its value is the relationship of the market price of the stock to the purchase price (warrant price) of the stock. If the market price of the stock rises above the warrant price, the holder can exercise the warrant. This involves purchasing the stock at the warrant price. So, in this situation, the warrant provides the oppor-tunity to purchase the stock at a price below current market price.

If the current market price of the stock is below the warrant price, the warrant is worthless because exercising the warrant would be the same as buying the stock at a price higher than the current market price. So, the warrant is left to expire. Generally warrants contain a speciûc date at which they expire if not exercised by that date.

17.3 DEBT FINANCING

Debt ûnancing involves borrowing funds from creditors with the stipulation of repaying the borrowed funds plus interest at a speciûed future time. For the creditors (those lending the funds to the business), the reward for providing the debt ûnancing is the interest on the amount lent to the borrower.

Debt ûnancing may be secured or unsecured. Secured debt has collateral (a valuable asset which the lender can attach to satisfy the loan in case of default by the borrower). Conversely, unsecured debt does not have collateral and places the lender in a less secure position relative to repayment in case of default.

Debt ûnancing (loans) may be short term or long term in their repayment schedules. Generally, short-term debt is used to ûnance current activities such as operations while long-term debt is used to ûnance assets such as buildings and equipment.

17.3.1 Friends and Relatives

Founders of start-up businesses may look to private sources such as family and friends when starting a business. This may be in the form of debt capital at a low interest rate. However, if you borrow from relatives or friends, it should be done with the same formality as if it were borrowed from a commercial lender. This means creating and executing a formal loan document that includes the amount borrowed, the interest rate, speciûc repayment terms (based on the projected cash ûow of the start-up business), and collateral in case of default.

17.3.2 Banks and Other Commercial Lenders

Banks and other commercial lenders are popular sources of business ûnancing. Most lenders require a solid business plan, positive track record, and plenty of collateral. These are usually hard to come by for a start- up business. Once the business is underway and proût and loss statements, cash ûows budgets, and net worth statements are provided, the company may be able to borrow additional funds.

17.3.3 Commercial Finance Companies

Commercial ûnance companies may be considered when the business is unable to secure financing from other commercial sources. These companies may be more willing to rely on the quality of the collateral to repay the loan than the track record or profit projections of your business. If the business does not have substantial personal assets or collateral, a commercial ûnance company may not be the best place to secure ûnancing. Also, the cost of finance company money is usually higher than other commercial lenders.

17.3.4 Government Programs

Federal, state, and local governments have programs designed to assist the ûnancing of new ventures and small businesses. The assistance is often in the form of a government guarantee of the repayment of a loan from a conventional lender. The guarantee provides the lender repayment assurance for a loan to a business that may have limited assets available for collateral. The best known sources are the Small Business Administration and the USDA Rural Development programs.

17.3.5 Bonds

Bonds may be used to raise ûnancing for a speciûc activity. They are a special type of debt ûnancing because the debt instrument is issued by the company. Bonds are different from other debt ûnancing instruments because the company speciûes the inter-est rate and when the company will pay back the principal (maturity date). Also, the company does not have to make any payments on the principal (and may not make any interest payments) until the specified maturity date. The price paid for the bond at the time it is issued is called its face value.

When a company issues a bond it guarantees to pay back the principal (face value) plus interest. From a ûnancing perspective, issuing a bond offers the company the opportunity to access financing without having to pay it back until it has successfully applied the funds. The risk for the investor is that the com-pany will default or go bankrupt before the maturity date. However, because bonds are a debt instrument, they are ahead of equity holders for company assets.

17.3.6 Lease

A lease is a method of obtaining the use of assets for the business without using debt or equity ûnanc-ing. It is a legal agreement between two parties that speciûes the terms and conditions for the rental use of a tangible resource such as a building and equipment. Lease payments are often due annually. The agreement is usually between the company and a leasing or ûnancing organization and not directly between the company and the organization providing the assets. When the lease ends, the asset is returned to the owner, the lease is renewed, or the asset is purchased.

A lease may have an advantage because it does not tie up funds from purchasing an asset. It is often compared to purchasing an asset with debt ûnancing where the debt repayment is spread over a period of years. However, lease payments often come at the beginning of the year where debt payments come at the end of the year. So, the business may have more time to generate funds for debt payments, although a down payment is usually required at the beginning of the loan period.

17.4 INTERNAL & EXTERNAL FUNDS

17.4.1 Internal Funds

In the theory of capital structure, **internal financing** is the name for a firm using its profits as a source of capital for new investment, rather than a) distributing them to firm's owners or other investors and b) obtaining capital elsewhere. It is to be contrasted with external financing which consists of new money from outside of the firm brought in for investment. Internal financing is generally thought to be less expensive for the firm than external financing because the firm does not have to incur transaction costs to obtain it, nor does it have to pay the taxes associated with paying dividends. Many economists debate whether the availability of internal financing is an important determinant of firm investment or not. A related controversy is whether the fact that internal financing is empirically correlated with investment implies firms are credit constrained and therefore depend on internal financing for investment

(1) Definition. Internal funds are defined as all monies collected and disbursed by personnel within a school for the benefit of the school or a school-sponsored activity. Internal funds shall be considered as unbudgeted public funds under the control and supervision of the School Board with the principal having responsibility as prescribed by the School Board.

(2) Governance Provisions. The collecting and expending of school internal accounts shall be in accordance with Florida Statutes, State Board of Education rules, School Board rules, and the Financial and Program Cost Accounting and Reporting for Florida Schools manual published by the Florida Department of Education. Sound business practices shall be observed in all transactions.

(3) Accounting Categories. Separate accounting categories for school internal account funds shall be established to distinguish regular sources of funds from sources of funds derived from groups other than the student body.

(a) Regular sources of funds shall be a category for money received and expended for school activity programs. This includes, but is not limited to, athletic and music events, concession sales, fund-raising by student body groups, gifts and contributions, paid admissions to entertainment, publications, school stores, summer programs, vending machines, salvage drives, property deposits, instructional aids, and advertisements.

(b) Other sources of funds shall be a category for money collected from sources other than student activities. These sources generally are derived from cooperative efforts with schools involving non-student organizations such as the faculty, parent-teacher organizations, alumni associations, and educational foundations. The activities of these non-student organizations shall contribute to the general welfare of students.

Other sources of receipts may include, but are not limited to, collections for the School Board, flower and gift funds, and trust accounts for specific groups.

(4) Basic Principles.

(a) All fund-raising projects and activities of the school, by any group within, connected with, or in the name of the school shall contribute to the educational experiences of students and shall not conflict with the total instructional program of the school system.

(b) School activity funds shall be used to supplement the program supporting the activities provided by the School Board.

(c) Purchases which are made from internal funds shall conform with requirements for purchasing and securing bids on purchases made by the School Board, except that purchases made from funds handled in trust for individuals are exempt from such requirements.

(d) Student body business practices shall be conducted in such a manner as to offer a minimum of competition to commercial firms.

(e) Purchases for any school shall not exceed the cash resources of the school during any school year.

(f) Funds collected generally shall be expended to benefit those students currently in school for whom the funds were accrued; funds derived from the student body as a whole shall be expended to benefit the student body as a whole.

(g) Florida Statutes and State Board of Education rules controlling purchases by school organizations shall be observed.

(h) The Superintendent shall be responsible for initiating such disciplinary action as may be deemed necessary in the event of violations of any of these rules.

(i) The collection of monies and the performance of other non-instructional duties by teachers shall be kept to a minimum.

(5) Administration. Internal funds shall be categorized in accordance with subsection (3) herein. When a bank balance exceeds one hundred thousand dollars ($100,000.00) and the excess is not insured, an additional account(s) shall be opened in another bank.

(6) Responsibilities.

(a) The School Board shall:

(i) Require that its written rules relating to internal funds be enforced;

(ii) Provide fidelity bonds for employees responsible for such funds; and,

(iii) Provide for an annual audit of internal funds by a qualified auditor.

(b) The Superintendent shall administer all rules established by the School Board relating to internal funds.

(c) Each school principal shall:

(i) Be held accountable for the handling of all phases of internal funds accounting in his / her school.

(ii) Use a uniform system of accounting as directed by the Superintendent; and,

(iii) Make monthly and annual reports for internal funds as directed by the Superintendent.

(7) Management of School Internal Account Funds (MSIAF). The efficient and accurate accounting of school internal account funds requires that sound procedures be followed in handling school monies received and expended. Common practices which shall be followed to ensure effective management of these funds include:

(a) The principal of each school shall authorize one (1) or more persons, in addition to himself/herself, for signing checks to withdraw funds from the bank account. Two (2) signatures shall be required for all withdrawals, one (1) of which shall be that of the principal. Persons signing checks shall provide proper supporting evidence such as sales slips or invoices to substantiate each check.

(b) School activity accounts shall not be used for any purpose which represents an accommodation, loan, or credit to School Board employees or other persons, including students. Collections received shall not be used to cash individual checks. School Board employees or others shall not make purchases for personal use through the student body in order to take advantage of student body purchasing privileges, such as tax exemptions, school discounts, and the like.

(c) Methods of preserving and destroying records shall be in accordance with Florida Statutes and State Board of Education rules.

(d) Revenues which may be credited to classes and club accounts include: dues, assessments, and donations from members; income from entertainment, dances, parties, etc.; and, sale of club or class sweaters, emblems, insignias, cards, announcements, etc. Authorization for expenditures shall require approval of a designated class or club officer, the sponsor, and the principal.

(i) No class or club account may be overdrawn at the end of the school year.

(ii) No off-campus clubs may be permitted to carry accounts on school activity account books.

(iii) Any remaining balance in a class account after graduation of that class and after the class has had an opportunity to determine the disposition of the balance, shall be considered as general funds and shall be transferred to the general fund six (6) months after the graduation date. The same procedure shall apply to the fund balance of any club six (6) months after the close of the school year during which said club becomes inactive.

(e) Any gifts identified as coming exclusively from a particular student group(s) shall be financed entirely by those group(s). This shall not prevent a class or club from contributing toward a project undertaken by several classes or clubs or by the student body. All such gifts to the school shall first receive the principalís approval. A student organization, upon the principalís approval, may earmark an amount for a specific future project which may reasonably be expected to materialize within the period that members of the organization are still in attendance at school. Disbursements from these reserves are subject to the standard procedures governing school activity funds. The reserve account, once approved and established, shall not be drawn on for other purposes. If the original purpose for the reserve becomes inoperative, funds in the account shall be transferred to the general fund or returned to the sponsoring organization.

(f) Commissions earned from photography sales and other transactions shall be credited to the general fund or other designated accounts. Contracts and collections of monies from these types of activities shall comply with the provisions established by the principal.

(g) The following procedures shall guide all employees who are responsible for school activity funds:

(i) Receipts shall be written for all money that is received or collected.

(ii) Receipts shall be deposited in a timely manner, one hundred percent (100%) intact. When collections exceed fifty (50) dollars, deposits must be made daily.

(iii) Funds collected during late afternoon or evening activities shall be placed in a night depository as arranged by the principal. Sponsors or any other individuals shall not be expected to have the responsibility of protecting funds, but shall place such funds in a night depository. Any employee who fails to turn in funds each day shall be held liable for any loss.

(8) Investment of School Internal Funds.

The school principal shall provide for the investment of any school internal funds which are surplus or not needed immediately for expenditure. Such investments may be placed in savings accounts of banks or savings and loan institutions, certificates of deposits issued by banks, United States Government securities, or any other guaranteed in total by United States government securities.

(9) Financial Transactions and Records.

Complete and accurate records of all financial transaction, including records of all school and student activity funds, shall be kept by the principal on forms furnished by the School Board. The principalís monthly financial report on internal accounts shall be made promptly for each calendar month. The monthly report shall be due by the tenth (10th) of the following month and shall be delinquent after the fifteenth (15th) of such month.

(10) Retention of Financial Records.

Records which are maintained as part of school internal funds and public records under Florida Statutes may not be destroyed or otherwise disposed of without specific authorization. All requests for disposition of school internal fund records after completion of an audit shall be referred to the Supervisor of Management Information Services. Records shall not be destroyed without written authorization.

Advantages & Disadvantages of internal financing

Advantages

- Capital is immediately available
- No interest payments
- No control procedures regarding creditworthiness
- Spares credit line
- No influence of third parties
- More flexible
- More freedom given to the owners

Disadvantages

- Expensive because internal financing is not tax-deductible
- No increase of capital
- Losses (shrinking of capital) are not tax-deductible
- Limited in volume (volume of external financing as well is limited but there is more capital available outside - in the markets - than inside of a company)

17.4.2 External Funds

In the theory of capital structure, **External financing** is the phrase used to describe funds that firms obtain from outside of the firm. It is contrasted to internal financing which consists mainly of profits retained by the firm for investment. There are many kinds of external financing. The two main ones are equity issues, (IPOs or SEOs), but trade credit is also considered external financing as are accounts payable, and taxes owed to the government. External financing is generally thought to be more expensive than internal financing, because the firm often has to pay a transaction cost to obtain it.

Examples of External Financing Alternatives

Small business owners often need to find sources of external financing in order to fund or grow operations. External financing comes in two different forms: debt or equity. Debt financing includes bank loans, promissory notes and credit card purchases, while equity financing occurs when the business sells off shares of its ownership to outside sources.

17.4.3 Bank Loans

One of the primary sources of external financing for small businesses is bank loans. The company submits a loan application to a bank, savings and loan or other financial institution. The application includes the purpose of the loan, the amount requested and information on the company's credit history. The bank analyzes the data, approves or declines the loan application and determines the interest rate on the loan. If the company fails to repay the principal and interest within the prescribed time period, the bank can claim any collateral the company provided to secure the loan.

17.4.4 Bond Issues

Instead of applying for a bank loan, small companies can also issue bonds for debt financing. For companies involved in industrial development, the Industrial Development Revenue Bond (IDRB) program works with local government agencies to pay for large industrial projects. Companies that receive IDRB approval are allowed to issue bonds and make them available to private investors. The company must repay the principal and interest on the bond to the local development agency, which disburses the proceeds to the investors

17.4.5 Angel Investors

Companies that would prefer to avoid the liabilities that come with debt financing can obtain additional capital by equity financing. One source of equity financing is the so-called "angel investor." These investors contribute to improving the equipment capital, marketing strategies and industry knowledge base in exchange for small portions of equity of the target company. In return, angel investors look for companies with high potential and above-average rates of return on investment (ROI).

17.4.6 Venture Capital

Another popular form of equity financing is venture capital. Venture capitalists find companies with promising growth potential and offer to invest in exchange for a substantial share of the ownership. Venture capital firms have access to the money and expertise many growing firms need to reach their full potential. Since venture capital firms bring both capital and expertise to the business, they also often place their industry experts in control of their target firms

17.4.7 The Advantages& Disadvantages of External Financing

At some point, many small businesses must decide whether or not to use external financing. This type of funding is money you raise from outside your business, such as from bank loans or from issuing stock. Internal financing is money provided from within your company, such as from reinvested profits. External financing can help jump-start your business, but it also has drawbacks that might make it unsuitable for some companies.

Increased Growth Rate

External financing can help your small business grow at a faster rate than using only internal funds. Growth in sales typically requires additional investments in inventory, accounts receivable and other assets. Your internal financing can support this additional investment only up to a certain point before you run out of cash. For example, assume your small business can handle only 15 percent annual sales growth using only internal funds. With external financing, you might reach a 25 percent or higher sales growth rate per year.

Competitive Position

A business often needs to spend money on various items, such as new technology or product research, to remain competitive. External financing can help with these costs. Without external financing, you might have to forgo important investments and projects that you cannot afford, which can give better-funded competitors the upper hand. For example, without external financing, you might rely only on referrals for new business, but with external financing you might be able to afford an advertising campaign that increases your presence.

Sacrifice

External financing doesn't come free — you have to give something up to get it. When you use equity financing, you relinquish a portion of your ownership stake in your company and a share of your profits. Stockholders can also vote on important company decisions, which can reduce your control. Also, creditors typically require periodic interest payments. Although they don't have ownership in your business, they have a partial claim on your assets until you repay your debts.

Added Scrutiny

Before you can obtain outside financing, you typically must provide a long list of information to potential investors and lenders. If they give you money, these parties might also require you to periodically provide financial statements so they can monitor their investment. Information about your company that you previously kept to yourself will be open for review by outside parties. You will likely spend additional time and incur added costs to meet their requests.

17.5 NOTE

17.6 SUMMARY

Sourcing money may be done for a variety of reasons. Traditional areas of need may be for capital asset acquirement - new machinery or the construction of a new building or depot. The development of new products can be enormously costly and here again capital may be required. Normally, such developments are financed internally, whereas capital for the acquisition of machinery may come from external sources. In this day and age of tight liquidity, many organizations have to look for short term capital in the way of overdraft or loans in order to provide a cash flow cushion. Interest rates can vary from organization to organization and also according to purpose.

17.7 KEY WORDS

- **Equity Financing:** Equity ûnancing means exchanging a portion of the ownership of the business for a financial investment in the business
- **Venture Capital:** Venture capital refers to ûnancing that comes from companies or individuals in the business of investing in young, privately held businesses
- **Angel Investors:** Angel investors are individuals and businesses that are interested in helping small businesses survive and grow
- **IPO:** Initial Public Offerings (IPOs) are used when companies have proûtable operations, management stability, and strong demand for their products or services
- **Warrants:** A warrant is a security that grants the owner of the warrant the right to buy stock in the issuing com-pany at a pre-determined price at a future date
- **Bonds:** A bond is a debt investment in which an investor loans money to an entity which borrows the funds for a defined period of time at a variable or fixed interest rate.
- **Lease:**A lease is a method of obtaining the use of assets for the business without using debt or equity ûnanc-ing.

17.8 SELF-ASSESSMENT QUESTIONS

1. What are the types of equity financing?
2. Explain the nature of Venture Capital
3. What do you mean by warrants?

4. Discuss External funds for new ventures with suitable examples
5. What are internal funds? Discuss their advantages & disadvantages

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UNIT- 18 : FUNDING FROM BANK & FINANCIAL INSTITUTIONS

Structure :

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18.2 Funding from Bank

18.2.1 Wholesale funding

18.2.2 Liquidity Risk

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18.5 Summary

18.6 Key Words

18.7 Self-Assessment Questions

18.8 Reference

18.0 OBJECTIVES

After studying this unit, you should be able to ;

- Study the various sources of finance from banking & financial institutes for new ventures
- Discuss the nature and functions of various Banking & Financial institutions operating in India
- Study the Indian scenario of funding from Banking & Financial Institutes

18.1 INTRODUCTION

The developmental banking and financial intermediaries play a very important role in our economy. In fact, it is difficult to imagine how our economy system could function effectively without money of their services. They are the key components of our economic structure, since they have the ability to cater and add to the money supply and thus create additional purchasing power.

Financial intermediaries are the institutions which collect savings from others, issuing in return claims against themselves, and use the funds thus acquired to purchase ownerships or debt claims.

Financial intermediaries play a very important role in the saving investment process by raising the level of saving investment and allocating more efficiently scares among most productive investment.

18.2 FUNDING FROM BANK

A **bank** is a financial intermediary that creates credit by lending money to a borrower, thereby creating a corresponding deposit on the bank's balance sheet. Lending activities can be performed either directly or indirectly through capital markets. Due to their importance in the financial system and influence on national economies, banks are highly regulated in most countries. Most nations have institutionalized a system known as fractional reserve banking under which banks hold liquid assets equal to only a portion of their current liabilities. In addition to other regulations intended to ensure liquidity, banks are generally subject to minimum capital requirements based on an international set of capital standards, known as the Basel Accords.

18.2.1 Wholesale funding

Wholesale funding is a method that banks use in addition to core demand deposits to finance operations and manage risk. Wholesale funding sources include, but are not limited to, Federal funds, public funds (such as state and local municipalities), U.S. Federal Home Loan Bank advances, the U.S. Federal Reserve's primary credit program, foreign deposits, brokered deposits, and deposits obtained through the Internet or CD listing services.

Rationale

Although core deposits continue to be a key liability funding source, many insured depository institutions have experienced difficulty attracting core deposits and are increasingly looking to wholesale funding sources to satisfy funding and liability management needs.

18.2.2 Liquidity risk

Wholesale funding providers are generally sensitive to changes in the credit risk profile of the institutions to which they provide these funds and to the interest rate environment. For instance, such providers closely track the institution's financial condition and may be likely to curtail such funding if other investment opportunities offer more attractive interest rates. As a result, an institution may experience liquidity problems due to lack of wholesale funding availability when needed. Academic research suggests that the use of wholesale funding was one of the major determinants of bank vulnerability during the 2007-2010 financial crisis.

18.2.3 Fund based Bank Facilities

Term Loans: Term loan is an installment credit repayable over a period of time in monthly/quarterly/half yearly/yearly installments. Term loan is generally granted for creation of fixed assets required for long-term use by the unit. Term loans are further classified in three categories depending upon the period of repayment as under:

- Short term repayable in less than 3 years.
- Medium term loans repayable in a period ranging from 3 years to 7 years.
- Long term loans repayable in a period over 7 years.

18.2.4 Cash Credit Facility

A major part of working capital requirement of any unit would consist of maintenance of inventory of raw materials, semi-finished goods, finished goods, stores and spares etc. In trading concern the requirement of funds will be to maintain adequate stocks in trade. Finance against such inventories by banks is generally granted in the shape of cash credit facility where drawings will be permitted against stocks of goods. It is a running account facility where deposits and withdrawals are permitted. Cash credit facility is of two types (depending upon the type of charge on goods taken as security by bank).

(i) Cash credit - pledge: when the possession of the goods is with the bank and drawings in the account are linked with actual movement of goods from/to the possession of the bank. The physical control of the goods is exercised by the bank.

(ii) Cash credit- hypothecation: when the possession of the goods remains with the borrower and a floating charge over the stocks is created in favour of the bank. The borrower has complete control over the goods and the drawings in the account are permitted on the basis of stock statements submitted by the borrower.

18.2.5 Overdraft Facility

Overdrawing permitted by the bank in current account is termed as an overdraft facility. Overdraft may be permitted without any security as 'clean overdraft' for temporary periods to enable the borrower to tide over some emergent financial difficulty. 'Secured overdraft' facility is against fixed deposits, NSC, and other securities.

18.2.6 Bills Finance

This facility is against bills of sales raised or book debts.

18.2.7 Export Finance

Banks grant export credit on very liberal terms to meet all the financial requirements of exporters. The bank credit for exports can broadly be divided in two groups as under:

1. Pre Shipment advances/packing credit advances:

Financial assistance sanctioned to exporters to enable them to manufacture/procure goods meant for exports and arrange for their eventual shipment to foreign countries is termed as pre shipment credit.

2. Post shipment credit the bills purchase/discount facility granted to exporters is grouped as post shipment advance.

18.2.8 Non-Fund based Bank Facilities

Credit facilities, which do not involve actual deployment of funds by banks but help the obligations to obtain certain facilities from third parties, are termed as non-fund based facilities. These facilities include issuance of letter of credit, issuance of guarantees, which can be performance guarantee/financial guarantee.

- National Level Financial Institutions
- State Financial Corporations Offering Specialised SSI Schemes
- Venture Capital Organisations
- Other Banks Offering Financial Assistance

18.2.9 Lending rules for public sector banks

- o Maximum Permissible Bank finance: Since the Nayak Committee, banks can set their own rule (turnover based, or based on working capital gap)
- o For example in the bank we study, MPBF is the maximum of turnover based limit and the limit based on the working capital gap
- o Comments:
  - ♦ Rules set for limited growth.
  - ♦ Profitability does not enter in the official rule.
  - ♦ Inventories are not a very good collateral in practice

18.3 FUNDING FROM FINANCIAL INSTITUTIONS

In finance and economics, a **financial institution** is an institution that provides financial services for its clients or members. One of the most important financial services provided by a financial institution is acting as a financial intermediary. Most financial institutions are regulated by the government.

18.3.1 Functions

Financial institutions provide services as intermediaries of financial markets. Broadly speaking, there are three major types of financial institutions:

1. Depositary institutions – deposit-taking institutions that accept and manage deposits and make loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies;
2. Contractual institutions – insurance companies and pension funds; and
3. Investment institutions – investment banks, underwriters, brokerage firms.

Some experts see a trend toward homogenisation of financial institutions, meaning a tendency to invest in similar areas and have similar business strategies. A consequence of this might be fewer banks serving specific target groups, for example small-scale producers could be under served

18.3.2 Standard settlement instructions

Standard Settlement Instructions (SSIs) are the agreements between two financial institutions which fix the receiving agents of each counterparty in ordinary trades of some type. These agreements allow traders to make faster trades since the time used to settle the receiving agents is conserved. Limiting the trader to an SSI also lowers the likelihood of a fraud. SSIs are used by financial institutions to facilitate fast and accurate cross-border payments

Regulation

Financial institutions in most countries operate in a heavily regulated environment because they are critical parts of countries' economies, due to economies' dependence on them to grow the money supply via fractional reserve lending. Regulatory structures differ in each country, but typically involve prudential regulation as well as consumer protection and market stability. Some countries have one consolidated agency that regulates all financial institutions while others have separate agencies for different types of institutions such as banks, insurance companies and brokers.

Countries that have separate agencies include the United States, where the key governing bodies are the Federal Financial Institutions Examination Council (FFIEC), Office of the Comptroller of the Currency - National Banks, Federal Deposit Insurance Corporation (FDIC) State "non-member" banks, National Credit Union Administration (NCUA) - Credit Unions, Federal Reserve (Fed) - "member" Banks, Office of Thrift Supervision - National Savings & Loan Association, State governments each often regulate and charter financial institutions.

Countries that have one consolidated financial regulator include: Norway with the Financial Supervisory Authority of Norway, Hong Kong with Hong Kong Monetary Authority, Germany with Federal Financial Supervisory Authority and Russia with Central Bank of Russia. See also List of financial regulatory authorities by country.

18.3.3 Financial Institutions in India

Financial Institutions in India are divided in two categories. The first type refers to the regulatory institutions and the second type refers to the intermediaries.

The regulators are assigned with the job of governing all the divisions of the Indian financial system. These regulatory institutions are responsible for maintaining the transparency and the national interest in the operations of the institutions under their supervision. The regulatory bodies of the financial institutions in India are as follows:

Reserve Bank of India (RBI)

Securities and Exchange Board of India (SEBI)

Central Board of Direct Taxes (CBDT)

Central Board of Excise & Customs

Apart from the Regulatory bodies, there are the Intermediaries that include the banking and non-banking financial institutions.

Some of the specialized financial institutions in India are as follows:

Unit Trust of India (UTI)

Securities Trading Corporation of India Ltd. (STCI)

Industrial Development Bank of India (IDBI)

Industrial Reconstruction Bank of India (IRBI), now (Industrial Investment Bank of India)

Export – Import Bank of India (EXIM Bank)

Small Industries Development Bank of India (SIDBI)

National Bank for Agriculture and Rural Development (NABARD)

Life Insurance Corporation of India (LIC)

General Insurance Corporation of India (GIC)

Shipping Credit and Investment Company of India Ltd. (SCICI)

Housing and Urban Development Corporation Ltd. (HUDCO)

National Housing Bank (NHB)

The banking institutions of India play a major role in the economy of the country. The banking institutions are the providers of depository and transaction services. These activities are the major sources of creating money. The banking institutions are the major sources of providing loans and other credit facilities to the clients. Apart from the banking financial institutions, there are a number of specialized **financial institutions in India** that have been incorporated for a definite purpose. These institutions include the insurance companies, the housing finance companies, mutual funds, merchant banks, credit reporting and debt collection companies and many more.

Apart from these, there are several other financial institutions that are existing in the country. These are the stock brokers and sub-brokers, portfolio managers, investment advisors, underwriters, foreign institutional investors and many more.

18.3.4 All India Financial Institutions

All India Financial Institutions (AIFI) is a group composed of Development Finance Institutions (DFI) and Investment Institutions that play a pivotal role in the financial markets. Also known as "financial instruments", the financial institutions assist in the proper allocation of resources, sourcing from businesses that have a surplus and distributing to others who have deficits - this also assists with ensuring the continued circulation of money in the economy. Possibly of greatest significance, the financial institutions act as an intermediary between borrowers and final lenders, providing safety and liquidity. This process subsequently ensures earnings on the investments and savings involved.

In Post-Independence India, people were encouraged to increase savings, a tactic intended to provide funds for investment by the Indian government. However, there was a huge gap between the supply of savings and demand for the investment opportunities in the country.

List of AIFIs

According to Economic Survey 2012-13 at the end of March 2012, there were four institutions regulated by Reserve Bank of India as all-India Financial Institutions:

- Export - Import Bank of India (Exim Bank)
- National Bank for Agriculture and Rural Development (NABARD)
- Small Industries Development Bank of India (SIDBI)
- National Housing Bank (NHB)

18.3.5 Industrial Development Bank of India

The IDBI was established to provide credit for major financial facilities to assist with the industrial development of India. It was established in 1964 by RBI, and was transferred to the government of India in 1976. The government holdings in IDBI, after the IPO, is 51.4%By the end of September 2004, the IDBI asset base was Rs. 36850 crore.

Functions

- Direct assistance: helps the industrial sector by granting project loans, underwriting of and direct subscription to the industrial securities (shares and debentures), soft loans, and technical development funds.
- Coordinating functions: coordinates the functions of financial institutions such as ICICI, IFCI, LIC and GIC, with respect to industrial development.

- Indirect assistance to small and medium enterprises by granting loans. It also refinances industrial loans of the SFC's, SIDCs, commercial banks and RRBs, along with the billing related to the sale of the indigenous machinery.
- Raising funds from the international money markets.

Diversification of Activities of IDBI

Since 1990, IDBI has set up number of institutes, including:

- Small Industries Development Bank of India SIDBI) in 1990.
- IDBI Investment Management Company (IIMCO) in 1994.
- IDBI Capital Market Services Ltd. (ICMS) in 1995.
- IDBI bank Ltd.

18.3.6 State Industrial Development Corporations

In 1960, the first State Industrial Development Corporations (SIDC) was established in Bihar. These mainly autonomous bodies are controlled by the State government, who may own a state in the corporation. There are approximately 29 SIDCs in India.

Their main functions include the promotion of rapid industrialization in India. They mainly work at the grass roots level, providing development in the backward and less frequented parts of India. They offer financial leases and offer guarantees. They also administer the schemes of the central and state governments. The projects and surveys of the industrial potential areas are conducted by them, as well as the evaluation of SEZs.

18.3.7 Technology Development & Information Company Of India Ltd.

TDICI was incorporated in January 1988 with the support of the ICICI and the UTI. The country's first venture fund managed by the TDICI called VECAUS (Venture Capital Units Scheme) was started with an initial corpus of Rs.20 crore and was completely committed to 37 small and medium enterprises. The first project of the TDICI was loan and equity to a computer software company called Kale Consultants.

Present Status: At present the TDICI is administering two UTI –mobilised funds under VECAUS-I and II, totaling Rs.120 crore. the Rs.20 crore invested under the first fund, VECAUS-I, has already yielded returns totaling Rs. 16 crore to its investors.

Some of the projects financed by the TDICI are discussed below.

MASTEK, a Mumbai based software firm, in which the TDICI invested Rs.42 lakh in equity in 1989, went public just three years later, in November 1992. It showed an annual growth of 70-80 percent in the turnover.

TEMPTATION FOODS, located in PUNE, which exports frozen vegetables and fruits, went public in November 1992. The TDICI invested Rs.50 lakh in its equity.

Rishabh Instruments of Nasik got Rs.40 lakh from the TDICI. It manufactures a range of meters used in power stations in collaboration with the ABB Metra Watt of Germany. After making cash losses totaling Rs.25 lakh in two bad years, it turned around in 1989 and showed an increase of over 70 percent in the turnover.

Synergy Art Foundation, which runs art galleries in Mumbai and Chennai and plans to set up in Pune and Delhi too, had received Rs.25 lakh from the TDICI as convertible loans which were converted into equity on march 31, 1994. Most of this money has been used for the company's innovative art library scheme at least paintings to corporate clients.

18.4 NOTE

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18.5 SUMMARY

Financing is necessary at every stage of a business life cycle. It is required to help MSMEs set up and expand their operations, and to develop new products. India has a well-developed financial system, comprising banks, financial institutions, nonbanking financial companies and also venture capital companies. All these institutions cater to the diverse financial needs of the Startups as well as existing businesses. Various schemes are being implemented by various banks and financial institutions to cater to the financing needs of the Micro, Small & Medium sized businesses. Banks and other lenders tend to set their own internal rules. Nevertheless, all financial institutions are bound by general regulations and guidelines established by their national financial authorities.

18.6 KEY WORDS

- **Wholesale funding**: Wholesale funding is a method that banks use in addition to core demand deposits to finance operations and manage risk.
- **Cash Credit Facility:** a major part of working capital requirement of any unit would consist of maintenance of inventory of raw materials, semi-finished goods, finished goods, stores and spares etc.
- **Overdraft Facility:** Overdrawing permitted by the bank in current account is termed as an overdraft facility.
- **All India Financial Institutions (AIFI):** AIFI is a group composed of Development Finance Institutions (DFI) and Investment Institutions that play a pivotal role in the financial markets.

18.7 SELF-ASSESSMENT QUESTIONS

1. What is cash credit?
2. What do you mean by liquidity risk
3. Explain the various financial institutions operating in India
4. What is Standard settlement institution? Explain

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UNIT – 19 : GOVERNMENT & DEVELOPMENT SOURCES OF CAPITAL

Structure :

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19.2 Government and Development Sources

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19.8 Self-Assessment Questions

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19.0 OBJECTIVES

After study this unit, you should be able to;

- To study the various government funding sources in India;
- To discuss the developmental funding available in India for new ventures
- To examine different types of loan for new ventures
- To study the various governmental schemes for new ventures

19.1 INTRODUCTION

An entrepreneur requires a continuous flow of funds not only for setting up of his/ her business, but also for successful operation as well as regular upgradation/ modernization of the industrial unit. To meet this requirement, the Government (both at the Central and State level) has been undertaking several steps like setting up of banks and financial institutions; formulating various policies and schemes, etc. All such measures are specifically focused towards the promotion and development of small and medium enterprises.

Money is very important and it becomes even more important when you're gearing to start a company. You can always look forward to a Venture Capitalist to raise funds for your startup. Venture Capitalists are people who invest in early stage businesses that have a high potential to grow in future. They traditionally receive equity in the startup business in return for funding it. However, nowadays the trend involves demanding a mixture of debt financing and equity.

Venture Capital Funds have a number of advantages over any other funding methods for startups. They inject long term equity finance which acts as a solid capital base for future growth. They even act as a business partner, who shares both the risks and rewards of the business. In addition to this, Venture Capitalist funds are high on practical knowledge and advice from their past experiences with other companies. They also come with a network of contacts that can add value to your startup.

19.2 GOVERNMENT AND DEVELOPMENT SOURCES

19.2.1 Promoted by Public Banks-

The public sector banks are the major source of financial assistance to the industrial sector. They extend credit support to the firms in the form of loans, advances, discounting bills, project financing, term loans, export finance, etc. Some of the major examples of such banks are:-

1. **State Bank of India (SBI)** provides a wide range of financial products and services that can cater to any business or market requirement. It deploys multiple channels to deliver integrated solutions for all financial challenges faced by the corporate universe. Its various funding schemes are:-

- Working capital finance extended to all segments of industries and services sector.
- Corporate term loans to support capital expenditures for setting up new ventures as also for expansion, renovation, etc.
- Deferred payment guarantees to support purchase of capital equipments.
- Project finance
- Structured Finance

The bank also provides financial assistance to agriculturists through a network of rural and semi-urban branches. These specialized branches have been set up in different parts of the country exclusively for the development of agriculture through credit deployment. Their schemes cover a wide range of agricultural activities like crop loan , finance to horticulture, farm mechanization schemes, land development schemes, minor irrigation projects, agricultural term loans, etc.

2. **Bank of Baroda**

offers various products and services that meet the specific requirements of business enterprises, particularly the small scale units. Various schemes relating to the provision of loans and advances by the bank include:-

- Working Capital Finance
- Term Finance
- Small and Medium Enterprise (SME) Loan Pack
- Small Business Borrowers
- Traders Loan

3. **Andhra Bank**

has also devised a host of loan schemes to meet the financial requirements of an enterprise. These particularly cater to the corporate and agricultural sector. Some of its important funding options include:-

- Working Capital Loans
- Export & Import Finance
- Advance against Shares
- Term Finance
- Corporate Loans
- Project Finance
- Infrastructure Project Finance
- KisanVikas Card
- KisanSampathi
- Self Help Groups-Bank Linkage Programme
- Kisan Green Card

Small scale industries need credit support on a continuous basis for running the enterprise as well as for its diversification and modernisation. Recognising the need for a focused financial assistance to such industries, the Government of India, together with the State Governments, has formulated several policy packages including schemes and funds for their growth and development. Most of these programmes of the Central Government are implemented through two principal organisations:-

1. **Small Industries Development Organisation (SIDO)** is an apex body for promotion and development of small scale industries in the country. Its major activities include:-

- Advising the Government on formulation of policies and programmes for the small-scale industries.
- Conducting periodical census/survey of the small scale industry and generating data/reports on various important parameters/indicators of growth and development of the sector.
- Maintaining close liaison with other Central Ministries, Planning Commission, State Governments, Financial Institutions and other organisations concerned with the development of small-scale industries.
- Facilitating linkage of small-scale industries as ancillaries to large and medium scale industries.
- Developing human resource base through training and skill upgradation.

For achieving its objectives, SIDO has devised a comprehensive range of schemes for providing credit facilities, technology support services and marketing assistance, etc. Some of the major schemes

are:-

- Credit Linked Capital Subsidy Scheme for Technology Upgradation
- Credit Guarantee Scheme
- ISO 9000/ISO 14001 Certification Reimbursement Scheme
- Integrated Infrastructure Development (IID Scheme)
- SSI MDA Scheme
- Assistance to Entrepreneurship Development Institutes
- Micro Finance Programme

2. **National Small Industries Corporation Ltd (NSIC)** , has been established with the objective of promoting, aiding and fostering the growth of small scale industries in the country. It has been assisting small enterprises through a set of specially tailored schemes which facilitate marketing support, credit support, technology support and other support services.

- Marketing support schemes :- sound marketing is critical for the growth and survival of small enterprises. NSIC acts as a facilitator to promote small industries products and has devised a number of schemes to support small enterprises in their marketing.
- Credit support schemes:- NSIC facilitates credit requirements of small enterprises in several areas. These include:-

♦ **Equipment financing**:- through schemes like 'Hire Purchase' and 'Term Loan' for the procurement of equipments.

♦ **Financing for procurement of raw material**:- by facilitating bulk purchase of basic raw materials at competitive rates, import of scares raw materials,etc. NSIC also takes care of all the procedures, documentation and issue of letter of credit in case of imports.

♦ **Financing for marketing activities**:- such as internal marketing, exports and bill discounting, etc.

♦ **Financing through syndication with banks**:- by entering into strategic alliances with commercial banks so as to facilitate fund requirement of the small enterprises.

It involves an arrangement of forwarding the loan applications of the interested small enterprises to the banks.

- **Performance and credit rating scheme for small industries**:- so as to enable the small enterprises to ascertain the strengths and weaknesses of their existing operations and take corrective measures accordingly. NSIC is operating the scheme through agencies like ICRA, ONICRA, Duns &Bradstreet(D&B), CRISIL, FITCH, CARE and SMERA.

- Technology support schemes : NSIC offers small units various support services through its 'Technical Services Centres' and 'Extension Centres'. The services provided include advise on application of new techniques; material testing facilities through accredited laboratories; energy and environment services at selected centres; classroom and practical training for skill upgradation, etc.

At the State level, various State Financial Corporations (SFCs) have been set up by the respective State Governments for providing financial assistance to the industrial units. For this purpose, these institutions have brought out several funds and schemes, from time to time. There are 18 State Financial Corporations (SFCs) in the country. For example:-

1. **Kerala Financial Corporation (KFC)** incorporated under the State Financial Corporations Act of 1951, is a trend setter in the field of industrial finance. It has been playing a major role in the development and industrialisation of Kerala by extending financial assistance well-suited for the requirements of the entrepreneurs. Its main objective is to extend term loan assistance for establishing new industrial units or to extend credit assistance for meeting expansion/diversification/modernisation costs of the existing units, in small scale or medium sectors. Some of its major schemes include:-

- General Scheme For SSI Units
- General Scheme For SME Units
- National Equity Fund (Nef) Scheme
- Working Capital Finance
- Scheme For Assistance To Information Technology And Software Development Sector
- Financial Assistance For Infrastructure Projects

2. **Madhya Pradesh Financial Corporation** is the premier institution in the State of Madhya Pradesh engaged in providing financial assistance to small and medium industries. This assistance has been extended in the form of a wide range of fund and non fund based services/ schemes. The fund based schemes are available for setting up of business ventures within the State, whereas, non fund based schemes are available throughout the country.

The fund based schemes include:-

- Term Loan
- Equipment Finance
- Asset Credit
- Short Term Loan
- Working Capital
- Loan Replenishment
- Finance for Market Activities
- Composite Loan
- Credit Linked Capital Subsidy for SSI

The non-fund based schemes include:-

- Public Issue Appraisal
- Credit Syndication

Corporate Advisory Services

♦ **SBI Capital Markets Ltd. (SBICAP)**

It is the country's largest domestic Investment Bank, which offers the entire gamut of corporate advisory and investment banking services. These services include structured Debt placement, stressed assets resolution, Merger & Acquisitions, Private Equity, Project Advisory and loan Syndication and Capital Markets. Founded in 1986, SBICAP has an aim of providing professional, credible and customer-focused investment banking services. Headquartered in Mumbai, SBICAP provides diversified financial advisory and investment banking services, innovative ideas and unparalleled execution to their clients across all stages of the business cycle.

It is a wholly owned subsidiary and the Investment Banking arm of State Bank of India, which is the largest commercial bank in the country.

- **Canbank Venture Capital Fund Ltd. (CVCFL)**

Founded on 21st October, 1989, CVCFL is a wholly owned subsidiary of Canara Bank. The bank is the first Public Sector Bank to set up a Venture Capital fund that is duly registered with SEBI. It is a premier domestic Venture Capital Fund which believes in adopting a General Fund Philosophy. CVCFL'S corpus is contributed by Financial Institutions, Insurance Companies and Public Sector Banks. The fund has set up five funds worth INR 6200 Million till now. Out of these five funds, two are now closed. The fund's portfolio investments are spread across diverse industrial segments.

3.2.2 *Promoted by the Central Government controlled development finance institutions*

This group contains Venture Capital Funds that are promoted by development finance institutions that are controlled by the Central Government of the country. The examples are as follows –

- **IFCI Venture Capital Funds Ltd. (IFCI Venture)**

IFCI Venture was promoted by the IFCI Ltd. as a Risk Capital Foundation in 1975. IFCI Venture Capital Funds Ltd. finally came into existence as a Venture Capital fund in February 2000. They have an expertise in providing corporate advisory services, leveraging thirty years of experience in undertaking investment. These advisory services aim to provide fair, independent and informed assessment for undertaking decisions through the Investment cycle from deal identification to exit planning.

- **SIDBI Venture Capital Limited (SVCL)**

Incorporated in July 1999, SVCL is a wholly owned subsidiary of SIDBI. It has a mission of catalyzing entrepreneurship by providing capital and other strategic inputs for building growth opportunities and maximize returns on investment. SVCL has managed a lot of funds over the years. These include SME Growth Fund, National Venture Fund for Software and Information Technology, Samridhi Funds and India Opportunities Fund.

3.2.3 Promoted by State Government Controlled development finance Institutions

This group includes Venture Capital Funds which are promoted by development finance institutions controlled by state government. Some of the famous examples are:-

♦ **Hyderabad Information Technology Venture Enterprises Limited (HITVEL)**

It manages the HIVE Fund contributed by Small Industries Development Bank of India, A.P Industrial Development Corporation Ltd., and A.P Industrial Infrastructure Corporation

Limited. HITVEL is the asset management company under Srei Venture Capital Limited, which is the subsidiary of Srei Infrastructure Finance Limited. HITVEL has successfully completed several early stage investments in various Information Technology companies in the country. Its fund HIVE II focuses on targeting the IT ITES Sector in India.

- **Kerala Venture Capital Fund Private Limited**

The Kerala Venture Capital Fund Pvt. Ltd. is functioning as the asset managing company of the Kerala Venture Capital Fund. Its main function is to manage the venture capital. The fund which was registered on September 14th, 1999, has eight active Director/Partners. The fund is currently Strike off Status.

- **Gujarat Venture Finance Limited (GVFL)**

Founded in 1990, GVFL is regarded as the pioneer of Venture Capital in India. It works as an independent, autonomous Board managed venture finance company in Gujarat. Founded at the initiative of World Bank, GVFL has encouraged and supported innovative ideas and entrepreneurs in the past. One feature which distinguishes GVFL from all other VCs is its broad spectrum support to its funded entities that ranged from governance support to strategic support. Over the last twenty years, the fund has spawned 7 funds which have supported 81 companies. GVFL focuses on providing venture capital to technology oriented startups.

- **Punjab InfoTech Venture Fund**

Founded in 1999, this Chandigarh based Fund is a Venture Capital Fund managed by Punjab Venture Capital Limited. The fund provides startup, growth and seed capital to startups in India. The fund invests in small and medium enterprises, primarily in the Software and Information Technology Sectors. The size of the fund is estimated to be $4 million.

3.2.4 Overseas Venture Capital Funds

This group comprises of Venture Capital funds from outside India. Some of the Examples are as follows –

- **BTS India Private Equity Fund Ltd.**

This Switzerland based Private Equity fund specializes in buy outs, mid stage, late stage and expansion stage investments. Founded in 2006, the fund prefers to invest in companies based in India. It invests in small and medium sized businesses. The fund does not invest its resources in early stage enterprises as it prefers enterprises that have established themselves over a period of two to three years. The fund seeks to invest in manufacturing, technology enabled services, telecommunications, packaging, pharmaceuticals and life sciences, textiles, healthcare and services.

- **Walden International Investment Group**

It focuses its investments on opportunities in early stage and expansion stage companies. The group invests in companies across Emerging Technologies, Semiconductors, Software and IT services and Internet & Digital Media sectors. It helps companies in finding business resources, talent and market beyond their domestic terrain. The group has a very powerful and unique network of corporate, government and personal relationships across the world. They help the companies in accessing the right people in potential strategic partners that can make a huge difference in the growth of their companies. They are long term investors and seek to invest in companies that have a potential of making it huge in their markets.

- **SEAF India Investment and Growth Fund**

SEAF started in the year 1989 as the CARE Small Business Assistance Corporation (CARESBAC), a single member non-governmental organization owned by the international relief and development organization, CARE. CARESBAC finally became SEAF in 1995 after it spun out of CARE. The fund has invested in a diversified range of India based companies with sustainable competitive advantages and high growth potential. It primarily invests in fast growing and dynamic sectors like media and entertainment, information & technology, life sciences and healthcare etc.

3.2.5 Promoted by Private Sector Companies

This category consists of Venture Capital funds promoted by Private Sector Companies. Some Examples are:-

- **Infinity Venture India Fund**

The fund seeks to invest in technology and related companies. Founded in 1999, it is the country's first institutionalized fund that brought Indian entrepreneurs and overseas entrepreneur together. It closed fund raising in 2000 and has invested in about eighteen companies. Most of these investments have been in Series A or Seed fund. The Fund follows a research based methodology in order to identify potential investment areas and understand emerging markets/technologies.

- **IL&FS Trust Company Limited (ITCL)**

Founded in the year 1995, ITCL is a part of IL&FS Group. It holds a Debenture Trustee license from SEBI. It is one of the largest Independent corporate Trustees in the country which offers Fiduciary and Trusteeship services to Governments, Infrastructure and Financial

Services sector, High net worth individuals and Families. As of March, 2014, ITCL has administered over INR 445,600 crores in assets under a gamut of Corporate and Family Office Trusteeship services from its offices in Mumbai, Delhi, Kolkata, and Bangalore. It clients include Financial Institutions, Governments and their agencies, Corporations and all other entities that access credit markets and debit capital.

19.3 VARIOUS SCHEMES OF GOVERNMENT OF INDIA FOR VENTURE CAPITAL

Venture capitalists comprise of professionals of various fields. They provide funds (known as Venture Capital Fund) to these firms after carefully scrutinizing the projects. Their main aim is to earn huge returns on their investments, but their concepts are totally different from the traditional moneylenders. They know very well that if they may suffer losses in some project, the others will compensate the same due to high returns. They take active participation in the management of the company as well as provide the expertise and qualities of a good banker, technologist, planner and managers. Thus, the venture capitalist and the entrepreneur literally act as partners. The venture capital recognises different stages of financing, namely:-

- **Early stage financing** - This is the first stage financing when the firm is undertaking production and need additional funds for selling its products. It involves seed/ initial finance for supporting a concept or idea of an entrepreneur. The capital is provided for product development, R&D and initial marketing.
- **Expansion financing** - This is the second stage financing for working capital and expansion of a business. It involves development financing so as to facilitate the public issue.
- **Acquisition/ buyout financing** - This later stage involves:-
- Acquisition financing in order to acquire another firm for further growth
- Management buyout financing so as to enable the operating groups/ investors for acquiring an existing product line or business and
- Turnaround financing in order to revitalise and revive the sick enterprises.

All these venture capital funds are governed by the Securities and Exchange Board of India (SEBI) . SEBI is the nodal agency for registration and regulation of both domestic and overseas venture capital funds. Accordingly, it has made the following regulations, namely, Securities and Exchange Board of India (Venture Capital Funds) Regulations 1996 and

Securities and Exchange Board of India (Foreign Venture Capital Investors) Regulations 2000. These regulations provide broad guidelines and procedures for establishment of venture capital funds both within India and outside it; their management structure and set up; as well as size and investment criteria's of the funds.

19.3.1 Venture Capital Assistance (VCA)

Venture Capital: To promote investments in agri-business projects with the participation of nationalized banks, SBI and subsidiaries/IDBI.

- Venture capital for agri-projects upto 10% of the total project cost, or 26% of the Total project equity or Rs.75 lakhs whichever is lower.

Provided that for projects located in North-Eastern and Hilly States (Uttrakhand, Himachal Pradesh, J & K), the quantum of Venture Capital will be the lowest of the following:

o 25% of the total project cost assessed by the bank

o 40% of the project equity

o Rs. 75.00 Lakhs whichever is lower

- In special cases, higher venture capital can be considered by SFAC to deserving projects on merit and to projects that are located in remove and backward notified districts, North-Eastern and Hilly States and in projects recommended by State agencies subject to maximum of Rs. 3 crores.

19.3.2 Project Development Facility (PDF):

To provide financial assistance to farmers, Producer Groups, agripreneurs, Units in Agri-Export Zones, Organizations and Agriculture graduates for the preparation of bankable Detailed Project Reports (DPR).

Eligible Criteria for Funding

- Project should be in agriculture or allied sector basically perishables namely norticulture, floriculture, medicinal and aromatic plants, minor forest produce, apiculture, and fisheries. However, poultry and dairy projects will not be covered under the scheme.
- Project should provide assured market to farmers/ producer groups.
- Project should encourage farmers to diversify into high value crops, to increase farms incomes.
- Project should be accepted by banks (mentioned above) for grant of term loan.

19.3.3: Venture Capital Fund for Scheduled Castes

The Government of India has launched this 'Venture Capital Fund for Scheduled Castes' with initial capital of Rs. 200 crore. IFCI Ltd. will act as Sponsor, Settler and Asset Management Company (AMC) / Nodal Agency to operate the scheme. The IFCI Ltd. would contribute Rs.50 crore which would comprise Rs.5.00 crore as sponsor and Rs. 45 crore as investor.

The objectives of the Venture Fund are as follows:

- It is a Social Sector Initiative to be implemented nationally in order to promote entrepreneurship amongst the SCs who are oriented towards innovation and growth technologies.
- To provide concessional finance to the SC entrepreneurs, who will create wealth and value for society and at the same time will promote profitable businesses. The assets so created will also create forward/ backward linkage. It will further create chain effect in the locality.
- To increase financial inclusion for SC entrepreneurs and to motivate them for further growth of SC communities.
- To develop SC entrepreneurs economically.
- To enhance direct and indirect employment generation for SC population in India

NSFDC's 'Green Business Scheme' for providing financial assistance has been launched keeping into the concern for the climate change. Under this Scheme, loan for unit cost upto Rs.1 lakh at concessional rate of interest will be provided to Scheduled Castes for activities such as e-rickshaw, Solar Pump and Solar energy powered implements, poly house etc.

19.3.4 Dairy/Poultry venture capital funds

To bring about structural changes in the unorganized sector, the measures like milk processing at village level, marketing of pasteurized milk in a cost effective manner, quality up-gradation of traditional technology to handle commercial scale using modern equipment and management skills, the Venture Capital Fund for Dairy and Poultry sector was started in Xth plan and Planning Commission has approved the scheme for continuation during XI plan with an enhanced outlay of Rs 300 crore. However the dairy and poultry components have been separated into two new schemes during 11th Plan and are now termed as Dairy Venture Capital Fund (DVCF) with a separate allocation from 2009-10. Under the scheme, financial assistance is provided as loan to the rural/urban beneficiaries under a schematic proposal through bankable projects.

This scheme was approved in Dec. 2004 i.e. during 10th Five Year Plan with a total outlay of Rs 25.00 crore against which an amount of Rs 28.00 crore were released. The scheme is being implemented through NABARD and the funds released by GOI to NABARD are kept as revolving fund. **Since inception, a sum of Rs 142.99 crore has been released** to NABARD for implementation of scheme throughout the country. **An amount of Rs 12.00**crore has been released during the year 2010-11 (31.08.2010).

Pattern of Assistance:

1. Entrepreneur's contribution - 10%
2. Interest free Loan from revolving fund provided by GOI - 50%
3. Bank loan at interest applicable for agricultural activities - 40%

Government of India sub-sidizes the interest component applicable for agricultural activities to the extent of 50% only in case of regular/timely repayment by the beneficiary.

Financial & Physical Progress under the scheme:

Since inception of the scheme a total of **18184 Dairy Units** have been sanctioned with a total interest free loan amount of **Rs 174.39 crore till 31st August 2010.**

Year-wise amount of funds sanctioned by NABARD to participating banks during 2005-06 to 2010-11 (upto 31.08.2010) for release of Interest Free Loan are as under:-

Year	**RE**	**Release by GOI**	**Amount sanctioned by NABARD (Rscrore) Dairy**	**Unit sanctioned Dairy**
2005-06	12.00	15.80	9.81	1014
2006-07	15.00	12.20	15.88	1858
2007-08	49.99	49.99	33.36	2972
2008-09	35.00	35.00	39.71	4805
2009-10	20.00	20.00	48.15	4719
2010-11	32.40	**12.00**	**27.48**	**2816**
Total		**144.99**	**174.39**	**18184**

*Though the scheme was approved during 2004-05, funds were released for implementation of the scheme for the first time in the year 2005-06.

DVCF scheme has been modified and renamed as Dairy Entrepreneurship Development Schme (DEDS) in EFC meeting held under the Chairmanship of Secretary (ADF) on 24.06.2010 . The DVCF scheme come to close on 31.08.2010

19.3.5 IFCI Venture Capital Funds Ltd

was set up by IFCI Ltd in 1975 as Risk Capital Foundation with a view to widen the entrepreneurial base by providing startup capital for setting up Green Field projects. Since its inception IFCI Venture has provided the start-up capital and venture funding to over 400 entrepreneurs

A. Green India Venture Fund (GIVF):

Objective of the Fund

The objective of GIVF would be to invest in companies setting up Clean Development Mechanism (CDM) projects and other commercially viable projects/ business aiming at following :

- Reduce or eliminate negative ecological impact;
- Improve the productive and responsible use of natural/other resources;
- Promoting use of alternative/non-conventional/renewable energy sources;
- Synchronizing business practices for maintaining ecological balance and sustainable environment

Need for such fund

Climate change is among the most challenging issues mankind has ever faced. Greenhouse gases form a blanket layer over earth's atmosphere and trap heat waves within atmosphere, thus, gradually leading to rise in global temperature. GIVF proposes to contribute to cleaner environment and sustainable development and also generate substantial revenues for all willing to espouse the cause of clean environment.

Size of Fund

The corpus size of the fund is INR 3300 Million approx. with Green Shoe option.

The size of the overseas fund would be decided based on the mutual agreement between IFCI Venture and the overseas investors.

B India Enterprise Development Fund (IEDF)

Objective of the Fund

To invest in knowledge based projects with relatively high entry barriers, critical applications, prospects for high growth and global scalability. The projects/ ventures for investment under the fund would be identified in diversified and/ or emerging sectors of the economy.

Size of Fund

The corpus size of the domestic fund is INR 250 crores.

The size of the overseas fund would be decided based on the mutual agreement between IFCI Venture and the overseas investors.

19.4 TYPESOF LOANS

19.4.1 Commercial bank loans don't require entrepreneurs to turn over equity or company control. In general, banks prefer to make loans of more than $10,000. Banks like to see:

- Good credit
- A solid business plan
- Ability to repay the loan
- Collateral

19.4.2 Line of Credit is an arrangement in which a bank extends a specified amount of credit to a specified borrower for a specified time period. A line of credit is best suited to help cover expenses that tend to fluctuate throughout the course of a year.

19.4.3 Home equity loans are a cost-effective alternative to other types of loans because they offer good interest rates available. But you may not want to risk your family home to launch your business venture.

19.4.4 Equipment lease financing gives you access to many types of equipment — computers, copiers, fax machines, cars and trucks — without tying up your cash or credit lines. Although it doesn't bring in cash, leasing reduces the amount of cash you otherwise have to raise to start.

19.4.5 Cash advances from credit cards are an easy and quick way to gain access to cash. But as a long-term financing method, they can be expensive — credit card interest rates typically run much more than you would likely pay on a bank loan.

19.4.6 Factoring allows a company to "sell" its accounts receivables to an outside company at a discounted rate. This allows the company to receive funds immediately to fund operations and ease cash flow. Factoring is done by private companies.

19.4.7 Bank Loan for Startup Business

Securing funds for a startup is one of the toughest challenges an Entrepreneur faces while starting a new business. With a plethora of funding options available, it is important for the Entrepreneur to understand the pros and cons of each funding methodology, estimate the amount of funds required, the application of funds, projected financial position of the business including the returns generated and evolve a strategy – to approach and secure the required funds. With venture capital firms and angel investors enjoying plenty of coverage as a great source of funding for startup, many Entrepreneurs are unaware that financial institutions and Banks are also an avenue of funding for startups. In fact, Banks are one of the largest funders of startups in India, providing funding to thousand of startups each year.

19.4.8 Government Loan Schemes for Small Scale Businesses

A business loan provided under a government scheme or program is always favorable due to its lower interest rates. Besides, government loan schemes help you suffice your day-to-day business funding requirements. With the help of various government loan schemes, you can take your business to the next level. Both state and central government have framed various policies and schemes to cater to the financial requirement of small businesses across the country. Many public sector banks like State Bank of India (SBI), Andhra Bank and Bank of Baroda offer various financial schemes to small business owners. These schemes help the entrepreneurs obtain financial products and services according to their business requirements.

Some of the worth-mentioning schemes offered by these public sector banks are:

1)Working Capital Finance

This type of capital is provided for meeting the operating expenses of a business. It is also provided to small enterprises in purchasing their business assets. This type of financing can be obtained through direct funding or letter of credit.

2) Corporate Term Loans

Corporate term loans are useful for starting a new venture as well as for expanding an existing business. These loans are generally taken for running as well as for expanding businesses.

3) Term Finance

Term loans are provided for acquiring buying fixed assets like land, plant, building, machinery etc. These loans are available at floating interesting rates and come with specified repayment schedules. The maturity period of a term loan is usually from 1 to 10 years.

In addition to public sector banks, there are several government financial institutions that have played a significant role in providing financial assistance to small businesses.

Some of the prominent names engaged in helping small businesses with funding facilities are as follows:

Small Industries Development Bank of India (SIDBI)

Small Industries Development Bank of India (SIDBI) started its small business funding programs way back in 1990. Established by an act of Parliament, SIDBI is now one of the most illustrious names among the government financial institutions. This loan has played an active role in the promotion and development of small business industry. Various schemes provided by SIDBI are enlisted below:

- Direct Assistance Scheme
- Indirect Assistance Scheme
- Promotional and Development Activities
- National Equity Fund, Scheme
- Technology Development and Modernization Fund Scheme
- Single Window Scheme
- MahilaUdyamNidhi (MUN)
- Scheme and Equipment Finance Scheme

National Small Industries Corporation Limited (NSIC)

National Small Industries Corporation Limited (NSIC) came into effect in the year 1999 with an objective of encouraging the small scale industries in the country. The prime feature of NSIC is to import machines on hire-purchase terms. It lay emphasis on supplying and distributing both indigenous and imported raw material as well as on exporting the products of small business units. Besides, it also creates awareness of advancements occurring in the field of small scale industries.

National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development or NABARD came into existence mainly for promoting agriculture-based rural business enterprises. NABARD mostly offers financial assistance to small scale industries viz; cottage and village industry.

World Association for Small and Medium Enterprises (WASME)

World Association for Small and Medium Enterprises or WASME is the only non-governmental organization for SMEs in India. This organization aims at the development of small and medium businesses in the country. Moreover, for the growth of rural enterprises, it also provides some subsidized schemes.

Both government and public sector banks have played significant roles in uplifting the small scale and rural business industries in India. Biz2Credit can help you avail the best business loan scheme from a public sector bank or a government financial institution.

19.5 NOTE

19.6 SUMMARY

There are broadly two major sources of financing for infrastructure projects: public finance and private finance. The governments both at the central and provincial levels have been the major source of funding for infrastructure projects in developing countries like India. Plans for investment to various infrastructure sectors are undertaken by the governments through formal planning exercise wherein allocation of budget is done. The budgetary allocation is influenced to a great extent on the emphasis by the government to accelerate or promote growth in certain sectors which are categorized as high priority in the plan period.

Participation of private sector has been sought in various infrastructure sectors. Governments have adopted innovative procurement route like public private partnerships for involvement of private sector in the development of infrastructure projects. Private sector provides financing to infrastructure projects using a wide range of financial instruments. The chapter will discuss in details the funding of infrastructure using private finance.

The budgetary resources from government to fund the infrastructure projects come from two major categories of the sources: tax collection and public sector borrowings. Borrowings from the market are in the form of either government stock or bonds. The other source of revenue for the government is in the form of tax collection and duties besides aids and donation, though this form a small portion of public finance. Taxes are levied by governments on income, payroll, property, and goods and services. For instance, taxes and duties imposed by the government can be in the form of income tax, value added tax, vehicle excise duty, capital gains tax, custom duties and stamp duty. In addition to this, dedicated funds are also created by government for development of specific infrastructure sectors by imposing various types of duties.

19.7 KEYWORDS

- **Small Industries Development Organization:SIDO** is an apex body for promotion and development of small scale industries in the country
- **Equipment financing**: Through schemes like 'Hire Purchase' and 'Term Loan' for the procurement of equipment.
- **SBI Capital Markets Ltd:** SBICAP is the country's largest domestic Investment Bank, which offers the entire gamut of corporate advisory and investment banking services.
- **Line of Credit: Line of Credit** is an arrangement in which a bank extends a specified amount of credit to a specified borrower for a specified time period.

- **Factoring: Factoring** allows a company to "sell" its accounts receivables to an outside company at a discounted rate.
- **NABARD:** National Bank for Agriculture and Rural Development.

19.8 SELF-ASSESSMENT QUESTIONS

1. Discuss the major financial assistance promoted by public banks
2. Explain various financial schemes promoted by the Central Government controlled development finance institutions
3. Elucidate the Various Schemes of Government of India for Venture Capital
4. Write a note on 'financial assistance provided by SIDBI in India'

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UNIT – 20: VENTURE CAPITAL

Structure :

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20.0 OBJECTIVES

After study this unit, you should be able to;

- To discuss the nature of Venture Capital;
- To examine the scenario of venture capital in India
- To study the private equity financing
- To examine the existing informal capital market ("Angel Capital")

20.1 INTRODUCTION

The venture capital investment helps for the growth of innovative entrepreneurships in India. Venture capital has developed as a result of the need to provide non-conventional, risky finance to new ventures based on innovative entrepreneurship. Venture capital is an investment in the form of equity, quasi-equity and sometimes debt - straight or conditional, made in new or untried concepts, promoted by a technically or professionally qualified entrepreneur. Venture capital means risk capital. It refers to capital investment, both equity and debt, which carries substantial risk and uncertainties. The risk envisaged may be very high may be so high as to result in total loss or very less so as to result in high gains.

20.2 MEANING AND DEFINITION

Venture capital (VC) is money provided to seed early-stage, emerging and emerging growth companies. Venture capital funds invest in companies in exchange for equity in the companies they invest in, which usually have a novel technology or business model in high technology industries, such as biotechnology and IT. The typical venture capital investment occurs after a seed funding round as the first round of institutional capital to fund growth (also referred to as Series A round) in the interest of generating a return through an eventual exit event, such as an IPO or trade sale of the company. Venture capital is a type of private equity.

In addition to angel investing, equity crowdfunding and other seed funding options, venture capital is attractive for new companies with limited operating history that are too small to raise capital in the public markets and have not reached the point where they are able to secure a bank loan or complete a debt offering. In exchange for the high risk that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the companies' ownership (and consequently value).

Venture capital is also a way in which the private and public sectors can construct an institution that systematically creates networks for the new firms and industries, so that they can progress. This institution helps identify and combine business functions such as finance, technical expertise, marketing know-how, and business models. Once integrated, these enterprises succeed by becoming nodes in the search networks for designing and building products in their domain. However, venture capitalists' decisions are often biased, exhibiting for instance overconfidence and illusion of control, much like entrepreneurial decisions in general.

This is a very important source of financing for a new business. Here money is provided by investors to start a business that has strong potentiality of high growth and profitability. The provider of venture capital also provides managerial and technical support. Venture capital is also known as risk capital.

20.3 HISTORY

A venture may be defined as a project prospective converted into a process with an adequate assumed risk and investment. With few exceptions, private equity in the first half of the 20th century was the domain of wealthy individuals and families. The Wallenbergs, Vanderbilts, Whitneys, Rockefellers, and Warburgs were notable investors in private companies in the first half of the century. In 1938, Laurance S. Rockefeller helped finance the creation of both Eastern Air Lines and Douglas Aircraft, and the Rockefeller family had vast holdings in a variety of companies. Eric M. Warburg founded E.M. Warburg & Co. in 1938, which would ultimately become Warburg Pincus, with investments in both leveraged buyouts and venture capital. The Wallenberg family started Investor AB in 1916 in Sweden and were early investors in several Swedish companies such as ABB, Atlas Copco, Ericsson, etc. in the first half of the 20th century.

20.4 FUNDING

Obtaining venture capital is substantially different from raising debt or a loan. Lenders have a legal right to interest on a loan and repayment of the capital irrespective of the success or failure of a business. Venture capital is invested in exchange for an equity stake in the business. The return of the venture capitalist as a shareholder depends on the growth and profitability of the business. This return is generally earned when the venture capitalist "exits" by selling its shareholdings when the business is sold to another owner.

Venture capitalists are typically very selective in deciding what to invest in; as a result, firms are looking for the extremely rare yet sought-after qualities such as innovative technology, potential for rapid growth, a well-developed business model, and an impressive management team. Of these qualities, funds are most interested in ventures with exceptionally high growth potential, as only such opportunities are likely capable of providing financial returns and a successful exit within the required time frame (typically 3–7 years) that venture capitalists expect.

Because investments are illiquid and require the extended time frame to harvest, venture capitalists are expected to carry out detailed due diligence prior to investment. Venture capitalists also are expected to nurture the companies in which they invest, in order to increase the likelihood of reaching an IPO stage when valuations are favourable. Venture capitalists typically assist at four stages in the company's development:

- Idea generation;
- Start-up;
- Ramp up; and
- Exit

Because there are no public exchanges listing their securities, private companies meet venture capital firms and other private equity investors in several ways, including warm referrals from the investors' trusted sources and other business contacts; investor conferences and symposia; and summits where companies pitch directly to investor groups in face-to-face meetings, including a variant known as "Speed Venturing", which is akin to speed-dating for capital, where the investor decides within 10 minutes whether he wants a follow-up meeting. In addition, some new private online networks are emerging to provide additional opportunities for meeting investors.

This need for high returns makes venture funding an expensive capital source for companies, and most suitable for businesses having large up-front capital requirements, which cannot be financed by cheaper alternatives such as debt. That is most commonly the case for intangible assets such as software, and other intellectual property, whose value is unproven. In turn, this explains why venture capital is most prevalent in the fast-growing technology and life sciences or biotechnology fields.

If a company does have the qualities venture capitalists seek including a solid business plan, a good management team, investment and passion from the founders, a good potential to exit the investment before the end of their funding cycle, and target minimum returns in excess of 40% per year, it will find it easier to raise venture capital.

20.5 FINANCING STAGES

There are typically six stages of venture round financing offered in Venture Capital, that roughly correspond to these stages of a company's development.

- Seed funding: The earliest round of financing needed to prove a new idea, often provided by angel investors. Equity crowdfunding is also emerging as an option for seed funding.
- Start-up: Early stage firms that need funding for expenses associated with marketing and product development
- Growth (Series A round): Early sales and manufacturing funds. This is typically where VCs come in. Series A can be thought of as the first institutional round. Subsequent investment rounds are called Series B, Series C and so on...
- Second-Round: Working capital for early stage companies that are selling product, but not yet turning a profit. This can also be called Series B round and so on.
- Expansion: Also called Mezzanine financing, this is expansion money for a newly profitable company
- Exit of venture capitalist: VCs can exit through secondary sale or an IPO or an acquisition. Early stage VCs may exit in later rounds when new investors (VCs or Private Equity investors) buy the shares of an existing investors. Sometimes a company very close to an IPO may allow some VCs to exit and instead new investors may come in hoping to profit from the IPO.
- Bridge Financing is when a startup seeks funding in between full VC rounds. The objective is to raise smaller amount of money instead of a full round and usually the existing investors participate.

Between the first round and the fourth round, venture-backed companies may also seek to take venture debt.

20.6 VENTURE CAPITALISTS

A venture capitalist is a person who makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle (in the United States, often an LP or LLC) that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. These funds are typically managed by a venture capital firm, which often employs individuals with technology backgrounds (scientists, researchers), business training and/or deep industry experience.

A core skill within VC is the ability to identify novel or disruptive technologies that have the potential to generate high commercial returns at an early stage. By definition, VCs also take a role in managing entrepreneurial companies at an early stage, thus adding skills as well as capital, thereby differentiating VC from buy-out private equity, which typically invest in companies with proven revenue, and thereby potentially realizing much higher rates of returns. Inherent in realizing abnormally high rates of returns is the risk of losing all of one's investment in a given startup company. As a consequence, most venture capital investments are done in a pool format, where several investors combine their investments into one large fund that invests in many different startup companies. By investing in the pool format, the investors are spreading out their risk to many different investments instead of taking the chance of putting all of their money in one start up firm.

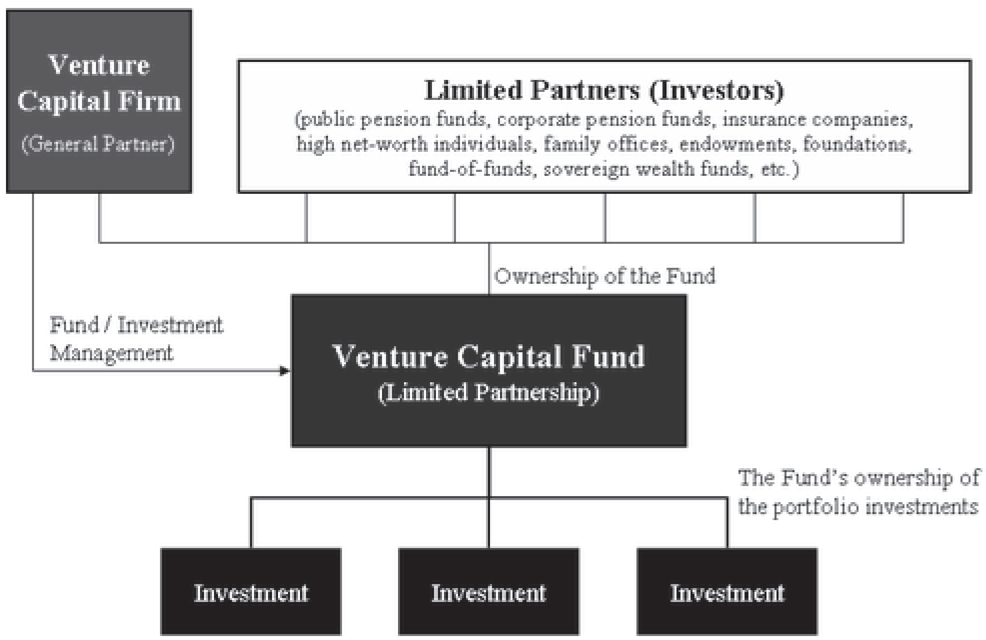


Diagram of the structure of a generic venture capital fund

20.7 STRUCTURE

Venture capital firms are typically structured as partnerships, the general partners of which serve as the managers of the firm and will serve as investment advisors to the venture capital funds raised. Venture capital firms in the United States may also be structured as limited liability companies, in which case the firm's managers are known as managing members. Investors in venture capital funds are known as limited partners. This constituency comprises both high-net-worth individuals and institutions with large amounts of available capital, such as state and private pension funds, university financial endowments, foundations, insurance companies, and pooled investment vehicles, called funds of funds.

20.8 TYPES

Venture Capitalist firms differ in their approaches. There are multiple factors, and each firm is different.

Some of the factors that influence VC decisions include:

- Business situation: Some VCs tend to invest in new, disruptive ideas, or fledgling companies. Others prefer investing in established companies that need support to go public or grow.
- Some invest solely in certain industries.
- Some prefer operating locally while others will operate nationwide or even globally.
- VC expectations can often vary. Some may want a quicker public sale of the company or expect fast growth. The amount of help a VC provides can vary from one firm to the next.

20.9 ROLES

Within the venture capital industry, the general partners and other investment professionals of the venture capital firm are often referred to as "venture capitalists" or "VCs". Typical career backgrounds vary, but, broadly speaking, venture capitalists come from either an operational or a finance background. Venture capitalists with an operational background (operating partner) tend to be former founders or executives of companies similar to those which the partnership finances or will have served as management consultants. Venture capitalists with finance backgrounds tend to have investment banking or other corporate finance experience.

Although the titles are not entirely uniform from firm to firm, other positions at venture capital firms include:

Position	Role
General Partners or GPs	They run the Venture Capital firm and make the investment decisions on behalf of the fund. GPs typically put in personal capital up to 1-2% of the VC Fund size to show their commitment to the LPs.
Venture partners	Venture partners are expected to source potential investment opportunities ("bring in deals") and typically are compensated only for those deals with which they are involved.
Principal	This is a mid-level investment professional position, and often considered a "partner-track" position. Principals will have been promoted from a senior associate position or who have commensurate experience in another field, such as investment banking, management consulting, or a market of particular interest to the strategy of the venture capital firm.
Associate	This is typically the most junior apprentice position within a venture capital firm. After a few successful years, an associate may move up to the "senior associate" position and potentially principal and beyond. Associates will often have worked for 1–2 years in another field, such as investment banking or management consulting.
Entrepreneur-in-residence	Entrepreneurs-in-residence (EIRs) are experts in a particular domain and perform due diligence on potential deals. EIRs are engaged by venture capital firms temporarily (six to 18 months) and are expected to develop and pitch startup ideas to their host firm although neither party is bound to work with each other. Some EIRs move on to executive positions within a portfolio company.

20.10 STRUCTURE OF THE FUNDS

Most venture capital funds have a fixed life of 10 years, with the possibility of a few years of extensions to allow for private companies still seeking liquidity. The investing cycle for most funds is generally three to five years, after which the focus is managing and making follow-on investments in an existing portfolio. This model was pioneered by successful funds in Silicon Valley through the 1980s to invest in technological trends broadly but only during their period of ascendance, and to cut exposure to management and marketing risks of any individual firm or its product.

In such a fund, the investors have a fixed commitment to the fund that is initially unfunded and subsequently "called down" by the venture capital fund over time as the fund makes its investments. There are substantial penalties for a limited partner (or investor) that fails to participate in a capital call.

It can take anywhere from a month or so to several years for venture capitalists to raise money from limited partners for their fund. At the time when all of the money has been raised, the fund is said to be closed, and the 10-year lifetime begins. Some funds have partial closes when one half (or some other amount) of the fund has been raised. The vintage year generally refers to the year in which the fund was closed and may serve as a means to stratify VC funds for comparison. This shows the difference between a venture capital fund management company and the venture capital funds managed by them.

From investors' point of view, funds can be: (1) traditional—where all the investors invest with equal terms; or (2) asymmetric—where different investors have different terms. Typically the asymmetry is seen in cases where there's an investor that has other interests such as tax income in case of public investors.

Payment	Implementation
Management fees	an annual payment made by the investors in the fund to the fund's manager to pay for the private equity firm's investment operations. In a typical venture capital fund, the general partners receive an annual management fee equal to up to 2% of the committed capital.
Carried interest	a share of the profits of the fund (typically 20%), paid to the private equity fund's management company as a performance incentive. The remaining 80% of the profits are paid to the fund's investors Strong limited partner interest in top-tier venture firms has led to a general trend toward terms more favorable to the venture partnership, and certain groups are able to command carried interest of 25–30% on their funds.

Because a fund may run out of capital prior to the end of its life, larger venture capital firms usually have several overlapping funds at the same time; doing so lets the larger firm keep specialists in all stages of the development of firms almost constantly engaged. Smaller firms tend to thrive or fail with their initial industry contacts; by the time the fund cashes out, an entirely new generation of technologies and people is ascending, whom the general partners may not know well, and so it is prudent to reassess and shift industries or personnel rather than attempt to simply invest more in the industry or people the partners already know.

20.11 NATURE OF VENTURE CAPITAL

Venture capital has the following features:

1. Venture capital investments are made in innovative projects.
2. Benefits from such investments may be realized in the long run.
3. Suppliers of venture capital invest money in the form of equity capital.
4. As investment is made through equity capital, the suppliers of venture capital participate in the management of the company.

20.12 ADVANTAGES AND DISADVANTAGES OF VENTURE CAPITAL

The advantages of venture capital are as follows:

i. New innovative projects are financed through venture capital which generally offers high profit-ability in long run.

ii. In addition to capital, venture capital provides valuable information, resources, technical assistance, etc., to make a business successful.

The disadvantages of venture capital are:

i. It is an uncertain form of financing.

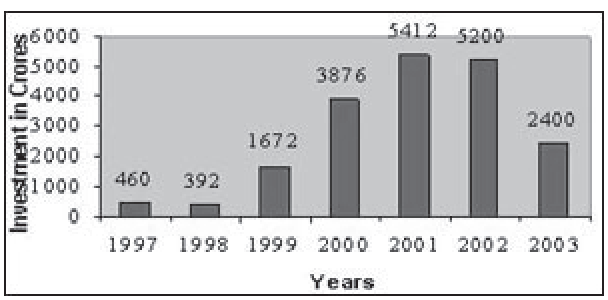
ii. Benefit from such financing can be realized in long run only.

20.12 VENTURE CAPITAL SCENARIO IN INDIA

In India the Venture Capital plays a vital role in the development and growth of innovative entrepreneurships. Venture Capital activity in the past was possibly done by the developmental financial institutions like IDBI, ICICI and State Financial Corporations. These institutions promoted entities in the private sector with debt as an instrument of funding. For a long time funds raised from public were used as a source of Venture Capital. This source however depended a lot on the market vagaries. And with the minimum paid up capital requirements being raised for listing at the stock exchanges, it became difficult for smaller firms with viable projects to raise funds from public. In India, the need for Venture Capital was recognised in the 7th five year plan and long term fiscal policy of GOI. In 1973 a committee on Development of small and medium enterprises highlighted the need to faster VC as a source of funding new entrepreneurs and technology. VC financing really started in India in 1988 with the formation of Technology Development and Information Company of India Ltd. (TDICI) - promoted by ICICI and UTI. The first private VC fund was sponsored by Credit Capital Finance Corporation (CFC) and promoted by Bank of India, Asian Development Bank and the Commonwealth Development Corporation viz. Credit Capital Venture Fund. At the same time Gujarat Venture Finance Ltd. and APIDC Venture Capital Ltd. were started by state level financial institutions. Sources of these funds were the financial institutions, foreign institutional investors or pension funds and high net-worth individuals.

20.12.1 Venture Capital Investments in India

The venture capital investment in India till the year 2001 was continuously increased and thereby drastically reduced. Chart I shows that there was a tremendous growth by almost 327 percent in 1998-99, 132 percent in 1999-00, and 40 percent in 2000-01 thereafter venture capital investors slow down their investment. Surprisingly, there was a negative growth of 4 percent in 2001-02 it was continued and a 54 percent drastic reduction was recorded in the year 2002-2003. **Venture Capital Investments**



Source: The Economic Times

20.12.2 SEBI Venture Capital Funds (VCFs) Regulations, 1996

A Venture Capital Fund means a fund established in the form of a trust/company; including a body corporate, and registered with SEBI which (i) has a dedicated pool of capital raised in a manner specified in the regulations and (ii) invests in venture capital undertakings (VCUs) in accordance with these regulations.

A Venture Capital Undertaking means a domestic company (i) whose shares are not listed on a recognised stock exchange in India and (ii) which is engaged in the business of providing services/production/manufacture of articles/things but does not include such activities/sectors as are specified in the negative list by SEBI with government approval- namely, real estate, non-banking financial companies (NBFCs), gold financing, activities not permitted under the industrial policy of the Government and any other activity which may be specified by SEBI in consultation with the Government from time to time.

Registration

All VCFs must be registered with SEBI and pay Rs.25,000 as application fee and Rs. 5,00,000 as registration fee for grant of certificate.

Recommendations of SEBI (Chandrasekhar) Committee, 2000 SEBI appointed the Chandrasekhar Committee to identify the impediments in the growth of venture capital industry in the country and suggest suitable measures for its rapid growth. Its report was submitted in January, 2000. The recommendations pertain to

1. Harmonisation of multiplicity of regulations
2. VCF structures
3. Resource raising
4. Investments
5. Exit
6. SEBI regulations
7. Company law related issues and
8. Other related issues.

20.12.3 Types of Venture Capital Funds

Generally there are three types of organised or institutional venture capital funds: venture capital funds set up by angel investors, that is, high net worth individual investors; venture capital subsidiaries of corporations and private venture capital firms/ funds. Venture capital subsidiaries are established by major corporations, commercial bank holding companies and other financial institutions. Venture funds in India can be classified on the basis of the type of promoters.

1 **. VCFs promoted by the Central govt. controlled development financial institutions** such as TDICI, by ICICI, Risk capital and Technology Finance Corporation Limited (RCTFC) by the Industrial Finance Corporation of India (IFCI) and Risk Capital Fund by IDBI.

2. **VCFs promoted by the state government-controlled development finance institutions** such as Andhra Pradesh Venture Capital Limited (APVCL) by Andhra Pradesh State Finance Corporation (APSFC) and Gujarat Venture Finance Company Limited (GVCFL) by Gujarat Industrial Investment Corporation (GIIC)

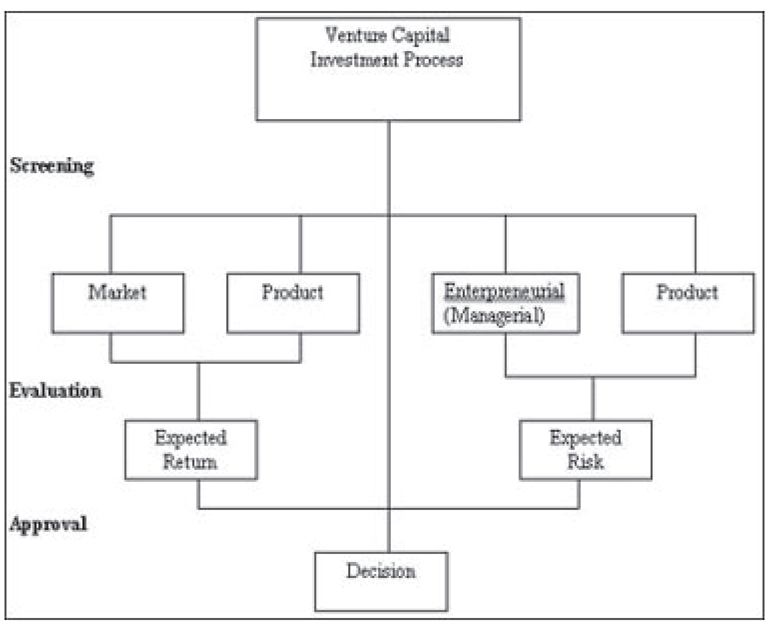
3. **VCFs promoted by Public Sector banks** such as Canfina by Canara Bank and SBI-Cap by State Bank of India.

4. **VCFs promoted by the foreign banks or private sector companies and financial institutions** such as Indus Venture Fund, Credit Capital Venture Fund and Grindlay's India Development Fund.

20.12.4 The Venture Capital Investment Process

The venture capital activity is a sequential process involving the following six steps.

1. Deal origination
2. Screening
3. Due diligence Evaluation)
4. Deal structuring
5. Post-investment activity
6. Exist



Venture Capital Investment Process

Deal origination:

In generating a deal flow, the VC investor creates a pipeline of deals or investment opportunities that he would consider for investing in. Deal may originate in various ways. referral system, active search system, and intermediaries. Referral system is an important source of deals. Deals may be referred to VCFs by their parent organisaions, trade partners, industry associations, friends etc. Another deal flow is active search through networks, trade fairs, conferences, seminars, foreign visits etc. Intermediaries is used by venture capitalists in developed countries like USA, is certain intermediaries who match VCFs and the potential entrepreneurs.

Screening:

VCFs, before going for an in-depth analysis, carry out initial screening of all projects on the basis of some broad criteria. For example, the screening process may limit projects to areas in which the venture capitalist is familiar in terms of technology, or product, or market scope. The size of investment, geographical location and stage of financing could also be used as the broad screening criteria.

Due Diligence:

Due diligence is the industry jargon for all the activities that are associated with evaluating an investment proposal. The venture capitalists evaluate the quality of entrepreneur before appraising the characteristics of the product, market or technology. Most venture capitalists ask for a business plan to make an assessment of the possible risk and return on the venture. Business plan contains detailed information about the proposed venture. The evaluation of ventures by VCFs in India includes;

Preliminary evaluation: The applicant required to provide a brief profile of the proposed venture to establish prima facie eligibility.

Detailed evaluation: Once the preliminary evaluation is over, the proposal is evaluated in greater detail. VCFs in India expect the entrepreneur to have:- Integrity, long-term vision, urge to grow, managerial skills, commercial orientation.

VCFs in India also make the risk analysis of the proposed projects which includes: Product risk, Market risk, Technological risk and Entrepreneurial risk.

Deal Structuring:

In this process, the venture capitalist and the venture company negotiate the terms of the deals, that is, the amount, form and price of the investment. This process is termed as deal structuring. The agreement also include the venture capitalist's right to control the venture company and to change its management if needed, buyback arrangements, acquisition, making initial public offerings (IPOs), etc. Earned out arrangements specify the entrequreneur's equity share and the objectives to be achieved.

Post Investment Activities:

Once the deal has been structured and agreement finalised, the venture capitalist generally assumes the role of a partner and collaborator. He also gets involved in shaping of the direction of the venture. The degree of the venture capitalist's involvement depends on his policy. It may not, however, be desirable for a venture capitalist to get involved in the day-to-day operation of the venture. If a financial or managerial crisis occurs, the venture capitalist may intervene, and even install a new management team.

Exit:

Venture capitalists generally want to cash-out their gains in five to ten years after the initial investment. They play a positive role in directing the company towards particular exit routes. A venture may exit in one of the following ways:1. Initial Public Offerings (IPOs)2. Acquisition by another company3. Purchase of the venture capitalist's shares by the promoter, or4. Purchase of the venture capitalist's share by an outsider.

20.13 PRIVATE EQUITY FUNDS

A **private equity fund** is a collective investment scheme used for making investments in various equity (and to a lesser extent debt) securities according to one of the investment strategies associated with private equity. Private equity funds are typically limited partnerships with a fixed term of 10 years (often with annual extensions). At inception, institutional investors make an unfunded commitment to the limited partnership, which is then drawn over the term of the fund. From the investors' point of view, funds can be traditional (where all the investors invest with equal terms) or asymmetric (where different investors have different terms).A private equity fund is raised and managed by investment professionals of a specific private equity firm (the general partner and investment advisor). Typically, a single private equity firm will manage a series of distinct private equity funds and will attempt to raise a new fund every 3 to 5 years as the previous fund is fully invested.

Legal structure and terms

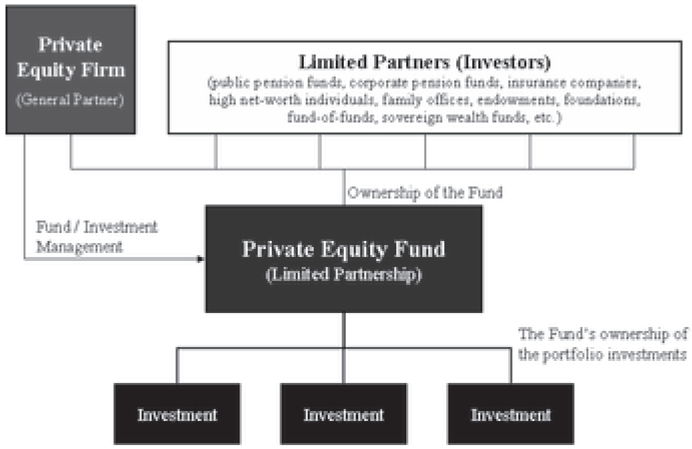


Diagram of the structure of a generic private equity fund

Most private equity funds are structured as limited partnerships and are governed by the terms set forth in the limited partnership agreement or LPA. Such funds have a general partner (GP), which raises capital from cash-rich institutional investors, such as pension plans, universities, insurance companies, foundations, endowments, and high-net-worth individuals, which invest as limited partners (LPs) in the fund. Among the terms set forth in the limited partnership agreement are the following:·

Term of the partnership:

The partnership is usually a fixed-life investment vehicle that is typically 10 years plus some number of extensions.·

- **Management fees:** An annual payment made by the investors in the fund to the fund's manager to pay for the private equity firm's investment operations (typically 1 to 2% of the committed capital of the fund.·
- **Distribution Waterfall :** The process by which the returned capital will be distributed to the investor, and allocated between Limited and General Partner. **This waterfall includes the preferred return :** a minimum rate of return (e.g. 8%) which must be achieved before the General Partner can receive any carried interest, and the Carried interest, the share of the profits paid the General Partner above the preferred return (e.g. 20%).·
- **Transfer of an interest in the fund:** Private equity funds are not intended to be transferred or traded; however, they can be transferred to another investor. Typically, such a transfer must receive the consent of and is at the discretion of the fund's manager.·

- **Restrictions on the General Partner:** The fund's manager has significant discretion to make investments and control the affairs of the fund. However, the LPA does have certain restrictions and controls and is often limited in the type, size, or geographic focus of investments permitted, and how long the manager is permitted to make new investments.

20.13.1 Private equity investments and financing

A private equity fund typically makes investments in companies (known as portfolio companies). These portfolio company investments are funded with the capital raised from LPs, and may be partially or substantially financed by debt. Some private equity investment transactions can be highly leveraged with debt financing—hence the acronym LBO for "leveraged buy-out". The cash flow from the portfolio company usually provides the source for the repayment of such debt. While billion dollar private equity investments make the headlines, private equity funds also play a large role in middle market businesses.

Such LBO financing most often comes from commercial banks, although other financial institutions, such as hedge funds and mezzanine funds, may also provide financing. Since mid-2007, debt financing has become much more difficult to obtain for private equity funds than in previous years.LBO funds commonly acquire most of the equity interests or assets of the portfolio company through a newly created special purpose acquisition subsidiary controlled by the fund, and sometimes as a consortium of several like-minded funds.

20.13.2 Private Equity Venture Capital in India

Private equity is money invested in companies, which are not publicly traded on a stock exchange or invested as part of buyouts of publicly traded companies in order to make them private companies. Capital for private equity is raised mainly from institutional investors. There is a wide array of types of private equity and the term private equity has different connotations in different countries.Venture capital is a type of private equity capital normally provided for early-stage, high-potential, growth companies in the interest of generating a return through an eventual realization event such as a trade sale of the company. Venture capital investments are commonly made as cash in exchange for shares in the invested company. It is distinctive for venture capital investors to identify and back companies in high technology industries such as biotechnology and ICT.

20.13.3 Major Private Equity Funds in India

1. ICICI Ventures
2. UTI Ventures

3. Kotak Private Equity Group

4. CVC International

5. JM Financial Evolvence New Bridge Financial Advisors

20.14 ANGEL INVESTORS

An **angel investor** or **angel** (also known as a **business angel**, **informal investor**, **angel funder**, **private investor**, or **seed investor**) is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors invest online through equity crowdfunding or organize themselves into **angel groups** or **angel networks** to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

20.14.1 Etymology and origin

The term "angel" originally comes from Broadway theater, where it was used to describe wealthy individuals who provided money for theatrical productions that would otherwise have had to shut down. In 1978, William Wetzel, then a professor at the University of New Hampshire and founder of its Center for Venture Research, completed a pioneering study on how entrepreneurs raised seed capital in the USA, and he began using the term "angel" to describe the investors that supported them. A similar term is patron, commonly used in arts.

Angel investors are often retired entrepreneurs or executives, who may be interested in angel investing for reasons that go beyond pure monetary return. These include wanting to keep abreast of current developments in a particular business arena, mentoring another generation of entrepreneurs, and making use of their experience and networks on a less than full-time basis. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts. Because there are no public exchanges listing their securities, private companies meet angel investors in several ways, including referrals from the investors' trusted sources and other business contacts; at investor conferences and symposia; and at meetings organized by groups of angels where companies pitch directly to investor in face-to-face meetings.

According to the Center for Venture Research, there were 258,000 active angel investors in the U.S. in 2007. According to literature reviewed by the US Small Business Administration, the number of individuals in the US who made an angel investment between 2001 and 2003 is between 300,000 and 600,000. Beginning in the late 1980s, angels started to coalesce into informal groups with the goal of sharing deal flow and due diligence work, and pooling their funds to make larger investments. Angel groups are generally local organizations made up of 10 to 150 accredited investors interested in early-stage investing. In 1996 there were about 10 angel groups in the United States. There were over 200 as of 2006.

The past few years, particularly in North America, have seen the emergence of networks of angel groups, through which companies that apply for funding to one group are then brought before other groups to raise additional capital.

20.14.2 Source and extent of funding

Angels typically invest their own funds, unlike venture capitalists who manage the pooled money of others in a professionally-managed fund. Although typically reflecting the investment judgment of an individual, the actual entity that provides the funding may be a trust, business, limited liability company, invfund, or other vehicle. A Harvard report by William R. Kerr, Josh Lerner, and Antoinette Schoar provides evidence that angel-funded startup companies have historically been less likely to fail than companies that rely on other forms of initial financing.

Angel capital fills the gap in seed funding between “friends and family” and more robust start-up financing through formal venture capital. Although it is usually difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are usually not able to make or evaluate small investments under US$1–2 million. Thus, angel investment is a common second round of financing for high-growth start-ups, and accounts in total for almost as much money invested annually as all venture capital funds combined, but into more than 60 times as many companies (US$20.1 billion vs. $23.26 billion in the US in 2010, into 61,900 companies vs. 1,012 companies).

There is no “set amount” for angel investors, and the range can go anywhere from a few thousand, to a few million dollars. In a large shift from 2009, in 2010 healthcare/medical accounted for the largest share of angel investments, with 30% of total angel investments (vs. 17% in 2009), followed by software (16% vs. 19% in 2007), biotech (15% vs. 8% in 2009), industrial/energy (8% vs. 17% in 2009), retail (5% vs. 8% in 2009) and IT services (5%).While more readily available than venture financing, angel investment is still extremely difficult to raise. However some new models are developing that are trying to make this easier.

Investment profile

Angel investments bear extremely high risks and are usually subject to dilution from future investment rounds. As such, they require a very high return on investment. Because a large percentage of angel investments are lost completely when early stage companies fail, professional angel investors seek investments that have the potential to return at least ten or more times their original investment within 5 years, through a defined exit strategy, such as plans for an initial public offering or an acquisition. Current 'best practices' suggest that angels might do better setting their sights even higher, looking for companies that will have at least the potential to provide a 20x-30x return over a five- to seven-year holding period. After taking into account the need to cover failed investments and the multi-year holding time for even the successful ones, however, the actual effective internal rate of return for a typical successful portfolio of angel investments is, in reality, typically as 'low' as 20–30%. While the investor's need for high rates of return on any given investment can thus make angel financing an expensive source of funds, cheaper sources of capital, such as bank financing, are usually not available for most early-stage ventures.

20.15 NOTES

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20.16 SUMMARY

Money provided by investors to startup firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns.

Venture capital can also include managerial and technical expertise. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships. This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity.

The emergence of venture capital companies is a relatively new phenomenon in India. In the absence of an organized venture capital industry in India until 1998, individual investors and development financial institutions have played the role of venture capitalists. Entrepreneurs have largely depended on private placements, public offerings and lending by financial institutions. The venture capital phenomenon has now reached a take-off stage in India. Risk capital in all forms is becoming available more freely. Contrary to the earlier trend, where it was easy to raise only growth capital, financing of ideas or seed capital is now available. The number of players offering growth capital and the number of investors is rising rapidly. The initiatives of the Indian government in formulating policies regarding sweat equity, stock options and tax breaks for venture capital along with overseas listings have all contributed to the enthusiasm among investors and entrepreneurs.

20.17 KEY WORDS

- **Venture capital (VC):** Venture capital (VC) is money provided to seed early-stage, emerging and emerging growth companies.
- **Seed funding:** The earliest round of financing needed to prove a new idea, often provided by angel investors.
- **Venture capitalists:** A venture capitalist is a person who makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments.
- **Due Diligence:** Due diligence is the industry jargon for all the activities that are associated with evaluating an investment proposal.

- **Private Equity Funds:** A private equity fund is a collective investment scheme used for making investments in various equity securities according to one of the investment strategies associated with private equity.
- **Angel Investors:** An angel investor is an affluent individual who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity.

20.18 SELF-ASSESSMENT QUESTIONS

1. What is Venture Capital? Discuss the Venture Capital Funding Stages
2. Discuss the structure, role & types of Venture Capital
3. Elucidate the nature, advantages and disadvantages of Venture capital
4. Describe the venture capital scenario in India
5. Write a note on Angel Investor

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