Self Learning Material

SMALL MEDIUM BUSINESS & ENTREPRENEURSHIP
(BBA 602)

Course: BBA

Semester-VI

Distance Education Programme
I.K. Gujral Punjab Technical University
Jalandhar
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Syllabus

SMALL MEDIUM BUSINESS & ENTREPRENEURSHIP (BBA 602)

Max. Marks: 100
External Assessment: 60
Internal Assessment: 40

Objectives: This course has been designed for the students who intent to start their own enterprise. All such students start as entrepreneurs. So they need to understand intricacies of business. This course will guide them right from the idea generation to implementation of the idea.

UNIT-I
Understanding Ownership Structure: Definition of small scale, medium scale and large scale enterprises, role of small enterprises in economic development, policies governing SMEs, Steps in setting up a small unit, Sources of finance for SME’s,

Setting up of a small Business Enterprise: Rationale for Small & medium enterprise; Objective; Scope; Role of SME in Economic Development of India, Identifying business opportunity in various sectors, SME Registration; NOC from Pollution Board; machinery and equipment selection; project report preparation; project planning and scheduling using networking techniques of PERT / CPM; Methods of Project Appraisal.

UNIT-II
Institutional Supporting Small Business-Central / State level Institution, Preparation of a Business Plan – Elements of a Business Plan, Kinds of Business plans and overview of different aspects

Social Entrepreneurship: Definition, importance and social responsibilities-NGOs

Problems of SMEs and prospects, Causes and Symptoms of sickness – cures of sickness, Govt. policies on revival of sickness and remedial measures, Turnaround strategies for SMEs,

UNIT III
Understanding Entrepreneurship: concept and definitions, entrepreneurial characteristics and skills, importance and significance of growth of entrepreneurial activity, classification and types of entrepreneurs; entrepreneurial competencies, theories of entrepreneurship, factor affecting entrepreneurial growth – economic, non-economic factors; entrepreneurial training; entrepreneurial success and failures, Ethics and Social Responsibility of an Entrepreneur.

UNIT-IV


Suggested Readings:
1. Vasant, Desai; Entrepreneurship, Himalaya Publishing House
2. Taneja & S.L. Gupta.; Entrepreneurship Development,
3. I.M.Pandey, Venture Capital –The Indian Experience, Prentice Hall of India,
4. B.C.Tandon, Environment and Entrepreneur; Chug Publications, Allahabad
5. Siner A david: Entrepreneurial Megabuks; John Wiley and Sons, New York
6. S.B. Srivastava A practical guide to industrial entrepreneurs, Sultan Chand & Sons,
9. Hisrich, Robert D and Peters, Michael P, Entrepreneurship, Tata McGraw Hill,
Lesson-1
Introduction to Small & Medium Enterprises (SMEs)

1.1 Objectives

1.2 Introduction

1.3 Definitions of Small and Medium Enterprises (SMEs)

1.4 Distinguishing between Micro, Small and Medium Enterprises

1.5 Characteristics and significance of Small and Medium Enterprises

1.6 Contribution / Role of SMEs in the Economic Development

1.7 Small and Medium Enterprises (SMEs) in Indian Environment

1.8 Factors Influencing Small and Medium Enterprises (SMEs)

1.9 Industrial Policies and Strategies related to Small and Medium Enterprises

1.10 Steps for starting Small Scale Industry

1.11 Summary

1.12 Glossary

1.13 Check Your Progress

1.14 References & Suggested Readings

1.15 Terminal and Model Questions
1.1 Objectives:
Dear students after studying this lesson, you will be able to:
1. Understand the concept of SMEs
2. Know the distinction between Micro, Small and Medium Enterprises
3. Understand the characteristics and significance of Small and Medium Enterprises (SMEs)
4. Understand the contributions/role of SMEs in the Economic Development
5. Explain the steps for starting Small scale industry.

1.2 Introduction

Small scale sector occupies an important position in the industrial structure of our country. In a country like India, wherein on one hand there is the acute problem of unemployment and on the other hand scarcity of resources, therefore in such circumstances only the small scale sector is best suited to cater the needs of new entrepreneurs. Small and medium enterprises (SMEs) play an important role in creation of employment with low capital investment. Thus small and medium enterprises (SMEs) play an important role in the development of the economy of the nation.

The small-scale sector contributes around 40 percent to the total exports of the country therefore it plays an important role in the development of Indian economy. In terms of value added it contributes to about 40 percent of the manufacturing sector and 80 percent of industrial production is from this sector.

The role of small and medium enterprises (SMEs) is one of the important features of the planned economic development of India. In India this sector has been assigned with the significant role in the industrialization and economic development of the country, as an effective tool in subserving the national objective of growth with justice. Its crucial role has been increasingly recognized as a solution for the country’s problems of scarce capital, widespread unemployment, regional imbalance of industrial development, inequitable distribution of National Income etc.

1.3 Definition of Small and Medium Enterprises

The definition of small and medium enterprises (SMEs) is defined in different ways depending on country’s pattern and stage of development, policy aims and administration set up. An SME can be defined as a privately owned and operated business unit that is composed of a small
number of employees and has relatively low turnover. In the words of P. Neck, “Small enterprises are those in which the management lies in the hands of one or two people who are responsible for the major decisions.”

This definition draws a critical management feature of SMEs in which one or two people bear the responsibility of many functions, which is generally distributed among several people in a large-scale enterprise. This characteristic is evident in many SMEs. SME is defined differently in different countries depending on their economies, for example, an SSE in the US may be a large-scale enterprise in India. SMEs can be classified on the basis of number of employees, capital invested, turnover, and type of business. For example, in African nations, a business unit is considered to be an SME, if it employs 5 to 50 people. On the other hand, in Asian countries, it is between 30 and 100, whereas in the US it is any number less than 500. SSEs play a significant role in creating employment, utilizing resources, generating income, which, in turn, helps in the economic development of a country.

In India, Small and Medium Scale Enterprises (SMEs) or small-scale sector lies between the organized sector represented by large-scale industries and the unorganized sector of widely dispersed cottage industries. Small-scale sector is defined in terms of certain criteria, such as investment ceiling on the original value of the installed plant and machinery, number of workers employed, use of power, plant capacity, and volume of output. The most acceptable criterion of defining the small-scale sector in India is the ceilings on investment in plant and machinery. The small-scale sector includes the following undertakings or enterprises:

- **Small-Scale Industrial Undertaking**: Refers to an industrial undertaking in which the investment in fixed assets, such as plant and machinery (whether held on ownership terms, on lease, or by hire-purchase) does not exceed Rs. 1 crore. If the industrial undertaking exports 30% of its annual production by the end of third year from the date of its commencing production, then the limit of investment in fixed assets in plant and machinery is Rs. 5 crores.

- **Ancillary Industrial Undertaking**: Refers to an industrial undertaking that deals with the production of spare parts, components, sub-assemblies, and tooling, or the rendering of services. An ancillary industrial undertaking needs to provide at least 50% of its
products and services to other undertaking. It is important to note that the investment of an ancillary industrial undertaking in fixed assets should not exceed Rs. 1 crore.

- **Micro or Tiny Enterprise**: Refers to an enterprise in which investment limit in plant and machinery is Rs. 25 lakhs irrespective of location of the unit.

### 1.4 Distinguishing between Micro, Small, and Medium Enterprises

In India, enterprises are broadly grouped into two categories, namely, manufacturing enterprises and service enterprises. These two categories of enterprises are explained as follows:

- **Manufacturing Enterprises**: Refer to enterprises engaged in the production of goods, such as textiles, coir items, chemicals, and beauty products

- **Service Enterprises**: Refer to the enterprises involved in providing or rendering of services, such as tailoring, dry cleaning, and desktop publishing

According to the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the aforementioned two categories are further classified into MSMEs on the basis of amount invested on plant and machinery (in the manufacturing sector) and on equipment (in the service sector). The difference between MSMEs on the basis of investment ceilings are given in Table-1:

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in Plant and Machinery in Manufacturing Sector</th>
<th>Investment in Equipment in Service Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Does not exceed Rs. 25 lakhs</td>
<td>Does not exceed Rs. 10 lakhs</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>More than Rs. 25 lakhs, but does not exceed Rs. 5 crores</td>
<td>More than Rs. 10 lakhs, but does not exceed Rs. 2 crores</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>More than Rs. 5 crores, but does not exceed Rs. 10 crores</td>
<td>More than Rs. 2 crores, but does not exceed Rs. 5 crores</td>
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</tbody>
</table>

### 1.5 Characteristics and Significance of Small and Medium Scale Enterprises (SMEs)

As discussed earlier, SMEs play a significant role in the economic development of a nation. Following are the characteristics of an SME:
- **Labour Intensive**: Indicates that SMEs provide employment opportunities to individuals in urban and rural areas, which, in turn, enhances the economic position of the country.

- **Flexibility**: Implies that SMEs adapt themselves as per the dynamic industrial environment.

- **Innovative**: Implies that SMEs use new and innovative materials, methods of production, markets, sources of materials, and even new forms of organizations, such as sole proprietorship, partnership, and co-operatives.

- **Decentralization**: Implies that SMEs facilitate a balanced growth of the economy as a whole due to dispersal of industries.

- **Outlet of Entrepreneurial Spirit**: Represents the enthusiasm, perseverance, and creativity of an individual, who establishes the enterprise.

The significance and relevance of SMEs are shown in the following points:

- Utilize locally available human and material resources and expertise/experience.
- Create jobs at relatively low cost.
- Improve the lifestyle and living standard of people.
- Diversify the industrial structure.
- Help in increasing the national productivity.
- Contribute approximately 35 to 40 percent of export.
- Prevent the creation of monopoly.
- Ensure more equitable income distribution.
- Attract and utilize indigenous entrepreneurship and encourage women entrepreneurs.
- Develop a pool of skilled and semi-skilled workers as a basis for future industrial expansion.
- Prevents regional imbalances by their presence in backward, rural, and the exterior most part of the country.
- Adapt appropriate technological managerial approaches optimally.
- Facilitate a favorable balance of trade.
Role of Small and Medium Scale Enterprises in Economic Development

SMEs constitute a vital and decisive segment of small-scale sector. They account for 40% in the manufacturing sector and contributes approximately 35% of the total direct exports. SMEs play a crucial in employment generation, resource utilization, and income generation, due to their unique economic and organizational characteristics, which, in turn, help in the economic development of a country. In India, the emphasis is given to the development of SSEs; therefore, the government formulates several policies and programs to promote SSEs.

1.6 Contribution/Role of SMEs in the Economic Development

The contribution of SSEs is explained as follows:

1. **Employment Generation:** Implies that SMEs made a significant contribution in employment generation and rural industrialization due to their high labor intensive nature. Thus, the employment growth rate of SMEs is higher than that of the large sector.

2. **Higher Productivity:** Refers to the fact that SMEs with a lower level of investment tend to achieve a higher productivity of capital than large-scale enterprises. It has been estimated that an investment of Rs. 1 lakh in fixed assets in small-scale sector produces 4.62 lakhs worth of goods or services, which are an approximate value addition of 10% to the total investment. Due to this unique characteristic, SMEs contribute to national productivity.

3. **Poverty Alleviation:** Signifies that SMEs contribute in mitigating poverty by providing employment opportunities to people in urban and rural areas. SMEs create a large number of job opportunities and are focused on utilizing the traditional skills and knowledge of individuals along with advanced technologies, capital, and innovative marketing practices. According to a study conducted by World Bank, small to medium enterprises sponsor projects with a noticeably higher proportion of unskilled workers in comparison to medium to large enterprises. SMEs provide job opportunities to even those individuals, who are overlooked by large or modern enterprises, which directly help in alleviating poverty.

4. **Better Utilization of Local Resources:** Refers to the fact that SMEs make the efficient use of locally available resources, whereas large enterprises usually have a great propensity to import raw materials and capital goods. For example, SMEs are usually
focused on fulfilling the demand of domestic market, while using the local resources, such as land, labor, and raw materials. Moreover, SMEs are labour intensive in nature and make the efficient use of labor. The labor intensive techniques in large enterprises usually pose special difficulties, such as labor union demands or government regulations, which rarely create problem for SMEs. Therefore, SMEs are better able to use indigenous resources than large enterprises.

5. **Tapping of Savings:** Implies that SMEs generally have a potential of saving a large portion of their income. The empirical evidence shows that small-scale entrepreneurs are motivated to save for future investment purposes. By reserving a good proportion of their income, small-scale entrepreneurs can ensure their strong base and secured existence. This also helps in reducing the dependence of small-scale entrepreneurs on institutional sources of financing.

6. **Utilization of Domestic Technology:** Implies that SMEs are more likely to use relatively simple, general-purpose machinery that is often obsolete as per the standards of developed countries. Such machines are usually manufactured locally in small machine shops. In this way, the local industries involved in producing machinery and equipment and the local repair shops become closely familiar with the SMEs machinery and equipment requirements. Thus, SMEs promote machine building and adaptive capability evolution by using simple less efficient or elegant machines.

7. **Regional Balance and Rural Development:** Signifies that SMEs contribute in maintaining regional balance and the development of rural areas to a large extent. In developing countries, industry is generally highly concentrated in few places resulting in regional imbalances and migration of people from rural areas and small towns. SMEs due to their locational flexibility require less infrastructure facilities and usually serve to a narrower geographical market, which results in maintaining the regional balance of the country. The relatively labor intensive technology of SMEs is appropriate for the lower wage rates prevailing outside metropolitans, that are small and medium towns and rural areas. This helps in the development and progress of small and medium towns and rural areas. Apart from this, underemployment is the major problem in rural areas due to slack agricultural seasons resulting in depressed rural incomes and increased migration of people to cities. Generally, SMEs involved in agricultural processing business create
employment in rural areas. Other small scale involvements in rural areas include blacksmithing, brick-making, tailoring, carpentry, and furniture-making.

8. **Export Contribution:** Refers to the fact that the number of small-scale undertakings involved in export is more than 5,000. The overall contribution of SMEs to the total export of India is approximately 35%. The direct export channel of SMEs includes merchant exporters, trading and export houses, and export orders of parts and components that are used in finished exportable goods by large-scale units. The major items of export by SMEs are low-skilled labor-intensive goods, such as readymade garments, leather products, gems and jewelry items, sports and plastic goods, chemicals, and processed food.

9. **Contribution to Decentralization:** Implies that SMEs prevent the concentration of power in few hands and ensure equitable distribution of wealth. It is evident that a number of SMEs are located in rural areas. On the other hand, large-scale industrialists take interest in locating their industries only in urban centers, which results in the accumulation of wealth in certain areas only.

10. **Complementary to Large-Scale Industries:** Signifies that SMEs produce various types of components, such as spare parts, tools, and accessories, which are required by the large-scale industries. In addition, SMEs also help in distributing the goods produced by large-scale industries. In this way, SMEs are complementary to large-scale industries.

**1.7 Small and Medium Scale Enterprises in Indian Environment**

India has experienced a noteworthy growth of SMEs post-independence. SMEs have played an important role in the creation of employment opportunities in urban and rural areas. In addition, they have contributed to the export growth of India to a large extent. In this way, SMEs have helped in the economic development of India by increasing the national income. Small-scale sector include a wide spectrum of industries categorized under small, tiny, and cottage industries, ranging from craftsmanship, ancillary undertakings, EOU, women-run enterprises, and SSSBEs to modern productive units with large investments. The emerging needs of the small-scale sector, such as protection against large-scale industries and foreign competition, have forced the Indian government to revise the investment ceilings for this sector. The current revision in investment ceilings for plant and machinery for SMEs is Rs. 1
crore and for service-related industrial enterprises is up to Rs. 10 lakhs. The main objectives of this revision is to enhance the growth of SMEs in the private sector, promote technological upgradation, improve the quality of existing SMEs, and boost exports.

In India, the small-scale sector can be further sub-divided into two categories, namely, traditional sector and modern sector. A significant number of SMEs in the traditional small-scale sector are located in rural belt as well in urban areas. The traditional small-scale sector includes khadi, village industries, handlooms, handicrafts, sericulture, and coir industries. On the other hand, the modern small-scale sector includes textile products, wood, furniture, paper and printing, metal products, chemicals, rubber and plastic products, electrical machinery, and transport equipment.

In India, since the beginning of planning in 1950-51, considerable efforts have been made to promote small-scale sector as a part of national development plans. At the time of independence, agriculture was the main source of employment for people, but with increasing rate of population, it became impossible to employ everyone in the agricultural field. Even, large-scale sector in India was also unable to provide employment to a large number of people as the investment cost per job is usually high there. Thereby, the government has formulated several policies and schemes for the development of SMEs because of their labor intensive nature.

1.8 Factors Influencing Small and Medium Scale Enterprises (SMEs)

An SME can be successful if the environment in which it operates is conducive. There are several factors in the environment that affect the performance of an SME. Some of the important factors are explained as follows:

- **Political Factors:** Imply that overall political environment of a country affects the performance of an SME. An SME needs requires constructive measures from the government and political bodies to establish and expand its business. These measures involve investment policies, creation of promotional agencies, industrial estates, and free trade zones as well as availability of low cost loans for SMEs.
• **Economic Factors:** Signify that an SME should take into consideration the economic environment of the country. Analyzing the economic environment helps the SME in making investment decisions, determining market conditions, and forecasting.

• **Technological Factors:** Refer to the fact that an SME needs to adjust itself according to the changes in the technological environment. An SME needs to introduce new technologies or update the existing technologies to keep pace with the increasing competition.

• **Socio-Cultural Factors:** Play a crucial role in the success of an SME. An SME needs to fulfill the following conditions for its survival:
  → Accepting change in the society and culture
  → Facilitating social mobility
  → Tolerating profit-making
  → Tolerating private ownership

Apart from the aforementioned factors, a stable and well developed institutional framework, such as banks, insurance, and capital market, is indispensable for the emergence and growth of SMEs. In the recent decades, the world economy has experienced an unexpected growth due to the emergence of SMEs. India is leading the way to introduce entrepreneurship development programs to identify and utilize entrepreneurial talents of individuals from all walks of life. Apart from this, entrepreneurship development programs are now being introduced in schools and colleges.

1.9 Industrial Policies and Strategies Related to Small and Medium Scale Enterprises (SMEs)

In developing countries, the government plays an important role in the growth and development of SMEs by formulating and implementing several policies and strategies. The main objectives of industrial policies and strategies are to provide employment on a decentralized basis, improve the skills and abilities of individuals, enhance the quality of products, increase productivity, and promote export activities. The industrial policies and strategies related to SMEs are as follows:

• **Industrial Policies:** Include various measures taken by central and state governments for the development of SMEs. These policies include measures, such as product reservation, fiscal concessions, extension of business and technical services, preferential allocation of credit and
interest subsidy in a credit-rationing framework, marketing assistance. The prime objective of these industrial policies is to provide strength and growth-impetus to the small-scale sector to enable, so that the sector contributes to the economy in terms of growth of productivity, employment and exports. Several efforts have been made to deregulate and de-bureaucratize the small-scale sector with a view to remove all constraints related to the growth potential of the sector and identifying and building entrepreneurial talents of youths. The government has reviewed and modified all laws, regulations, and procedures, wherever necessary, to promote the growth of SMEs. Considering the challenges faced by SMEs, the government has enlisted the following measures in the industrial policies to improve their competitiveness:

- Providing tax concessions to SMEs to promote investment in the small-scale sector
- Granting relief to small-scale entrepreneurs in terms of repayment of loans
- De-licensing the small-scale sector substantially
- Increasing technological facilities
- Facilitating adequate flow of credit
- Improving infrastructure facilities and promoting marketing of products
- Improving access to latest information by automating the government departments meant for supporting the small-scale sector
- Initiating various services, such as advisory and mentoring services, technology business incubators, and supplier rating accreditation services

**Strategies:** Include plans or schemes meant for the progress of SMEs by the government. Mahalanobis was the first strategy formulated by the government for the promotion of SMEs and was evolved during the 2nd Five Year Plan. The strategy was related to the economic planning, which focused on the development of the small-scale sector. At the time of evolution of the Mahalanobis strategy, the atmosphere was all overcharged with programs and plans for a rapid development of heavy capital goods industries. The strategy envisaged that small-scale sector would have to bear the responsibility of fulfilling the growing needs of consumer goods in the economy. The government has taken extensive measures for the growth and development of the small-scale sector.
Generally, small-scale units are owned and run by one or few individuals, who have weak capital base, lack of proper technical knowhow, weak bargaining power, and poor marketing capability. Therefore, the Indian government has formulated various strategies for the small-scale sector to overcome these deficiencies. These strategies include several incentive and supporting measures for the small-scale sector.

The main objectives of these strategies are as follows:

- Enabling the small-scale sector to withstand the competition from large-scale sector
- Assisting individuals to identify and use the available opportunities
- Improving the productivity of the small-scale sector and quality of goods
- Reducing the production costs
- Utilizing the existing capacities of the small-scale sector by supplying adequate inputs
- Expanding the share products manufactured by village and small industries in domestic market through publicity, standardization, and market support
- Strengthening ancillaryization programs to establish improved linkage between large and small enterprises
- Providing specialization in production
- Increasing self-employment opportunities by strengthening the skills profile, entrepreneurial base, and management practices
- Providing better working conditions, welfare measures, and security of employment to improve the general level of workers and artisans
- Transforming the small-scale sector from predominantly importing sector to exporting sector
- Promoting the active participation of investors
- Creating the conducive environment by providing financial and technical support to small-scale entrepreneurs
- Providing sustainable economic growth, social protection and development, infrastructure development, and improved governance
• Refocusing of existing resources by developing a more conducive set of policies to stimulate private sector investment in the small-scale sector

1.10. Steps for Starting Small Scale Industry:

A Small scale industry is a privately owned and operated business unit that is composed of a small number of employees and has relatively low turnover. Small scale industry is initiated by an entrepreneur wherein one or two people bear the responsibility of many functions. Starting a small scale industry is a thoughtful and highly complicated task which involves the following mentioned steps:

1.10.1 Decision to become an Entrepreneur: Before starting the small scale industry, one must take the decision to become an entrepreneur. An entrepreneur must have the ability to build and manage successful teams. Qualities like foresightedness, risk-taking, hard work, innovative, decision making are also very important to become an entrepreneur. The true entrepreneurship requires creative decision making, rational approach, problem solving ability and ability to take quick and correct decision. The profitability and productivity of an enterprise directly depends upon the decision making capacity of an entrepreneur. An entrepreneur has to take various decisions in performing activities of his enterprise. Therefore he must be innovative in decision making process.

Enterprise and entrepreneur are complimentary to each other. Success of an entrepreneur depends on selection of the idea to start an enterprise in a particular business, and at the same time the successful enterprise can be started if the entrepreneur has the characteristics and skills to handle that enterprise. Therefore, business idea must be selected on the basis of the skills and abilities of an entrepreneur.

1.10.2 Search for Business Idea: An entrepreneur should be the opportunity seeker and his most important task is to search or discover and to select the best business ideas. A good business idea must be capable of converting into a feasible project. An entrepreneur may come across multiple business alternatives but he has to select the most promising idea because, the success of the enterprise depends on identification and selection of the project idea.
Idea generation and project Identification is the foremost step for starting a new business but is one of the most difficult tasks. It deals with selecting the best business project out of the several opportunities available.

1.10.3 Sources of Business Idea:

Idea generation is an intellectual process that requires vision, initiative, scheme and inquisitiveness. The Project idea can come out from one or more following sources:

a. Trade fairs and trade journals.

b. through experience of others in the particular business,

c. success stories of friends, relatives.

d. Surveys, reports, newspapers, periodicals.

e. detailed analysis of demand and supply

f. Government policies and support for the development of the various sectors.

e. Increasing demand of certain goods and services in the domestic market as well as foreign market.

f. Easy Availability of raw material, skilled labour

g. invention of new technology.

Idea can be generated with the help of the following methods:

a. Brainstorming

b. Focus Groups

c. Problem inventory analysis.

a. Brainstorming: This technique was originally used by Alex Osborn in 1938 in an American company to persuade innovative thinking in a group of six to eight people. Through this method a large number of ideas are generated without any criticism. In this method, people are
encouraged to produce as many ideas they can generate without any criticism and evaluation. It works on the principle of no criticism and quantity raises quality.

b. **Focus Groups**: This group consists of 6-12 members belonging to different socio-economic backgrounds to focus on the particular matter. The group has a moderator to have the detailed discussion. Ideas are generated and detailed discussions are carried on to identify the excellent ideas.

c. **Problem Inventory analysis**: This method is more like a focused group method but in this method along with generating ideas, it also considers the problem a product faces. In this method, focus group is provided with the list of the problems in a general product category and then identifying and discussing the problems of the products in that category.

Idea generation phase helps in opportunity scanning and opportunity identification and thus helps in identifying and idea and thus converting it into an opportunity. At the idea stage, there is a just an Idea of what to do but at the opportunity stage, entrepreneur actually converts his idea into opportunity by gaining insight into what actually to do. For e.g: Arjun and Raman are friends. Raman is working a company and Arjun is still searching for the job. Raman suggested Arjun to start a business, this is called an Idea. Later on after analyzing the various businesses, when Arjun has decided to go to start a transport business, then it is an opportunity. Therefore, this phase helps in identifying the opportunity.

**1.10.4 Idea Processing:**

Once the idea is conceived then prospective entrepreneur has to go through the detailed analysis to choose the right type of business. For this purpose an entrepreneur has to examine the inputs, cost and time needed so as to assess the potential of his ideas. To analyze the business idea, he has to:

a. study the environment of the product

b. future prospects of the demand of the product.

c. availability of technology.

d. access to technical know-how
e. access to the market.

f. availability of raw material and skilled labour

g. availability of customers

h. complexity of legal provisions

Identifying a business opportunity is complex and very uncertain task. Therefore, prospective entrepreneur has to go through a thorough analysis of idea. Before selecting the best opportunity, an entrepreneur must explore and analyze all business opportunities. For analyzing the available business opportunities, following explorations can be done:

a. **Environment exploration**: This means the study of the environment factors that has an impact on the business. This includes the study of the economic factors like gross domestic product, national income, per capita income, social factors like demographic features, lifestyle, values, beliefs etc. technological factors like, labour intensive technology, capital intensive technology etc. political environment like, political parties, stability of the government, personal interest of the politicians etc and the legal environment i.e. laws and regulations.

b. **Present business exploration**: this exploration is related to the present scenario of the business like the consumption pattern, demand pattern, income pattern etc.

### 1.10.5 Selection of Idea

As soon as the project identification ends, project selection starts. In the project identification phase, an entrepreneur may have identified different opportunities which he considers good for him whereas, in the idea selection phase, he/she has to select the best opportunity out of the identified ones which is most promising and most profitable under the given conditions. Project selection refers to the balanced choice of a project where the cost ratio is low and profits are more. This is the most important phase as the whole project depends on this phase only.

The prospective entrepreneur should conduct SWOT analysis to select the best opportunity. He/she should analyse the strengths, weaknesses, competitive advantages (opportunities) and challenges (threats) offered by each of the idea. On the basis of this analysis, the most suitable
project opportunity is selected. The prospective entrepreneur should select the best opportunity with the help of the following criteria:

a. **Investment Size**: It means the cost of the project. In terms of Investment, an entrepreneurs should choose between the small scale, medium-scale and large-scale business on the basis of the funds he can raise from the various sources and the amount he is investing. Entrepreneur should choose the project which suits best of his investment.

b. **Location**: The location of the project should be such that which provides advantages. It should be such that is near to the market, transport facility is easily available. It should be at the places where there are the facilities of Industrial Development Corporation and other agencies. The proposed location should have variety of skilled and cheap human resources.

c. **Technology**: Entrepreneur should give due consideration to the technology required for the project. He/She should select the project which requires the verified and easily available technology.

d. **Equipment**: An entrepreneur should choose the best equipments for the project and should take the advice of the experienced consultant. The cost and quality of the equipments should be within the budget.

e. **Marketing**: An entrepreneur should choose the project which has wide scope to enter into the market and can help in making good market share and profits. He should not go for the projects which are having cutthroat competition and are difficult to enter as a beginner.

f. **Selection of the product**

An entrepreneur should select the product which he/she thinks will earn profits. He/she should take into account the government policies, present market size, demand etc.

1.11 **Summary**

So students let’s summarize what we have learnt in this lesson. You have learnt about SMEs and their importance in economic development. The lesson has mentioned differences among micro, small, and medium enterprises on the basis of investment ceilings. It has explained the characteristics and significance of SMEs. In addition, the lesson has discussed the condition of
SMEs in Indian environment in detail. Further, it has detailed upon various political, economic, technological, and socio-cultural factors that influence SMEs. It has also described Industrial Policies and Strategies Related to Small and Medium Scale Enterprises (SMEs).

1.12 Glossary:

i. **Cottage Industries:** Refer to industries where the production of goods takes place in homes. Cottage industries are managed by family members and can be pursued as full-time or part-time occupation.

ii. **Village Industries:** Refer to industries involved in craftsmanship or small industrial activities, such as processing, preserving, and servicing. These industries are based in villages or small towns with a population not exceeding 50,000.

iii. **Export-Oriented Unit (EOU):** Refers to an undertaking in which the investment in fixed assets in plant and machinery Rs.1 crore with an obligation to export 30% of the total production.

iv. **Small Scale Service and Business Enterprises (SSSBEs):** Refers to service and business related enterprises with investment in fixed assets, excluding land and building, of up to Rs. 10 lakhs, irrespective of location.

v. **Manufacturing Enterprises:** Refer to enterprises engaged in the production of goods, such as textiles, coir items, chemicals, and beauty products

vi. **Service Enterprises:** Refer to the enterprises involved in providing or rendering of services, such as tailoring, dry cleaning, and desktop publishing

1.13 Check your progress: Multiple Choice Questions

Q1. According to _______________, “Small enterprises are those in which the management lies in the hands of one or two people who are responsible for the major decisions.

   a. MSMED Act     b. P. Neck
   c. Third Census on SSI    d. Abid Hussain Committee

Ans. b

Q2. Which of the following looks after the growth and development of the small-scale sector in India?

   a. Ministry of Education     b. Ministry of Health and Hygiene
c. Ministry of Rural Development
d. Ministry of Small Scale Industries

Ans. d

Q3. EOU stands for:

a. Experience-Oriented Unit
b. Expert-Oriented Unit
c. Export-Oriented Unit
d. Expertise-Oriented Unit

Ans. c

Q4. Which of the following is not a characteristic of an SME?

a. Affluent
b. Flexibility
c. Labor Intensive
d. Innovative

Ans. a

Q5. Under ____________, only those SMEs are eligible to avail the scheme whose capital loss is more than 50% of the initial capital.

a. Debt Reconstruction Scheme
b. BIFR Scheme
c. Negotiated Settlement Scheme
d. RBI Scheme

Ans. a

Q6. What is the contribution of the small-scale sector in the total direct exports of the country?

a. 50%
b. 45%
c. 35%
d. 25%

Ans. c

1.14 References & Suggested Readings:


1.15 Terminal and Model Questions:

1. Explain the concept of Small and medium enterprises (SMEs) (SMEs).
2. Discuss the characteristics of Small and medium enterprises (SMEs).
3. Discuss the role of SMEs in the economic development of the country.
4. What are the factors influencing Small and medium enterprises (SMEs).
5. Explain the Industrial Policies and Strategies related to Small and medium enterprises (SMEs).
6. Discuss in detail the steps for starting a small scale industry?
Lesson-2
SME Funding and Sources of Finance for SME’s

2.1 Objectives

2.2 Introduction

2.3 Financing a new enterprise

2.4 Estimating Financial Requirements

2.5 Sources of arranging finance for the SMEs

2.6 Role of Agencies for Financial Support to SMEs

2.7 Introduction of Marketing Assistance

2.8 Agencies for Marketing Support

2.9 Export Promotion Measures by Government of India for SSEs

2.10 Summary

2.11 Glossary

2.12 Check Your Progress

2.13 References & Suggested Readings

2.14 Terminal and Model Questions

2.1 Objectives:

Dear students after studying this lesson, you will be able to:

6. Understand the Concept of Financing a New SME

7. Understand the Stages of Financing SME

8. Understand the various Sources of Arranging Finance for the SME

9. Understanding the Role of Agencies for Financial Support to SMEs

10. Understand the Meaning of Marketing Assistance

11. Know about the Agencies which are giving Marketing Support

12. Describe the Marketing Schemes given by the Agencies and Institutional Setup for Marketing Assistance
13. Understanding the Role of Agencies for Marketing Support to Enterprises

2.2 Introduction

The ultimate success of an enterprise depends upon the availability of sufficient finance. In other words, finance is the prerequisite for mobilizing the resources of an enterprise. An enterprise requires finance at every stage of its life cycle. For example, in the inception stage, it needs finance for setting up plant and purchasing fixed assets, such as machines and equipment. However, in the development stage, finance is required for continuous mobilization and upgradation of enterprises to survive and grow in today’s competitive business environment. In addition, the efficient functioning of various departments, such as production, marketing, research and development, of the enterprise depends on smooth flow of finance. For example, the marketing department of an enterprise needs a sufficient amount of funds for promoting and distributing the product. Therefore, an enterprise needs to be prudent while managing finance for a project. The financial needs of an enterprise depend on various factors, such as size and nature of the business.

An enterprise can raise long term finance by issuing equity and preference shares, borrowing capital and using retained earnings. On the other hand, medium term finance can be raised through lease finance, hire purchase and public deposits. Short term finance is raised through trade credit, installment credit, certificates of deposits and bank loans. Apart from this, an enterprise can also raise finance from various financial agencies such as commercial banks and co-operative banks. The Indian government has opened several institutions such as Small Industries Development Organizations (SIDO) and National Small Industries Corporation Ltd (NSIC), to provide financial assistance to small and medium scale entrepreneurs.

Stages of Financing an Enterprise

There are basically two stages of financing an organization:

- Early Stage Financing
- Later Stage Financing
2.3 Financing a New SME

Every enterprise requires finance for establishing its business and carrying out various related activities. Financing a new SME essentially involves two parts, viz, estimating the funds/capital requirement and deciding sources. An enterprise has two types of financial requirements, namely, fixed capital and working capital, which are discussed as follows:

- **Working Capital:** It is that capital which is invested in current or short-term assets. It covers expenses, such as buying the raw material, payment of wages and salaries, rent, fuel, electricity and water, repairs and maintenance and advertising. The prepaid expenses, cash, inventory and the bills receivable are regarded as current assets. The funds invested in current assets are recovered by realizing cash. Therefore, working capital is also regarded as revolving capital or circulating capital.

- **Fixed Capital:** The fixed capital helps in purchasing fixed or durable assets, such as land, building, machinery, equipment and furniture. The fixed capital is also known as long term capital. The amount of fixed capital depends mainly upon the nature and size of the
business. The manufacturing industries requires huge amount of investment whereas the trading concerns require comparatively lesser investments.

2.4 Estimating Financial Requirements

An enterprise can raise funds only, if it is clearly determines its financial requirements. Estimating the financial requirements for an enterprise involves determining the total amount of capital required for various needs of the business and deciding the sources and methods to raise it. The financial needs can be fulfilled though the owned capital or the borrowed capital. The financial requirements on the basis of period of use are classified into three types, which are as follows:

- **Long-Term Capital:** Long term capital is required to finance the fixed capital and permanent part of the working capital. It is raised through various sources, such as by issuing debentures and shares and taking loans and advances from banks and financial institutions. It is the capital which is required for a period of five years or more.

- **Medium-Term Capital:** This kind of capital is required for performing different activities viz. renovation of buildings, expenditure on advertising and modernization of machinery. This capital can be raised from different sources such as issuing of debentures and shares and reinvestment of accumulated profits. The medium term capital is required for a period of two to five years.

- **Short-Term Capital:** Short term capital is required to finance the current assets and to meet day-to-day expenses. It can be raised from various sources such as banks, installment credit and trade credit. The short term capital is needed for a period of less than a year.

2.5 Sources of Arranging Finance for SMEs

An enterprise raises funds for different purposes depending on the time period ranging from short to long duration. The total amount of financial needs of an enterprise depends on the nature and size of the business. On the other hand, the aim of raising funds depends on the objectives of the enterprise. An enterprise can opt for various sources of financing, which are mainly three types and are discussed in detail as follows:
2.5.1 Sources of Long Term Financing

An enterprise needs long term finance for expansion, diversification, technological innovation and research and development projects. It can be raised through different sources depending upon the amount of capital required to complete the project and is explained as follows:

- **Equity Financing:** Equity financing refers to a method of raising long term funds by selling the common and preferred stock of the enterprise to the investors. The investors get ownership interests in the enterprise in return of amount paid by them for purchasing the common and preferred stock of the enterprise. It can be raised through shares.
Shares are easily transferable and involve limited liability of shareholders to the face value of the shares. The shares are basically of two types viz. equity shares and preference shares.

- **Debt Financing:** Debt financing is a form of financial instrument that provides long term debt to an enterprise. It can be raised through debenture capital, a source to raise debt capital. Debt financing is an agreement between the enterprise and a debenture holder. It clearly indicates that the enterprise would repay the debt at a specified date to debenture holders. If an enterprise raises funds through issuing debentures, it needs to pay a fixed rate of interest at regular intervals. Debenture holders of an enterprise are known as creditors.

- **Term Loans:** Term loans are the types of long term loans that are raised for the duration of 3 to 10 years from banks and financial institutions. Term loans carries floating rate of interest and have pre-determined maturity period. The main sources of these loans are IDBI, ICICI, Commercial Banks, and IFCI etc. An enterprise uses term loans to purchase fixed assets and fund projects having long gestation period.

### 2.5.2 Sources of Medium Term Financing

Medium term financing is required for performing different activities viz. renovation of buildings, expenditure on advertising and modernization of machinery. This capital can be raised from different sources such as issuing of debentures and shares and reinvestment of accumulated profits. The medium term capital is required for a period of two to five years. An enterprise can avail medium term finance through various sources including lease finance and hire purchase, venture capital finance, public deposits and retained earnings. The following figure shows the sources medium term finance:
- **Retained Earnings**: In retained earnings, the enterprise uses its accumulated profits for future investments, which can be long term and short term in nature. At the end of each financial year, some of the undistributed profits are left with the enterprise. These profits are transferred to reserve funds each year and this funds is known as retained earnings.

- **Lease Finance**: Lease finance is an agreement between the owner of assets, called the lessor and the user of assets called the lessee. In lease finance, only possession of asset is transferred to a lessee and ownership of the title remains with the lessor. Lessee makes payment to the lessor after a specified period of time to use the asset. This periodical payment is called as lease rent.

- **Hire Purchase**: In hire purchase, there is an agreement between a hiree who is the owner of the property and a hirer who is the user of the asset. As per this agreement, the hiree transfers his/her asset to the hirer keeping ownership of title with himself/herself and the hirer gets the possession of the asset. In hire purchase, the beneficiary receives the payment from the hirer periodically. The payment made to the hiree is divided into two parts viz. capital repayment and interest.
Public Deposits: Public deposits are a significant way of raising medium term fund. It can be defined as funds and loans raised from general public, employees and other similar kind of depositors. These are treated as one of the easiest way of raising funds during credit crisis as public is always ready to invest in the profitable projects of different enterprises.

Venture Capital Financing: It is one of the widely used sources of medium term finance. It is also called risky capital, as it requires to be paid even in case of loss. Venture capital is a form of quasi equity and is generally required by newly established enterprises. The capitalist who invests in venture capital is not similar to bankers and equity shareholders. A venture capitalist acts as a partner, manager and advisor to the enterprise. This type of capital is required at the time of incorporation, expansion and acquisition of a project.

2.5.3 Sources of Short Term Financing

Short term financing may be defined as the credit or loan facility extended to an enterprise for a period of less than one year. It is a credit arrangement provided to an enterprise to bridge the gap between income and expenditure in a short period of time. It helps the enterprise to manage its current liabilities, such as payment of salaries and wages to labours and procurement of raw materials and inventory. The availability of short term funds ensures the sufficient liquidity in the enterprise. It facilitates the smooth functioning of the enterprise’s day to day activities. The important sources of short term financing are:
- **Trade Credit**: Trade credit is an arrangement in which the supplier allows the buyer to pay for goods and services at a later date in future. The decision to provide trade credit depends on the mutual understanding of both the buyer and supplier. The supplier takes the decision to extend trade credit after taking into consideration creditworthiness, goodwill and record of previous transactions of the buyer.

- **Installment Credit**: Installment credit is another source of short term financing, in which the amount that is borrowed is repaid with interest in equal installments. It is also called installment plan or hire-purchase plan. It helps an enterprise in purchasing the new plant and machinery in the absence of funds for a time period.

- **Cash Credit**: Cash credit is defined as an agreement between the bank and the customers to withdraw cash exceeding their account limit. Cash credit is one of the most important instruments of short term financing. The time limit granted is generally one year which can be further extended by the bank in case of special request by the customer.

- **Commercial Papers**: It is an instrument used by the enterprise with high credit rating to raise money from the market. It is an unsecured promissory note, which the enterprise offers to the investors either directly or indirectly through the dealer. Commercial papers are generally sold by large enterprises, which have strong goodwill in the market.
- **Bank Loan**: Bank loan is the amount of money granted by the bank at a specified rate of interest for a fixed period of time. It requires minimum document and legal formalities to pass a loan. Various banks are required to follow certain guidelines to extend bank loans to the customers. For this purpose the bank requires the copy of income proofs and identity of the client and a guarantor to sanction bank loan.

- **Certificates of Deposit**: This deposit is a type of promissory note which is issued by the bank to the clients for depositing funds in the concerned bank for a fixed time period. The maturity of certificates of deposit is designed in accordance with the necessity of investors. The maturity period of certificates of deposit can range from three months to one year.

- **Bills of Exchange**: A bill of exchange is a document in which an individual demands the receiver to give payment for services and goods received to a third party at a future date. The individual who writes the bill is known as drawer and the individual who receives the bill is known as drawee. The individual who pays the bill is known as payee.

- **Customer Advances**: It may be defined as a part of payment which is given in advance to the enterprise by the customer for the procurement of goods and services in the future. It is also called as Cash Before Delivery (CBD). The enterprise is free to decide whether to refund the money, if the order is cancelled by the customers and it does not require paying interest on customer advances.

- **Factoring**: Factoring comprises complementary financial services, which is provided to the borrower. The borrower has the freedom to select the set of services provided by the factoring enterprise. Factoring ensures that the services will be given to the clients at a faster pace and with good quality.

- **Bank Overdraft**: It is a temporary arrangement between the bank that allows the organization to overdraw from its current deposit account with the concerned bank up to a specified limit. This facility is granted against securities, such as promissory notes, goods in stock, or marketable securities. The interest rate which is charged on cash credit and bank overdraft is very high as compared with the rate of interest on bank deposits.
2.6 Role of Agencies for Financial Support to SMEs

The financial institutions fund only term loans required for creating fixed assets. The agencies which aid entrepreneurs include State Financial Corporations (SFCs) which are 18 in number in India, Industrial Development Bank of India (IDBI), Small Industries Development Bank of India (SIDBI), Industrial Finance Corporation of India (IFCI) and State Industrial Development Corporations (SIDCs) etc. IDBI, IFCI and SIDBI were only refinancing loan extended to SMEs at the time of their incorporation. IDBI and IFCI were funding large scale industries in addition to underwriting the shares and promoting joint sector ventures. Later their functions have changed and today all of them extend term loan to small scale industries directly and also refinance the loan given by the banks to entrepreneurs. SFCs and SIDCs operate at state level and provide funds for industrial development and are involved in joint sector ventures and underwriting shares. Some of the major agencies which provide financial assistant to entrepreneurs are discussed as follows:

2.6.1 Small Industries Development Organization (SIDO): For the promotion and development of small scale industries SIDO is the apex authority and the schemes launched by this agency are as follows:

- **Credit Linked Capital Subsidy Scheme for Technology Upgradation:** It gives capital subsidy at the rate of 15 per cent up to Rs one crore for the technology upgradation for small and medium term organizations in the specified products and sub sectors.

- **Integrated Infrastructure Development Scheme:** The scheme provides help up to 80 percent or Rs four crore for the state governments, NGOs and industry associations. But initially this assistance was upto 45 percent or Rs two crore, whichever is less for setting up a new industrial undertaking.

- **Credit Guarantee Scheme:** Under this scheme the loans are given up to a limit of Rs 25 lakhs.

- **Small Scale Industries MDA scheme:** The scheme provided funds up to 25 per cent of costs for producing publicity material uptoRs two lakh for sector specific subsidies and
90 percent for to and fro air fare to the small entrepreneurs for attending in fairs and exhibitions abroad.

- **ISO 9000/ISO 14001 Certification Reimbursement Scheme:** This facility is given for obtaining ISO 9000 to the limit of 75 percent or Rs 75000, whichever is less.

- **Micro Finance Programme:** This facility is given for graduate the entrepreneurs from consumption and production credit to start a small new venture.

- **Help to Entrepreneurship Development Institutes:** For developing the training infrastructure 50 per cent or Rs one crore, whichever is lower is given to the state governments.

**2.6.2 National Small Industries Corporation Limited (NSIC):** This is an active agency and an initiative of the central government of India. It is a government organization which provides credit support, technology support, marketing support and other support services for the growth and development of entrepreneurs and their organizations and these are:

- **Credit Support Schemes:** The credit requirements of small scale industries are facilitated by NSIC such as:
  
  - **Financing for Procurement of Raw Material:** The agency takes care of all the procedures, documents and issue of letter of credit and other bank related documents in case of imports required for the purchase for raw materials. Heavy discounts are given to SSIs for bulk purchases.

  - **Financing through Syndication with Banks:** With the help of strategic alliances between the commercial banks and the small enterprises facility of funds are provided.

  - **Equipment Financing:** By availing the facility of installment purchase, hire purchase and term loan the finance is given to SSIs for purchasing equipments.

  - **Financing for Marketing Activities:** Various marketing facilities such as internal marketing, rural marketing, exports and bill discounting facilities are given.
➢ **Technology Support Scheme:** The services provided under this scheme are the recommendations on application of new techniques, material testing facilities in the special laboratories, environment and energy services at selected centres, practical as well as theoretical training for the upgradation of skill.

➢ **Marketing Support Scheme:** NSIC promote small industries products and has introduced a number of schemes to support small enterprises in their marketing activities and enhance its market share.

➢ **Performance and Credit Rating Schemes for Small Industries:** The credit rating agencies enable the small enterprises to conduct the SWOT analysis of their current activities and take prompt action.

All the financial institutions are government owned and controlled and hence promote industrialization in the country by implementing the schemes of the government and provide refinance on the advances given to the entrepreneurs.

### 2.6.3 Banks

The Indian banking sector under the aegis of Reserve Bank of India (RBI) may be classified under three heads namely Commercial Banks, Regional Rural Banks (RRBs) and Co-operative Banks. In the commercial banks group, there are public sector banks and private sector banks. Under public sector banks there are State Bank Group and Nationalized Banks. In State Bank group we have State Bank of India and its subsidiaries. Except private sector bank all the banks are backed by the government and follow the government directions issued through RBI. As regards cooperative banks which are mainly in to financing agriculture sector do get their refinance from NABARD on the advance that they extend to non-farm sector activities i.e. industrial activity.

**Schemes for Providing Assistance to Entrepreneurs by these banks**

➢ Working capital finance, extended to all segments of industries and service sector.

➢ Deferred payment guarantees to support purchase of capital equipment.
➢ Corporate term loan to support capital expenditure for setting up new ventures as also for expansion, renovation, technology Upgradation and venture capital etc.

➢ Loans for small business borrowers, export and import finance and advance against shares.

➢ Some private sector banks also extend loans to SMEs. But their main purpose is to maximize their wealth.

2.7 Introduction of Marketing Assistance: Agencies play a very important role for providing various kinds of marketing as well as financial assistance to the entrepreneurs for marketing their products and services in the national as well as in the international market. It gives different services and launches various schemes to the entrepreneurs to make their business successful. Without the support of these agencies the small enterprises cannot survive in this competitive environment. Marketing is an important key for Small and Medium Enterprises to make them successful in the current competitive business environment. The big business entities have very organized retail sector and the small sector is characterized by the absence of strong market base and also largely unorganized marketing network. Because of the resource limitation, the access to international market is not commensurate to their potentials. The Government is implementing various schemes, with the objective to give a better competitive environment to the products of Micro, Small and Medium Enterprises (MSME) sector in the market. The marketing assistance involves the help provided by the government to Small Scale Enterprises (SSEs) to market their products manufactured by them. Some of the schemes implemented by the government are as follows:

➢ Government Purchase and Price Preference Policy: Assists the small-scale sector to get the fair price of its products. The small-scale sector generally faces the problem of marketing its products at remunerative prices. Therefore, the government has introduced the purchase and price preference policy scheme to ensure that the small-scale sector gets fair share of the total purchases made by the government and its departments. In 1989, under the stores purchase program of the government, 409 items were reserved for exclusive purchase from the small-scale sector. In February, 2004, the government revised the list and approved 358 items. The revised list included eight handicraft items
for purchase from the handicraft sector. The government purchase and price preference policy is one of the major mechanisms introduced by the government to provide marketing support to the small-scale sector.

This policy includes the following facilities:

- Providing price preference of up to 15 per cent in case of selected items.
- Comprising no registration fee.
- Channelizing and identifying markets through a consortium for the products of the small-scale sector both in India and abroad.

The benefits of the government purchase and price preference policy can be availed by the small-scale units that are registered under the Single Point Registration Scheme of NSIC. Following are the facilities provided by NSIC to the units registered with it:

- Providing tender sets free of cost.
- Exempting from the payment of earnest money.
- Waiving off the security up to the monetary limit for which at the unit is registered.
- Providing price preference of up to 15 per cent over quotation of large-scale units (on merits).
- Providing a registration certificate.

The government purchase and price preference policy aims to compensate the small-scale sector on account of non-availability of economies of scale, weak resource base, and poor access to raw-material as compared to the large scale sector.

➢ **Market Development Assistance (MDA) Scheme:** Refers to the scheme that provides assistance in market development to small-scale units involved in manufacturing and exports. The scheme provides funding for the following purposes:

- Participating in international trade fairs and exhibitions under MSME India stall.
- Conducting sector-specific market studies (by Industry Associations/Export Promotion Councils/ Federation of Indian Export Organization).
- Initiating/contesting anti-dumping practices.
- Providing reimbursement of 75 per cent of one time registration fee (w.e.f. January 1, 2002) and 75 per cent of annual fees (recurring) (w.e.f. June 1, 2007) paid to GS1 India (Formerly EAN India) by small-scale sector for the first three years for bar code.

The objectives of the MDA scheme are as follows:

- Encouraging small-scale exporters in their efforts at tapping and developing overseas markets.
- Increasing the participation of representatives of small-scale manufacturing enterprises under MSME India stall at international trade fairs/exhibitions.
- Increasing export activities of small-scale manufacturing enterprises.
- Popularizing the adoption of bar coding on a large scale.

Vendor Development Programs (VDPs): Refers to the programs organized by MSME Development Institutes (MSME-DIs) for the small-scale sector. Under these programs, MSME-DIs facilitates interaction among selling enterprises for business and identifying the demands and preferences of buyers. Apart from this, VDPs help in promoting the talents of small-scale entrepreneurs and their industrial ventures. In addition, these programs help buyers in locating appropriate sellers. MSME-DIs organizes VDPs both at the national and state levels.

2.8 Agencies for Marketing Support

There are various agencies which are giving marketing assistance to the entrepreneurs which are discussed in detail as follows:

(A) Assistance by National Small Industries Corporation (NSIC)
NSIC is associated with the exports and marketing of Small Scale Industries products to other countries. The broad categories of products marketed by NSIC are:

- Builders Hardware
- Garden Tools & Accessories
- Handicrafts
- Electrical Products & Accessories
- Sports Goods
- Sanitary Fittings
- Textile and Textile Products
- Leather Products
- Auto Components
- Architectural Iron Mongery
- Light Engineering Goods
- Hand Tools
- Castings & Forgings

NSIC assists small scale industries to market their products in the international market and has adopted a single window assistance approach for export of small industries products abroad. NSIC's services to its export associates comprises of the following:

- **Exhibitions / Trade Fairs & Buyer Seller Meets:** The products of the small scale sector are displayed in specified Trade Fairs / Exhibitions at concessional charges. Enquiries, specifications & samples received directly or through its specified indenting agents are passed on to the concerned small scale units for development and final offer. NSIC assists units to do costing and pricing for international markets and also assists them by providing technical information.
Absorption of Marketing Overheads & Export Promotion: NSIC also assists the small scale sector by providing assistance in negotiations with the overseas buyers by sending samples and for subsequent correspondence for procuring export orders at our cost.

Raw Material Assistance Program: The export orders received by the corporation are passed over to the concerned associate units for shipment. For such order NSIC also provides raw material assistance at concessional rates of interest as notified by RBI within specified norms & conditions of the corporation.

Assistance under Leasing for Technology Upgradation: Small scale units which require technology upgradation for executing export orders are considered on priority by NSIC for providing necessary machines etc. under our leasing scheme.

Assistance for Shipping: Assists the small scale units in making shipments and assists them to prepare all related / shipping documents.

Export Incentives: All exports benefits are claimed and passed onto the export units without any deduction or else NSIC gives the option to units to claim the benefits themselves.

Export Documentation: All exports documentation with respect to shipping, claiming incentives, negotiations of documents and post shipment activities are done entirely by NSIC and the units need not register itself with other export related agencies.

Assistance for Project Export: Also exports Small Industrial Projects with emphasis on relevant technology to developing countries. Project formulation is carried out in-house by NSIC and plant & machinery is supplied from quality manufacturers after due inspection.

Service Charges: 3 per cent service charges on Free on Board (FOB) value is levied.

(B) Institutional Setup for Marketing Assistance and Export Promotion

There are various institutes set by the government of India for promoting exports and helping organizations in export process and documentation. In addition, the government provides assistance to the Indian entrepreneurs through export subsidies and export credit. Ministry of
Commerce helps in the formulation of trade policies and programs. It has set up various institutes for export promotion. Some of them are discussed as follows:

- **Trade Fair Authority of India**: Fulfills the following objectives:
  - Helps in the development of new products for expanding exports
  - Sets up showrooms in India as well as abroad to sell exported products
  - Organizes trade fairs and exhibitions to promote exported products
  - Trade Fair Authority of India provides information to exporters through its journals known as UdyogVyaparPatrika, Journal of Industry and Trade, Indian Export Service Bulletin, and economic and commercial news.

- **Indian Institute of Foreign Trade (IIFT)**: Refers to an organization set up by the government of India to help increase exports. It performs the following activities:
  - Conducts the surveys, such as area survey, commodity survey, and market survey
  - Organizes and undertakes research related to international trade
  - Arranges the training programs for giving training on modern techniques of international trade
  - Undertakes research on exploring raw materials for the packaging industry
  - Keeps the Indian organizations abreast with ongoing changes in international field

- **Export Promotion Councils**: Refer to non-profit organizations that examine different aspects of export promotion, such as price, marketing, transportation, packaging, and labeling. These councils help in the following:
  - Developing trade contracts
  - Participating in trade fairs and exhibitions
  - Publishing information related to foreign trade
  - Sponsoring the foreign tours
  - Conducting market surveys

In India, there are around 10 export promotion councils under the administrative control of Department of Commerce and 9 export promotion councils related to the textile sector under the administrative control of Ministry of Textiles.
Export promotion council for Small and Medium Enterprises (SME) of India helps in assisting SMEs to export their products, establish contact in foreign markets, and provide financial assistance for their growth. This council provides the following assistance, guidance, and support to Indian SMEs:

- Helps in providing marketing assistance
- Identifies overseas buyers / importers / suppliers
- Identifies investors and partners for joint ventures
- Appoints marketing representatives / agents
- Helps in market research and market survey
- Provides due diligence reports about overseas buyers / suppliers
- Sources raw materials and quality products at competitive cost
- Involves permanent display centers in various countries
- Helps in buyer-seller meets
- Provides exclusive platform to Indian SMEs in Indian and overseas exhibitions and trade fairs
- Organizes trade fairs / exhibitions, conclaves, conferences, and seminars
- Assists in taking appointment of foreign representatives

- **Export Credit Guarantee Corporation (ECGC):** Plays an important role in promoting exports. ECGC was established in 1964 and owned by government of India. Located in Mumbai, Maharashtra, it covers the risk of exporters who export on credit. Its main functions are as follows:

  - Helps in providing information on credit worthiness of importers
  - Guides exporters when they face any difficulty
  - Provides insurance protection to exporters against credit risks
  - Helps in obtaining the finance from financial institutions

- **Export Houses:** Refer to trading houses that specialize in export of products. Any exporter can become a member of the export house by fulfilling certain criteria. The eligibility criteria to become a member of an export house is that turnover of an exporter of three preceding years should be at least Rs 15 crores. Export houses can act as:
International traders who export and import for their own account
- Export agents who are paid commission for acting on behalf of another party
- Export management organizations that handle exports and indulge in countertrade, which involves exchanging goods with goods rather than cash

2.9 Export Promotion Measures by Government of India for SMEs

Micro & Small Manufacturing Enterprises (MSMEs) products share about 34% in national exports. MSMEs play a crucial role in the total export of the country. Therefore, the Indian government has taken several measures, to promote exports activities of MSMEs. Some of the measures are as follows:

Marketing Assistance and Export Promotion Scheme

- Participation in the International Exhibitions/Fairs.
- Training Programmes on Packaging for Exports
- Marketing Development Assistance Scheme for MSME exporters (MSME-MDA)
- National Award for Quality Products

1. Participation in the International Exhibitions/ Fairs

Office of the Development Commissioner (MSME) is participating in some of the selected International Exhibitions/ Fairs since 1985. It is purely promotional scheme to give exposure to the products of micro, small enterprises which otherwise are not in a position to participate in the exhibitions/ fairs at their own cost. Under the scheme, exhibits of the selected export-worthy units are displayed in the exhibition that provides an opportunity to MSEs in demonstrating their capabilities before the international community. On an average, this Office has been participating in 8-10 number of International Exhibitions/ Fairs abroad every year and 200 MSEs have been benefitted. For confirm participation, the unit has to send 50% of space hiring charges of their booked space (min. 6 sq.mtr.) through MSME-Development Institutions (Formerly SISIs) by a DD favouring PAO (MSME), New Delhi at least 45 days advance of the commencement of the event or till space is available. 100% subsidy on space rent is available to sc/st women entrepreneur and entrepreneur of NE region. The participating units will also carry/ manage their
exhibits (to and fro) including custom clearance etc. If anybody wants more space, they can book in multiple of 1x3 sq.mtr. on pro-rata base and would be required to pay on pro-rata basis. 75% Subsidy on air fair of economy class to general category of entrepreneur (100% to sc/st women entrepreneur and entrepreneur of NE region)

II. Training Programmes on Packaging for Exports

India faces formidable hurdle in meeting and matching the packaging requirements of her exportable products in the markets abroad. The main objective of scheme is to generate much needed consciousness in the industry about the packaging problems of MSME exporters and to educate the entrepreneurs about the latest packaging techniques and designs of the packaging. These programmes on Packaging for Exports are conducted since 1979 by all the field institutes in collaboration with Indian Institute of Packaging and GS1 India (formely EAN India) ( A Bar Code solution provider ). The programme is of One, Two & Three days duration and 20 to 35 existing and potential entrepreneurs have been participating in each of the programmes. As per instruction of IF Wing, only 50-60 percent (20 percent in NE region and J&K) of the total cost of the programme are recovered from the participants as participation fee. 20-25 programmes are being conducted every year throughout the country.

III. Market Development Assistance Scheme for MSME exporters (MSME-MDA)

As part of the comprehensive policy package for MSMEs, MSME-MDA scheme has been announced in August 2000 and came into operation w.e.f. 30 th August, 2001. With a view to increase participation of representatives of participating units, the provision of MSME-MDA Scheme has been modified recently. The major changes in the earlier scheme are as under:

1. The Govt. of India will reimburse the 75% of air fare by economy class and 50% subsidy on space rent. to general category of Micro manufacturing enterprises.(ii)100% to sc/st women entrepreneur and entrepreneur of NE region (iii) The total subsidy on air fare, space rent &shipping cost of exhibits will be restricted to Rs.1.25 lakhs per unit for manufacturing enterprises or actual, whichever is less. (iv) Any unit can avail of this facility only once a year and (v) Only one person of the participating unit would be eligible for subsidy on air fare. (vi) The booking of minimum 6 Sq. Mtrs. is allowed.
2. The amount of 50% of space hiring charges shall be sent by a DD favouring PAO (MSME), New Delhi through MSME-Dis (Formerly SISIs) along with passport particulars plus first and last two pages of valid passport of their visiting representatives.

3. The circulars are issued to Director, all MSME-DIs (formerly SISIs) for selection of Small/Micro manufacturing enterprises whose products conforming to the International Standards & Quality.

4. One SIDO officer will be deputed to each fair for coordination of MSME-India stall.

In addition, the scheme also provide for financial assistance upto Rs. 2.00 lakhs for commissioning specific market studies and assistance for initiating/ contesting anti-dumping cases is available to MSME Association limited to 50% of the total cost of Rs. 1.00 lakh whichever is less. Provision for reimbursement of 75% of one-time registration fee paid to GS1 India by MSME unit for adoption of Bar Coding (w.e.f. 1st January, 2002). 75% of Annual recurring fee of bar code is also available (w.e.f. 1st June 2007) for the 1st three years period To avail financial assistance under the scheme, application may be sent along with requisite documents etc.

**IV. National Award for Quality Products**

The objectives of the scheme are as follows:

a. To encourage small scale industries to produce quality products conforming to national and international standards.

b. To propagate a culture of quality consciousness amongst a vast section of Small Scale manufacturing units.

c. To instill a sense of confidence of small industry products in the minds of the domestic consumers and to enhance the image of Indian products in export market.

These awards are given on the basis of recommendation by the State/ UT Level Selection Committee and the final selection by the National level Selection Committee for every calendar year.
V. Packaging for Exports

Role of packaging for exports has gained much significance in view of trends in the world markets. The need for better and scientific packaging for exports from small sector was recognised long back. With a view to acquaint MSME Exporters of the latest Packaging standards, techniques etc. training programmes on packaging for exports are organised in various parts of the country. These programmes are organised in association with Indian Institute of Packaging which has requisite expertise on the subject. Basic objective of these programmes is to generate the much needed consciousness in the industry and to educate the entrepreneurs about the scientific techniques of Packaging. With the assistance of EAN India to sensitize Indian exporters about barcoding. 7 training sessions were conducted in 2000-01 at different locations across the country. However, bar code topic is added in the said programme.

VI. Technical & Managerial Consultancy Services

Technical & Managerial Consultancy Services to the MSME manufacturers/exporters is provided through a network of field offices of this office so as to ensure higher level of production and generation of higher exports.

VII. National Awards for Quality Products: With a view to encourage the small scale units for producing Quality goods, National Awards for Quality Products are given to the outstanding small scale units, who have made significant contribution for improving quality of their products. The scheme is being operated since 1986. Winners of National Awards get a Trophy, a Certificate and a Cash Prize of Rs.25,000/-(US$559.6) National Awards encourage Small Scale Industries units to produce quality goods which further enables them to enter into export market.

2.10 Summary

Dear Students let’s now summarize what we have learnt in this lesson. Finance is the prerequisite for mobilizing the resources of an enterprise. An enterprise requires finance at every stage of its life cycle. For example, in the inception stage, it needs finance for setting up plant and purchasing fixed assets, such as machines and equipment. However, in the development stage, finance is required for continuous mobilization and up gradation of enterprises to survive and grow in today’s competitive business environment. In addition, the efficient functioning of
various departments, such as production, marketing, research and development, of the enterprise depends on smooth flow of finance. In this lesson various sources of finance has been discussed in detail. The main emphasis in this lesson is on discussing the role of agencies for providing financial support to the entrepreneurs.

The lesson has mentioned differences among micro, small, and medium enterprises on the basis of investment ceilings. It has explained the characteristics and significance of SSEs. In addition, the lesson has discussed the marketing assistance given to the SSEs by Indian government in detail. Further, it has detailed upon various political, economic, technological, and socio-cultural factors that influence schemes provided to the SSEs. The lesson has explained industrial policies and strategies related to SSEs at length. Apart from this, it has detailed upon on establishing entrepreneurial system and the schemes for the development of small scale sector. The lesson has also discussed linkage between small and large-scale enterprises. Further, it has described organizational structure of an SSE. In the end, the lesson has elaborated on the export potential of SSEs and their participation in the total exports of the country.

2.11 Glossary:

vii. **Working Capital**: It is that capital which is invested in current or short-term assets. It covers expenses, such as buying the raw material, payment of wages and salaries, rent, fuel, electricity and water, repairs and maintenance and advertising.

viii. **Fixed Capital**: The fixed capital helps in purchasing fixed or durable assets, such as land, building, machinery, equipment and furniture. The fixed capital is also known as long term capital.

ix. **Long-Term Capital**: Long term capital is required to finance the fixed capital and permanent part of the working capital.

x. **Medium-Term Capital**: This kind of capital is required for performing different activities viz. renovation of buildings, expenditure on advertising and modernization of machinery. The medium term capital is required for a period of two to five years.

xi. **Short-Term Capital**: Short term capital is required to finance the current assets and to meet day-to-day expenses. It can be raised from various sources such as banks,
installment credit and trade credit. The short term capital is needed for a period of less than a year.

2.12 Check your progress:

Part-I: Pick the Correct Answer.

1) Which of the following is a medium-term source of financing?
   a. Hire Purchase  b. Trade Credit  
   c. Customer Advances  d. Installment Credit  
   Ans.  a

2) ______________ is a document in which an individual asks the recipient to make payment for goods and services received to a third party at a future date.
   a. Factoring  b. Bill of Exchange  
   c. Commercial Papers  d. Certificates of Deposit  
   Ans.  b

3) Which of the following are the fixed assets of an enterprise?
   a. Buildings, Machinery, and Equipment  b. Rents and Electricity Bills  
   c. Wages and Salaries  d. Repair and Maintenance Charges  
   Ans.  a

4) Bank credit is a source of:
   a. Long-term Financing  b. Short-term Financing  
   c. Medium-term Financing  d. Short as well as Long-term Financing  
   Ans.  b

5) Which of the following refers to the accumulated profits for the future investments?
   a. Public deposits  b. Retained earnings  
   c. Venture capital  d. Hire purchase  
   Ans.  b

Part-II: Give the full forms of the following:

i. MDA stand for__________________________________________

ii. EOU stand for________________________________________

iii. MSME stands for____________________________________

iv. VDP stands for_______________________________________

v. NSIC stands for_______________________________________
Part-III: Define the following in one or two sentences:

i. Export Promotion Council

ii. National Award for Quality Products

iii. Market Development Assistance (MDA)

iv. Training Programme on Packaging for Exports

v. Trade Fair Authority of India

2.13 References & Suggested Readings:


2.14 Terminal and Model Questions:

7. What do you understand by Financing of an Enterprise? Discuss the sources of finance.

8. Discuss the role of agencies for financial support to enterprises.

9. What do you mean by marketing assistance? Explain the agencies helping for marketing assistance.

10. Explain the measures taken by Government of India for export promotion.
Lesson-3
Forms of Business Ownerships

3.1 Objectives

3.2 Introduction

3.3 Forms of Business Ownerships

3.4 Sole Proprietorship

3.5 Joint Hindu Family Business

3.6 Partnership Firm

3.7 Limited Liability Partnership

3.8 Joint Stock Company

3.9 One Person Company

3.10 Cooperative Enterprises

3.11 Determinants of choice of form of business ownerships

3.12 Summary

3.13 Glossary

3.14 Check Your Progress

3.15 References & Suggested Readings

3.16 Terminal and Model Questions

3.1 Objectives:

After studying this lesson, the students will be able to:

14. Understand the various forms of business ownerships;
15. Describe the various features of different forms of business ownerships;
16. Explain the relative advantages and disadvantages of each form of business ownership;
17. Understand the factors affecting choice of forms of business ownership; and
18. Evaluate the different forms of business ownership.

3.2 Introduction
“The various forms of business ownership are as such children whose father is Economic Expediency and whose mother is the Law.”

- L.H. Haney

To initiate any entrepreneurial activity, an entrepreneur has to select a form of business ownership. In other words, one of the first decisions that an entrepreneur has to take as owner is, how the enterprise should be structured or through which form of ownership it would operate? The forms of businesses are associated with ownership which determines the authority and responsibility of the owners. In practical, the forms of business ownerships are those legal forms according to which an enterprise/business is organised and run. Hence, the legal form of business ownership is called the form of business ownership. The other parties recognise an enterprise and its existence through its form. Choosing the appropriate form for any entrepreneurial activity is very crucial as the success of enterprise depend on the selection of form of business ownership. The form of business ownership defines the rights and liabilities of entrepreneur(s), control, life span, and financial structure, etc.

3.3 Forms of Business Ownerships

The above description indicates that an enterprise can be run through various forms/modes. Some businesses are operated and managed by a single person and some by many people. Beside this, some businesses are run in private sector, while others are in the public (government) sector, and some are in joint (public and private). Under entrepreneurship, an entrepreneur can run his enterprise in following forms:

i) Sole Proprietorship or Sole Trade
ii) Joint Hindu Family Business/Firm
iii) Partnership Firm
iv) Limited Liability Partnership (LLP)
v) Joint Stock Company (Public and Private)
vi) One Person Company
vii) Cooperative Society/Enterprises

Sole trade, Joint Hindu Family business, and partnership firm can be categorised as non-corporate and others (LLP, Joint Stock Company, One Person Company, and cooperative
enterprise) can be categorised as corporate forms of ownerships. The basic difference between these two categories is legal formalities. Non-corporate form of business may be started without any legal formalities while corporate forms of business ownerships can be started and run only after completing legal formalities as prescribed under the governing laws of respective forms of business ownerships.

Let us now discuss each form of business ownership in detail along with their characteristics, merits, demerits and suitability.

### 3.4 Sole Proprietorship

Sole Proprietorship is one of the simplest, oldest and least expensive forms of business ownership in the world of entrepreneurship. Most of the present day forms of business ownerships are the developed forms of sole proprietorship. It is also known as sole trade, individual business or single entrepreneurship. This is very popular form of business in India. Due to various features provided by this form of business ownership, it is regarded as best form of business ownership.

Sole trade business is established by a single individual. He invests the required amount in the business, manages the business himself, bears all business risks alone and gets all the profits. Due to these unique features, William R. Basset said that “The one man control is the best in the world if that one man is big enough to manage everything”. The owner of the business is known as Sole Trader. This individual entrepreneur is fully responsible for all business debts and
liabilities. Examples of this form of business ownership are kirana stores, local restaurant, and home-based businesses, etc. In this form of business, entrepreneur has unlimited liberty to run his business. Entrepreneur may select any type of business without meeting any legal formalities except those in which license may be required from the government bodies like health department, the municipal authority, or some other bodies.

3.4.1 Features of Sole Proprietorship

Following are the major features or characteristics of the sole trade form of business ownership:

i) Sole trader is the only owner of all the assets and resources of business.

ii) Sole trade business is one man show as owner has to take all the decisions.

iii) The liability of the owner is unlimited and if the debts of the business are not met from the assets of the business, his personal property can be utilized for this purpose.

iv) The profits of the business totally belong to owner and losses are borne by owner only.

v) Single entrepreneur can select any trade as per his choice.

vi) All the information pertaining to business rests only with business entrepreneur.

vii) There is no separate identity of business and owner in this form, both are the one.

3.4.2 Benefits of Sole Proprietorship

Sole trade business provides some special advantage and due to these advantages this form of business is very popular:

i) It is very easy to start as there is no need to complete any legal formalities except those cases where license is must. Example, to start medical store, it is necessary to get license form health department.

ii) Quick decision making is another advantage of this form of business as one man manages all the business activity.

iii) Sole trader is free to change his business at any point of time as he is the only owner of business.
iv) No outsider can get the secret information of the business like profits, losses, customers and assets, etc. as every information rests with the owner only.

v) Direct motivation is there in this form of business as owner solely takes all the profits and bears all the losses and risks.

vi) Sole trader can maintain personal relations with customers to know more about their tastes, like and dislikes etc.

vii) It provides training to run medium and large scale business to individual owners

viii) It can be started with minimum investment.

3.4.3 Disadvantages of Sole Proprietorship

Along with the above advantages sole trade business suffers from following disadvantages:

i) The biggest disadvantage of this form of business is unlimited liability. Owner’s personal property can also be utilized to meet the debts of the business.

ii) Due to individual ownership, limited capital and sources are available for business.

iii) Limited managerial support is available for this form of business as one man can never have all the managerial skills.

iv) Stability of business is always questionable as owner can close his business at any point of time. Moreover, death of owner also leads to closure of the enterprise.

v) Sometimes business suffers from losses due to individual and hasty decisions.

vi) It suits only for few businesses like shops, restaurants, and small businesses etc.

3.5 Joint Hindu Family Business/Firm

A business enterprise which is run by the group of people belonging to the same family is known as Joint Hindu Family Business. This form of business is operated according to Hindu Law, where all the family members including unmarried daughters and wives are the members of the business. In simple terms, Joint Hindu Family Business is that form of business which is carried
by all the members of Joint Hindu Family under the control of Mukhiya (Head of the family). Mukhiya or Manager is known as Karta and members are known as Co-parceners. This form of business ownership is based on the two facts:

1) **Coparcenary:** It means common ownership in the ancestral property. As per Coparcenary, an individual have a right in the family property and can ask for his/her share. This individual is known as Coparcener.

2) **Common Property:** According to Hindu Law, Joint Hindu Family possesses a common property which is used for the welfare of all the members of the family. Common property includes; ancestral property, property created through ancestral property and personal property treated as family property.

According to Hindu Law there are two community controlling Hindu families; Mitakshara and Dayabhag. Mitakshara is popular in the country except Assam, Bengal and Some parts of Orissa. Under this community, with the birth, a son gets rights in the ancestral property. Dayabhag community exists in Assam, Bengal, and some parts of the Orissa. Under this community, a son gets rights in the ancestral property only after the death of the father.

**Characteristics of Joint Hindu Family Business**

Following are the characteristics of Joint Hindu Family Business:

i) Joint Hindu Family Business is operated according to Hindu Law.

ii) This form of business is controlled and managed by Karta.

iii) The liability of all the members (coparceners) except Karta is limited up to the individual’s interest in the ancestral property. The liability of the Karta is unlimited.

iv) This form of business is easy to start as there is no need of any registration.

v) Shares of the family members may increase or decrease with the birth of new member or death of existing member.

vi) This is more permanent form of business than sole trade as there is not effect of any death on the business.
3.6 Partnership Firm

To overcome the limitations of older forms of business ownerships like lack of capital, limited skills, etc., a new form of business is available i.e. partnership form of business ownership. Partnership form of business ownership is that form in which two or more than two individuals willingly join together and start some lawful entrepreneurial activity. A partnership firm is an association of two or more persons who run business together for the objective of profit earning.

According to section 4 of the Indian Partnership Act, 1932, “Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.” Based on this definition it can be said that partnership is a kind of agreement between two or more than two persons to run the business and divide the profits of the business. These persons are known as partners and their group is called firm and the name under which they run their business is known as name of the firm.

Features of Partnership Firm

Following are the characteristics/features of the partnership which is governed under the Indian Partnership Act, 1932:

i) To establish a business under partnership form, there is a need of two or more than two persons. The Partnership Act does not fix any limit on the number of partners but as per Companies Act the number of partners cannot be more than ten in banking business and twenty in any other business. If the number of partners reduces below two and more than ten or twenty, than business is declared illegal.

ii) The existence of partnership firm comes from contract between members and not from status. It is important to have a contract between partners to be a legal firm. The agreement/contract between partners is known as Partnership Deed.

iii) There must be an agreement between partners to share profit or loss as profit is the main motive of business.

iv) Each partner is responsible collectively or individually for all the liabilities of partnership. Hence, in partnership form of business ownership, liability of the partners is unlimited.
v) It is very easy to form a partnership firm as there is no legal binding on registration of firm. Agreement may be oral or written. If partners want to register their firm, the procedure is very simple.

vi) This form of business is flexible in nature, if partner want to change their business, it can be changed.

vii) Due to unlimited liability, partners put their whole heated efforts to run their business.

viii) Due to limited number of partners, partnership firm may not raise much capital as other forms like companies can generate.

ix) In partnership, a partner cannot transfer his interest/share in the firm to outsiders without the consent of all partners.

x) Future of partnership firm is always uncertain. It may come to an end on the death of any partner and insolvency of any partner, etc.

xi) This form of business is suitable for small scale businesses and for those which required less capital investment.

### 3.7 Limited Liability Partnership (LLP)

Limited Liability Partnership, popularly known as LLP, is world recognised form of business ownership. This form of ownership was introduced in India by an Act i.e. Limited Liability Partnership Act, 2008 which was notified on 31st March, 2003. This form of business ownership combines the advantages of both partnership and company form of business organisation. LLP form of business enables entrepreneurs to combine professional knowledge and entrepreneurial skills. LLP is an alternative to the traditional partnership which contains the limitations of unlimited liability and limited managerial skills, etc. This form of business ownership enables professional knowledge and skill to combine, organise, and operate entrepreneurial activity in an efficient manner.

**Characteristics of Limited Liability Partnership**

Following are the features of Limited Liability Partnership (LLP):
i) LLP is governed by the Limited Liability Partnership Act, 2008. Provisions of Partnership firm are not applicable to Limited Liability Partnership form of business.

ii) LLP is a separate legal entity. It is an artificial person being invisible, intangible having no body, mind, and soul. It exists in the eyes of law.

iii) As per LLP Act, 2008, there should be at least two partners to start entrepreneurial activity. There is no maximum limit on the number of partners. If at any point of time, number of members reduces below two and LLP carries its business operation more than six months, the partner who carries the business more than six months shall be personally liable for the liability of LLP for those obligations of LLP incurred during that period.

iv) It has perpetual succession. Any change in its partners shall not affect its existence like ordinary partnership firm. This form of business is more similar to company form of business.

v) The liability of partners in LLP is limited up to the capital contribution of the partners.

vi) LLP shall have at least two Designated Partners who are individuals and one of them shall be a resident of India. In case of an LLP in which all partners are body corporate, at least two nominees of such bodies shall act as Designated Partners.

vii) LLP is formed to carry out business or profession with a motive of profit earning and partners are free to manage the business directly, unlike shareholders.

viii) Provisions of Companies Act on National Company Law Tribunal, Designated Partner Identification Number (DPIN), and Registrar of Companies have been made applicable to Limited Liability Partnership. Central govt. may further notify the provisions of Companies Act to any LLP.

ix) In LLP, Designated Partner Identification Number is mandatory for Designated Partner of LLPs.

x) Formation of LLP is simple as compared to companies but not as easy as in case of sole trade and partnership.
xi) LLP Act 2008 provides flexibility to the LLP to manage and operate its business. Partner can decide the operations and ways of business.

xii) In LLP, it is easy to join or leave LLP and partners can transfer the ownership according to the provisions and terms of LLP agreement.

xiii) LLP can attract finance from private equity investors and financial institutions etc.

xiv) Numbers of statutory compliances in LLP are limited as compared to company form of business.

3.8 Joint Stock Company

To remove the limitations of above discussed form of business ownerships, entrepreneurs have the option of company form of business organisation. According to H.L. Haney, “A joint stock company is a voluntary association of individuals for profits, having a capital divided into transferable shares, the ownership of which is the condition of ownership.” Company form of business ownership is the group of people which is incorporated under the Companies Act 1956. Many people jointly invest capital in a company; therefore it is called Joint Stock Company. The capital of company is divided into transferable shares, which means share can be bought and sold. Liability of members is limited. Company is a separate legal entity and its business is run through Common Seal. Existence of company is continuous or perpetual and separate from its members. In simple words, shares of company are transferrable and life of company is not affected by the entry and exit of its shareholders.

3.8.1 Characteristics of a Company

Following are the main features of company form of business ownership:

i) A company is an incorporated or registered association/group of persons. Minimum seven persons required to form a Public Company while minimum two persons can form a Private Company.

ii) A Company is known as artificial person as it is created by law.
iii) A company is a separate legal entity and it is free from its shareholders. It can buy property in its name and can enter into agreements.

iv) It has a perpetual succession. Existence of company is not affected by the life of its member and that is why it is said that member may come and go but company goes on forever.

v) Due to separate legal entity, liability of its shareholders is limited to the nominal value of the shares subscribed by the shareholder.

vi) Company is an artificial person so as it cannot put its signature. Companies Act provides the right to use a common seal. Common seal is a special seal bearing the name of the company and is remains in the possession of its Secretary.

vii) To make any document legal, it is compulsory to have the common seal along with the signatures of atleast two directors.

viii) Actions or activities of a company are determined through two main documents i.e. Memorandum of Association and Article of Association. Company cannot go beyond these two documents.

ix) A company can raise huge amount of capital by issuing shares and debentures in the market.

x) Due to huge capital, a company can also utilize the services of experts like specialised managers and Company Secretary, etc.

xi) Unlike sole trade and partnership firm, risk is divided into number of shareholders.

xii) The formation of a company is a difficult and expensive task. So many formalities are required to complete before start of business.

xiii) Since a company is an incorporated/ registered body, it has to follow many provisions and rules of different Acts.

xiv) Company form of business organisation is very popular and suitable specially for large scale businesses.
xv) Winding up of the company is also very difficult and a very lengthy procedure has to be followed to wind up the company.

3.8.2 Types of Companies: Companies are divided into following two categories:

A) Private Company: According to Sec. 3(1) (iii) of the Companies Act, 1956, a private company means a company which through its Article of Association:

   a. Restricts its members to transfer its shares;

   b. Puts limit on number of members i.e. minimum two and maximum 50;

   c. Restricts public to subscribe its shares and debentures;

   d. Minimum paid-up capital of one lakh rupees (amount is subject to change from time to time);

   e. Any other restriction imposed by govt. time to time through Company Act.

B) Public Company: According to Sec. 3(1)(iv) of the Companies Act, 1956, “Public Company means a company which is not private.” It means a company which:

   a. Does not restrict its members to transfer its shares;

   b. Does not put limit on maximum number of its members;

   c. Invites public to subscribe its shares and debentures;

   d. Minimum paid-up capital of five lakhs rupees (amount of capital is subject to change from time to time);

   e. Any other restriction imposed by govt. time to time through Company Act.

3.9 One Person Company (OPC)

The concept of One Person Company (OPC) is provided in the provisions of New Company Act, 2013. This form of business ownership provides the benefits of company form of business to an individual also. OPC is a company in which an individual holds the whole of the share capital with other members. As per provision of section 2(62) of the Company Act, 2013 “one person
company means a company which has only one person as member.” One Person Company can be formed by only a natural person who is an Indian citizen and resident of India.

**Characteristics of a One Person Company**

Following are the features of One Person Company:

i) OPC is an incorporated entity and it may be registered with one person.

ii) The liability of the sole shareholder shall be limited up to capital contribution unless business is not run in mala fide manner.

iii) One Person Company is managed by the owner or his representative.

iv) There should be atleast one director of OPC.

v) OPC will meet all the statutory requirements as prescribed in Companies Act.

vi) It provides opportunities to small entrepreneurs and professional like charted accountants, lawyers, doctors, etc. to enjoy the benefits of company form of business.

vii) Along with corporate entity, it provides advantages like quick decision making and business secrecy, etc.

viii) Due to one man control, life of OPC is uncertain.

ix) It suits to professional activities and small businesses.

**3.10 Co-operative Enterprise**

Cooperative enterprises is a voluntary association of group of persons who have joined together to promote their common interest. The basic difference between Cooperative enterprise and other forms of businesses is that along with business principles, it follows the principle of serving members of the enterprise. Cooperative enterprise is formed and registered under Cooperative Societies Act, 1912 or under the concerned State Cooperative Societies Acts. It works under the motto “one for all and all for one.” Examples of this form of business ownership are agriculture cooperatives, marketing cooperatives, and consumer cooperatives, etc.
3.10.1 Features of Cooperative Enterprise

i) It is a voluntary association of persons belonging to homogeneous group.

ii) Membership of cooperative enterprise is open to all and there is no limitation on the number of members.

iii) It works for the common interest of all the members of the cooperative enterprise.

iv) The prime motive of the cooperative firm is service of members.

v) Members of the cooperative contribute capital in the form of shares.

vi) It is a separate legal entity and has perpetual life and is not affected by the entry and exit of members.

vii) Cooperative firm’s profit is distributed among its members in the form of dividend.

viii) Members of the cooperative perform the managerial tasks in democratic manner.

ix) Liability of its members is limited to the capital contribution.

x) Most of the finance is contributed by state or central govt. to cooperative enterprises.

xi) Cooperative enterprise gets exemption from tax on their earnings.

3.11 Determinants of choice of form of business ownership

Although it is the sole decision of the entrepreneur to choose the form of ownership for his entrepreneurial activity but following are the factors that affect the choice of form of business ownership:

i) Nature of entrepreneurial activity

ii) Size of business

iii) Degree of control expected by entrepreneur

iv) Requirement of finance or capital
v) Legal formalities

vi) Ease of formation

vii) Extent of liability of entrepreneur

viii) Stability of business

ix) Secrecy of business information

x) Winding-up formalities

3.12 Summary

An entrepreneur has to select a form of business ownership to initiate his entrepreneurial activity. We have discussed various forms of business ownerships along with their distinct features. Suitability of form of business ownership is dependent on various factors like nature of business, expected control, liability of owner, and ease of formation, etc. No particular form is best in all cases and selection of a particular form is depends on entrepreneur choice. But once a type of form of business is selected than it is very difficult to change and choose a new form. So, this decision should be evaluated on above given parameters. If an entrepreneur wants to start a small business and financial requirement of business is small, sole trade and partnership forms are suitable but if size of business is large and financial requirement is also huge, company form of business is best. Before taking any decision on form of business ownership, entrepreneur must evaluate each and every aspect of business on their merits and demerits.

An entrepreneur should give proper time and effort to identify and select the opportunity. Project Identification and Selection is half done in establishing enterprises. Most enterprises fail because of choosing the non-suitalbe opportunity or do not give due importance to the project identification and selection. Project Identification involves sources and methods of idea generation and Project Selection includes analysis of the identified projects with the help of SWOT analysis. Therefore, most suitable opportunity is selected to set up a new venture.

3.13 Glossary:
i) **Sole Proprietorship**: Sole trade business is established by a single individual. He invests the required amount in the business, manages the business himself, bears all business risks alone and gets all the profits.

ii) **Partnership Firm**: partnership is a kind of agreement between two or more than two persons to run the business and divide the profits of the business. These persons are known as partners and their group is called firm and the name under which they run their business is known as name of the firm.

iii) **Joint Stock Company**: Company form of business ownership is the group of people which is incorporated under the Companies Act 1956. Many people jointly invest capital in a company; therefore it is called Joint Stock Company. The capital of company is divided into transferable shares, which means share can be bought and sold. Liability of members is limited. Company is a separate legal entity and its business is run through Common Seal.

iv) **One Person Company**: The concept of One Person Company (OPC) is provided in the provisions of New Company Act, 2013. This form of business ownership provides the benefits of company form of business to an individual also. OPC is a company in which an individual holds the whole of the share capital with other members.

v) **Co-operative Enterprise**: Cooperative enterprises is a voluntary association of group of persons who have joined together to promote their common interest. The basic difference between Cooperative enterprise and other forms of businesses is that along with business principles, it follows the principle of serving members of the enterprise.

### 3.14 Check your progress:

1. 1) **Pick the correct Answer.**

   i. Partnership firm is registered under Partnership Act..........................  
      a. 1925  b. 1912  c. 1932  d. 1956  
      *(Answer – 1932)*

   ii. New Company Act is enacted in.........................  
      *(Answer – 2013)*

   iii. Joint Hindu Family Business is managed by..........................  
      a. Members  b. Coparceners  c. Karta  d. All  
      *(Answer – Karta)*
iv. Liability of the partners in LLP is..............................
   a. Unlimited   b. Limited   c. Unlimited of Senior Partner   d. None
   (Answer- Limited)

v. Registration of OPC is.................................
   (Answer- Compulsory)

2. State whether true or false

   i. One man control is best in the world if that one man is big enough to manage everything.
      (Answer- True)

   ii. Life of the company form of business is affected by the entry and exit of shareholders.
       (Answer – False)

3.15 References & Suggested Readings:

3.16 Terminal and Model Questions:

   11. Discuss briefly the various considerations while selecting a suitable form of business ownership.

   12. Discuss the various features of sole trade business. Which form will you recommend for a small business and why?

14. Why company form of business is best for large scale businesses?
Lesson-4
Meaning and Concepts of Project and Project Management

4.1 Objectives

Dear students after completing this lesson, you will be able to:

i. Understand the concept of a project
ii. Understand the characteristics and classification of a project
iii. Understand the concept of a Project Management
iv. Know about the Project Manager and his responsibilities

4.2 Introduction

Effective management of projects is vital for the development of an economy because it is the result of a series of projects managed successfully. This makes project management an extremely
important key area for a developing economy such as India. Project management is rapidly becoming an exciting new profession. It is a specialized branch of management which makes it different from others based on a variety of factors which include the organisation structure, planning process, quality of control, human relations etc. Every project requires a professional and peculiar approach to ensure the success of the project. This peculiar approach can be termed as project management. The success of the project depends upon timely completion of the project, within the framework of allocated budget and it must perform up to the desired satisfaction. An ideal project is one which is carefully selected and prepared, thoroughly appraised/analyzed, closely supervised and consistently evaluated. Project management deals with project identification, formulation and appraisal of the project. These three aspects formulate the basic foundation for the success of projects.

4.3 Meaning and Definition of a Project: The PMBOK (Project Management Body of Knowledge) has defined a project as “A temporary endeavour undertaken to create a unique product, service, or result”. It is usually a one-time activity with a well defined set of desired end results. There is a rich variety of projects we used to hear like iron and steel projects, power projects, cement projects, refinery projects, fertilizers projects etc. where the term ‘project’ is common to all the plants. In each case, the ‘project’ is used for the plant but after becoming the plant operational, the project is said to be completed. In another case, say the project for methods of improvement. The project is deemed to be completed when methods of improvement has been achieved. Thus, it is not necessary that the term ‘project’ is always specifically used as project. Take the examples of Lok Sabha/Assembly or Panchayat elections. A project is neither a physical objective nor an end result but one which is to do with goings. It includes:

- any non repetitive activity;
- a low-volume, high variety activity;
- a temporary endeavour undertaken to create a unique product or service;
- any activity with a start and finish;
- A unique set of co-ordinated activities, with definite starting and finishing points, undertaken by an individual or organisation to meet specific performance objectives within schedule, cost and performance parameters.
To understand what a project is, let us study how a project is conceived. Project identification is the first stone to be laid down in setting up an enterprise. It is not possible for anyone to come up with an idea and at the very first time, convert it into a business opportunity and start a business on that basis. Persons who are interested to become entrepreneurs must have the ability to generate a large number of ideas so that at least one of the ideas has the potential of business opportunity and adopt a series of steps to finalize it into a profitable business. A project, in very simple words, is a plan or idea intended to be carried out. The success or failure of an enterprise depends on its identification of the project.

In today’s competitive environment, every enterprise is looking for good business opportunities for expanding the existing business or setting up new conglomerates. Idea generation is the first step for the growth of business. The idea must be technically, economically, politically and socially feasible. Once the idea passes these tests, an investment proposal is made. When the investment proposal is approved, the project commences.

The concept of term ‘Project’ can be defined with the help of following definitions:

- Project is a one shot, time limited, goal oriented, major undertaking, requiring commitment of varied skills and resources, a combination of human and non-human resources pooled together in a temporary organisation to achieve a specific purpose.
  -Project Management Institute of America (PMIA)

- A project is whole complex of activities involved in using resources to gain benefits.
  -Gillinger

- A project is an organised unit dedicated to the attainment of a goal, the successful completion of a development project on time, within budget, in conformance with predetermined programme specifications.
  -Encyclopedia of Management

- An investment project is carried out according to a plan in order to achieve a definite objective within a certain time and which will cease when the objective is achieved.
  -Directory of Management

- A project can be defined as a non-routine, non-repetitive one-off undertaking normally with discrete time, financial and technical performance goals.
  -E.L.Hanson

On the basis of above definitions, the following are basic attributes of a project:

- A course of action
- Specific Objectives
Definite Time Perspective

4.4 Characteristics of a Project: A project is an economic activity with well defined objectives and having a specific beginning and an end. It can be defined as a scientifically evolved work plan devised to achieve a specific objective within a stipulated time. A project should be well defined and also includes the considerations of various alternative proposals, investigating, engineering and marketing considerations to predict the consequences of accepting the proposal and making economic analysis to determine the profit potential of investment proposal. A project is a big work, a one whole thing. Instead of contributions from many different people, it can still be regarded as one whole thing. The activities may be performed by different people, but all activities are interrelated and are being performed to serve a common purpose. The various characteristics of a project are discussed as under:

1) **Well defined objectives:** Every project must have well defined set of objectives. No project can be without set of objectives. Once these objectives are accomplished, the project ceases to exist. Needless to say that a project is deemed to be completed when the whole things are completed and performing satisfactorily.

2) **Life Span of the Project:** A project has a limited span of time. It cannot go on and forever. The life of the project may be a few days, a few months or a few years but it cannot continue...
endlessly. It has to come an end. Normally the accomplishment of given set of objectives represents the end of the project.

3) **Single Entity:** A project is generally treated as one single entity. Instead of contributions from many different people, it can still be regarded as one whole thing. The activities may be performed by different people, but all activities are interrelated and are being performed to serve a common purpose.

4) **Team Work:** A project is single entity and calls for team work. For the successful implementation of planning and strive towards achievement of common goal, the activities of different people are integrated and coordinated. Everyone should feel important and contribute towards the attainment of common goal. The spirit of oneness makes everyone feel important contributing to a big cause.

5) **Life Cycle:** Every project has its own life cycle which starts from growing stage, maturity stage and declining stage. All the stages are closely linked with each other and provide the logical reasoning for the beginning of next stage. The declining stage provides the basis for the renewal of the project. The principal stages of the cycle are the identification of a project, its design, preparation and appraisal, its implementation and its evaluation.

6) **Uniqueness:** Each project has its unique characteristics. It can be exactly similar with any other project even if the plants are exactly identical. The location of the project, its infrastructure, human resources and various other agencies make each project unique.

7) **Change:** A project keeps on changing throughout its life cycle i.e. at different stages of completion. Sometimes these changes are routine changes, while some changes may be major which are capable of changing the very nature or character of the project.

8) **Successive Principle:** There is a big gap between the dream and reality. Similarly what is going to happen in the next stage of the life cycle of the project is not known at any stage. Therefore, a project is successive in nature. Sometimes the practical challenges are known only when the project is implemented.

9) **Customer Centric:** A project should be customer centric. It is always made to the order of the customer. It is made to order because the requirements of each project are very much different. The customer puts their own conditions and stipulates various requirements in terms of time, cost and quality, within which the contract must be executed.
10) **Unity in Diversity:** A project is a unique and a complex set of incalculable varieties. These varieties may be in terms of technology, material, equipment, machinery, human resources, work culture and ethics etc. But in spite of diversities, all activities of the project are interrelated and coordinated in such a manner that it strives for the attainment of common goal of the project.

11) **Risk and Uncertainty:** A certain degree of risk and uncertainty associated with every project. The degree of risk and uncertainty depends on how a project has been passed through the various life cycle phases. A well defined project will have the least degree of risk and uncertainty.

12) **Sub-Contracting:** For the successful completion of the project, it requires the services of many specialised persons. A high percentage of work is done through sub contractors depending upon the complexity of a project.

4.5 **Classification of Project:** A project may be classified in different ways. The major categories are described as follows:

1) **Income Yielding Projects:** These are also called profit earning projects and refer to all those projects which enable the concern to earn profits. They lead to increase in sales volume and productivity and tend to reduce cost of production. Such projects may be sub classified as below:
a) **Replacement Projects:** Which involve replacement of the existing fixed assets. Replacement has to be done because the assets being used have become depreciated, worn out and out dated. Usually replacement funds are created for timely replacement of such assets.

b) **Expansion Projects:** Which increase the existing capacity or add a new product line. A careful estimate is to be made regarding expansion programmes.

c) **Miscellaneous Projects:** Which include such items of capitals expenditure as research, development and innovation projects, cost control and cost reduction schemes etc.

2) **Non Profit Projects:** The need may arise to incur expenditure on some permanent items, the object of which is not to earn profit. This has to be done to comply with the instructions of the government, municipal committee, labour department and other law enforcing agencies. Provision of exits, exhaust fans, fire fighting equipment, an effluent clearing plant, safely helmets for workers etc. are some of the examples of such expenditure.

3) **Projects on which a Return is difficult to measure:** There are certain projects which certainly affect the profitability and productivity favourably but it is difficult to assess the income yielded by them. Brown and Haward have given the following list of such projects:

   a) **Mandatory projects:** The projects which are required to comply with some statutory requirements are called mandatory projects.

   b) **Service department projects:** The provision of buildings or equipment for non-manufacturing departments may be essential but the return cannot be evaluated.

   c) **Welfare projects:** Provisions of sports facilities for employees may contribute to raise employee morale, which cannot be evaluated financially.
d) **Research and development (R & D) projects:** The projects which may be initiated to improve company’s methods or products. It may prove unsuccessful or may show no measurable return for a considerable time.

e) **Educational projects:** Provision of a company training course may be instrumental in improving the efficiency of staff but here again results would be difficult to evaluate.

4) **Sectoral Projects:** According to Indian Planning Commission, these projects are sector specific projects and may fall in any one of the following categories:

- Agriculture and Allied Sector
- Irrigation and Power Sector
- Industry and Mining Sector
- Transport and Communication Sector
- Social Services Sector
- Miscellaneous Sector

4.6 **Project Management:** Project management is a special branch of management which is different from others based on a variety of factors which include the organisation structure, the process of planning and control, human relations etc. It is basically aimed at producing an end-product that will result some change for the benefit of an enterprise. It is the initiation, planning and control of host of activities required to deliver this end product which could be a physical product or new software or a new way of working etc. Every project requires a special approach to ensure the success of a project. This special approach can be termed as project management. The success of a project means that the project must be completed within budget, within allocated time and must perform to satisfaction. Project management fulfills these demands. There is a difference between project management and simple management. A key factor that differentiates project management from just management is that it has to deliver within a finite time span whereas management is an ongoing process. Therefore, a project manager needs a special kind of skills to handle and tackle various problems like technical skills, interpersonal skills and good business awareness.
4.7 Meaning and Definition of Project Management: Project management is the planning, consistent monitoring and control of all aspects of the project to achieve the organizational objective within a definite time span and to the specified cost, quality and performance. Project Management is the art of managing all the aspects of a project from start to finish using a scientific and structured methodology. It is the application of knowledge, skills, tools, and techniques to all activities of the project to meet the project requirements. According to PMBOK® Guide (Project Management Body of Knowledge) project management processes fall into five groups:

- Initiating
- Planning
- Executing
- Monitoring and Controlling
- Closing

Project Management is a unique discipline where different people work in a group with helping hands for the attainment of a common goal, keeping the total perspective in focus all the time. Project management is based on the holistic approach and focuses on results. Project management approach should have some special features like flexibility, free communication, regular feedback and adaptation to changing requirements of work and environment. This approach helps to improve production standards and delivers goods better than others even in complex and technical projects.

An ideal project is one which is carefully selected and prepared, thoroughly appraised/analyzed, closely supervised and systematically evaluated. Project Management deals with project identification, formulation and appraisal. These three aspects formulate the basic foundation for the success of projects.

The concept of term ‘Project Management’ can be defined with the help of following definitions:

- The planning and organization of an organization's resources in order to move a specific task, event or duty toward completion. Project management typically involves a one-time project rather than an ongoing activity, and resources managed include both human and financial capital.

  - Dictionary of Investopedia

- Project Management is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.

  - Project Management Institute (PMI)

- Project Management is the complete set of tasks, techniques, tools applied during project execution.
4.8 The Project Manager: In order to make the project successful it must be managed by a competent project manager. He takes the responsibility for planning, implementing, and completing the project. The project manager strives to maintain the progress and productive interaction with various parties in such a way that overall risk of failure is reduced. He is in direct touch with clients and has to determine and implement the strategies to meet the requirements of the clients. He is instrumental in ensuring the satisfaction of clients. The basic job of the project manager is to visualize the entire project from inception to closure and to have the ability to ensure that this vision is realized.

There are certain issues regarding the qualification, experience and practical knowledge of project manager. Most of the project managers including the successful ones come from leading business schools. But some succeeded and others not. The project managers who succeeded are very few in percentage because in Indian only a handful of projects are completed timely, within budget and also performed according to expectations. Although the failure of these projects has been analyzed in various seminars, conferences and workshops but still the role of project manager could not form the subject of serious discussions.

4.9 Roles and Responsibilities of Project Manager: Managing projects requires application of knowledge, skills, tools and techniques to project activities in order to meet the project objectives. The project manager does this by performing some tasks at various stages of the project. Each aspect of a project is managed by using the corresponding knowledge area. These knowledge areas are discussed in detail as follows:

1) Integrating and Managing Project Activities: The project is initiated, planned and executed in parts. There is need to coordinate different activities of the project. Project manager is required to introduce integration management system so that all these activities should be properly managed. He is concerned with identifying and defining the work of the project and then combining and integrating with the appropriate processes. For integrating the different activities, a proper integration management is required to introduce which may include the following activities:

- Developing the project charter.
- Developing the project management plan.
2) **Defining the Scope of the Project:** The main objective of the project management is the successful implementation of the project. Therefore project manager has to ensure accomplishment of the project by defining and controlling various activities of the project. For completing this task he has to define the scope of the project, which may include the following:

- Collect the requirements of the project from the clients and determine the project scope accordingly.
- Develop the description for the project and its products.
- Decompose the project deliverables into smaller but more manageable work components.
- Plan how the completed deliverable of the project will be accepted.
- Control the activities which may change the scope of the project.

So, a project manager defines the work required to complete the project. He is also responsible for the timely completion of the project. Therefore, he has to manage the resources as well.

3) **Project Time Management:** The primary motive of the project manager is to develop and control the project schedule. Every project has a timeline by which it is expected to be completed. It is the responsibility of the project manager to complete the project within a scheduled timeline. For achieving this objective he has to perform various functions which are given as under:

- Identify all the work activities that need to be scheduled to produce the project deliverables.
- Estimate the types of resources needed for each schedule activity.
- Estimate the time needed to complete each scheduled activity.
- Develop the schedule
- Control changes to the project schedule.
Although project manager takes care of all requisite parameters to manage the timeliness of the project effectively but in reality it is found that he finds it difficult to get the project completed on time. This usually happens due to many factors. So an efficient manager should ensure that the project will be completed on time.

4) **Estimating and Controlling Cost:** It is the duty of the project manager to estimate the project cost and complete it within the approved budget. It is an important task of project manager because if the actual expenditure would increase the budgeted figures, he is answerable to the top management. Therefore for implementing effective cost management system, a project manager has to take care the following components:
   - Estimating the cost of the project.
   - Aggregate the cost of individual activities.
   - Comparing the actual cost with the budgeted.
   - Monitoring and controlling the cost variance in the project execution and take the corrective action in case of adverse variance.

Generally value engineering and life-cycle costing is used to determine options and optimise the process.

5) **Ensuring Project Quality:** A project manager has to ensure project quality. Project quality is defined as the degree and standard to which a project satisfies its objectives and requirements i.e. it must be completed on time and with all the work in the project scope completed within the planned budget. While managing the quality the following activities should be done:
   - Determine the quality requirements and standards that are relevant to the project.
   - Ensure the planned quality requirements and standards are applied.
   - Monitor the quality activities and record the results of these activities in order to assess performance and make necessary recommendations for corrective actions and changes.

6) **Managing Human Resources:** Human resource management involves planning, organising and controlling the procurement, development, compensation, maintenance and integration of human resources of an organisation. The primary task of the project manager is to obtain, develop and manage the project team that will perform the actual project work. He has to ensure that following activities under this:
Identify the roles and responsibilities at every stage of the project.

Assign duties and delegate the authority for reporting.

Manpower planning: he has to decide beforehand as to what type of persons they are to be recruited and in what numbers, they are required.

Obtain the human resources needed to work on the project.

Develop interpersonal skills and team spirit among the team members.

Track the performance of team members, get the feedback and resolve the issues and conflicts. While solving the issues, he should not be biased.

7) Procuring Raw Materials: Project procurement is used when it is necessary to purchase or acquire products, services, or results needed from outsiders. Generally the project team is working on behalf of the customer, and suppliers are responsible for the creation of the project deliverables or products. There can be both internal and external suppliers. A project manager has to perform the following activities for procurement:

- Identify purchasing needs, specify the procurement approach, and identify potential sellers.
- Obtain the responses from the interested sellers, select the sellers and issue them contracts.
- Establish relationship with potential sellers, monitor the procurement performance and also control changes in procurement.
- Complete the procurement process by accepting the product and closing the contracts.

8) Communicating Information to interested Parties: A project manager needs to communicate all important information to the interested parties or its major stakeholders. For the success of the project such information should be generated and distributed timely to all the stakeholders involved. Communication is the most important aspect of a project and the most important skill of a project manager. In the absence of a proper communication system, a project cannot be completed successfully. Communication management includes the following:

- Identify all potential individuals, groups, and organisations that will be interested in the project and also find relevant information about them.
Determine the information and communication needs of the project. Also decide which communication approach should be used.

Make the required information available to the project stakeholders in a timely fashion.

Communicate and work with the stakeholders, meet their needs, solve the issues and manage the expectations within the scope of the project.

Communicate performance information to the stakeholders.

**9) Managing Project Risk:** Every project has some uncertainties that give rise to project risks, which need to be managed. A project risk has direct relationship with the project objectives whether it occurs positively or negatively. The primary duty of the project manager is to identify the risks involved in the project and respond to them when they occur. A project manager has to perform various activities to minimise the project risks which are given as follows:

- Plan how to determine and execute the risk management tasks.
- Identify the risks relevant to the project and determine its characteristics.
- Assess the probability of occurrence and the impact for each risk.
- Estimate the effects of identified risks on project objectives.
- Develop action plan to maximise opportunities and minimising threats from the identified risks.
- Regular monitoring of risks, implement risk response plans and evaluate the effectiveness of risk management system.

Thus, it is the duty of the project manager to implement proper risk management system to meet the project objectives.

**4.10 Importance of Project Management:** The growth of project management is increasing rapidly around the globe which makes project management important. The following are major reasons why project management is important to modern businesses:

1) **Unique Venture:** A project is a temporary and unique venture which is required to be completed within a scheduled time. It is aimed at producing a unique product/service or process. Therefore a project manager, without having any blueprints to develop the end product, with his ability, skill, knowledge and expertise develop the plans and execute it for the successful completion of the project.
2) **Specific Skills:** The success of the project depends upon many integrated and coordinated activities of various departments or aspects of the project. For the successful implementation of the project, a project manager has to arrange various resources. Therefore he must be a skilful person who is acquainted with the knowledge of management techniques specific to dealing with one time projects. The enterprises that use project management to monitor and control processes and schedules can more effectively complete their projects on time and within budget.

3) **Scheduled Completion:** Every project has a timeline by which it is expected to be completed. An efficient manager should ensure that the project will be completed on time. Creating a project timeline requires coordinating project activities in conjunction with the ongoing business activities. The whole project is divided into different stages/phases and each phase is required to be completed on time.

4) **Scope of the Project:** The main objective of the project management is the successful implementation of the project. The primary purpose of project management is to ensure that all the required work is performed to complete the project successfully. This is accomplished by defining and controlling what is included in the project and what is not.

5) **Project Budget:** A budget is an estimation of income and expenditure for a given period of time. Project management helps in keeping projects on budget. A good project management identifies anticipated costs early on to develop a realistic budget. Budget needs coordinated efforts of various departments to reduce overall cost of the project.

6) **Target Oriented Human Resources:** Project management ensures the accomplishment of the objectives of an enterprise. Project based enterprises focus on goals and outcomes rather than working according to the clock. Therefore, working in those organisations stimulates human resources to work more hard with their creative and innovative ideas.

4.11 **Summary:** Dear students in this lesson we have learnt that project management is rapidly becoming an exciting new profession. It is a specialized branch of management which makes it different from others based on a variety of factors which include the organisation structure, planning process, quality of control, human relations etc. The success of the project depends upon timely completion of the project, within the framework of allocated budget and it must perform upto the desired satisfaction. An ideal project is one which is carefully selected and prepared, thoroughly appraised/analyzed, closely supervised and consistently evaluated. Project
identification is the first stone to be laid down in setting up an enterprise. It is not possible for anyone to come up with an idea and at the very first time, convert it into a business opportunity and start a business on that basis. A project, in very simple words, is a plan or idea intended to be carried out. The success or failure of an enterprise depends on its identification of the project. A project is an economic activity with well defined objectives and having a specific beginning and an end. It can be defined as a scientifically evolved work plan devised to achieve a specific objective within a stipulated time. There are various types of projects, some are profitable and some are non-profitable projects. Every project has a life span which may be divided into various broad phases. These phases are Conception Phase, Definition Phase, Planning and Organising Phase, Implementation Phase & Project Clean-up/Termination Phase.

Project management is the planning, consistent monitoring and control of all aspects of the project to achieve the organizational objective within a definite time span and to the specified cost, quality and performance. Project Management is the art of managing all the aspects of a project from start to finish using a scientific and structured methodology. It is the application of knowledge, skills, tools, and techniques to all activities of the project to meet the project requirements. The success of a project means that the project must be completed within budget, within allocated time and must perform to satisfaction. An ideal project is one which is carefully selected and prepared, thoroughly appraised/analyzed, closely supervised and systematically evaluated. Project Management deals with project identification, formulation and appraisal. These three aspects formulate the basic foundation for the success of projects. In order to make the project successful it must be managed by a competent project manager. He takes the responsibility for planning, implementing, and completing the project. The project manager strives to maintain the progress and productive interaction with various parties in such a way that overall risk of failure is reduced. I have also discussed the role and responsibilities of the project manager. Managing projects requires application of knowledge, skills, tools and techniques to project activities in order to meet the project objectives. The project manager does this by performing some tasks at various stages of the project.
4.12 Glossary:

vi) **Project:** The PMBOK (Project Management Body of Knowledge) has defined a project as “A temporary endeavour undertaken to create a unique product, service, or result”. It is usually a one-time activity with a well defined set of desired end results.

vii) **Non Profit Projects:** The need may arise to incur expenditure on some permanent items, the object of which is not to earn profit. This has to be done to comply with the instructions of the government, municipal committee, labour department and other law enforcing agencies.

viii) **Conception Phase:** This is the phase during which the project idea is conceived. The idea may be generated in the mind of entrepreneur while tackling and solving many problems of the business.

ix) **Project Management:** Project management is the planning, consistent monitoring and control of all aspects of the project to achieve the organizational objective within a definite time span and to the specified cost, quality and performance.

4.13 Check your progress:

Q1: A project manager has just been assigned to a new project and has been given the preliminary project scope statement and the project charter. The first thing the project manager must do is:

A. create a project scope statement.
B. confirm that all the stakeholders have contributed to the scope.
C. analyze project risk.
D. begin work on a project management plan.

**Answer:** B

Q2: A project manager is employed by a construction company and is responsible for the furnishing of the completed building. One of the first things that the project manager for this project should do is to write a:

A. Work breakdown structure.
B. Budget baseline.
C. Project charter.
D. Project plan.

Answer: C

Q3: All of the following are characteristics of a project EXCEPT:

A. Temporary
B. Definite beginning and end
C. Interrelated activities
D. Repeats itself every month

Answer: D

Q4: The project management process groups are:

A. Initiating, planning, expediting, and control.
B. Plan, organize, develop, and control.
C. Plan, do, observe, commit.
D. Initiating, planning, executing, monitoring & controlling, and closing.

Answer: D

Q5: A temporary endeavor undertaken to create a new product or service is called a:

A. New product development.
B. Project.
C. Program.
D. Enterprise.

Answer: B

Q6: A manager that manages a group of related projects is called a:

A. Project manager.
B. Project expediter.
C. Program coordinator.
D. Program manager.

Answer: D

Q7: Project Management deals with project identification, formulation and appraisal. (True/False)

Answer: True
Q8: Project management is based on the holistic approach and focuses on results. (True/False)

**Answer: True**

Q9: A project is a temporary and unique venture which is required to be completed within a scheduled time. (True/False)

**Answer: True**

Q10: In order to make the project successful it must be managed by a competent project manager. (True/False)

**Answer: True**

### 4.14 References & Suggested Readings:

**Books**

4. Project Management, Maylor, Pearson Education

**Web Resources**

1) www.getpmpcertified.blogspot.hk
2) www.hrdiap.gov.in
3) www.slideshare.net
4) www.livinfo.blogspot.com.au
5) www.coursehero.com
6) www.softwareprojects.org
4.15 Terminal and Model Questions:

Q 1: What do you understand by Project? Explain the characteristics of a project
Q 2: What is Project Life Cycle? Explain the phases of project life cycle.

Q 3: What are the various types of projects? Explain

Q 4: Define Project Management. Discuss the Importance of Project Management

Q 5: Discuss the roles and responsibilities of a project manager.
Lesson-5
Project Appraisal

5.1 Objectives

5.2 Introduction and meaning of Project Appraisal

5.3 Methods of Project Appraisal

5.3.1 Economic Analysis

5.3.2 Market Analysis

5.3.3 Technical & Personnel Analysis

5.3.4 Financial Analysis

5.4 Summary

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5.6 Check Your Progress

5.7 References & Suggested Readings

5.8 Terminal and Model Questions

5.1 Objectives

Dear students this lesson deals with various types of analysis, required for project appraisal. After completing this lesson, you will be able to:

19. Understand the meaning and concept of Project Appraisal.
20. Know about various methods of project analysis.

5.2 Introduction and meaning of Project Appraisal

In the words of Cary Rosen “In schools, getting one right out of one is an A whereas getting two right out of twenty is an F. In business, two for twenty is an A, whereas one for one is probably luck.”
Project appraisal means a detailed evaluation of the project to determine its economic, technical and financial viabilities. Project appraisal is a generic term that refers to the process of assessing, in a structured way, the case for proceeding with a project or proposal. It is the analysis of costs and benefits of a proposed project with a goal of assuring a rational allocation of limited finance resources amongst alternate investment opportunities with the objective of achieving specific goals.

Project appraisal is therefore, a process whereby the entrepreneur makes an objective and independent assessment of the various aspects of an investment preposition of a project idea for determining its total impact and also its liability. It saves the entrepreneur themselves from a number of problems encountered by them while establishing a new project. It involves careful, critical and cautious look at the project idea and analyzing its various components, in order to formulate an objective project in its totality. It is an analytical management aid.

Project appraisal involves systematic examination of technical, economic, managerial, financial, organizational and legal aspects of a project. It is the process through which opportunities become a project in which the entrepreneur is willing to invest his time, money and other resources. So it is the process of transmitting information accumulated through feasibilities studies into a comprehensive form in order to enable the decision maker undertake a comprehensive appraisal of various projects and embark on a specific project or projects by allocating limited resources. Since risk is involved in all activities associated with the project, project appraisal aims at improving the quality of projects and their long term profitability, aims at minimizing the risk of lending by rectifying their weaknesses and improving their effectiveness by incorporating into them safeguards missed by the promoters because of their lack of knowledge or information.

In a consumer drive market consumer is the Rex. The exploration of the future market is the first step in establishing the profitability of a future project and to get a clear cut idea as to market share that is likely to be captured. This is what market and demand analysis does as put in other words. Market and demand analysis is to do with two significant dimensions of market opportunities. In other words, it concentrate on the likely aggregate demand for the product or service and the share of the market the firm is likely to share along with other players. These dimensions are very difficult but very important in project analysis.
5.3 Method of Project Appraisal: Appraisal of a project includes the following analyses:

1. Economic Analysis

2. Market Analysis

3. Technical & Personnel Analysis

4. Financial Analysis

5.3.1 Economic Analysis: Economic analysis is the management of demand, its estimation and determining the extent to which it can be met with satisfaction to consumers and profit to the producers. In simple words whenever a project planning and implementing comes to surface, it begins with two aspects of demand. That is, what is the potential size of the market? And to what extent the project planner is capable of getting share in the market?

In simple words market analysis is concerned with one question that is ‘what would be the market share of the project under appraisal’ and demand analysis is concerned with one question that is ‘what would be the aggregate demand of the proposed product or service in future’. The first step in project analysis is to estimate the potential size of the market for the product proposed to be manufactured and get an idea about the market share that is likely to be captured. Demand and supply shall be on the long-term basis.

The market analyst requires a wide variety of information and appropriate forecasting method. The kinds of information required are:

1. Consumption trend in the past and present consumption level.
2. Past and present supply position.
3. Production possibilities and constraints.
4. Imports and exports.
5. Cost structure.
7. Elasticity of demand.
8. Distribution channels and marketing policies in use
9. Consumer behavior and requirements
10. Administrative, technical and legal constraints.

The study of present demand requires the following aspects:

1. Current purchases- what manufactured goods are being bought now, in what quantities and at what prices, by whom and for what purpose.
2. Not satisfied demand-it may be that the delivered price is very high or the product is not properly marketed or is not good quality.
3. Marketing facilities- whether proper marketing facilities exist and what are their capabilities and limitations.
4. Competition- the number of other firms involved in the production of that product and prices charged by them.

So to study the future demand we have to study the past trends of the product and relationship between the increase in incomes and the increase in demand for the product.

5.4 Steps in economic analysis
Economic analysis is very important for the success of the future project, so it is very essential that it should be carried out in an orderly and systematic manner. The various steps that are involved in the analysis of market and demand are as follows:

1. **Situational analysis as well as specification of objectives:** The project analyst, may be entrepreneur himself, is expected to get relationship between a given product and its market presently available. The work start with base of an informal talk with customers, competitors, middlemen, dealers and even employees or someone who is directly or indirectly associated with the enterprise or enterprises. The existing company or companies have the past and present which is a rich source of valuable experience. In this regard, the analyst may get good deal of facts relating to customer preferences, purchasing power of customers, and the quantity they buy where they buy, when they buy and even why they buy? Such informal analysis sometimes generates enough data to measure the market and to find out the projected demand and revenues. If such an analysis seems to be reliable and enough and if time and cost considerations are there, sometimes an analyst can decide not to carry on a formal study. However, in most circumstances, a formal study is considered essential. For a formal study to be carried out, objectives have to be defined clearly and comprehensively. Objectives will help in generating the information relevant in forecasting the overall market
demand and in assessing the projected future share of the market. Objectives are, generally, structured in the form of questions such as:

a) Who are the consumers?
b) How many consumers are there for that product?
c) What do they want
d) When do they want it?
e) Why do they want it?
f) How do they want it?
g) Where do they want it?
h) What quality is desirable?
i) How much can they spend?
j) What price is acceptable?

2. Collection of market data: In order to answer the questions which are listed above, information may be obtained from two sources such as primary as well as secondary sources. Secondary information provides the base and the starting point for market and demand analysis. It indicates what is known and provides ways and hint for gathering information required for further analysis. Sources of collecting data include both internal and external sources. Major sources of information are primary and secondary data:

a. Primary data: Primary data can be defined as information that is collected first hand, generally, by original research tailor made to answer specific, current research questions. The major advantage of primary data is that the information is specific, relevant and up to date. But data collection from primary sources involves much time and cost.

b. Secondary data: Secondary data is that data the information of which is collected for some other purpose and is thus, readily available. The advantages of primary data are the disadvantages of secondary data. As a rule, no research should be done without a search for secondary information first and secondary data should be used whenever available and appropriate. The important sources of secondary information used for market and demand analysis in India are as follows:
• Census of India issued by Govt. of India.
• National sample survey reports issued by cabinet secretaries and Govt. of India.
• Plan report issued by planning commission.
• Annual publication by central statistical organization.
• Indian year book by minister of information and broadcasting.
• Statistical year book issued by UNO.
• Economic survey issued by ministry of finance.
• Guidelines to industries by ministry of industrial development.
• Annual survey of industries by CSO
• Annual report of the development wing under ministry of commerce and industry.
• Annual bulletin of statistics of exports and imports by ministry of commerce.
• Techno-economic survey by national council of applied economic research.
• Industrial potential surveys by IDBI.
• The stock exchange directory by BSE
• Monthly bulletin of RBI, etc and annual report on currency and finance by RBI.
• Commodity reports and other studies of the Indian institute of Foreign trade.
• Studies of economic division of State Trading Corporation.
• Weekly bulletins of industrial licenses, import licenses and export licenses published by Government of India.
• Internal management reports.
• Consultant’s reports.
• Government publications of chamber of commerce and industries, FICCI, Directorate of industries etc.
• International information bureaus.
• Financial papers and magazines.

**Evaluation of Secondary Information:** while secondary information is available economically and readily; its reliability, accuracy, and relevance for the purpose under consideration must be carefully examined. The market analyst should seek to know:

- Person who collected the information and his objectives
- Period in which information was collected and published
- Size of target population
- Size of sample chosen
- Degree of sampling and non-sampling bias in information collected
- Degree of misrepresentation by respondents
• Accuracy of information edited, tabulated and analyzed.
• Proper application of statistical analysis

3. **Conduct of market survey:** When secondary data are not available, irrelevant or obsolete, the analyst must then turn to primary research. Sometimes secondary information need to be supplemented with primary information gathered through a market survey, specific to the project being appraised. Market survey may be census or sample survey. In census survey approach, the entire population or the universe is covered. Here the term population or universe is taken as collecting information from each and every respondent may be an individual or an organization. For example we took the case of estimating demand and market share for the improved kitchen flour mill. To conduct the survey by census method we will have to cover the entire potential customers say in a state, or a region or all India on one hand and the existing units that are manufacturing the conventional kitchen flour mills, dealers and the other. Instead, sample survey can be resorted all the firms concerned. Each technique has its own merits and limitations. Census method is time consuming, costly. However, the information got is quite adequate and reliable and accurate. On the other hand sample survey is less expensive and less time consuming.

The information sought in a market survey relates to one or more of the following aspects

• Total demand and the growth rate of demand.
• Demand in different segment of the market.
• Income and price elasticity of demand.
• Objectives of buying.
• Buying plan and intentions.
• Satisfaction with the existing products unsatisfied needs.
• Attitudes towards different products.
• Practices and preferences in the area of distribution.

**Steps in conducting sample survey:** Following are the steps which are involved in conducting sample survey:
i) Define the target population: Defining of target population is of almost importance in clear and carefully studied manner as it is first step. The target population may be divided into certain segment with their features.

ii) Select the sampling technique and size: Sampling technique implies the type of sampling i.e. simple random sampling, cluster sampling, sequential sampling, stratified sampling, systematic sampling and so on. Another important aspect of sampling is size of it, which has greater and deeper bearing on the reliability and accuracy of estimates.

iii) Design the questionnaire: To collect the information from the respondents, the main instrument is questionnaire. Questionnaire is a sequential array of questions, designed in a way which is ideally suited to elicit information from someone who is administered the questionnaire.

iv) Recruitment and training of researchers: proper plan of recruitment and training is to be prepared and implemented. Great care is needed in recruiting the researchers and imparting the right kind of training to them.

v) Get information according to questionnaire from the target respondents: the respondents can be interviewed personally, or through mail or telephone. Each means is having its own merits and demerits.

vi) Scrutiny of information: Next step is to scrutinize the gathered information so that irrelevant or inconsistent data can be eliminated.

vii) Analysis and interpret the information: The collected information has no meaning unless, it is minutely analyzed and interpreted with due care. The data are to be tabulated as per the plan of analysis followed by strict statistical investigation wherever possible and needed. The analysis should be done by a properly qualified person having a background in Statistics and Economics.

5.3.2 Market Analysis: This step characterizes the market on the basis of information gathered. The market for the product or service can be described in term of clear cut characteristics based
on the information gathered from secondary sources and through the market survey or primary sources. It can be described in terms of the following:

**Demand Forecasting:** After collecting information about various aspects of the market and demand an attempt is to be made to estimate market demand for the industry. The first step in market forecasting is to assess the market potential. Market potential is the highest possible level of demand in a given environment. Market forecast is the projection of demand for the entire industry and this lead to the firm’s share and is called the sales forecasting. Thus, estimating sales or predicting the sales gives the base for the quantity and quality of production and base production figure are predicted, estimation can be made for each operations and the timely and sound decision can be taken. Therefore, forecasting means, demand forecast and indirectly the sales forecast.

- **Forecasting Techniques:**
  1. **According to time duration:** On the basis of time duration there are three types of forecast-- short term, medium term, and long term.
- **Short term forecast**: Short term forecast made for a very short period. Generally it covers a period of one month to twelve month i.e. one year. This type of forecast further divided into quarters or months for precision. The result achieved from this forecast is more accurate.

- **Medium term forecast**: The time horizon for medium-term is between two to four years. It means more than one year to four years. The results achieved from these forecasts are likely to be less accurate as compared to short term forecasts but more accurate than long term forecasts due to time factor.

- **Long term forecast**: Long term time horizon ranges over or beyond four years. It is a period of more than four years to fifteen years or can be extended more than in exceptional circumstances. The accuracy level of this type of forecast is minimum.

2. **According to qualitative methods of demand forecasting**: These surveys are conducted to collect information about consumer’s intention and their future purchase plan. This method includes:

   - Survey of potential consumers to elicit information on their intentions and plans.
   - Opinion polling of experts that includes opinion survey of market experts and sales representative, and their market studies and experiments.

   1. **Consumer survey**: This method involve direct interview of the potential consumers. This could be done either by presenting a questionnaire personally before the consumers or by sending the questionnaire by post. In this method we can include direct interview, sample survey, and end use method.

   2. **Jury of executive opinion method**: In this method, small numbers of top executives are requested to register their individual opinions relating to the probable amount of future sales. So the executive who are selected for giving the opinions are those who are fully aware of the market conditions, capabilities and the boons and bans of the industry. In this method market studies and experiment such as laboratory tests, test market or Delphi methods are to be conducted.
3. **According to statistical methods of demand forecasting:** Statistical method is very helpful in demand forecasting. It is used for long-term forecasting of demand. Statistical methods have certain advantages over the other methods such as:

- plant capacity utilization or at least commissioning to start with. Estimation is based on the theoretical relationship between the dependent and independent variables.
- Element of subjectivity is minimum in this estimation.
- It is a scientific method.
- It involves minimum cost as compare to other methods.
- It is relatively more reliable.

Statistical method of forecasting involves the following techniques:

1. **Trend Projection Methods**
2. **Barometric Methods**
3. **Econometric Methods**

**1) Trend projection method or Time series:** Trend projection method is a classical method of demand forecasting. This method is concerned with the study of movements of variables through time. The use of this method requires a long and reliable time-series data. This method is used under the assumption that the factor responsible for the past trends in the variables to be projected for example sales and demand, will continue to play their part in future in the same manner and to the same extent in magnitude and direction. This assumption may be quite justified in many cases. This method is also called Naïve forecasting or The projection of the Present Trend or Mechanical extrapolations or Quantitative method. There are three techniques of trend projection on the basis of time-series data.

- Graphical method
- Fitting trend equation or Least square method or Line of best fit.
- Box-Jenkins method
(2) **Barometric Methods:** This method is also known as Leading (economic) indicator method or Lead Lag method. The Barometric method of forecasting follows the method meteorologist’s use in weather forecasting. They use barometer to forecast weather conditions on the basis of movements of mercury in the barometer. The basic approach of barometric technique is to construct index of relevant economic indicator and to forecast future trends on the basis of movements in the index of economic indicators. Use of barometric techniques is based on the idea that the future can be predicted from certain happenings in the present. Indicator used in this method are Leading indicators, coincidental indicators and lagging indicators.

(3) **Econometric Methods:** This method combines statistical tools with economic theories to estimate economic variables and to forecast economic events together with mathematical model building. The econometric methods are widely used to forecast demand for a product, for a group of products and for the economy as whole. An econometric model may be a:

- Regression method
- Simultaneous equation method

**5.3.3 Technical & Personnel Analysis of the Project:** After market and demand analysis, there is need for further suitability of the project as to whether it is feasible or viable in other dimensions so that the project idea is put to acid test of cold facts before it is accepted for formulation and implementations. So there is need for feasibility studies which include-- Market feasibility, Technical feasibility, Economic feasibility, Managerial feasibility and Commercial feasibility. Therefore feasibility study is the process of investigating a problem and finding a solution in depth to determine its economic viability and worth of development. Project feasibility is a test where prima-facie viability of the investment is evaluated. Technical analysis seeks to determine whether the prerequisites for successful commissioning of the project have been considered and reasonably good choices have been made with respect to location, size etc. it is carried out to measure whether the project is technically sound and viable. Technical analysis of a product is very essential to ensure that necessary physical facilities required for production will be sufficient and the best possible alternative is selected to procure them. A technical analysis should review the techniques to be applied and should incorporate:
1) A description of the product, including specification relating to its physical, mechanical and chemical properties, as well as the uses of the product.

2) A description of the selected manufacturing process, showing detailed flow charts and presenting alternative processes which may have been considered and the justification for the adoption of the selected process.

3) A determination of the plant size and production schedule.

4) Selection of machinery and equipment.

5) Identification of plants location and as assessment of its desirability in terms of its distance from raw material sources and markets.

6) A design of the plant layout and an estimate of the cost of the erection of the proposed buildings and land improvements.

7) A study of the availability of raw materials and utilities including a description of physical and chemical properties, quantities needed, current and prospective costs, terms of payment, location of sources of supply, and continuity of supply.

8) An estimate of labour requirements, including a detailed break-down of direct and indirect labour requirement, and the supervision required for the manufacture of the product.

9) A determination of the type and quantity of waste to be disposed of, together with a description of the waste method, its costs, and the necessary clearance from proper authorizes.

10) An estimate of the production cost of the product.

Thus technical feasibility assesses the technical viability for coming to a conclusion as to whether it fulfills the expected norms. Each of these are considered in detail:

1. **Material inputs and utilities:**

   This aspect is concerned with defining the materials and utilities required, specifying their properties in detail, and setting up their supply programme. Material inputs and utilities may be classified into four broad categories such as (a) raw- materials (b) processed industrial materials and components (c) auxiliary materials and factories supplies and (d) utilities.
Raw-materials: It may be full or semi processed. It can be further grouped into (a) agricultural products (b) Mineral products (c) Livestock and forest products (d) Marine products.

Processed industrial material and components: processed industrial materials and components represent important inputs for a number of industries that includes base metals, semi-processed materials, manufactured parts, components and sub assemblies. To get authentic and sufficient information, answer of the following questions must be sought: what are their properties-physical-mechanical-chemical and electrical? What are the domestic sources? What are foreign sources subject to limit laid down by authorities? Extent of dependability on supplies and suppliers? What has been the price trend in the past? What will be the future trend?

Auxiliary materials and factories supplies: Any manufacturing project needs variety of auxiliary materials and factory supplies like chemicals, additives, packaging materials, paints, varnishes, oil, grease, cleaning materials, consumable stores in addition the first two categories of materials.

Utilities: Utilities stand for power, water, steam, fuel, gas which play a constructive role in converting raw materials into end products. Correct assessment of these in terms of location, technology, plant capacity and the like is a must. These utilities turn critical at times and become limiting factor in achieving highest level of efficiency or lowest level of cost.

2. Manufacturing Process/Technology: The methodology used in converting materials into final products in known as a technology. For manufacturing a product there are alternative technologies. To manufacture steel either open health process or Bossemer process can be used that represents a technology. In making cement the possible process are wet or dry. These technologies always changing from good to better and from better to best. Even, what is today the best can be supposed in case better than the best is made available. Research and development efforts make possible the best because even the very best can be improved upon a period of time. Feasibility study especially technical is to focus its attention on the significant aspects of choice of technology, acquisition of technology and the appropriativeness of the technology.
Choice of technology: The choice of technology or technical knowhow is influenced by many variables. Some of these are given below:

- Plant capacity: Plant capacity and manufacturing technology are closely related with one another. In order to meet a given plant capacity requirement only a specific production technology may be viable.

- Investment outlay and production cost: The impact of alternative technologies on invest expenditure and production cost should be carefully assessed over a period of time. As we all know cost and technology are closely related in that the cost and quality is based on the technology and that is based on its cost.

- Major inputs: Basic inputs play significant role in choosing a manufacturing technology. For example, in manufacturing of cement the quality of lime stone decides whether the manufacturing unit should go in for ‘Wet’ or ‘Dry’ processing.

- Proof of success: The technology adopted must well be proven by its success for use by other units. That is, a latest technology may not be always the best. One which is tried, tested, and trusted by successful units in the line is more acceptable.

- Latest advancement: The technology adopted is one which is the latest or one which is adaptable for updating easily with least cost and time.

- The product mix: Product mix stands for the main products, co-products and by products that are resulting by use of a particular technology.

- Ease of absorption: Technology, however, latest and effective, has no meaning unless it is easier to be absorbed by the company. Very often it so happens that high-level technology may not easily percolating to the absorbing firm due to some reason or reasons.

Acquiring technology: If technology is available openly, then the detailed information can be obtained even at feasibility stage. In case the know-how available with the owner, then this step-that is-evaluation of process, can altogether be eliminated. And if the know-how is not available with the owner, it has to be acquired from outside sources such as foreign collaborators, consultancy organizations, machinery suppliers, promoter’s knowledge and experience and recruitment of
suitable personnel. The acquisition of technology from some other enterprise may be possible through:

- **Technology Licensing:** This is the most popular way of acquiring technology. Under this arrangement, the technology license gives the licensee the right to use the patented technology and get the concerned know how on a mutually agreed basis. The supplier of technology generally provides a technology package which may consist of some components which are not essential. Therefore, it becomes essential to break the package into component parts such as technology proper, engineering services, supply of intermediate products, and supply of equipment by the licensor, use of a trade name, among other things. Every effort should be made to acquire only the essential and matching components of the technology package. The contract for technology licensing should be careful with regard to Definition of technology to be acquired, Cost of technology licensing, Guarantee provided by the licensor, Duration of the technology licensing and Purchase of intermediate products, components and other related inputs.

- **Outright purchase of technology:** This alternative is most appropriate when:
  
  A. There is no possibility of significant improvement in technology in the foreseeable future.
  
  B. There is hardly any need for technological support from the seller of the technology.

- **Joint venture arrangement:** This is also very popular method under which the supplier of the technology may participate technically as well as financially in the project. Financial participation is normally in the form of equity holding. Experts are of the opinion that financial participation is likely to strengthen the motivation of technology supplier to transfer improvements without hesitation.

- **Appropriateness of Technology:** Appropriate technology means for those methods of production or process of production which are most fitting to the local, economic, social, cultural and environmental conditions. Technology should be considered appropriate if it satisfy the following questions:
• Whether the technology uses the local raw materials?
• Whether the technology employs the services of local labor force?
• Whether the goods and services produced cater to the basic needs?
• Whether the technology protects and maintains the ecological balance?
• Whether the technology is in harmony with the social and cultural values of the area?

3. **Product Mix:** The choice of product mix is guided by market requirement. Variations in size and quality of products are aimed here at satisfying a broad range of customers. It enables a company to expand its market and enjoy higher profitability. There should be a degree of flexibility in the product mix to respond as to changing market conditions and thereby enhancing the power of the firm to survive and grow under different situations. Product mix is so designed as to meet the requirements of target market or segment or segments of the entire market for the companies, products and services. All other mixes namely price, place and promotion mix go in consonance in a congruous way in requirements of a product mix. For example, a ready garment manufacturer of ladies suits will have a wide range of items of size and quality to suit individual differences in customers both physical and mental. Wide range of sizes, patterns and quality play significant role in enabling to garment maker to earn good profit through higher profitability. Thus each company comes out with different sizes, different colours, variation in inputs, packing and promotion package. These varieties meet the requirements of poor, middle and rich class. The idea is to arrive at maximum profit.

4. **Plant capacity or production capacity:** Plant capacity or Production capacity refers to the number of units that can be manufactured during a given period. According to experts “Plant capacity is defined in two ways namely, feasible normal capacity and normal maximum capacity”. The feasible normal capacity stands for the capacity attainable under normal working conditions. This is established on the basis of installed capacity, technical conditions of the plant, normal stoppages, down-time for maintenance and tool changes, holidays and shift patterns. Whereas, normal maximum capacity is the capacity which is technically attainable and this normally corresponds to the installed capacity guaranteed by the supplier of the plant.
5. **Manpower requirement**: Requirement of manpower of different skills, both for construction stage and operational stage, should be assessed based on phasing of project execution and completion. The requirement of people should be assessed category, operation and function wise. The assistance of Consultancy Company for recruitment of staff with desired skills and qualification may be sought, if needed. The object should be to ensure the availability of adequate manpower for future operation and to avoid over staffing at any stage of project execution. Adequate provision for fund for the training of key personnel with a time bound programme should be estimated beforehand. The introduction of scheme of productivity- linked incentive/bonus may be kept in mind.

6. **Plant location and site**: Location refers to a fairly broad area like city, an industrial zone, or a coastal zone and site refer to a specific piece of land where project would be set up. Plant location includes selection of a requisite region, credible community and suitable site. Selection of region is a broad decision. For selection of proper site, a survey may be conducted, and both monetary and non-monetary factors should be looked into. The choice of location influenced by a variety of considerations such as raw material supplies, proximity of supplies, communication and transport facilities, manpower, labour laws and government policy taxes and fees, etc.

After selecting of region, next step is to selection of a particular community or locality. The selection of a community or locality calls for rigorous factor like quality and quantity of labour force, banking and credit facilities, local taxes, rents, rates, and insurance charges, political stability, extent of state assistance and many more.

The final round selection is selection of site or space where industrial plant is going to be located. The important factors that decide the choice of suitable site are price of land, the type of choice, ease of waste disposal, people’s attitude, existence of religious and social institutions, etc.

Taking all these factors, the most advantageous location is that at which the cost of gathering material and fabricating it plus the cost of distributing the finished product to the consumer is the least.

7. **Machineries and equipments**: It is the technology that determines the exact requirement of machineries and plant capacity. It is also influenced by the type of project. For a process, industrial plants, say petro chemical unit or pharmaceutical unit, the machineries and
equipment required should be such that the various stages of manufacture are matched well. To determine the kind of machinery and equipment required for a manufacturing industrial plants, the following procedure is generally followed:

- Estimate the likely levels of production over given period of time.
- Define various machines and operations
- Calculate machine hours required for each type of operation
- Select machineries and equipments required for each function.

The equipment required for the project may be classified into the following types:

- Mechanical equipments,
- Plant or process equipments,
- Electrical equipments,
- Instruments,
- Controls,
- Internal transportation system, and
- Earthmoving and construction equipment and others.

While selecting machines and equipments some possible constraints should be kept in mind like shortfall of electricity, lack of cooperation on the part of employees when they are meant to advanced technological or numerical control of machines, hurdles in moving equipment or divided plant to remote places.

8. **Structure and civil work:** For the proper execution of civil work in the proposed project, the essential steps are:

- Defining scope of work with respect to site preparation, construction of roads and buildings in factory and residential areas and construction of sewerage line and other civil works
- Preparing cost estimates
- Selecting agencies to be hired for construction
- Preparing plans, charts and drawings.

Civil work can be further divided:
a) **Site preparation and Development:** This involve a set of activities namely, grading and leveling of site, demolition and removal of the existing unwanted structures, relocation of existing pipelines, cables roads power-lines, reclamation of swamps and draining and removal of stagnant water, connection of the utilities from the site to the public net-work, electric power—both high-tension and low-tension, water for drinking and various industrial purposes, communications-telephone, telex, roadways, railways and other activities of site preparation and development.

b) **Buildings and Structures:** It includes factory or process buildings, ancillary buildings required for stores, warehouses, laboratories, utility supply centers, maintenance services and others, administrative buildings, staff welfare buildings, cafeteria, medical centre, gymkhana facilities, recreation buildings and residential buildings.

c) **Outdoor works:** The outdoor works involves

- Supplies and distribution of utilities such as water, electricity, steam, gas, communication and the like
- Handing and treatment of emission, wastage and effluents
- Transportation and traffic arrangements such as roads, rail tracks, paths, parking areas, sheds, garages, traffic signals and so on
- Outdoor lighting
- Landscaping and
- Enclosures and supervision that include boundary wall, fencing barriers, gates doors, security posts, sewerage openings and the like.

9. **Project charts and layouts:** When data collected on major dimension of project that is on market size, plant capacity, production technology, machines and equipments, building and civil works, then project charts and layouts are prepared. These charts and layout define the scope of the project and provide the basis for detailed project engineering and estimation of investment and production costs. General functional layout, transport, utility consumption, communication, organization, plant material flow and production line diagram are the major charts and layouts.
• **General functional layout:** It shows the general relationship between equipments, building and civil work.

• **Utility consumption diagram:** It shows the principal consumption points of utilities and their required qualities and quantities.

• **Transport layouts:** It shows the distances and means of transport outside the production line.

• **Communication layouts:** It shows how the various parts of the project will be connected with telephone, telex, intercom, and fax etc.

• **Plant layouts:** It shows the physical layout of the factory, equipments dimensions, provision for material handling, level of computerization, nature of process etc. due consideration should be given while preparing a plant layouts to the followings:
  i) Consistency with production technology
  ii) Effective use of space
  iii) Flexibility to take care future changes
  iv) Smooth flow of goods from one work station to another or one stage to another
  v) Safety to the work force
  vi) Minimization of costs
  vii) Provision for better working conditions to enhance efficiency.

• **Material flow diagram:** It shows the flow of materials, utilities intermediate products, final products, by-products and emissions.

• **Production line diagrams:** It shows how the production would progress along with the key information for main equipments.

• **Organizational layouts:** It shows the organizational set up of the project along with information on personnel required for various departments and their inter-relationship even reaching grass-root level of each work position.

10. **Work schedule:** Work schedule is the plan of the work relating to installation and initial operation. The purpose of the work schedule is to:
• Anticipate problems likely to arise during the installation phase and suggest possible means for coping with them.
• Establish the phasing of investments taking into account the availability of finances.
• Develop a plan of operations covering the initial period
  So in order to avoid the possible losses arising out of idle-plant capacity or idle capacity and the determination of stock of material, work schedule should be drawn in detail with clarity and ground realities. This help in making use of available inputs by adjusting

5.3.4 Financial Analysis

Finance is one of the most important prerequisites to establish an enterprise. It is finance only that facilitates an entrepreneur to bring together the labour, machines and raw materials to combine them to produce goods. In order to adjudge the financial viability of the project, the following aspects need to be carefully analysed:

• Cost of capital
• Means of finance
• Estimates of sales and production
• Cost of production
• Working capital requirement and its financing
• Estimates of working results
• Break-even point
• Projected cash flow
• Projected balance sheet.

The activity level of an enterprise expressed as capacity utilization needs to be well spelled out. However, the enterprise sometimes fails to achieve the targeted level of capacity due to various business vicissitudes like unforeseen shortage of raw material, unexpected disruption in power supply, instability to penetrate the market mechanism etc.

5.4 Summary: In this lesson, we have learned about project appraisal from the view point of demand analysis and technical analysis of the project. Project appraisal is a process whereby the
entrepreneur makes an objective and independent assessment of the various aspects of an investment preposition of a project idea for determining its total impact and also its liability. It saves the entrepreneur themselves from a number of problems encountered by them while establishing a new project. It involves careful, critical and cautious look at the project idea and analyzing its various components, in order to formulate an objective project in its totality. It is an analytical management aid. Project appraisal involves systematic examination of technical, economic, managerial, financial, organizational and legal aspects of a project. It is the process through which opportunities become a project in which the entrepreneur is willing to invest his time, money and other resources. So it is the process of transmitting information accumulated through feasibilities studies into a comprehensive form in order to enable the decision maker undertake a comprehensive appraisal of various projects and embark on a specific project or projects by allocating limited resources.

5.5 Glossary:

x) **Project Appraisal:** Project appraisal is a process whereby the entrepreneur makes an objective and independent assessment of the various aspects of an investment preposition of a project idea for determining its total impact and also its liability.

xi) **Market and demand analysis:** Market and demand analysis is the management demand, its estimation and determining the extent to which it can be met with satisfaction to consumers and profit to the producers.

xii) **Primary data:** Primary data can be defined as information that is collected first hand, generally, by original research tailor made to answer specific, current research questions.

xiii) **Secondary data:** Secondary data is that data the information of which is collected for some other purpose and is thus, readily available.

xiv) **Technology:** The methodology used in converting materials into final products in known as a technology.

5.6 Check your progress:

1) Project appraisal means a detailed evaluation of the project to determine its economic, technical and financial viabilities. (True/False)

   Ans. True

2) In a consumer drive market consumer is the Rex. (True/False)
3) Primary data can be defined as information that is collected second hand. (True/False)
   Ans. False

4) The important sources of secondary information used for market and demand analysis is:
   a. Census of India issued by Govt. of India.
   b. National sample survey reports issued by cabinet secretaries and Govt. of India.
   c. Plan report issued by planning commission.
   d. Annual publication by central statistical organization.
   e. All of the above
   Ans. e

5) The market analyst should seek to know:
   a. Person who collected the information and his objectives
   b. Period in which information was collected and published
   c. Size of target population
   d. Size of sample chosen
   e. All of the above
   Ans. e

6) Raw-materialsmay be full or semi processed. (True/False)
   Ans: True

5.7 References & Suggested Readings:

Books


**Web Resources**

1) www.ddegjust.ac.in
2) www.livinfo.blogspot.com.au
3) www.slideshare.net
4) www.ukessays.com
5) www.zadcomputers.co.in
6) www.commercelearner.blogspot.com
7) www.bmtpc.org
8) www.pengembangandiri017.blogspot.hk
9) www.studymode.com
10) www.yourarticlelibrary.com
11) www.babasabpatil.wordpress.com
12) www.elibrary.com.ng
13) www.authorstream.com
14) www.mastercard.com
15) www.scribd.com
16) www.jru.edu.in
17) www.fr.slideshare.net
18) www.articlealley.com
19) www.lawyersnjurists.com
20) http://www.dcmsme.gov.in/howtostart/guidenewssi.htm
21) http://www.niesbud.nic.in/
22) http://msmetraining.gov.in/Index.aspx

**5.8 Terminal and Model Questions:**

Q 1: What do you understand by Performance Appraisal? Explain

Q 2: Write a detailed note on Performance Appraisal through market and demand analysis.

Q 3: What do you understand by characterization of the market? Explain the steps for characterization of the market.
Q 4: What do you understand by Performance Appraisal through technical analysis? Discuss
Lesson-6
Entrepreneurship

Structure

6.1 Objectives

6.2 Introduction

6.3 Entrepreneurship and Entrepreneurship Development

   6.3.1 Definitions of Entrepreneurship

   6.3.2 Characteristics/Nature of Entrepreneurship

   6.3.3 Factors responsible to the Success of Entrepreneurship

   6.3.4 Entrepreneurial Motivation

   6.3.5 Motivation Factors for Entrepreneurs

6.4 Entrepreneurship as a Career

   4.1 Sustaining and Maintaining Competitive Advantage

   4.2 Entrepreneurial Culture

6.4 Problems in the growth entrepreneurship

6.6 Summary

6.7 Glossary

6.8 Check Your Progress

6.9 References & Suggested Readings

6.10 Terminal and Model Questions

6.1. Objectives

Dear Students after completing this lesson, you will be able to:

i. Understand the concept of entrepreneur.

ii. Understand the meaning of Entrepreneurship and Entrepreneurship Development.
iii. Know the characteristics/nature of entrepreneurship.
iv. Appreciate the factors responsible for the growth of entrepreneurship

6.2. Introduction
The term ‘entrepreneur’ has been defined differently by different writers and thinkers. It is relatively a new term and concept used in economic sphere. Over the period, due to its increasing relevance in economic domain, it has become the buzzword in the economic literature. With the advancement in technology, general trend towards globalisation, change in industrial structure, deregulation and privatization etc, entrepreneurial activity is increasing around the globe. Entrepreneurs have been recognised as an important source of economic growth. They create jobs and play a pivotal role in the development country’s economy.

Entrepreneurship is generally said to be the practice of starting new venture in response to perceived opportunities. It helps in the establishment of small scale business which results into large organizations capable of creating numerous job opportunities. Entrepreneurship has been identified as one of the major trends shaping business, economy, and even society. The modern study of entrepreneurship owes a lot to the pioneering efforts of Joseph Schumpeter and other Austrian economists. Later on Peter Drucker, Frank Wright and many others have significantly contributed to the growth of entrepreneurship development and research.

In recent times, entrepreneurship and entrepreneurs have received a lot of attention from academicians, writers, media and general public. The achievements and contributions of entrepreneurs have been acknowledged by society and many entrepreneurs have been honoured and awarded for their services like Dhirubhai Ambani, Lakshmi Mittal, Bill Gates etc.

6.3. Entrepreneurship and Entrepreneurship Development: 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 by entrepreneur. Entrepreneurship is the mixture of many qualities and skills such as imagination, risk taking ability to harness factors of production i.e. land, labour, technology and various other intangible factors.
Entrepreneurship can be described as process of establishing an enterprise. Entrepreneurship is a creative activity. It is the attitude of mind to seek opportunities, take calculated risk and derive benefits by setting up a venture. It is the process of identifying opportunities in the market place, collecting and arranging the resources to exploit these opportunities for long term gains.

Entrepreneurship is the ability of a person to minimise the use of resources and to put them into the process and get the maximum benefit of out it. He should take into consideration quality, excellence and consumer awareness for the sustainability of his business. Therefore, entrepreneurship is the product of team work and ability of an entrepreneur to create, build and work as a team. Thus, entrepreneur is person, entrepreneurship is a process and enterprise is the object.
6.3.1 Definitions of Entrepreneurship

- 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 of raw materials and selecting top managers for day to day operations of the enterprise.
  
  - B. Higgins

- Entrepreneurship is the investing and risking of time, money and effort to start a business and make it successful.

  - Musselman and Jackson

- Entrepreneurship is defined as anticipating the future requirements of society and successfully meeting these needs with new, creative and imaginative combinations of resources.

  - Franklin Lindsay

- 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.

  - H. Cole

- Entrepreneurship implies more creative, external or open systems orientation. It involves risk-bearing and relatively dynamic leadership.

  - Richma and Copen

- “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

  - V.R. Gaikaward

- Entrepreneurship is an innovative function. It is a leadership rather than an ownership.

  - Schumpeter

6.3.2 Characteristics/Nature of Entrepreneurship

Entrepreneurship is a creative and innovative action process of entrepreneur towards establishing an enterprise. Following are some of the main characteristics of entrepreneurship:

1) Innovation the essence of Entrepreneurship: Entrepreneurship is an innovative function as it involves doing things in a new and better way. Innovation is the process of doing new
things. It can be of a new product, a new source of raw material a new market, a new method of production, not yet applied in a particular branch or, manufacturing etc.

2) **Economic Activity:** Entrepreneurship is basically concerned with the economic activities i.e production and distribution of goods and services. It is also concerned with the optimum utilisation of available factors of production and resources.

3) **Creation of Value:** Entrepreneurship is virtually a creative and a purposeful activity. It leads to creation of new products, services, approaches, resources, technologies, and markets that contribute some value to a community or marketplace.

4) **Risk Bearing:** Risk is an inseparable element of entrepreneurship. An entrepreneur assumes the uncertainty of future. In the pursuit of profit, there is possibility of loss also.

5) **Dynamic Process:** Entrepreneurship is a dynamic function. Flexibility is the tool towards successful entrepreneur. An entrepreneur should adopt all the changes in the environment which bring useful opportunities for business.

6) **Special Skills and Leadership:** An entrepreneurship calls for special skills to handle the situations as it unfolds. An entrepreneur must have the ability to lead and manage in every situation. Entrepreneurship involves the ability to create and build something from practically nothing. It is the ability to build a founding team to complement the entrepreneur’s skills and talents. An entrepreneurship can grow and flourish only if its founders have required managerial and leadership skills.

7) **Human Relations:** Entrepreneurship is the ability to work with other people and signing responsibility is a key to success. It is the ability to make a team, the efforts of which would result in gaining for the enterprise in every aspect.

### 6.3.3 Factors responsible to the Success of Entrepreneurship:

The success of entrepreneurship is dependent on certain important factors. Some of the important factors are:

1) **Economic Factors:** Capital is one of the most important prerequisites to establish an enterprise. Availability of finance, labour, land, accessibility of customers, suppliers are some of the factors that contribute to the introduction, survival and growth of a business enterprise.
2) **Socio-Economic Factors:** The socio economic factors which contribute towards the success of entrepreneurship are

- Cast/religion
- Family background
- Level of Education
- Level of perception
- Social Mobility
- Social Security

3) **Political Factors:** Political environment prevalent in the country also contributes towards the success of entrepreneurship. A sound and stable political environment is very important for the growth of entrepreneurship.

4) **Work Environment:** The work environment in which the employees are working, if it is not satisfactory then the unsatisfied personal needs for growth and achievement in employment conditions results in successful entrepreneurship.

5) **Government Incentives and Subsidies:** Government policies with regard to incentives and subsidies to the entrepreneurs also contribute to the success of entrepreneurship in the economy.

6) **Impact of Services Sector:** Growing importance of services in the overall economy has paved the way for entrepreneurial activity. New industries such as software and business process outsourcing have emerged and these have a large number of entrepreneurial firms.

**6.3.4 Entrepreneurial Motivation**

The word motivation has come from the Latin word ‘mover’ which means ‘to motive’ and is derived from the English word ‘motive’. It means the inner state of our mind that direct or stimulate us to achieve our goals. Motives are not necessarily in born but are the result of our interactions with the society. So, they give directions to our behavior to achieve the desired goals.

Therefore, Entrepreneurial motivation can be defined as the process that directs or stimulates our behavior to achieve the entrepreneurial goals. In other words, entrepreneurial motivation
activates the inner state of an entrepreneur to put higher level of efforts for the achievement of the desired entrepreneurial objectives.

6.3.5 Motivating Factors for Entrepreneurs

Entrepreneurial motivation is important because as long as the entrepreneur is not motivated he/she cannot achieve their goals. There are certain factors which motivate the entrepreneurs while some do not. It is a matter of concern to find out which factors motivate the employees. Different researchers have conducted several studies to identify such factors. Following are the summed up factors of motivation for the entrepreneurs:

1) **Education background:** The knowledge acquired through the various courses provided by the institutions has motivated entrepreneurs to step into the business. Entrepreneurs feel confident while entering into the business of their education fields.

2) **Family Background:** The family businesses motivate the entrepreneurs to join businesses. In India, different entrepreneurs have continued their fore father’s business. For e.g.: Mukesh Ambani, Ratan Tata, Aditya Birla etc.

3) **Desire to do something new:** People have urge to do something new and creative. The strong desire to be innovative and creative promotes entrepreneurship among the population.

4) **Business experience:** Large experience in a particular field makes the people aware of that field. Therefore, Entrepreneur feel motivated to enter into the fields in which they have the rich experience.

5) **Government assistance and support:** Government provide support to the entrepreneurs in different ways such as providing loans at low interest rates, tax concessions, leasing scheme, Export assistance etc. Assistance from the end of the Government motivates people to become entrepreneurs.

6) **Encouragement from big business houses:** The success stories of the large businesses motivate the people to become entrepreneur. Moreover, the large businessman encourages the people to become entrepreneurs.
7) **Easy availability of raw material and labour:** Easy availability of the raw material and labour at cheap rates motivates the people to become entrepreneurs as it makes the business little easy.

8) **Profit margins:** Many people become entrepreneurs for earning more money. So, earning money is one of the most motivating factors.

9) **Promising demand of the product or service:** There is an increasing demand for some goods and services. Therefore, entrepreneurs find their paths in establishing business for such products and services.

10) **Job Security:** Over-population and Unemployment is the one of most challenging problem in India. As the population is growing there is more and more risk of unemployment. Moreover, people don’t feel secure with their jobs because of the availability of large number of skilled population. Therefore, People prefer to become entrepreneurs.

11) **Social prestige:** In India, entrepreneurs are seen with respect. So, people get motivated to become entrepreneurs to gain social respect.

### 6.4. Entrepreneurship as a Career

It is always a question of debate can entrepreneurship be selected as a career? The answer is definitely yes. Entrepreneurship can be a career that has implications for your lifestyle. Entrepreneurs are the dreamers who are fueled by the desire to pioneer, lead, innovate and invent disruptive technologies and products. They are the pioneer of new ideas, new products, new methods and new markets. A few years back the children usually followed the footsteps or the desire of their parents and opted for a career that was decided by their elders. However, the opening up of the world economy and the great advancement in information technology has made ‘entrepreneurship’ a preferred career path. These momentous changes opened up new horizons and unexplored territories for the young and ambitious entrepreneurs who were not satisfied being put in a career bracket for their entire life.

### 6.4.1 Sustaining and Maintaining Competitive Advantage
The question arises how the entrepreneur would be able to sustain in a cut throat competition? What type of skills and competencies they must possess? How can they use competitive advantage? Actually the goal of every entrepreneur in the market is to get a competitive advantage. When an entrepreneur stands out from the competition by offering something of value that his competitors don't, it gives the customers a better reason to choose his goods or services. Without this advantage, he will get beat out by the competition time and time again.

Competitive Advantage and Benefits

As part of business and marketing plans, the entrepreneur should list the benefits he plans to offer which distinguish him from the competition. This can include his unique prices, location, service, delivery, customer relations and even his personality. He has to conduct market research to see how he differs from his competitors. He should also take note of his competitive advantage and decide if he plans to compete with them in those areas. The more unique benefits he will offer; the more customers will want to do business with him.

Competitive Advantage and Entrepreneur’s Niche

When you work from home, you cannot be known to everyone. So, in that case an entrepreneur has to focus on providing limited products or services to a specific group of people: called his niche. For example, an entrepreneur who wants to open an online clothing store would do better if he/she focuses on brand name of kid’s clothes, instead of clothing for men and women. It's easier to establish him in a niche and be the "go to" person. It's also much easier to achieve a competitive advantage in a niche because of your dedicated focus to a very limited demographic.

Competitive Advantage and Skills

The mistake that many entrepreneurs make when starting a business is to stop improving their skills. They allocate all available cash to their business to get it launched and neglect to save some money for education or training. He could gain a competitive advantage simply by getting some training in providing special products or services. He should also improve his entrepreneurship and selling skills. If the entrepreneur cannot acquire those skills, then he may plan to outsource it to an independent agency which can provide the necessary skills to compete effectively.
Once an entrepreneur has identified his competitive advantage, he can do everything to sustain in the marketplace.

6.4.2 Entrepreneurial Culture

“An entrepreneurial culture is an environment where someone is motivated to innovate, create and take risks. In a business, an entrepreneurial culture means that employees are encouraged to brainstorm new ideas or products. When work time is dedicated to these activities, it is called intrapreneurship. In the current business environment, the term entrepreneurial has come to mean more than just the business acumen required to turn an idea into an enterprise. Today, "entrepreneurial" describes a skill and mind-set characterized by innovation, creativity, calculated risk-taking, and an empowered staff. The term applies to individuals, teams, and entire organizational cultures. An entrepreneurial culture is what many companies hope for. Certainly, in the fast-moving and competitive technology industry, an entrepreneurial culture is what most organizations should strive for. How do you foster this culture and make it thrive? An organizational culture does not grow on its own. It must be nurtured. An organization's culture must be deliberately cultivated through concerted action including modeling, structure, constant communication, and positive reinforcement.”

(Source:http://www.volarisgroup.com/blog/article/fostering-an-entrepreneurial-culture-within-your-organization)

6.5. Problems in the growth entrepreneurship

Entrepreneurship is the function of creativity, innovation, skills, talents and qualities of entrepreneurs. There will no entrepreneurship if the entrepreneurs will not respond to change. Entrepreneurship is widely depending upon entrepreneurial environment. Various internal and external factors influence the growth of entrepreneurship, which are discussed as follows:

1) **Poor Management:** Poor management of the organisation leads to failure of the enterprise. Fayol rightly says management is what a manager does. Similarly, entrepreneurship is what an entrepreneur does. If he fails to plan and organize the activities effectively, it will lead to poor growth of entrepreneurship also.
2) **Lack of Infrastructural facilities:** There should be proper infrastructural facilities to establish an effective entrepreneurship which includes banking, transportation, insurance etc. In India, the entrepreneurship is suffering due to poor infrastructural facilities.

3) **Legal Formalities:** Several legal formalities have to be fulfilled before starting a new business. In the underdeveloped countries, the majority of the persons are uneducated or not familiar with the legal system which create lots of problems in establishing the new business enterprises.

4) **Absence of Entrepreneurial Attitude:** Entrepreneurial aptitude includes various qualities, competencies and talents which are basic needs for development and growth of entrepreneurship. So, the absence of entrepreneurial aptitude is an obstacle in the way of growth of entrepreneurship.

5) **High Risk:** In business higher the risk, higher is the profit. But in India, entrepreneurs are generally conservative in nature. They do not want to take risk which restrain their profits upto a certain limit.

6) **Socio cultural rigidities:** Socio cultural rigidities are another factor which is responsible for slow progress of entrepreneurship. People who are rigid to their old customs, traditions and culture, are not ready to change and hence cannot become successful entrepreneurs.

7) **Lack of Technical Skills:** The another major problem which obstruct the development of entrepreneurship is the lack of technical skills on the part of entrepreneurs. As the majority of entrepreneurs are uneducated/untrained in India, they fail to get the proper technical training, which ultimately obstructs the way of entrepreneurship.

6.6. **Summary:** Entrepreneurship is a process which involves various activities to be undertaken to start an enterprise. It is, thus, a process of giving birth to a new enterprise. Entrepreneurship involves innovation, organisation and risk-bearing. It has been defined by different writers and thinkers. An entrepreneur is one who establishes his enterprise and involves himself for economic activities He bears the risk of a new venture if there is a chance to earn profits. Entrepreneurship, on the other hand, includes imagination, the readiness to take risks, ability to bring together and put to use the other factors of production such as capital, labour, land and also intangible factors such as ability to mobilise scientific and technological advances. The only difference between an entrepreneur and entrepreneurship is that entrepreneur conceptually is a person whereas entrepreneurship is a process. The wide range of significant contributions that
entrepreneurship make the economic development include capital formation, creation of wealth, promotion of balanced regional development, Improvement in standard of living etc.

6.7. Glossary: Dear students we have learnt so far various concepts used in entrepreneurship.
Now let’s revise some important terms used in the lesson:

xv) **Entrepreneur:** The word ‘entrepreneur’ is derived from the French word ‘entreprendre’ which means ‘to undertake’. It was first brought up by Richard Cantillon, a French baker in 18th Century to mean, “A person who is uncertainty bearer”.

xvi) **Entrepreneurship:** Entrepreneurship is the ability of a person to minimise the use of resources and to put them into the process and get the maximum benefit of out it. He should take into consideration quality, excellence and consumer awareness for the sustainability of his business.

xvii) **Entrepreneurial Motivation:** Entrepreneurial motivation can be defined as the process that directs or stimulates our behavior to achieve the entrepreneurial goals. In other words, entrepreneurial motivation activates the inner state of an entrepreneur to put higher level of efforts for the achievement of the desired entrepreneurial objectives.

xviii) **Entrepreneurial Culture:** An entrepreneurial culture is an environment where someone is motivated to innovate, create and take risks.

6.8. Check your progress:

Q6. The person who creates an enterprise is called ___________.
   a. Managers 
   b. Leaders
   c. Owners 
   d. Entrepreneur

Ans. d

Q2. According to ___________, “Entrepreneurship consists of any earnest activity that starts, maintains, or develops a profit-oriented business in interaction with internal situation of the business and with the external situations such as economic, social, and political situations surrounding the business.”
   a. Harvard School
   b. Essien
c. Benjamin Higgins  
   d. D.C. McClelland  
Ans. a  

Q3. Which one of the following is not a characteristic of an entrepreneur?  
   a. Creativity  
   b. Innovation  
   c. Aggressive  
   d. Self-Confidence  
Ans. c  

Q4. Which one of the following is not a function of an entrepreneur?  
   a. Risk and Uncertainty Bearing  
   b. Arranging Finance  
   c. Staffing  
   d. Altering the Government System  
Ans. d  

Q5. Which of the following entrepreneur is cautious and skeptic about bringing any change in their modus operandi or enterprises?  
   a. Fabian Entrepreneurs  
   b. Imitative Entrepreneurs  
   c. Drone Entrepreneurs  
   d. Innovative Entrepreneurs  
Ans. a  

Q6. Richard Cantillon was the first person who used the term entrepreneur for economic activities.  
   (True/False)  
Ans. True  

Q7. Second generation entrepreneurs are those persons who become entrepreneurs by inheritance.  
   (True/False)  
Ans. True  

Q8. Fabian entrepreneurs are not cautious in adopting and implementing any change.  
   (True/False)  
Ans. False  

Q9. Entrepreneur is person, entrepreneurship is a process and enterprise is the object.
6.9. References & Suggested Readings:
(f) Dr. S.S.Khanka: S. chand and company Ltd, New Delhi.
(g) Jagroopsingh and Dr. Rajesh Marwaha: Kalyani Publishers, New Delhi
(h) Dr. C.B.Gupta and Dr.N.P.Shrinivasan: Sultan Chand and Sons, New Delhi

6.10. Terminal and Model Questions:
Q 1: Define the Term Entrepreneur. What are the various types of entrepreneur?
Q 2: Define Entrepreneurship. Explain the characteristics of entrepreneurship.
Q 3: What are various factors responsible to the success of entrepreneurship?
Q 4: Differentiate between manager and entrepreneur.
Q 5: Define Entrepreneurial Motivation. Explain motivation factors for entrepreneurs.
Lesson-7
Evolution of the concept of Entrepreneur

Structure

7.1 Objectives

7.2 Introduction

7.3 Evolution of the Concept ‘Entrepreneur’

7.3.1 Entrepreneur as Risk-Bearer

7.3.2 Entrepreneur as Organizer

7.3.3 Entrepreneur as Innovator

7.4 Characteristics of Successful Entrepreneur

7.5 Types of Entrepreneurs

7.6 Opportunities for Entrepreneur

7.7 Difference between Entrepreneur and Manager

7.8 Difference between Entrepreneur and Intrapreneur

7.9 Success Story of Bill Gates

7.10 Summary

7.11 Glossary

7.12 Check Your Progress

7.13 References & Suggested Readings

7.14 Terminal and Model Questions
7.1. Objectives

Dear students we have discussed in the previous lesson the meaning and concept of entrepreneurship, its characteristics, role and problems obstructing the growth of entrepreneurship. This lesson is focused on the concepts related to the term ‘entrepreneur’. After completing this lesson, you will be able to:

v. Understand the concept of entrepreneur.
vi. Describe the evolution of the entrepreneur.
vii. Define the basic characteristics of entrepreneur.
viii. Types of entrepreneur
ix. Difference between entrepreneurs and manager & entrepreneurs and intrapreneurs. And
x. Illustrate the growth of entrepreneur with the help of success stories.

7.2. Introduction

The term ‘entrepreneur’ has been defined in many ways and various senses. This word has been used since ages but its meaning is changing over time. The meaning of an entrepreneur has been defined by militarymen, economists, psychologists and sociologists. In Early 16th century entrepreneurs was the term used for the persons engaged in the military journey. Later on in 17th century, it was expanded for the persons engaged in engineering activities such as construction etc. In the beginning of the 18th century, Entrepreneur refers to the persons engaged in the economic activities. Therefore, ‘entrepreneur’ has changed over the time from the person engaged in military expeditions to the economic activities.

There are different School of thoughts about the concept of an entrepreneur. An entrepreneur doesn’t have specific features. He could be a sensitive person, worrier, creative, competent, leader, social but some key qualities have been identified which every entrepreneur must possess in order to succeed like innovation, risk taking, hard-work, self confidence, goal setting and their burning desire to excel.

7.3. Evolution of the Concept ‘Entrepreneur’

The term entrepreneur is as old as civilization. It has been in use for the last five centuries. In early 16th Century it was referred to persons engaged in military expeditions, during 17th Century it was extended to persons engaged in engineering activities like construction etc and in the beginning of 18th Century it was used to refer to persons engaged in economic aspects of human activities. Renowned economists David Ricardo and Adam Smith in the ‘Wealth of Nations’ during 1776 ignored the role of entrepreneur in economic development. They hardly
distinguished between the entrepreneurial function from that of pure entrepreneurship of capital. The economic development to them seemed to be automatic and self-regulated. The concept of entrepreneurship has been shady during the period of English Classical Economists.

The word ‘entrepreneur’ is derived from the French word ‘entreprendre’ which means ‘to undertake’. The term entrepreneur was first coined by Richard Cantillon, a French baker in 18th Century to mean, “A person who is uncertainty bearer”. Richard Cantillon, an Irishman living in France was the first person who used the term entrepreneur for economic activities. J.B.Say another Frenchman, expanded Cantillon’s ideas and said that entrepreneur is “an organizer who combines various factors of production to produce a socially viable product”.

The word ‘entrepreneur’ has an interesting history starting from French language to till date which can be understood with the help of following definitions given by eminent entrepreneurs and economists:

<table>
<thead>
<tr>
<th>Definition</th>
<th>Author</th>
</tr>
</thead>
<tbody>
<tr>
<td>An entrepreneur is the agent who buys means of production at certain prices in order to combine into a product that he is going to sell at prices that are uncertain at the moment at which he commits himself to his costs.</td>
<td>Richard Cantillon</td>
</tr>
<tr>
<td>An entrepreneur is the economic agent who unites all means of production, the labour, the capital or land and who finds the value of product which results from their employment, the reconstruction of the entire capital that he utilises and the value of wages, the interest and the rent that he pays as well as profit belonging to himself.</td>
<td>J.B.Say</td>
</tr>
<tr>
<td>Entrepreneur is one who seeks to reform or revolutionise the pattern of production by exploiting an innovation or more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of material or a new outlet of products.</td>
<td>Joseph Schumpeter</td>
</tr>
<tr>
<td>Entrepreneurs are a specialised group of persons who undertake the risk and deal with uncertainty. Entrepreneur is the economic functionary who undertakes responsibility which cannot be insured.</td>
<td>F.H.Knight</td>
</tr>
<tr>
<td>Entrepreneur is one who endowed with more than average capacities in the task of organising and co-ordinating the factors of production i.e, land, labour, capital and enterprise. Entrepreneur is a pioneer, a leader and captain of the firm. Hence, profit, the entrepreneur gets depends upon his efficiency and superior talent.</td>
<td>F.A. Walker</td>
</tr>
<tr>
<td>An entrepreneur is one who always searches for change, responds to it and exploits it as an opportunity. Innovation is considered as an instrument of entrepreneurship. An entrepreneur innovates and creates resources because there is no such thing as resource until somebody finds a use for something and endows economic value to it. Innovation is being presented as a discipline, capable of being learnt and capable of being practised.</td>
<td>Peter F.Drucker</td>
</tr>
</tbody>
</table>
a) An entrepreneur must be an innovator as well as a leader.
b) He must be capable of analysing the opportunities and exploit them successfully.
c) He should innovate for the present period but not the future.
d) Innovation must be very simple to understand, otherwise, it may not give the desired results.
e) Entrepreneur must possess the knowledge, diligence, persistence and commitment to innovation.
f) He need not be the owner of the business.
g) He must mobilize resources and allocate them to make a commercial gain from the opportunities identified.

The fact remains that the term ‘entrepreneur’ has been defined differently by different writers and thinkers. These views expressed above are broadly classified into three groups, namely:
- Risk-bearer
- Organizer, and
- Innovator

7.3.1 Entrepreneur as Risk-Bearer: In 18th Century Richard Cantillon defined entrepreneur as a capitalist. According to him entrepreneurship is a matter of foresight and willingness to assume risk. He defined entrepreneur as 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.
He illustrated it with the help of an example. A farmer has to pay contractual incomes, which are certain, to the landlords and labourers and sells at prices that are ‘uncertain’. He also explains that so with the merchants who make certain payments in expectation of uncertain receipts. So a farmer or merchant both are considered as ‘risk bearing’ agent of production.

F.H. Knight also described entrepreneur as specialized group of persons who bear risk and ready to face uncertainty. Uncertainty cannot be insured against future contingencies and is incalculable. Knight differentiates ordinary risk with uncertainty. According to him a risk can be reduced by taking the insurance policy where the occurrence of something is known. On the other side, uncertainty is the risk which cannot be calculated. Thus, Knight describes entrepreneur as the economic functionary who undertakes such responsibility of uncertainty which cannot be insured.

7.3.2 Entrepreneur as Organizer:

J.B. Say, a French economist, also developed further the concept of entrepreneur, which survived for almost two centuries. He associates entrepreneur with the functions of coordination, organization and supervision. Say was the first economist to differentiate the function and remuneration of the entrepreneur from those of the capitalist. He emphasized coordination and supervision and recognized entrepreneur as the most important agent of production as he brings together other productive factors and provides continuity of management.

According to Say, entrepreneurship is the combination of three factors; i) Moral qualities for the work consisting of judgment, perseverance and knowledge of business environment, ii) command over capital resources and iii) effective utilisation and administration to overcome uncertainty of profits. Thus, Say’s entrepreneur shifts economic resources out of an area of lower productivity into an area of higher productivity and greater yield.

Marshall during 1936 also focused the relevance of organisation among the various services of special class of business undertakers.
7.3.3 Entrepreneur as Innovator: During 1934 Schumpeter in his magnum opus ‘Theory of Economic Development’ highlighted the role of entrepreneur as “Innovator”. According to him entrepreneur is basically an innovator who carries out new combinations of factors of production to initiate and accelerate the process of economic development. Innovations may be occurred in any of the following forms:

i) Introducing new product in the market  
ii) Introducing new methods of production  
iii) Opening of a new market  
iv) Discovering new sources of raw material  
v) Carrying of new organization of any industry

Schumpeter differentiates between inventor and an innovator. According to him an inventor is one who discovers new factors of production like men, material, machine and methods and an innovator utilizes these inventions and discoveries to make new combination of factors of production. He argued on the fact that the entrepreneur may or may not be the inventor and therefore, he may or may not be supplier of capital. Major different between the inventor and innovator is that the former creates idea and the latter gets it converted into reality.

However, Schumpeter’s theory is based on certain assumptions like prevalence of capitalist society with private property, private initiative, money and banking system etc. The applicability of his theory is doubtful in under developed countries where the poor infrastructure and lack of capital may block the innovativeness.

The most recent definition of entrepreneurship is given by Knowledge Commission of India with special reference to India. According to NKC “entrepreneurship is defined as the profession application of knowledge, skills and competencies and/or of monetizing a new idea, by an individual or a set of people by launching an enterprise de novo or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus, to pursue growth while generating wealth, employment and social good”.

7.4. Characteristics of Successful Entrepreneur: The following are the important characteristics of an entrepreneur:
1) **Innovator:** Entrepreneurs are generally regarded as innovators. They introduce new methods, new products, new markets, new sources of raw material and new forms of industrial units. According to Schumpeter entrepreneur is basically an innovator who carries out new combinations of factors of production to initiate and accelerate the process of economic development. Even the economic development of a country depends upon the innovativeness of its entrepreneurs. They find new solutions to old problems, new uses of existing resources, new techniques etc. The innovative entrepreneur is playing a key role in the economic development of a country.

2) **Risk Taker:** Entrepreneur assumes the risk of the business. Risk means uncertainty. It is the condition of not knowing the outcome of a decision or activity. He takes calculated risk and faces uncertainty confidently and assumes risk. Higher the risk, higher would be the profit is general saying about risk but it all depends upon the ability of a person taking the decisions and thereby gains higher returns.
3) **Good Organiser:** Entrepreneurs have remarkable skills in organising work and people. They make objective selection of individuals in conformity with their skill in solving specific problem. They bring together various factors of production, minimise losses and reduce the cost of production. An entrepreneur formulates business plans and ensures their execution. An entrepreneur is one who combines various factors of production and then produces a product for market.

4) **Optimistic:** The successful entrepreneurs have a positive approach toward things. They do not get disturbed by the present problems faced by them. They become optimistic for future that the situations will become favourable to business in future.

5) **Foresight:** The entrepreneurs have a good foresight to know about future business environment. In other words, they well visualize the likely changes to take place in market, consumer attitude and taste, technological developments etc. and take necessary and timely actions accordingly.

6) **Visionary:** Vision is the ability to see the end result of goals while striving to achieve them. Every entrepreneur has a vision for growth and development. An entrepreneur is one who incubates new ideas, starts his enterprise with these ideas and provides added value to society based on their independent initiative. With persistence and determination, the entrepreneur develops strategies to change the vision into reality.

7) **Self-Confident:** An entrepreneur should be self confident. He must have faith in himself and in his abilities. He should have ability to tackle the problems independently with confidence. Only a self confident entrepreneur can trust others and can delegate authority to others. He should have the confidence to implement the change with his relevant knowledge, skills and experience.

8) **Perseverance:** One of the qualities of successful entrepreneurs is that they possess and exhibit tremendous perseverance in their pursuits. They do not give up their effort even if
they fail. They are not deterred by difficulties and problems that beset any project, rather they work hard until the whole project is successfully accomplished. They have the willingness to keep goals in sight and work toward them despite obstacles. They make hard efforts to get rid of obstacles coming in the way of reaching the ultimate goal.

9) Emotional Balance: There are many ups and downs in the business but entrepreneur has to be emotionally stable. They do not get carried away by the huge profits and disappointed by the huge losses. They remain quiet and calm at every situation.

10) Hard Work: Entrepreneurs works very hard to succeed. Most of entrepreneurs work hard in the beginning and thus same becomes their habit for the lifetime because they believe that hard work is the key to success.

11) Decision Maker: An entrepreneur has to take various decisions in performing activities of his enterprise. Therefore he must be innovative in decision making process. The true entrepreneurship requires creative decision making, rational approach, problem solving ability and ability to take quick and correct decision. The profitability and productivity of an enterprise directly depends upon the decision making capacity of an entrepreneur.

12) Patient: Entrepreneurs are highly patient and do not get affected by the temporary failure and continue to work hard. Entrepreneurs try again and again to achieve the success.

13) Communication Skills: Entrepreneurs are good communicator and with their good communication skills they are able to convince others with their ideas. Good communication also means that both sender and the receiver understand each other and are being understood. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed.

14) Leadership and Team Spirit: An entrepreneur must have the ability to build successful teams and thus working in teams. He should be good at building and managing successful teams. Leadership quality is the most important characteristic of entrepreneur. It is the process of influencing and supporting others to work enthusiastically towards achieving objectives.
15) **Interpersonal Skills:** An entrepreneur is a person who comes across with different persons. He has to deal with many types of persons. He is the person who gets the things done through with the help of others. So a successful entrepreneur possesses the interpersonal skills of dealing with people.

16) **Creative:** An entrepreneur must have the qualities of creative thinker. He must be reasonably intelligent and should have creative thinking so that he must be able to solve various problems and handle the critical situations in order to deal with them.

7.5. **Types of Entrepreneurs:** Dear students the classification of entrepreneurs can be done on the basis of type of business, use of technology, motivation, stages of development and etc. These classifications are discussed as under:

1. **According to the Type of Business**
   i) **Business Entrepreneur:** Business entrepreneurs are individuals who conceive an idea to introduce a new product or service in the market and then start a business to materialize their idea into reality. They tap various resources to produce and market their product in order to develop a new business opportunity. They may set up a big establishment or a small business unit.

ii) **Trading Entrepreneur:** Trading entrepreneur is one who undertakes trading activities and is not concerned with the manufacturing work of goods. He targets the potential markets, explores the opportunities, stimulates demand for his product line and creates a desire and interest among buyers for his product.

iii) **Industrial Entrepreneur:** An entrepreneur, who sets up his own industrial unit, is called Industrial Entrepreneur. He explores the opportunities to set up his business, completes the necessary formalities of getting statutory permissions, power connection, pollution control clearance (if the need be), arrange capital, making payment of wages and supply necessary technical know-how. Such type of an entrepreneur knows how to make the optimum use of resources and converts them into a profitable venture.

iv) **Corporate Entrepreneur:** The Entrepreneur who shows his innovative skill in organizing and managing the activities of corporate undertaking is termed as Corporate Entrepreneur. He manages the affairs of his corporate body and develops it with his
innovative skills. He complies with all formalities to get his corporate body registered under the requisite Act which gives his company the status of separate legal entity.

v) **Agricultural Entrepreneur:** These entrepreneurs raise the productivity of agriculture through mechanization, irrigation and application of technologies for their agriculture land. They undertake such agricultural activities as raising of money, marketing of crops, managing fertilizers etc.

2. **According to the Use of Technology**

i) **Technical Entrepreneur:** A technical entrepreneur is essentially an entrepreneur of “craftsman type.” These entrepreneurs focus on production rather than marketing. Technical entrepreneur possesses craftsman skill in himself which he applies to develop and improve the technical aspect of the product.

ii) **Non-Technical Entrepreneur:** An entrepreneur who is not concerned with the technical aspect of the product is called non-technical entrepreneur. He develops alternative strategies of the marketing and promotes his business. The objective of such entrepreneur is not to change the production techniques but he stimulates the demand of the product.

iii) **Professional Entrepreneur:** An entrepreneur who is interested in floating a business but does not want to manage or operate it. Once the business is established, he sells it out and catches on to float a new business.

3. **According to Motivation**

i) **Pure Entrepreneur:** Pure entrepreneur is one who is status conscious and wants recognition. He generally undertakes entrepreneurial activities for his personal satisfaction or for the satisfaction of his psychological needs.

ii) **Induced Entrepreneur:** Induced entrepreneurs are those individuals who are induced by some external factors to start a business. The external factors could be like supporting government policies, unemployment, family support, facilitating institutional support etc. These types of entrepreneurs run out to be more realistic in their approach. For instance, when the government announced subsidies, tax rebates and financial support to small scale industries, several entrepreneurs started their business as SSIs.

iii) **Motivated Entrepreneur:** These entrepreneurs are ambitious to stand out. They want to achieve something in their life and also want to make a mark in society to prove their excellence. No matter how many hurdles come in their way, they are totally determined.
4. According to Stages of Development
   i) **First Generation Entrepreneur:** These entrepreneurs have no entrepreneurial background. They do not inherit entrepreneurship from their earlier generation. They are first generation entrepreneurs in their family, e.g. Late Dhirubhai Ambani

   ii) **Second Generation Entrepreneur:** Some persons become entrepreneurs by inheritance. They inherit entrepreneurship from their earlier generations, e.g. Ratan Tata inherited entrepreneurship from J.R.D. Tata and Jamshedji Tata. Due to entrepreneurial heritage these entrepreneurs have some inborn qualities of entrepreneurship.

   iii) **Classical Entrepreneur:** A classical entrepreneur is one who strives for maximizing economic returns of his firm at a level consistent with the survival of the firm but with or without an element of growth.

5. According to categorization given by Clarence Danhof
   These entrepreneurs are classified into four types:

   i) **Innovative Entrepreneur:** Innovative entrepreneurs are one who introduce new goods, innovates new methods of production, discovers new markets and brings them together to create value. He arranges finance, starts an enterprise, assembles the various factors of production, chooses the competent managers and sets his enterprise go.

   ii) **Adoptive or Imitative Entrepreneurs:** Those entrepreneurs who are ready to adopt successful innovations created by innovative entrepreneurs are called adoptive entrepreneurs. Instead of innovating the changes themselves, they just imitate the technology and techniques innovated by others. Such entrepreneurs are particularly important in underdeveloped countries because they contribute significantly to the development nations because in these nations people prefer to imitate the technology, knowledge and skill already available in more advanced countries.

   iii) **Fabian Entrepreneurs:** Fabian entrepreneurs are cautious in adopting and implementing any change. Their dealings are determined by custom, religion, tradition and past practices. They are reluctant to adopt new methods and also not ready to take moderate risks. They imitate change only when it becomes clear that they cannot survive without doing so.

   iv) **Drone Entrepreneurs:** Drone entrepreneurs are those who are not ready to make the changes in their existing production methods even at the cost of severely reduced returns.
They can suffer loss but are not ready to make changes in their existing production methods. With the increase in competition they would prefer to stay out of market rather than giving their business a competitive edge.

7.6. Opportunities for entrepreneur and Identifying & Selecting the Best Opportunity: An entrepreneur has innumerable opportunities available to him but he has to identify the best opportunities out of the existing opportunities. One can have a large list of the available opportunities from the magazines, Internet, Government, Friends, relatives and so on. To select the best business opportunity, one needs creativity, skills and vision to analyse the available information. It is also important for an entrepreneur to identify the opportunities and also to select the best opportunity. At times, entrepreneur may be in dilemma and may find one opportunity more lucrative and the other time can also find other opportunity more profitable. Therefore, entrepreneur has to choose the best opportunity by applying his mind and soul so that he/she can make profits.

7.6.1 Concept of an opportunity

In general, the word opportunity means a favourable situation or a circumstance provided to do something for the advancement or progress. Therefore, business opportunity is a favourable chance available for an entrepreneur to run the business and earn profits at a given point of time in particular environment. For an entrepreneur opportunity means a product or a project. Therefore, identification of opportunity, product or a project is similar. An entrepreneur may come across a large number of profitable opportunities but he has to select the most possible and hopeful project. Therefore, Project identification and selection are the important phases for an entrepreneur.

Peter Drucker has explained the three types of opportunities in this context, as following:

a. **Additive Opportunities**: these are the opportunities which are related to the use of the available resources without making any changes. Therefore, there is very less risk in such opportunities.
b. **Complementary Opportunities**: These are related to the introduction of the new ideas which directs the change in the available arrangement. There is a greater risk in such opportunities.

c. **Breakthrough Opportunities**: These are related to the huge change in the existing arrangements which thus involve huge risk.

A good opportunity has two characteristics:

1. A good and wide market scope i.e. easy demand and supply of the product.

7. Heavy return on investment i.e good profits.

A business opportunity must be evaluated from the view point of production, technology, demand, profits, society etc.

### 7.6.2 Business Opportunities in various sectors

There are innumerable opportunities exists in the business environment but one requires a vision to identify the available opportunities. Various business opportunities available are like following:

- **Textiles**: India is famous for its textiles from the very beginning and every region has its own unique style of dressing which thus offers a wide and diversified market. Moreover, India has a huge potential to grow as a market leader in the textile sector. Surat, Ludhiana etc. has emerged as an export hub of the textiles. Therefore, a better understanding of the textile industry and the customer needs helps in discovering the potential it holds.

- **Software**: India is having large number of the software engineers with leading business in software. With growing business in the software industry and the increasing business outsourcing from the foreign companies is providing tremendous opportunities for the entrepreneurs to invest in this sector.

- **Tourism**: It is one of the most promising and fastest growing industries as India has the potential for tourism development. India covers 15% of the world population and shares only 0.40% in the world tourism. It is not because of the lack of tourism in the country but because of the undiscovered tourism opportunities. Therefore, entrepreneurs has the
opportunity to helps in discovering the tourism potential as it is being estimated that India can become the number one tourist destination of the world.

- **Engineering Goods:** India is one of the largest exporters of the engineering goods. Therefore, entrepreneurs can earn by meeting the increasing demand of the engineering goods.

- **Automobile:** India has become a hub of producing low cost automobile parts and is very rapidly becoming hot spot for the automobile industry. India is manufacturing large number of cars with strong engineering know-how but still there is some undiscovered segments which offers the wide opportunities to the entrepreneurs.

- **Ayurveda and Traditional medicines:** India is known for its ayurveda and herbal products. With the increasing demand of the ayurvedic products, it is offering a unique business to the entrepreneurs.

- **Packaging:** Indian business is growing in every field like agriculture, consumer goods, infrastructure etc. So, there is a huge demand of the packaging material like plastics. So there is a big opportunity for the entrepreneurs in this sector also.

- **Healthcare sector:** Indian healthcare sector is at the growing stage and with the growth in the medical tourism this sector will offer wide prospects for the entrepreneurs as there will be cost-effective treatments.

- **Media:** The media industry is offering a wide scope to the entrepreneurs. There is a boom in television, print media, advertising, radio etc from the past few years. Therefore, this particular sector is the most promising sector as it is about to grow at a double rate. According to the report of FICCI (Federation of Indian chamber of Commerce and Industry), innovation, marketing, Distribution, competition, digitisation etc will give boost to the media and entertainment sector in the coming years.

- **Floriculture:** With the growing demand for the fresh flowers, this sector is opening up a new opportunity for the entrepreneurs. Although Indian Floriculture segment is small and
unorganised, but as it has a huge potential and with the increasing demand one can think of business in this sector.

- **Toys:** this industry is the evergreen industry. India has the potential to make safe and cost effective toys. Although china is giving a tough competition in this sector, but the Chinese toys contains toxics where India has an advantage to produce safe and durable toys.

- **Biotechnology:** After the software industry, biotechnology sector has the highest potential and offers opportunity for the entrepreneurs. It has been proved that agricultural biotechnology ahs a huge impact on the productivity. Therefore, huge importance is being given to the research and development to produce crops which are resistant to heat, cold, insects etc. It also helped in producing improved quality food products. With the increasing importance of the agro- biotechnology, it is providing various options to the entrepreneur to start a business in the field of horticulture, poultry, dairy, agriculture and production of fruits and vegetables.

- **Recycling Business:** E-waste is rising at an unmanageable speed with the development in the technology. According to the UN report, computer waste will grow about 500 % from 2007 to 2020, alone in India. Therefore, this alarming problem opening up new business opportunity for the young entrepreneurs to manage e-waste and develop techniques to dispose the e-waste.

- **Energy Solutions:** India has a huge population and so are the consumption needs of the populated country. It is difficult for the nation to generate power with the limited resources. Therefore, in the power starved nation like ours, there is a need of the cost-effective and power saving methods. Government has already initiated steps to use cost effective methods by implementing the national Solar Mission. Therefore, solar engineering is a big opportunity for the entrepreneurs.

- **Organic Farming:** This sector is prevalent in India since long but with the increasing demands of the organic products especially in foreign is opening up wide opportunity for the Indian entrepreneurs. Although farmers in India are focusing on the organic farming, but still are not able to meet the increasing demand. Therefore, there is a huge scope for the entrepreneurs rto invest in this sector and thus earning large benefits.
• **Corporate demands:** As large companies are opening up their offices in India, therefore, there is a huge demand of the formal clothes. Moreover, there is an increasing trend of the corporate gifting, so one can try his luck in this sector also.

• **Social Ventures:** India is a hub of social problems. Social entrepreneurs are the persons who provide solutions to the social problems. Therefore, to provide solutions to the social problems, entrepreneurs have started their social ventures. For e.g: SEWA, Lizzat pappad etc. though it is one of the challenging tasks but is offering opportunity to the young entrepreneurs to step in.

• **Franchising:** After the Liberalisation, Privatisation and Globalisation in 1991, India is opened economy. Franchising helps in spreading brands all over the world. So, it is a good opportunity for the entrepreneurs to invest in franchisee business as it has well maintained image and low risk.

• **Education and Training:** Competition in the education is increasing. There is a good scope in the education sector and training sector with the increasing demand and competition. Students prepare endlessly for the competitive exams be it for the government exams or training courses. Therefore, entrepreneurs has the scope to provide the training and education facilities at the competitive rates. Moreover, India has the potential to attract students from the abroad which can open up large opportunities for the Indian entrepreneurs in this sector.

7.7. **Difference between Entrepreneur and Manager:**

Sometimes people used these two terms interchangeably, but they differ in their meaning. Some of the basis of difference on both is given below:

1) **On the basis of Meaning:** Basically Entrepreneurs are innovators whereas Manger keeps in managing the business on established rules, policies and procedures.
2) **Risk-bearing:** Entrepreneur is a moderate. He undertakes all risks and uncertainty of running his enterprise because, entrepreneur being the owner of his enterprise. Whereas a Manager does not bear any risk as he is paid fixed salary.

3) **Objective:** The main objective of an entrepreneur is to start his own venture by setting up as a sole trader or firm or a company. He sets his own targets and continuously puts his efforts for achieving the goal-reward of the entire process in connection. Whereas the main motive of a manager is to give his services to an enterprise set up by entrepreneur and in return he gets fixed and certain salary.

4) **Abilities:** Creativity, innovation, desire for high achievement, intuition etc is the main abilities which are expected from Entrepreneurs. Public dealing abilities and conceptual abilities are the main abilities which are expected from Managers.

5) **Decision-making:** Entrepreneur takes all the decisions regarding expansion, diversification, take-over, mergers, capital budgeting, pricing policy etc. in nutshell all strategic decisions are taken by entrepreneur. Whereas managerial and operative decisions which have short term and medium term impact on results are taken by manager.

6) **Qualifications:** In order to become entrepreneur no specific degree from university required. Qualities like foresightedness, risk-taking, hard work, innovative, decision making are the more important. Whereas a manager now a day’s need to possess a professional degree in the stream of management and practice.

7.8. **Difference between Entrepreneur and Intrapreneur:** Dear learner, intrapreneurs are the executives who develop commercially viable ideas, new divisions, new subsidiaries, new products or new business within existing and established business. Intrapreneurs are the persons who have entrepreneurial talent and are motivated to use their abilities and initiative and do something on their own, but who may not want to start their own business. Both entrepreneurs and intrapreneurs are innovators and both perform the function of management. But they differ from each other in some respects. The major points of distinction between Entrepreneur and Intrapreneur are given as under:

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Intrapreneur</th>
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</thead>
<tbody>
<tr>
<td>1. Entrepreneur raises funds of their own.</td>
<td>1. He does not raise funds of their own.</td>
</tr>
<tr>
<td>2. Entrepreneur used the ideas of</td>
<td>2. Intrapreneur creates new ideas</td>
</tr>
</tbody>
</table>
intrapreneur.
3. Entrepreneur guarantees return to supplier of capital.
4. Entrepreneurs are the real owners of the business.
5. As entrepreneurs are the owners, so they have to bear risk.
6. Entrepreneurs are independent in their operations.
7. Entrepreneurs works outside an organisation.
8. Entrepreneurs may or may not be qualified.
9. Entrepreneurs receives all profits and losses.
10. The objective of entrepreneur is profit maximization.

3. Intrapreneur does not give any such guarantee.
4. Intrapreneurs are the employees who work under entrepreneurs.
5. Intrapreneurs are just the employees of the enterprise, do they don’t bear risk.
6. Intrapreneurs are not independent, rather dependent upon entrepreneurs.
7. Intrapreneurs works within an organisation.
8. Intrapreneurs are highly qualified.
9. Intrapreneurs gets a little reward.
10. The main objective of intrapreneur is to make his project successful.

7.9. Success Story of Bill Gates

William Henry Gates, known to his friends and the rest of us as Bill, is probably the world’s most prominent entrepreneur. From a teenager's interest in computer programming, he founded and built Microsoft to its position of global dominance of the vast personal computer market. He is certainly one of the world's richest individuals.

Entrepreneurs are now role models. Yet, in 1955, when Bill was born in Seattle, very few people ever mentioned the word ‘entrepreneur’. Even as recently as 1975, when Bill Gates and Paul Allen founded Microsoft, calling a business person an entrepreneur was often a term of abuse in Britain, if
7.10. **Summary:** An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. He bears risk, unites various factors of production and carries out innovations. An entrepreneur is a person who has possession of an enterprise, or venture and assumes significant accountability for the inherent risks and outcome. Entrepreneurs are people who have a talent for seeing opportunities and the abilities to develop those opportunities into profit making businesses. It is usually said that entrepreneurs are wild risk takers. Yes, they take risks but only calculated ones. Innovation, creativity, leadership, risk taking etc are some of the keys to being a successful entrepreneur.

7.11. **Glossary:**

xix) **Entrepreneur:** The word ‘entrepreneur’ is derived from the French word “entreprendre’ which means ‘to undertake’. It was first brought up by Richard Cantillon, a French baker in 18th Century to mean, “A person who is uncertainty bearer”.

xx) **Opportunity:** The word opportunity means a favourable situation or a circumstance provided to do something for the advancement or progress.

xxi) **Additive Opportunities:** These are the opportunities which are related to the use of the available resources without making any changes.

7.12. **Check your progress:**

1. An Entrepreneur is:
   
   (a) Innovator
   
   (b) Organizer
   
   (c) Coordinator
   
   (d) Risk-bearer
   
   (e) All of above

   **ANSWER:** (e)

2. The most suitable type of entrepreneur for a developing economy like India is:

   (a) Innovative
(b) Imitative
(c) Fabian
(d) Drone
(e) All of above

ANSWER: (b)

3. Characteristics of successful entrepreneur includes:
   (a) Hard work
   (b) Foresightedness
   (c) Innovative
   (d) All of above
   (e) None of above

ANSWER: (d)

4. “Bringing people together is beginning, keeping people together is progress, and working with people is success”. This statement is given by:
   (a) Henry Ford
   (b) J.B. Say
   (c) Azim Premji
   (d) Kiran Mazumdar-Shaw

ANSWER: (a)

5. Innovation includes:
   (a) Introducing of a new product
   (b) Introduction of new method of production
   (c) Opening of a new market
   (d) All of above
   (e) None of above

ANSWER: (d)
6. Innovation and inventions are two sides of same coin.  (TRUE/FALSE)
    ANSWER (FALSE)

7. Only a Capitalist is the Entrepreneur.  . (TRUE/FALSE)
    ANSWER (FALSE)

8. The hallmark of an entrepreneur is innovation. (TRUE/FALSE)
    ANSWER (TRUE)

9. Willingness to work hard differentiates a successful entrepreneur from unsuccessful one.  
    (TRUE/FALSE)
    ANSWER (TRUE)

10. The word ‘entrepreneur’ has been taken from the French language--------
    ANSWER (enterprendre)

7.13. References & Suggested Readings:

(i) Dr. S.S.Khanka: S. chand and company Ltd, New Delhi.

(j) Jagroopsingh and Dr. Rajesh Marwaha: Kalyani Publishers, New Delhi

(k) Dr. C.B.Gupta and Dr.N.P.Shrinivasan: Sultan Chand and Sons, New Delhi

    Entrepreneurship.


(n) Kanungo, Rabindra N (1998) Entrepreneurship and Innovation (models for development), 
    Sage Publications, New Delhi.


7.14. Terminal and Model Questions:
Q 1: Define the Term Entrepreneur. Discuss the evolution of the concept of entrepreneur?

Q 2: What are various characteristics of entrepreneur? Explain

Q 3: What are various opportunities available to entrepreneur?

Q 4: Define the term Opportunity. How the best opportunity can be identified and selected?

Q 5: Discuss the success story of Bill Gates as successful entrepreneur.
Lesson-8
Social Entrepreneurship

Structure

8.1 Objectives
8.2 Introduction
8.3 Functions of Entrepreneur
8.4 Role of Entrepreneurs in Indian Economy
8.5 Role of entrepreneurs in the Social and Rural Environment/ Social Entrepreneurship and Rural Entrepreneurship
  8.5.1 Characteristics of Social Entrepreneur
  8.5.2 Where do you find Social Enterprises
  8.5.3 Typical Sectors of Investment of Social Enterprises
  8.5.4 Challenges for social entrepreneurship
  8.5.5 Types of Social Entrepreneurship
  8.5.6 Social Entrepreneurship in India
  8.5.7 Leading Social Entrepreneurship in India and in the world
8.6 Rural Entrepreneurship
  8.6.1 Types of Rural Entrepreneurship
  8.6.2 Need of Rural Entrepreneurship
  8.6.3 Scope of Rural Entrepreneurship
  8.6.4 Problems faced in the growth of rural entrepreneurs
8.7 Summary
8.8 Glossary
8.9 Check Your Progress
8.10 References & Suggested Readings
8.11 Terminal and Model Questions

8.1. Objectives
Dear Learners after completing this lesson, you will be able to:
  xi. Delineate the functions of entrepreneur.
  xii. Identify the need of entrepreneur.
8.2. Introduction

Entrepreneur is a person who launches his own venture. He organises, manages and takes the risk of developing those new products or processes for which the market demand exists but these are not currently being supplied in the market. An entrepreneur bears the risk of a new venture if there is a chance to earn profits. He is a front man who brings together various factors of production and creates value by developing a new product or process. In practice an entrepreneur performs all necessary functions right from the conception of an idea upto the establishment of an enterprise.

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them. He bears risk, unites various factors of production and carries out innovations. An entrepreneur is a person who has possession of an enterprise, or venture and assumes significant accountability for the inherent risks and outcome. Entrepreneurs are people who have a talent for seeing opportunities and the abilities to develop those opportunities into profit making businesses. It is usually said that entrepreneurs are wild risk takers. Yes, they take risks but only calculated ones. Innovation, creativity, leadership, risk taking etc are some of the keys to being a successful entrepreneur.

8.3 Functions of an Entrepreneur: As discussed in the previous lesson, entrepreneurs are playing many roles for the success of their enterprise. The various functions of an entrepreneur are broadly classified in the following categories:
(A) Entrepreneurial Functions: The basic functions of an entrepreneur are to be innovative, risk taker and organisation builder. These are described as below:
1. **Innovation:** Schumpeter defines entrepreneur as an innovator who introduces new combinations of means of production. In today’s modern business innovation plays an important role. With his innovative ideas, entrepreneur introduces new products, creates new markets, applies new methods in the process of production and also discovers new and better sources of raw materials which help in increasing production on the one hand, and reduce the costs, on the other. Innovation implies new things or doing of things that are already being done in a new way. An entrepreneur continuously seeks to innovate and create value around perceived opportunities.

2. **Risk Taking:** Risk taking is also the important function of an entrepreneur. Risk taking refers to take responsibility for loss that may occur due to unforeseen contingencies of the future. Entrepreneur assumes the risk of the business. Risk means uncertainty. It is the condition of not knowing the outcome of a decision or activity. He takes calculated risk and faces uncertainty confidently and assumes risk. An entrepreneur is a talented and skilful person who undertakes the risks of business. He visualises opportunities for introducing new ideas and handles economic uncertainty.

3. **Organisational Building:** J.B. Say defines the organising function of an entrepreneur as a function whereby the entrepreneur brings together various factors of production and ensures proper management as well. The purpose is to allocate productive resources in order to minimise losses and reduce the cost of production. An entrepreneur formulates business plans, coordinates various activities of the business and also supervises these activities to ensure proper management of the enterprise. Thus organisation and management function includes i) planning of an enterprise, ii) coordination, administration and control and iii) routine type of supervision.

(B) **Promotional Functions:** The promotional function of the entrepreneur involves the idea evolving, investigation, assembling of requirements and financing. These are discussed in detail as follows:
1. **Idea Evolving:** The foremost function of an entrepreneur is to conceive the idea to start a profitable and rewarding venture. He should be competent enough to discover new and innovative ideas and commercially exploit them. The ideas could be effective utilization of natural resources or new venture with high profits or exploring new opportunities to increase the profitability of an existing enterprise. Then, generated ideas are analyzed after discussing its feasibility with the experts in terms of costs and benefits. The most beneficial idea is finally selected.

2. **Detailed Investigation:** After confirming the feasibility in terms of costs and benefits entrepreneur will estimate total demand for the product. There may be certain players already in that type of market, therefore he will firstly determine his plan of action and
then enters into the market. He will do a thorough analysis of various factors and come up with estimates. The primary components which he requires are men, material, money, machinery and availability of power. So the estimate about these factors should be made and the possible sources of finances are also discussed in detail. The estimates should be based on proper analysis of different factors.

3. **Assembling Requirements:** When the entrepreneur is sure that the proposed venture would be feasible and profitable for him, he proceeds to assemble the requirements. The entrepreneur selects the site of his factory, decides about installation of plant and machinery and contacts suppliers of raw materials etc.

4. **Financing:** An entrepreneur estimates the requirements of finance at each stage. Then various sources from where finance can be raised are tapped and evaluated so that it can be raised at minimum cost of capital. Both short term and long term requirements of finance are determined and also arranged by the entrepreneur. An entrepreneur always tries to arrange finance at a lower cost and reasonable terms.

(C) **Managerial Functions:** These are functions which require the managerial ability of an entrepreneur to run his business successfully. These are discussed as below:
1. **Planning:** Planning is the most important managerial function of entrepreneur. It is pre-determined course of action to accomplish the given objectives of an enterprise. An entrepreneur has to decide in advance what is to be done, how it is to be done, when it is to be done, where it is to be done, by whom it is to be done and so on. Planning is the process of ‘thinking before acting’. Proper planning ensures smooth running of the business enterprise. In the absence of planning other managerial functions of entrepreneur like organising, staffing, directing, coordinating and controlling can be accomplished.

2. **Organising:** The organizing function of an entrepreneur refers to bringing together various factors of production for the successful execution of his planning. He makes objective selection of individuals in conformity with their skill in solving specific problem. They bring together various factors of production, minimise losses and reduce the cost of production. An entrepreneur formulates business plans and ensures their execution. An entrepreneur is one who combines various factors of production and then produces a product for market.

3. **Staffing:** This function of an entrepreneur involves the planning of human resource and its proper management. Thus it includes manpower planning i.e assessing manpower requirement in terms of quality and quantity, recruitment of right type of person for the right job, selection, training and development and appraisal system of personnel working in the enterprise. Staffing is a very important function of an entrepreneur because it is concerned with human beings whose behaviour and actions cannot be predicted.

4. **Directing:** Direction is moving towards action and supplying simulative power to the group. For the successful execution of plans, an entrepreneur has to guide and supervise his subordinates. It is concerned with the manner in which entrepreneur influences the actions of his subordinates. He should guide his employees to work efficiently to accomplish the pre-decided objectives of an enterprise.

5. **Leadership:** Leadership is the ability build up confidence and zeal among people in an organisation and to create an urge in them, to be led. An entrepreneur must have the
ability to build successful teams and thus working in teams. He should be good at building and managing successful teams. Leadership quality is the most important characteristic of entrepreneur. It is the process of influencing and supporting others to work enthusiastically towards achieving objectives.

6. **Communication:** Communication is also one of the major functions of an entrepreneur. An entrepreneur should be a good communicator and with his good communication skills he should be able to convince others with his innovative thoughts and ideas. Good communication also means that both sender and the receiver understand each other and are being understood i.e. the exchange of ideas, feelings, emotions, knowledge and information. An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed. Good Communication also improves the behaviour of the subordinates and changes their actions.

7. **Motivation:** In general terms motivation is the process of psychological process of creating urge among the subordinates to do certain things or behave in the desired manner. It is also very important function of an entrepreneur. The workers cannot give their hundred percent unless they are self motivated and their services are recognised. The entrepreneur should adopt many strategies for motivating his subordinates. An entrepreneur has to motivate his subordinates and inspire them to achieve the objectives of enterprise. Motivation can be given financially by providing enhancement in wages or salaries, distribution of bonus etc or it may be non financial by providing recognition of employees’ work, workers participation in management, job security, better working conditions etc.

8. **Coordinating:** It is very important for an entrepreneur to coordinate the activities of various individuals in the organisation for the achievement of common goals. The whole organisation is divided into different departments or sections and each department has given a specific target to be achieved. It is the duty of the entrepreneur to coordinate the activities of all the departments and compare the performance of each department with
pre determined standards. If there is difference between actual and standard, corrective measures should be undertaken.

9. **Controlling:** Controlling is also very important function of entrepreneur. In simple words, controlling means to see whether the activities have been performed in conformity with the plans or not. It is the process which enables entrepreneur for the successful implementation of his policies and take corrective action if performance is not according to the pre-determined standards. Planning is meaningless if it is not properly executed and controlled. The main purpose of controlling is to see whether the activity is achieving desired results.

**(D) Commercial Functions:** The commercial functions of an entrepreneur are discussed as follows:

1. **Production:** An entrepreneur manages the activities of production including designing of products, formulation of policies and plans and production administration. He also manages the ancillary activities which support the production function. He also invents new methods of production, new methods of production and design new packages. The overall success of the organisation also depends upon the efficient performance of the production activities of an enterprise.

2. **Marketing:** Marketing is the sum of all those business activities that direct the flow of goods and services from producer to consumer. It is also an important function performed by an entrepreneur alongwith other production and managerial functions. It includes the functions like product planning, standardization, branding, packaging, labeling, storage, transportation, financing etc. The success of marketing function is highly depending upon ‘marketing mix’. Marketing mix is the combination of 4Ps i.e. Product, Price, Promotion and Place. An entrepreneur uses appropriate marketing mix to face the competition.

3. **Accounting:** The main thrust of any business enterprise is to earn profits and create wealth for the business. Accounting is the art of recording, classifying, summarising
business transactions and interpreting the financial results thereof. Entrepreneur records business transactions in the books of original entry, posts them into the ledger, makes the trial balance and finalises the books of accounts by preparing Profit and Loss Account and Balance Sheet at the end of the year.

4. Finance: Finance is the life blood and nerve centre of a business irrespective of its size, kind or nature. Just as circulation of blood is essential in the human body for maintaining life, finance is very essential for smooth running of the business. Finance is defined as the provision of money at the time, it is required. It is the art and science of managing money. Entrepreneur prepares the estimates for the requirement of funds. The funds may be required for short term and long term purposes. He needs short term funds for working capital management and long term funds for solvency position of his enterprise.

8.4. Role of Entrepreneurs in Indian Economy/Economic Development of the Country:

Dear students, Prof Joseph Schumpeter argues that entrepreneur leads the economy forward toward ‘Creative destruction’ means developing new merchandise and technologies that make current goods and technologies obsolete. Such creative destruction is widely accepted by the society as new products and technologies are better than those they replace. The creative destruction process is initiated most effectively by start-up ventures that improve on what is currently available. Creative destruction or innovation is the entrepreneurship does. It is not only related to product or technologies but can include new pricing strategies, new
distribution channels. Now a day it is assumed that one of the key conditions for unlocking economic growth is increasing entrepreneurial activity. So, it is said that economy is the effect for which entrepreneurship is the cause. It promotes self reliance and creates employment. It is also helpful in increasing the per capita income and capital formation. Thus Entrepreneurship has strong impact on an economy’s strength and stability.

The entrepreneur co-ordinates various factors of production. Co-ordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technical devices, division of labour, reduction of waste etc. He plays a vital role in the economic development of India. The major role of entrepreneurs in economic development of an economy is discussed as follows:

1) Promotes Capital Formation: Entrepreneurial growth encourages capital formation. It helps in mobilising idle savings of the public through issue of securities which ultimately results in productive utilisation of resources. Entrepreneurs raise capital by borrowing funds from external sources like banks and financial institutions and convert the savings of general public into capital.

2) Employment Generation: Entrepreneur generates employment opportunities in the country by promoting small scale business. It not only results in self employment but provides opportunity for others to get the jobs according to their skills, knowledge and capabilities.

3) Balanced Regional Development: Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. In a way they get the advantage of government’s grants, subsidies and other benefits by promoting the industry in the backward areas by providing large number of benefits like road transport, education, health, entertainment etc to the public. Setting up of industries to develop the backwards areas promotes balanced regional growth.

4) Wealth Creation: Entrepreneurship stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas thereby giving benefit to larger sections of the society. Entrepreneurial activities also generate wealth in the economy and give a multiplier effect.

5) Increase Per Capital Income: Entrepreneurship contributes to economic development by increasing the per capita income through efficient utilisation of national resources. It creates an environment in which everybody earns more and the average income of people increases.
By converting the idle resources into productive channels, it helps to increase NNP as well as per capital income of the country.

6) **Increase in Productivity:** Entrepreneurship helps to increase the productivity of the factors of production. It also coordinates all factors of production and ensures that such factors are made available economically for each of the production process. This reduces the wastages of factors and increases the productivity.

7) **Improvement in Standard of Living:** Entrepreneurs play a pivotal role in improving the standard of living of the people by adopting latest technology and innovations in the production of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

8) **Increase in Government Revenue:** With the development of entrepreneurship the income of people increases and hence results in more government revenue in the form of taxes. This revenue can be utilised for the welfare of nation and for promotion of industry, trade and commerce which leads to overall economic development.

9) **Economic Independence:**
   - Entrepreneurs develop substitute goods being imported and thus prevent over-dependence on foreign countries and at the same time help in saving of precious foreign exchange.
   - Entrepreneurs through sale of their surplus products in foreign market, enable a country to earn foreign exchange.
   - Export promotion and import substitution always help in promoting economic independence of the economy.

10) **Mobilizing resources of the Economy:** All individuals who search business opportunities usually create wealth by entering into Entrepreneurship. The business as well as entrepreneur contributes in some or other way in an economy, may be in the form of product or services or boosting the GDP rates or tax contributions. Entrepreneur mobilizes the resources of the economy and makes optimum use of them.

11) **Deregulation and Privatization:** It is evidence that liberal economic policies in china have led to phenomenal fuelled by entrepreneurs. The collapse of communism in Eastern Europe has led to thriving entrepreneurship in the new free market economies. Now companies have
to deal with fewer licenses and fewer government controls. Many state owned enterprises have also been privatized leading to a greater role for the private sector in general and entrepreneur in particular. **Reducing Social Tension:** Entrepreneur can help in channeling the talent of youth and educated people of the society in the right direction by providing them proper counseling and guidance, training and assistance for setting up their enterprise, because unemployment amongst the youth and educated people is the major cause of social unrest in the society.

Last but not least, Entrepreneurs also promote country’s export business that is an important to economic development. Mr Rahul Bajaj, Chairman & Managing Director of Bajaj Auto Extols the need for and significance of entrepreneurs in India in these words: “If we could have an entrepreneur in every family, India’s economy would sky rocket. We would then be able to take our rightful place as an economic super power in the community of nations. Entrepreneurs creates jobs. They create wealth. They create products and services”. A cross country just like Japan and Bangladesh, and cross-region just like Gujarat and Odessa examination confirm that with entrepreneurs we prosper, without these we are poorer.

**8.5. Role of entrepreneurs in the Social and Rural Environment (Social Entrepreneurship and Rural Entrepreneurship):**

Social entrepreneurs are the one who question the traditional methods and combines visionary and real world problem solving creativity to break the path with the powerful ideas. They help in combining local practicality with the professional skills. They see the opportunities where there are unvalued resources and unemployable people. Their prime objective is to bring change in the society and for that they may use market mechanisms and thus helps in reducing the various social problems by abolishing poverty and bringing employment opportunities.

**8.5.1 The Characteristics of a Social Entrepreneur are:**

- Uses a creative approach to resolve social issues.
- Transforms society by bringing change.
- Is not confined by society norms or traditions.
- Is not bound by barriers that exist in the path of their goals.
- Expands new paradigms and finds new methods to facilitate them to overcome obstacles.

**8.5.2 Where do you find social entrepreneurs?**
Social entrepreneurs are found mainly in economic sectors. The expansion areas for social enterprises are recognized as:

- Housing Sector
- Information Technology Sector
- Financial Sector
- Training and business development
- Sustainable Environment and Society
- Manufacturing
- Public services
- Food and agriculture
- Health and care

8.5.3 Typical sectors of investment of social enterprises

**Affordable Healthcare:** The affordable healthcare sector in India is at a budding stage. Affordable healthcare providers bring down the cost of service delivery through innovative operating models. In India, more than 60 per cent of the population is in villages and small towns while 70 per cent of medium-to-large hospitals are located in metros and large towns. In addition, 80 per cent of the demand is for primary or secondary care and only 30 per cent of hospitals provide these. Thus availability and affordability remain a key concern in healthcare coverage.

**Affordable housing:** There is a large gap in the urban housing market and it is impossible for the economically weaker section to afford proper housing. So, affordable housing developers’ helps in building affordable housing by minimizing the construction cost and completion time by creating innovative methods as a part of social entrepreneurship in India.

**Water and Sanitation:** Water sector can mainly be divided into three areas: water harvesting and storage, water supply and distribution, and piping and waste management. Social entrepreneurs are usually concerned with point-of-use filtration, rain-water harvesting, community water treatment, and small-scale water networks. Usual working models for sanitation management are household toilets, pay-and-use community toilets and ‘ecosan’ toilets where toilet waste is used to create biofuel.
Agriculture: Agriculture and allied activities are the chief occupation in rural India and provide income to more than 70 per cent of the rural population in India. Social enterprises working in this sector make profitable and social value by removing inefficiencies from the existing value chains. These enterprises are mostly categorized as: those sustaining the value chain pre-harvest or post-harvest market links as well as those occupied in the dairy production and market linkage.

Energy: Social entrepreneurs help in giving access to environmentally friendly and inexpensive energy. They try to improve the standard of living and living conditions of the rural population and thus provide best possible energy sources to the rural households. Roof-top solar lighting and low smoke cook stoves are some of the projects in this field.

Education: It is projected that 4 per cent of children never start school, 58 per cent do not complete primary school education because of reasons varying from insufficient infrastructure to lack of motivation, and poverty. Social enterprises plays a key role in providing education to the under privileged and economically weak children. They work around these challenges through sponsorship and capability enhancing solutions. These enterprises furnish from early childhood to adulthood and are present in formats such as pre-schools and after-school classes, e-learning and vocational and skill development institutes.

Livelihood promotion: Social entrepreneurs are generally classified into two categories: individuals that encourage living and those that assist in skill development. In majority of livelihood ventures, the producers or artisans hold greater part of the ownership. Entrepreneurs in the skill development sector are mostly structured as for-profit entities, but with low or subsidised or free education to the beneficiary.

Financial Inclusion: There is a large need of micro finance in the country and only 10% of the micro finance needs are met by the micro finance institutions which act as financial intermediary to serve the economically weaker section of the society. So to meet the social needs RBI has developed a Self Help Group Linkage Program to promote financial dealings between commercial banks and self-help groups (SHGs).

8.5.4. Challenges for Social Entrepreneurship: Social entrepreneurs face many challenges in India which hamper the entrance of new entrepreneurs in India. Following are the challenges faced by the social entrepreneurs:
- Lack of Education in Entrepreneurship: Education is the important source of encouraging entrepreneurship in India but the Indian education system is still working on the traditional lines. It still lacks a specific curriculum for promotion of entrepreneurship and is restricted only to the few business schools and that too lack in promoting social entrepreneurship. Due to the gap in the education system, India is still struggling in the entrepreneurship sector and therefore is major challenge for social entrepreneurship too.

- Lack of skilled manpower: Social Entrepreneurs requires different types of the skilled manpower for the achievement of the organizational goals but to fulfill the mission of social entrepreneurship, owners have to hire the individuals from the deprived sector of the country who are unskilled. So, entrepreneurs have to incur extra costs for their trainings and therefore pose a challenge for the social entrepreneurship.

- Lack of Financial assistance: Lack of Financial resources is also one of the major challenge for the social entrepreneurs as they start their business with their own money or from taking loan from the local money lenders who lent at a very high interest rates. This is because financial institutions do not easily provide loans to the social entrepreneurs due to the high risk factor.

- Social and Cultural effect: In India, people are not aware of the Social entrepreneurship and this lack of knowledge sometimes becomes a challenge for the social entrepreneurs. People are not able to find the difference between the profitable and non profitable business and therefore, are doubtful about the activities of social entrepreneurs.

- Comparative disadvantages to business: The social entrepreneurs work for the welfare of the society and thus find the low cost solutions to the societal problems by investing their own money and when they start earning profits then new entrepreneurs peep in and create competition in the market.

- Lack of Government support: Government does not take much initiative to support social entrepreneurs. The Government policies for the entrepreneurs are very strict and complex which at the times proved to a challenge for the social entrepreneurship.

8.5.5 Types of Social Entrepreneurship:

Following are the types of social entrepreneurship:
1. The Leveraged Non-Profit: This business paradigm leverages resources in order to give solutions to social needs. Leveraged non-profits make creative use of existing funds to fulfill the needs. These leveraged non-profits are long-established ways of dealing with the problems, but are renowned by their creative approaches.

2. The Hybrid Non-Profit: This organizational pattern can be of different forms, but is distinguished because the hybrid non-profit is ready to use profit to continue its operations. Hybrid non-profits are often formed to deal with government or market failures, as they create profits to continue the operation other than loans, grants, and other forms of traditional funding.

3. The Social Business Venture: These paradigms are set up as enterprises planned to bring change through social means. Social business enterprises developed through a short of funding—social entrepreneurs in this situation were forced to become for-profit enterprises.

8.5.6 Social Entrepreneurship in India: Social entrepreneurs are individuals or groups of people or organisations that provide time and solutions to reduce the society’s millions of problems and long existing issues that stay unsettled by the institutional and government sector. As in other countries, in India too, social entrepreneurs are a emerging occurrence bringing positive alteration to several social areas ranging from education to healthcare, renewable energy, waste management, e-learning and e-business, housing and slum development, water and sanitation, violence against women, other issues related to women, children and the elderly etc. The main aim of these Social enterprises is to bring in sustainable and noble living to the under privileged and the marginalized citizens of India.

8.5.7 Leading Social Entrepreneurship in India and in the world

- **Vinoba Bhave (India)**: Founder and Leader of “Land Gift Movement”.
- **Ela Bhatt (India)**: Founder of “Self-Employed Women’s Association” (SEWA) and the SEWA Cooperative Bank in Gujarat.
- **Susan B. Anthony (U.S)**: Fought for Women’s Rights in United States.
- **Dr. Maria Montessori (Italy)**: Developed the Montessori approach to early childhood education.
- **Florence Nightingale (U.K)**: Founder of Modern Nursing for improves Hospital condition.
- **Margaret Sanger (U.S)**: Founder of the Planned Parenthood Federation of America.
- **Dr. Abraham M. George (India):** Founder of the George Foundation (TGF).
- **Bill Drayton (U.S):** Founded Ashoka, Youth Venture, and Get America Working!
- **Dr. Verghese Kurien (India):** Founder of the AMUL Dairy Project.
- **Sri Sri Ravi Shankar (India):** Founded Art of Living Foundation and International Association for Human Values.
- **Muhammad Yunus (Bangladesh):** Founder of Microcredit and the Grameen Bank. He was awarded the 2006 Nobel Peace Prize.
- **Alan Khazei (U.S):** Co-Founder of City Year, a leading national service program.

8.6. **Rural Entrepreneurship:** Rural entrepreneurs are those who carry out entrepreneurial activities by establishing industrial and business units in the rural sector of the economy. (Ajmeri, 2012) “Rural Entrepreneurship can be defined as entrepreneurship rising at village level which can take place in a variety of fields of venture such as business, industry, agriculture and acts as a powerful reason for economic development”. Industries coming under the purview of Khadi and Village Commission (KVIC) are treated as rural industries. According to KVIC, “village industry or rural industry means any industry located in rural area, population of which does not exceed 10,000, or such other figure which produces any goods or renders any services with or without the use of power and in which the fixed capital investment per head of an artisan or worker does not exceed a thousand rupees.” (Misra, 2005)

To enlarge the scope, the definition has been tailored recently by the government. Accordingly, 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 & machinery is classified as a village industry. (Source: Government of India)

Village industries have been grouped into seven categories as follows:
- **Mineral-Based Industry:** e.g stone crushing, cement industries, red oxide making, wall coating powders etc.
- **Forest-Based Industry:** e.g wood products, bamboo products, honey, coir industry, making eating plates from leaves.
- **Agro-Based and Food-Based Industry:** e.g sugar industries, jaggery, oil processing from oil seeds, pickles, fruit juice, spices, dairy products etc
• Polymer and chemical-Based Industries: e.g manufacturing of aloevera gel, ball pen ink, aggarbatti.
• Engineering and non-conventional energy-based Industries: e.g agriculture equipments.
• Textile Industry: e.g spinning, weaving, colouring, bleaching.
• Service Industry: e.g tractors and pumpsets repairs etc.

8.6.1. Types of Rural Entrepreneurship: The following are the types of Rural Entrepreneurship:
A. Individual entrepreneurship
B. Group entrepreneurship
C. Cluster formation
D. Cooperative

A. Individual entrepreneurship: It is the type of the entrepreneurship where the single entrepreneur is the owner or the sole proprietor. The entrepreneur bears the whole risk and is solely responsible for the business decisions.

B. Group Entrepreneurship: It is mainly classified into three types: 1) Private limited company 2) Public limited company 3) Partnership

1) Private limited company: In this case, minimum two members are required and maximum members are 50. The financial capital is divided into shares and shares are not sold to the general public. Therefore such companies are generally small in size and are owned by the families. Liability of the shareholders is limited in such companies.
2) **Public limited companies**: in such companies, minimum seven members are required and there is no maximum limit. Being a public limited, it can raise money from the general public. There is separation between the control and ownership. Shareholders are the owners but they do not take active participation in the running of the business. The control of the business is in the hands of the board of directors.

3) **Partnership**: In this case there is no individual owner and the business is handled by the partners (maximum 20). For the partnership, mutual trust is must and all the partners should complement each other for common goals and objectives. Partnership companies are easier to form and provide large resources but it has unlimited liability on the partners.

**C. Cluster formation**: It is a formal and informal group of people to achieve common objectives. It includes NGO’s, VO’s, SHG’s & CBO’s.

1) **NGO’s (Non-Government organisations)**: These are the non – profit organisations sponsored or formed by the government and are registered under the Society’s Registration act, 1860. A minimum seven people are grouped together for the socio- economic growth of the people. These are the formal organisations and usually receive funds from the government.

2) **VO’s (Voluntary Organisations)**: These are the organisations generally initiated by the individuals to serve the society and for the socio economic development of the people. These organisations may or may not register under any act. Such organisations are generally sponsored by the NGO’s or the Government.

3) **SHG’s (Self Help Groups)**: These groups are mainly consisted of 10-20 people and are formed with the objective to mutually help each other. These groups are sponsored by the NGO’s, VO’s and sometimes by the Government for the socio – economic development of the backward people. It is an informal organisation.
4) CBO’s (Community based organisations): They are informal in nature and are formed with the objective to enhance the bargaining power of the community. People from the common living are or from the common community come together with the common objective of upliftment of the community.

D. Cooperative: According to the International cooperative alliance (ICA), “a cooperative is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.”

8.6.2. Need of Rural Entrepreneurship: There is a need of the rural entrepreneurship to develop the rural economy. Rural entrepreneurship is needed because of the following reasons:

- **Employment Generation:** Rural Entrepreneurship is a labour intensive and requires large number of human resource. Therefore, it has a large potential of employment generation and can reduce the problem of unemployment in rural area.
- **Income Generation:** By providing employment, rural entrepreneurship has potential for income generation and thus bridging the gap between the rural and urban disparities.
- **Rural development:** Rural entrepreneurship helps in setting industries in rural areas and thus leads to the employment generation and income generation which directly help in rural development.
- **Curbs Rural – Urban migration:** Rural development helps in curbing the rural – urban migration by reducing the unequal growth in cities.
- **Environment Friendly:** Rural industries are more environment friendly thus leads to the development without damage.
- **Builds up Village republics:** Development of the rural industries serves as an effective means to build village republics and thus make them more independent.
- **Improved standard of living:** As rural entrepreneurship helps in income generation which helps in prospering the community and thus improving their standard of living.
- **Balanced regional growth:** Rural entrepreneurship will direct the concentration of industries in rural areas which leads to the balanced regional growth.
8.6.3 **Scope of rural entrepreneurship:** Rural entrepreneurship is active and is opening new scopes for the entrepreneurs and are discussed as follows:

- Rural area has the capacity of small and medium enterprises and these sectors acts as the economy builders by generating Employment and income for poor and unemployed people and is contributing more than 52% of the GDP.
- Moreover, there is a rapid expansion in the small and medium industry arena. Therefore, Repair shops, service centers, PCO, internet café, hiring of agriculture implements & tractor, computer and other skill training centers have good scope in cluster of villages.
- Entertainment, cable TV, rural tourism and amusement parks (near urban areas) are also some of the potential areas for rural entrepreneurs in service sector.
- Various development programs are being executed through Panchayti Raj Institutions, who are engaging contractors for civil/mechanical works. Rural youth can start this business.
- Changed consumption pattern has opened up new avenues for trading activities in rural areas.
- Rural areas are also using large amount of agriculture products like fertilizers, seeds, pesticides and insecticides etc.

8.6.4 **Problems faced in the growth of rural entrepreneurs:**

Rural entrepreneurs face large number of problems like illiteracy, risk factor, improper training and experience, limited purchasing power and tough competition from urban entrepreneurs. Various problems faced by rural entrepreneurs are following.

a) **Scarcity of funds:** Rural entrepreneurs find it difficult to get external funds due to the risk involved in the rural industries. Moreover, the procedure to avail loan facility is too long and cumbersome that its postponement often disappoints the rural entrepreneurs.

b) **Competition:** Rural entrepreneurs face tough competition from large scale industries and the urban entrepreneurs as their cost of production is high due to high input cost.

c) **Middlemen:** As there is small market available for the rural entrepreneurs so they are heavily dependent on the middlemen for marketing of their products and thus Middlemen exploit rural entrepreneurs.
d) **Legal formalities:** As Rural entrepreneurs are illiterate and ignorant so they find it extremely difficult to comply with various legal formalities in obtaining licenses. Moreover, the legal formalities are so complex and time consuming that it become tough for the entrepreneurs.

e) **Procurement of raw materials:** Arranging raw material is really a tough task for rural entrepreneur. They may finish with poor quality raw materials and can also face the problem of storage and warehousing.

f) **Risk element:** Rural entrepreneurs face tough competition from large scale industries and do not have large market available for them. Therefore, have much less risk taking capacity due to shortage of financial resources and external support.

g) **Lack of technical knowledge:** Rural entrepreneurs suffer a problem of lack of technical knowledge because rural people are illiterate and lack of training facilities which acts as hurdle for the rural development.

h) **Lack of infrastructural facilities:** Though government is putting its best efforts but the growth of the rural entrepreneurs is not very healthy due to lack of proper and adequate infrastructural facilities.

i) **Poor quality of products:** Rural entrepreneurs produce inferior quality of products due to lack of availability of standard tools and equipment and the availability of poor quality raw materials.

j) **Negative attitude:** The environment in the family and society is not favorable to support rural people to take up entrepreneurship as a career. It may be due to lack of awareness and knowledge of entrepreneurial opportunities.

**8.7. Summary:** An entrepreneur is one who evaluates the new situations in his environment and directs the making of such adjustments in the economic systems as he deems necessary. He performs various functions right from the conception of an idea upto the establishment of an enterprise. His functions are discussed in four categories i.e. entrepreneurial, promotional, managerial and commercial. In broad sense, an entrepreneur may be described as a person who has the ability to explore the environment, identify opportunities for improvement, mobilize resources and implement actions to maximize those opportunities. He is considered as an
economic agent who unites all means of production to maximise his profits by innovations. Entrepreneurs are playing pivotal role in the development economy. In today’s scenario

8.8. Glossary:

xxii) **Planning:** Planning is the most important managerial function of entrepreneur. It is predetermined course of action to accomplish the given objectives of an enterprise.

xxiii) **Organising:** The organizing function of an entrepreneur refers to bringing together various factors of production for the successful execution of his planning.

xxiv) **Social Entrepreneurs:** Social entrepreneurs are the one who question the traditional methods and combines visionary and real world problem solving creativity to break the path with the powerful ideas. They help in combining local practicality with the professional skills.

xxv) **NGO’s (Non-Government organisations):** These are the non–profit organisations sponsored or formed by the government and are registered under the Society’s Registration act, 1860.

xxvi) **Rural Entrepreneurship:** Rural entrepreneurs are those who carry out entrepreneurial activities by establishing industrial and business units in the rural sector of the economy.

8.9. Check your progress:

1. Which statement is not true about the entrepreneurs?

(a) They take risks

(b) They are agents for adjustment

(c) They change the way businesses convert inputs into outputs

(d) They generally stick to the processes already in use.

   **ANSWER (d)**

2. Entrepreneurial functions include:

(a) Innovation

(b) Risk taking
(c) All of above
(d) None of Above

ANSWER (c)

3. In what order does Manager typically perform the managerial functions?

(a) Organising, Planning, Controlling, Leading.
(b) Organising, Leading, Planning, Controlling.
(c) Planning, Organising, Leading, Controlling
(d) Planning, Organising, Controlling, Leading.

ANSWER (c)

4. Who of these is the Entrepreneur?

(a) Barak Obama
(b) James Dyson
(c) Daniel Hirst
(d) Mo Farah

ANSWER (b)

5. Managerial functions of Entrepreneur include:

(a) Planning
(b) Organising
(c) Staffing
(d) (a) and (b) both
(e) All (a), (b), and (c)

ANSWER (e)

6. Entrepreneur is a person who assumes the risk of a new business by committing which of the following?

(a). Equity
7. Social entrepreneurship is an approach that bridges an important gap between business and benevolence; it is the application of entrepreneurship in the social sphere. (True/False)

ANSWER - True

8. Social entrepreneur may bring change in the society but the main purpose is to earn profits. (True/False)

ANSWER – False

9. Rural entrepreneurs are those who carry out entrepreneurial activities by establishing industrial and business units in the rural sector of the economy (True/False)

ANSWER - True

10. Semi skilled and unskilled labour is easily available at rural places. (True/False)

ANSWER- True

8.10. Suggested Readings:


8.11. Terminal and Model Questions:

Q 1: What are managerial functions of entrepreneur? Explain

Q 2: Discuss the need of entrepreneurship.

Q 3: What is Social Entrepreneurship? Discuss its types and challenges.

Q 4: Define the term Rural Entrepreneurship. Discuss its need and types.

Q 5: What are the problems faced in the growth of rural entrepreneurs?
Lesson-9
Role of Entrepreneurship Development and Entrepreneurship Development Programmes (EDPs)

9.1 Objectives
9.2 Introduction
9.3 Role of Entrepreneurship Development
9.4 Concept of Entrepreneurship Development Programmes (EDPs)
9.5 Relevance of EDPs
9.6 Objectives of EDPs
9.7 Structure of Entrepreneurship Development Programmes
9.8 Stages/Phases of EDPs
9.9 Challenges for Entrepreneurship Development Programmes (EDPs)
9.10 Myths about Entrepreneurship Development Programmes
9.11 EDPs in India: An overview
9.12 Summary
9.13 Glossary
9.14 Check Your Progress
9.15 References & Suggested Readings
9.16 Terminal and Model Questions

9.1. Objectives:
Dear students in this lesson the emphasis is on entrepreneurship development. Various development programmes are designed by the Govt. and Non-Govt. organisations to develop the entrepreneurial skills of the entrepreneurs. After studying this lesson, the readers will be able to:
22. Understand the role of entrepreneurship development;
23. Understand the concept of Entrepreneurial Development Programmes (EDPs);
24. Identify the needs and objectives of EDPs;
25. Explain the present status of EDPs in India;
26. Discuss the role, relevance, and effectiveness of EDPs in the development of an entrepreneur;
27. Describe various phases of entrepreneurial development programmes; and
28. Unleash the challenges faced in the conduct of EDPs.

9.2 Introduction

As discussed in the earlier lessons, 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 by entrepreneur. Entrepreneurship is the mixture of many qualities and skills such as imagination, risk taking ability to harness factors of production i.e. land, labour, technology and various other intangible factors. Entrepreneurship can be described as process of establishing an enterprise. Entrepreneurship is a creative activity. It is the attitude of mind to seek opportunities, take calculated risk and derive benefits by setting up a venture. It is the process of identifying opportunities in the market place, collecting and arranging the resources to exploit these opportunities for long term gains.

Entrepreneurship is the ability of a person to minimise the use of resources and to put them into the process and get the maximum benefit of out it. He should take into consideration quality, excellence and consumer awareness for the sustainability of his business. Therefore, entrepreneurship is the product of team work and ability of an entrepreneur to create, build and work as a team. Thus, entrepreneur is person, entrepreneurship is a process and enterprise is the object. Entrepreneurship provides the solution to many economic and social problems and also acts as an engine of growth. Entrepreneurship has become an important concern for many countries to achieve the status of economic superpower. It is rightly said that if a country is able to produce an entrepreneur from each of its family then economy of that country would be sky rocket. Entrepreneurs generate employment, contribute in national income, and fulfil the need of the customer and society also.

Entrepreneur is considered as one of the most important input or component of economic development of any region as s/he makes the real difference between the economic
developments by performing various functions. Economic development of an economy rests on
the growth of entrepreneurship. For the development of entrepreneurship, entrepreneurs’ attitude and performance is the key. Entrepreneurs’ competencies make the real difference to the rate of economic and entrepreneurship growth. Entrepreneurial competencies are the decisive factors for the success and failure of entrepreneurs. Entrepreneurial competencies help an entrepreneur in meticulous planning, effective implementation, and smooth operation of the enterprise. Competencies make an entrepreneur creative and innovative who always searches for new dimensions of business operations. But, the real problem is to make entrepreneurs competent so that they can drive their enterprise in the roads of success. Entrepreneurial Development Programmes (EDPs) are considered as potential solution to these two problems. EDPs not only help in development of entrepreneurship but also help in the development of competencies among entrepreneurs. In the following sections, you will discuss in details about the role of entrepreneurship in economic development and the EDPs and its role and relevance in the development of entrepreneur and entrepreneurship.

9.3 Role of Entrepreneurship Development: The major role of entrepreneurship development is discussed as follows:

12) Promotes Capital Formation: Entrepreneurial growth encourages capital formation. It helps in mobilising idle savings of the public through issue of securities which ultimately results in productive utilisation of resources. Entrepreneurs raise capital by borrowing funds from external sources like banks and financial institutions and convert the savings of general public into capital.

13) Employment Generation: Entrepreneurship generates employment opportunities in the country by promoting small scale business. It not only results in self employment but provides opportunity for others to get the jobs according to their skills, knowledge and capabilities.

14) Balanced Regional Development: Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas. In a way they get the advantage of government’s grants, subsidies and other benefits by promoting the industry in the backward areas by providing large number of benefits like road transport, education,
health, entertainment etc to the public. Setting up of industries to develop the backwards areas promotes balanced regional growth.

15) **Wealth Creation:** Entrepreneurship stimulates equitable redistribution of wealth and income in the interest of the country to more people and geographic areas thereby giving benefit to larger sections of the society. Entrepreneurial activities also generate wealth in the economy and give a multiplier effect.

16) **Increase Per Capital Income:** Entrepreneurship contributes to economic development by increasing the per capita income through efficient utilisation of national resources. It creates an environment in which everybody earns more and the average income of people increases. By converting the idle resources into productive channels, it helps to increase NNP as well as per capital income of the country.

17) **Increase in Productivity:** Entrepreneurship helps to increase the productivity of the factors of production. It also coordinates all factors of production and ensures that such factors are made available economically for each of the production process. This reduces the wastages of factors and increases the productivity.

18) **Improvement in Standard of Living:** Entrepreneurs play a pivotal role in improving the standard of living of the people by adopting latest technology and innovations in the production of goods and services in large scale that too at a lower cost. This enables the people to avail better quality goods at lower prices which results in the improvement of their standard of living.

19) **Increase in Government Revenue:** With the development of entrepreneurship the income of people increases and hence results in more government revenue in the form of taxes. This revenue can be utilised for the welfare of nation and for promotion of industry, trade and commerce which leads to overall economic development.

9.4 **Entrepreneurial Development Programme (EDPs)**

**Meaning:** Entrepreneurial Development Programme (EDP) means programme designed to develop entrepreneurial ability among individuals. In other words, EDP means a programme which aims to strengthen the entrepreneurial ability of prospective entrepreneur. Entrepreneurial
development programme helps a person in acquiring skills and developing capabilities to play a role of an effective entrepreneur. EDP refers to programme which inculcate, develop, and polish the requisite skills into a prospective entrepreneur to establish and run an enterprise. The concept of entrepreneurial development programme refers to equip a person with the required knowledge and skills and change the attitude of a person for running the business successfully. A programme which achieves all the above mentioned tasks called EDP. The programmes which provide necessary information and inputs to prepared project reports and other documents not eligible to be an EDP as their basic objective is not to develop entrepreneurship. A programme which achieves the objectives like imparting necessary skills, knowledge to run an enterprises and also touches the aspects of entrepreneurial motivation and behavioural aspects of an entrepreneur called entrepreneurial development programme.

National Institute of Small Industry Extension Training (NISIET), Hyderabad defined EDP as “An attempt to develop a person as entrepreneur through structural training. The main objective of such entrepreneurship development programme is to develop the entrepreneurship through increasing achievement motivation and entrepreneurial skills among less privileged sections of the society.”

On the basis of above definitions and concepts, we can say that EDP is a planned process to identify, impart, develop, and sharpen the competencies which are essentials to run a business among individuals to become a successful entrepreneur.

An EDP consists following as an essential component:

1. Need of the programme
2. Main objectives of the programme
3. Design of the programme
4. Evaluation and feedback

9.5 Relevance of EDPs

To achieve developmental objectives, it is important to promote entrepreneurship and that too in right directions. To promote entrepreneurship, attracting and motivating entrepreneurs is the first
step and if entrepreneurs are attracted and motivated than successfully running enterprises is another challenge. Entrepreneurs require some basic characteristics to establish and run an enterprise. Sometimes entrepreneurs able to identify those underlying characteristics and sometimes they don’t. To identify and developing those underlying characteristics, EDPs are very essential as proved by D. McClelland through famous Kakinada Experiment. In Kakinada experiment, a proper training was provided to young persons and after experiment, it was found that they were highly motivated to start their own entrepreneurial activity. This experiment concluded that training through entrepreneurial development programme can develop need for achievement and high motivation and these has positive impact on the performance of entrepreneurs. Other than high motivation and need for achievement, entrepreneurs’ required necessary competencies to achieve success in their initiatives. Competencies are underlying characteristics of a person and behavioural aspect of an individual. Basic components of competencies are knowledge, skills, and motivation. To inculcate necessary knowledge and skills, EDPs are very helpful as proved in many researches.

9.6 Objectives of EDPs

The main aims and objectives of entrepreneurial development programmes are as follow:

i. Develop entrepreneurship and strengthen the entrepreneurial base and quality.

ii. Promote and develop small scale businesses that encourage self employment.

iii. Analysing surrounding environment to identify the opportunities lying in the environmental set up.

iv. Help prospective entrepreneurs to select the type of business and product to run an enterprise.

v. Train individuals to prepare project proposal or business plans.

vi. Educate prospective entrepreneurs about the process of setting an enterprise.

vii. Inform about the sources from where entrepreneurs can get the financial and other supports for starting an entrepreneurial activity.
viii. Developing the entrepreneurial competencies which result in superior business performance.

ix. Identification of necessary characteristics of entrepreneurship and inculcate the required ones.

x. Develop first-generation entrepreneurs who want to start their own business, but required some guidance and assistance.

xi. To establish the fact that entrepreneurs are made, not born.

xii. Helps an entrepreneur to choose the best business idea or in establishment of enterprise.

xiii. Develop an entrepreneur so that s/he can select the best location and identify the target customers for business.

xiv. To motivate an entrepreneur or develop high need achievement.

xv. To impart necessary knowledge and skills to successfully run an enterprise.

xvi. To know the relative advantages and disadvantages of choosing entrepreneurship.

xvii. Preparing entrepreneurs to deal with the uncertainty in world of entrepreneurship.

xviii. Develop the broad vision about the entrepreneurship.

xix. Develop passion for entrepreneurship, dedication, determination and honesty for business.

xx. Making aware about the various policies, schemes, and statutory regulations of government for entrepreneurship.

xxi. Inculcating basic managerial skills which are pre-requisites of entrepreneurship.

xxii. Prepare entrepreneurs to take fast, accurate, and strategic decisions.

xxiii. Enable prospective entrepreneurs to accept the challenges and unforeseen risks of entrepreneurship.
Some other objectives are:

i. Accelerate the pace of economic and industrial development.

ii. Transform the Indian economy.

iii. Develop the entrepreneurial culture in the society.

iv. Develop the sense of social responsibility among prospective entrepreneurs.

9.7 Structure of EDPs

EDPs are well planned and well organised efforts to develop the entrepreneurs. There is well devised structure of each EDPs and generally organised for the duration of six-weeks. It covers the following components to meet the objectives:

i. **Awareness about entrepreneurship:** During EDPs, first of all, all the participants, who are prospective entrepreneurs, need to be familiarised with the world of entrepreneurship. All must get information about the various aspects of business, pros & cons, and their role in entrepreneurship.

ii. **Behavioural Training:** Along with awareness about entrepreneurship, prospective entrepreneurs should go through the behavioural training. The main aim of this training is to induce the high need for achievement and inject confidence among entrepreneurs to take initiative to establish enterprise. It is their behaviour, which makes the difference in success and failure of the enterprise.

iii. **Inculcating Skills:** Only competent entrepreneur can succeed in his venture. For the long run survival, entrepreneurs should be imparted with necessary knowledge and skills during the entrepreneurial development programmes. Various types of skills like technical, managerial, human resource and operational skills are required to become a successful entrepreneur.

iv. **Knowledge about process and services:** The prospective entrepreneurs must be informed about the process of setting an enterprise and support services available to
them to implement their ideas. They need to inform about the various government agencies and the process of approaching them to get necessary assistance.

v. **Business Plan and Feasibility Analysis**: After knowing the basics of entrepreneurship, prospective entrepreneurs need to educate about the preparation of business plan and further analysing the feasibility of that plan. They must be educated about the various aspects of business plan and parameters on which plan is evaluated.

vi. **Practical Exposure**: To get the practical exposure, entrepreneurs are exposed with real life situations during EDPs. This step helps them to familiarise with practical environment, personality of entrepreneur, his/her attitude, behaviour, and approach towards entrepreneurship.

The ultimate aim of EDPs is to train individuals to start their own business after the completion of programme.

9.8 Stages / Phases of Entrepreneurial Development Programmes (EDPs)

Entrepreneurial Development Programme is divided into various stages to fulfil its objectives and following are the stages of EDPs:

i. **Pre-Training Phase**: During this phase of EDPs, preparation of conduct is done. This stage of EDP includes:

- Identification and selection of prospective entrepreneurs through various procedures like conducting psychological test, thematic aptitude test, and interviews, etc.

- Arrangements of necessary equipments and sources to organise the programme.

- Formation of various committees for the smooth conduct of training programme.

- Pre-survey of potential entrepreneurial opportunities.

- Devising the course content for the programme.
ii. **Training Phase:** At this stage, prospective entrepreneurs are provided with the necessary training to run the enterprise successfully. During training phase, efforts are made to change the behaviour and attitude of the entrepreneurs. Focus is on development of need for high achievement or motivation to take initiatives and become a successful entrepreneur. This phase aims at answering questions like; what are his basic traits, what kind of competencies s/he requires, how s/he behaves in complicated situations, what kind of knowledge and skills trainees possess. During this phase, trainees are also exposed to the practical situations and completed many tasks which are required to set up an enterprise.

iii. **Evaluation Phase:** Whether the underlying objectives of the EDP are achieved or not? This evaluation is done at this phase of entrepreneurial development programme. At this phase, assessment is done about the entrepreneurial orientation of the participants. It is evaluated that how far prospective entrepreneurs are ready to start their own enterprise. During the follow-up process, review of various components of EDPs is done. These components include; pre-training components, course contents of programme, satisfaction of entrepreneurs, and post-training behaviour of prospective entrepreneurs.

**9.9 Challenges for Entrepreneurial Development Programmes (EDPs)**

No doubts, entrepreneurial development programmes (EDPs) are shaping the aspirations of prospective entrepreneurs and contributing in the development of entrepreneurship. If all the underlying objectives of EDPs are achieved, then India can achieve the status of entrepreneurial society. But, EDPs suffer from many problems and faced following challenges to achieve the desired results:

i. Low motivation level of trainers as well as trainee during the training.

ii. Lack of commitment, dedication, determination, and sincerity in conduct of EDPs and low level of involvement and lack of active participation of trainees.

iii. Proper planning and non-conducive environment of entrepreneurial development programme.
iv. Lack of coordination between the organiser and supportive agencies like banks and other institutions.

v. Poor implementation of planning.

vi. Pre-decided course contents and lack of adaptive training modules.

vii. Lack of monitoring and proper evaluation of feedback.

viii. Lack of after training assessment of prospective entrepreneurs and non-consideration of entrepreneurs’ feedback.

9.10 Myths About Entrepreneurial Development Programmes

EDPs are potential solution to boost the entrepreneurship and also contribute in motivation of prospective entrepreneurs. People assume that EDPs would solve all the issues of entrepreneurship. Lack of understanding and non-clarity of objectives of EDPs limits its growth. There are following misconceptions/myths about entrepreneurial development programmes:

i. Most of prospective entrepreneurs believe that mere joining of an entrepreneurial development programme will solve all the problems of entrepreneurs.

ii. People considers EDPs as training programme whereas, training is one part of the EDPs. It also covers other aspects of entrepreneurship.

iii. People often link the success of EDPs with the number of participants. There is myth about EDPs that higher will be number, better will be the EDP.

iv. Participants think that success of EDPs is the sole responsibility of trainers, motivators, organisers.

v. Huge financial support to organiser and trainers. Whereas, these are national income and public money.

vi. Waste the resources as it belong to government and government is responsible to manage all the resources.
After getting the freedom, govt. realised the importance of economic freedom and has been trying very hard to solve the problems of vast unemployment, poverty, heavy dependence on agriculture, and regional imbalances. Policy makers identified small scale business as an alternate to get rid of above mentioned problems and to boost the economic development process. Since then, this sector is recognised as an employment generation tool. To speed up the process of entrepreneurial development, government decided to provide special incentives and promotional packages to entrepreneurs. These packages were included financial assistance, providing infrastructural support, technical and managerial assistance through various agencies of the government. After launching series of promotional programme, government did not get the desired and expected growth of entrepreneurship and finally realised that promotional packages are necessary but not enough to foster the entrepreneurship. Therefore, focus was shifted towards the development of prospective entrepreneurs or human capabilities and concept of entrepreneurial development programme was emerged. The first step in this process was the establishment of Small Industry Extension and Training Institute (SIET), Hyderabad in 1962, now known as NISIET. This institute in collaboration with famous behavioural scientist David.C. McClelland conducted famous Kakinada experiment and proved that through proper education and training, necessary competencies (including knowledge, skills, and need for achievement) can be developed in an entrepreneur. This step laid down the foundation of entrepreneurship development programme and now has been become a movement as entrepreneurial development programme in India.

Recognising the relevance of entrepreneurial development programme, Gujarat Industrial Investment Institutions launched a detailed three month training programme for entrepreneurs to develop entrepreneurship. The motto of the programme was to identify and promote the young talent of potential entrepreneurs. This programme was focused on main areas like; development of small enterprises, management of business, and generate sufficient profit through small business ideas.

Another initiative in this direction was establishment of North Eastern Council (NEC) to promote entrepreneurship in North Eastern States of the country. Later on, North Eastern Industrial and Technical Consultancy Organisation (NEITCO) and after that Entrepreneurial
Motivation Training Centre (EMTC) were established in the region to boost the process of entrepreneurship.

After these initiatives various institutions were set up under the initiatives of entrepreneurship development programmes (EDPs) like EDIIIs, SIDO, and National Institute for Entrepreneurship and Small Business Development (NIESBUD), etc. All these institutions are trying to make entrepreneurial development programmes as a movement to develop the entrepreneurship in the country so as to achieve the economic development objectives.

9.12 Summary

It is well established and recognised fact that development of entrepreneurship is the need of the hour. Entrepreneurship development heavily relies on entrepreneurial attitude and behaviour. Attitude and behaviour of entrepreneurs can be developed through appropriately designed entrepreneurial development programmes. Entrepreneurial development programmes involve three basic attributes and these are; development of need for high achievement, identifying, developing, and sharpening entrepreneurial competencies, and guidance and assistance on opportunities identification, process of entrepreneurship, and project planning an implementation. The basic objectives of entrepreneurial development programme are to foster entrepreneurship and motivation of entrepreneurs so that they can initiate their own entrepreneurial activities.

Government proactive approach and support is essential to make EDPs successful and a movement also. EDPs cover various components to fulfil its basic objectives like awareness about entrepreneurship, motivation, training, practical exposure, feedback etc. Generally, EDP is divided into three phases which include; pre-training, training and post-training part. Course contents and its coverage must be in tune with its objectives and should cover general introduction of business, inducement of motivation, inculcation of requisite skills, procedure involved and fundamentals of feasibility analysis. EDPs ignite one's own need for high achievement and activate internal stimuli to start own business. There are many misconceptions about entrepreneurial development programmes among participants and general public. To ensure the success of entrepreneurial development programme, proper planning, effective execution, and active participation of participants is the key. Assessment and evaluation of EDPs
may help in the growth of entrepreneurship. The simplest and best method of evaluation of EDPs is to find out how many participants have started their own entrepreneurial activities after completing the entrepreneurial development programme. Entrepreneurial development programme have faced many challenges like low motivation of trainers as well as participants. These must be addressed to achieve the objectives of entrepreneurial development programmes.

9.13. Glossary:

xxvii) **Entrepreneurial Development Programme (EDPs):** Entrepreneurial Development Programme (EDP) means programme designed to develop entrepreneurial ability among individuals. In other words, EDP means a programme which aims to strengthen the entrepreneurial ability of prospective entrepreneur.

xxviii) **Balanced Regional Development:** Entrepreneurs help to remove regional disparities through setting up of industries in less developed and backward areas.

xxix) **Relevance of EDPs:** To achieve developmental objectives, it is important to promote entrepreneurship and that too in right directions.

xxx) **Training Phase:** At this stage, prospective entrepreneurs are provided with the necessary training to run the enterprise successfully. During training phase, efforts are made to change the behaviour and attitude of the entrepreneurs.

9.14. Check your progress:

3. **Pick the correct Answer:**

vi. The duration of an EDP is generally......................
   a. 2 Weeks b. 3 Weeks c.6 Weeks d. 5 Weeks

   (Answer – 6 Weeks)

vii. The famous Kakinada experiment is known for............................

   (Answer – Need for Achievement)

viii. McClelland in collaboration with ...................... conducted the famous Kakinada Experiment.
   a. EDP b. EDII c. SIET d. GIIC

   (Answer – SIET)
4. State whether true or false

iii. The basic objective of EDP is to create favourable environment in the country. 
(Answer- False)

iv. Entrepreneurs can be made with the help of EDPs. 
(Answer – True)

9. References &Suggested Readings:

9.16. Terminal and Model Questions:
15. Explain the concept of EDPs and its components.
16. Discuss the need and objectives of entrepreneurial development programmes in India.
17. What do you mean by EDP? Explain the various phases of EDP.
18. “Entrepreneurs are made, not born.” Comment on this statement and justify your answer.
Lesson-10
Institutional Support for Entrepreneurship Development

10.1 Objectives

10.2 Introduction

Finance is the nerve centre of a business, just as circulation of blood is essential in the human body for maintaining life. No business whether small, medium or big can be started without an
adequate amount of finance. Every entrepreneur needs finance to start an industry, acquire fixed assets, develop product, men and machine at work, and encourage management to make progress. Even an existing concern needs finance constantly. Finance is important but is not the only condition to run an enterprise. In order to start any economic activity, a minimum level of prior built up of infrastructural facilities is needed. But creation of infrastructural facilities involves huge funds which the small entrepreneurs are always short of. In order to help small entrepreneurs, various Central and State Governments have come forward to help entrepreneurs by providing them various kinds of support and facilities. These supporting and facilitating efforts made by governments help the entrepreneur to establish their industry in the market and grow bigger.

Entrepreneurs play a crucial role in the economic growth of the country. It has made a significant contribution in production, exports, and employment generation in the country. However, the entrepreneurs running small-scale enterprises face a number of problems due to inadequate capital, low productivity, and lack of infrastructure facilities. Therefore, the Government of India has formed the Ministry of Micro, Small & Medium Enterprises (MSME), which is focused on the growth and development of the small-scale sector. The ministry formulates various policies and schemes for the development and promotion of SSEs in India. It also monitors and evaluates the performance of SSEs in India.

The Ministry of MSME provides special facilities and support services to SSEs through its central and state level institutions. These institutions provide marketing assistance, financial support, business promotion, technical guidance, training, and consultancy services to SSEs. The main objective of these institutions is to enhance the competitiveness of SSEs in the market. Some of these institutions include Khadi and Village Industries Commission (KVIC), Micro, Small, and Medium Enterprises Development Organization (MSME-DO), State Directorate of Industries (SDIs), and Small Industries Development Bank of India (SIDBI).

**10.3. Institutions Supporting for Entrepreneurship Development:** There is a host of government departments at Central/State level, promotional agencies, autonomous institutions, non-governmental organizations (NGOs) etc. which provide support to new entrepreneurs or small scale entrepreneurs in different ways. Some of the agencies extending support for entrepreneurial development are discussed as under:
10.3.1 Small Industries Service Institutes (SISIs):

Small Industries Service Institutes, which are also known as MSME development institutes, established for the development of small scale industries in the country. The SISI has wide spectrum of technological, management and administrative tasks to perform.

Functions of SISIs:

i) To assist existing and prospective entrepreneurs through technical and managerial counseling.

ii) Conducting EDPs all over the country.

iii) To advice the central and state governments on policy matters relating to small industry development.

iv) To provide technical advice to small scale entrepreneurs.

v) To assist in testing of raw materials and products of SSIs, their inspection and quality control.

vi) To supply market information to the SSIs.

vii) To recommend SIs for financial assistance from banks.

viii) To enlist entrepreneurs for participation in Government stores purchase programme.

ix) Conduct economic and technical surveys and prepare techno-economic reports for selected areas and industries.

x) Identify the potential for ancillary development through sub-contract exchanges.

xi) Organise seminars, workshops and industry clinics for the benefit of entrepreneurs.

The Small Industries Service Institutes have been generally organizing the following types of EDPs for different target groups as mentioned earlier.

General EDP for educated unemployed youth, ex-service personnel etc. for a duration of four weeks. In these programmes, class room lectures and discussions are held on issues such as facilities and assistance available from State and Central Government agencies, banks, financial institutions and National Small Industries Corporation. Apart from this exposure is given information regarding market survey, product identification and selection, technologies involved, management of small enterprises, particularly in matters relating to financial management, marketing, packaging and exports.
The participants also interact with successful small scale entrepreneurs. Information of quality, possibilities of diversification and expansion are also given. The entrepreneurs are also taken for study visits for SSIs. The entrepreneurs are helped to prepare projects reports based on their own observations and studies for obtaining financial assistance as may be required. Such courses have benefitted many entrepreneurs to set up units of their own choice. There are 28 SISIs and 30 Branch SISIs operational throughout the country and their performance is overseen by DC (SSI).

10.3.2 National Small Industries Corporation (NSIC): The Government of India established NSIC in 1955, its aim is to promote, aid and foster the growth of SSIs in the country. It helps the SSIs through its various programmes and project. NSIC plays a very important role through modernization, technological upgradation, quality consciousness, strengthening linkages with large and medium enterprises and boosting exports of products from small enterprises.

Formerly the corporation had four subsidiary corporations at Delhi, Mumbai, Calcutta and Madras. However, since 1961 all the subsidiary corporations have been amalgamated with the main corporation and three branch offices have been set up at Mumbai, Calcutta 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 Ltd. (NSIC) was established by the Government of India in Feb. 1955. The main objectives of NSIC are to aid, counsel, assist, finance, protect and promote small scale industries in the country.

The Corporation provides support to small scale sector in the following areas:

i) Supply of both indigenous and imported machines on easy Hire purchase items. Special concessional terms have been introduced for units in backward areas and also for units promoted by entrepreneurs from weaker sections of society.

ii) Marketing of small industries products, based on consortia approach.

iii) Export of products from small industries and developing export worthiness of small scale units.

iv) Enlisting the competent units and facilitating their participation in Government stores Purchase Programmes.
v) Developing prototypes of machines, equipment and tools which are then passed on for commercial production.

vi) Training in several industrial trades.

vii) Development and upgradation of technology for projects based on wastes.

viii) Supply and distribution of indigenous and imported raw material.

ix) Setting up small scale industries in other developing countries on turnkey basis.

Training Centres of NSIC

The National Small Industries Corporation (NSIC) is presently running four Prototype Development and Training Centres in Okhla (New Delhi), Rajkot, Howrah and Madras. The objectives of these centres are as:

a) To impart practical and classroom training in several industrial trades. Special training programmes have been introduced for rural artisans.

b) To develop prototypes of machines, equipment and tools. These prototypes are then passed on to manufacturing units for commercial production.

c) To provide common facilities in such areas as testing machining castings, electroplating etc.

d) To take up production of machines and equipment partly or fully as per market acceptability.

e) To install testing and inspection facilities for use by small scale units.

f) To develop technology and equipment in such critical areas as waste utilisation, energy-saving etc., and.

g) To design, develop and produce improved tools for use by rural artisans for increasing their productivity and earning capacity.

NSIC’s Common facilities and Training Centres

NSIC has now taken up a programme to make the services of its PDFCs available in industrially backward areas. A Common Facilities and Training Centre (CFTC), a Sub-centre of Prototype Development and Training Centre, Okhla has been set up in Kashipur in Udham Singh Nagar district of Uttarakhand, this CFTC is located in a central place and as such, its services are
available to other towns such as Moradabad, Dhampur, Bijnore, Ramnagar, Haldwani, Rudrapur, etc. The Centre has the following objectives:

   a) To provide technical training in metal-working trades with provision for introducing wood-working trades at a later stage;
   b) To take up courses for upgradation of skills;
   c) To provide common facilities in precision machining, sheet metal work, welding, forging etc;
   d) To take up programmes for upgradation of technology and methods of production for the benefit of artisans in rural and hilly areas.

Training Programmes of CFTC: The training programmes at the Centre are as under:

- One year general course in machining, burning, fitting, forging and welding,
- Four-month courses in turning, machining and welding
- Four-month upgradation courses.

The main State Government Agencies are as follows:

10.3.3 District Industries Centre (DICs): The concept of District Industries Centre came during the year 1977, when Government of India announced the new Industrial policy on 23.12.1977. It laid special stress on the development of small scale, village and cottage industries and indicated that the “District Industries Centre” would be the main focus agency for promotion of small scale, village and cottage industries. In May 1978 DIC was initiated for the promotion of small scale and cottage industries beyond big cities and state capitals to the district headquarters. It was started as a centrally sponsored scheme with the aim of developing small, tiny and cottage industries in the country.

The District Industries Centres (DIC) Programme was launched on 1st May, 1978, with a view to providing an integrated administrative framework at the district level which would look at the problem of the industrialization in the district in a composite manner. Till then, the entrepreneurs had to run to several agencies, many of them away from their sites for getting the facilities
available for small entrepreneurs and had to approach various authorities for this purpose. Under the new programme of DIC, the entrepreneurs will get all the facilities and assistances under one roof at the district and sub-district level. The main purpose of the programme is to weave all the Government functionaries in a single institutional framework so that the District Industries Centres can act as a focal point for the entire industrial growth of the district. The centres provide all services and support required by small entrepreneurs which include identification of a suitable scheme, preparation of feasibility report, arrangements for supply of machinery and equipment, provision of raw materials, credit facilities and inputs for marketing and extension services.

For effective functioning of the DICs, by and large, the State Governments have delegated most of the administrative and financial powers of the Department of Industries as well as these under the Import Trade Control Policy to the General Manager and functional managers so that all the inputs are provided to the entrepreneurs on the spot without referring the matter to the State level or the Central level. The State Governments have also developed linkages with the State and Central institutions for close inter-meshing of their activities. Efforts have also been made for fuller integration of the DIC programme with the Integrated Rural Development Programme and other programmes having impact on the development of small and village units.

Basically, the DIC Programme is a Centrally sponsored scheme which would be implemented by the respective State Governments under the overall coordination of the Central Government.

A DIC is manned by a General Manager supported by seven functional Managers. The General Manager is the head of the institution and holds a key position, coordinating the work of all the functional managers and has close linkage with different agencies dealing with the development of small, cottage and village industries.

The DIC Programme is monitored at the District level, State level. Regional level and at the Central level. This is being done so that it is ensured that the DICs work effectively to meet the objective for which they have been set up. A Central Coordination Committee has been set up with the Minister of Industry as its Chairman and the Development Commissioner (Small Scale Industries), Ministry of Industry as its member secretary. Similarly, State level committees have been set up with the Chief Minister or Minister of Industries as the Chairman. The District Advisory Committees will have District Collector as the Chairman and will provide guidance to
the DICs on various aspects of development. The entire country has been divided into five regions: Northern, Eastern, Central, Western and Southern.

**Main services of DICs are:**

- To provide machinery and equipment to the busssing entrepreneurs
- To conduct economic investigation of local resources available
- To provide raw material and other equipments
- To undertake marketing activities
- To insure the quality input is taking place
- To provide consultancy and extension services to the entrepreneurs.

All these services definitely uplift the morale of the entrepreneur and provide a lot of support for carrying their entrepreneurial endeavors.

**Functions of the District Industries Centres (DICs):** The main functions of the DICs are enumerated as follows:

1) To survey existing traditional and new industries, raw materials, and human resources to identify schemes and give a market forecast for different items and to prepare sample techno-economic feasibility reports and to offer investment advice to entrepreneurs.

2) To assess the requirements of machinery and equipment for various types of small scale, tiny and village industries to assess sources of availability of machinery and equipment for different machines to advise entrepreneurs, to liaise with Research Institutions regarding research and development, arrange machinery on hire-purchase basis.

3) To arrange for training courses for entrepreneurs of small and tiny units and liaise with SISIs, SIET, and other institutions. To keep abreast of research and development in selected product lines and quality control methods.

4) To ascertain raw material requirements of various units, their sources and prices and to arrange bulk purchases of raw materials and their distribution to the entrepreneurs.

5) To liaise with lead banks and other financial institutions, apprise applications, monitor flow of industrial credit in the districts and to the entrepreneurs.
6) To organize marketing outlets, to liaise with Government procurement agencies, convey market intelligence to the entrepreneurs, organize market surveys, market development programmes, etc.

The DICs had a very close link with other State level organisations like State Financial Corporation and State Small Industries Development Corporation, etc. These State level organisations work in close cooperation with the DIC and provide all necessary assistance to the DIC so that all the inputs of these organisations are also made available to the entrepreneurs under DIC.

**Performance of DICs:** The DIC framework has been designed to take up a systematic programme of identifying new entrepreneurs in the rural areas. Once such an identification is made, DICs, go a long way with entrepreneurs in providing them all assistance required for engaging themselves successfully in the chosen activities. Identification and development of entrepreneurship has, therefore, been given a place of prime importance in the DIC programme.

In addition, the DICs are assisting the Integrated Rural Development (IRD) and the Training of Rural Youth for Self Employment (TRYSEM) authorities in selection of beneficiaries from the target groups and making adequate arrangement for their training as well as their follow up.

DICs were supposed to function effectively as a single window clearance. But, unfortunately, in the majority of the States power had not been delegated as a result of which even minimal dispensing function of providing land, power, water, raw materials etc. were not being performed by the DICs.

According to S.S. Verma, the then D.C. (SSI), "the largest amount of money for any single activity in the small industries field in the sixth plan had been earmarked to the DIG programme. The total number of the DICs was 392 extending coverage to 405 districts in all. Although the DICs thus covered practically the entire country, their working and progress had not been uniform.

**Suggestions for Better Performance of the DICs:** A Working Group was set up by the Government to suggest ways for effective working of the DICs. The main recommendations of the working group were as follows:
Restructuring of DICs.
- New thrust in DIC programme.
- Enhancement of Power.
- Training of DIG Personnel.

10.3.4 Entrepreneurship Development Institute (EDI): Entrepreneurship Development Institute was set up in May 1933 at Ahmedabad by All India Financial Institutions like Industrial Development Bank of India, Industrial Credit & Investment Corporation of India, Industrial Finance Corporation of India and the State Bank of India.

Main Functions of EDI: The EDI performs the following functions:

i) It trains to new generation of entrepreneurs.

ii) It identifies and selects the individual with some entrepreneurial traits and potential for the purpose of training.

iii) It conducts result oriented development programmes in enterpriser, lacking regions like the Andaman, Kerala, Goa, Sikkim, Bihar and Arunachal Pradesh in a systematic and methodical manner.

iv) It is promoting Small Scale Industries in industrially backward and rural areas by developing local, and human resources.

v) It conducts special programmes for Science and Technical graduates for self employmentanci for. existing entrepreneurs.

vi) It conducts extension motivation programmes for officers of financial institutions and development organizations.

vii) It offers exciting avenues for self help, for Ex-serviceman, war widows, sons and daughters of dead soldiers.

EDI is a national resource institution committed to Entrepreneurship Education, training and research, striving to provide innovative training techniques, competent faculty support, teaching and training material, besides sharing benefits of inhouse research as well as experience in relevant sphere. EDI has been spearheading Entrepreneurship movement throughout the nation with the belief that entrepreneurs need not necessarily be born but can be developed through well-concerned and well-developed activities. Small Industry
10.3.5 Small Industry Extension Training Institute (SIET): SIET institute came into existence on ad-hoc basis to support the activities of State Government and Development Corporations with the following objectives:

i) Identification of industrial opportunities.

ii) Identification of growth centers,

iii) Preparation of regional development plans,

iv) Industrial profiles,

v) Feasibility studies,

vi) Organisational development, and

vii) Designing of information systems.

The Development Commissioner, Small Scale Industries initiated a scheme in 1956 on experimental basis to develop manpower for the small sector. Under the scheme, part time courses in business management were introduced for the proprietors and senior managerial personnel of small industries in the small industry service Institutes (SISIs) at Bombay, Madras, Calcutta and New Delhi. The scheme proved useful and was gradually extended to other institutes. Later on, it was thought that technical training of workers employed in small units and the industrial extension personnel is also essential to enable them to acquire better skills and proper outlook for improving the quality of their services. For this, need was felt of a national level organisation.

In 1959, the Working Group on Small Scale industries (third plan) recommended the establishment of a Central Industrial Extension Training Centre where all the extension personnel could be given training for 8 to 12 weeks so that they could extend their technical and management knowledge efficiently to small entrepreneurs.

**Functions of S.I.E.T:** S.I.E.T. Institute performs the following functions and activities in Jammu and Kashmir, Karnataka, Nagaland, Manipur Assam, Andhra Pradesh:

i) It provides entrepreneurial development training to the educated unemployed.

ii) It provides management counselling for sick industrial units.

iii) It conducts training for trainees and consultants for entrepreneurs.
The main objectives of the Institute were defined as follows:

a) To provide, supervise and plan training for persons engaged in the small industry development and management activities.

b) To undertake, sponsor or plan research programmes relating to the development of small industry.

c) To execute technical assistance agreement with international or other organisations for provision of services for the development of small industry.

The functional objectives of the Institute have grown to accelerate the growth of Small Industries in the country through training, research and consultancy.

(a) Training: Training has been the major function of institute since its inception. The increasing emphasis on creating self-employment opportunities has induced SIET to train young engineers and technologists with a view to developing latent entrepreneurship, especially in industrially backward areas.

(b) Research: S.I.E.T. undertakes research and survey as essential tools to strengthen its training and also to enhance the effectiveness of its factory as trainers. Some of the areas in which it has done a good deal of study are entrepreneurial development, small industry promotion techniques, industrial dispersal, growth centres, regional development, appropriate technology and management.

S.I.E.T's research is taken up on its own initiative as well as sponsored by the Government and other agencies. It also engages in collaborative research. S.I.E.T. is recognised as a lead Institute for research in entrepreneurial development in eight countries.

(c) Consultancy: The consultancy work in the Institute broadly relates to the following aspects:

- Area and regional studies to identify the industries potential,
- Identification of various lines of ancillary development in the large and medium industries under the public and private sectors,
- Integrated development of industrially backward areas with special emphasis on entrepreneurship development,
- In company training programmes to upgrade organisation and skills in the company and the departmental training programme for the officers of industrial units, government departments etc,
- Preparation of industrial profiles, feasibility reports, industrial manuals, etc.
- Revival of sick units back to health, and
- Collaborative studies with international development and research bodies.

In view of the increasing requests for training research and consultancy services throughout the country, the institute has opened a branch, SIET Institute at Gauhati, which would cater to the requirements of the North Eastern States.

10.3.6 National Institute for Entrepreneurship and Small Business Development (NIESBUD): In 1983, the Ministry of Industry, Government of India established National Institute for Entrepreneurship and Small Business Development (NIESBUD) for entrepreneurship development especially in the area of SSIs. NIESBUD was established as an apex body to co-ordinate the activities of various institutes and agencies engaged in entrepreneurship development to organise and conduct training programmes for them. The Institute is registered as a society under Government of India Societies Act, XXI of 1860 and started functioning from 6th July, 1983. It is also the secretariat of the National Entrepreneurship Development Board, the apex body which determines policy for entrepreneurship in the country.

The institute provides training to various target groups by evolving standardized model syllabi for the respective groups. The programmes organised by the Institute are government funded and its training activities are restricted to stimulating, supporting and sustaining entrepreneurship, in areas where the demand for such programmes is high or where there are no organisations conducting such programmes.

NIESBUD plays a supportive role in developing the efficiency of organisations which are directly or indirectly engaged in promoting entrepreneurship. The main objectives of the Institute are to accelerate the process of entrepreneurship development and to support and help institutes/agencies involved in entrepreneurship development to improve their efficiency. The other objectives are to evolve standard processes of selection, training, support and sustenance to potential entrepreneurs, to provide vital information and to provide functional forums, for interaction and
exchange of experiences helpful for policy formulation and modification at various levels. The policy direction and guidance to the institute is provided by its governing council whose chairman and vice-chairman are the Union Industry Minister and Union State Minister of Industry respectively.

**Main Functions of NIESBUD:** The following are the main functions of NIESBUD

- To evolve standardized materials and processes for selection, training, support and sustenance of entrepreneurs potential and existing.
- To help/support and affiliate institutions/organisations in carrying out training and other entrepreneurship development related activities.
- To serve as an apex national level resource institute for accelerating the process of entrepreneurship development ensuring its impact across the country and among all strata of the society.
- To provide vital information and support to trainers, promoters and entrepreneurs by organizing research and documentation relevant to entrepreneurship development.
- To train trainers, promoters and consultants in various areas of entrepreneurship developments.
- To provide national/international forum for interaction and exchange of experiences helpful for policy formulation and modification at various levels.
- To offer consultancy nationally/internationally for promotion of entrepreneurship and small business development.
- To share international experience and expertise in entrepreneurship development.
- To share experiences and expertise in entrepreneurship development across National frontiers.

**10.3.7 New Initiatives by Government of India on Skill Development and Entrepreneurship**

“The government in order to extend the policy "SabkaSaath, SabkaVikaas" and its commitment to overall human resource development has formed National Policy on Skill Development and Entrepreneurship, 2015. The policy will be able to meet the challenge of skilling at scale with speed and standard. Its aim is to provide an umbrella framework to all skilling activities being carried out within the country, to align them to common standards and link the skilling with
demand centres. The national policy also provides clarity and coherence on how skill development efforts across the country can be aligned within the existing institutional arrangements. The objective of the policy is to develop the skills of the entrepreneurs who will later on creates jobs in the country.

The core objective of the entrepreneurship framework is to coordinate and strengthen factors essential for growth of entrepreneurship across the country. This would include:

i) Promote entrepreneurship culture and make it aspirational
ii) Encourage entrepreneurship as a viable career option through advocacy.
iii) Enhance support for potential entrepreneurs through mentorship and networks.
iv) Integrate entrepreneurship education in the formal education system
v) Foster innovation-driven and social entrepreneurship to address the needs of the population at the bottom of the pyramid.
vi) Ensure ease of doing business by reducing entry and exit barriers
vii) Facilitate access to finance through credit and market linkages
viii) Promote entrepreneurship amongst women.
ix) Broaden the base of entrepreneurial supply by meeting specific needs of both socially and geographically disadvantaged sections of the society including SCs, STs, OBCs, minorities, differently-abled persons.”
(Source:http://www.skilldevelopment.gov.in/assets/images/Skill%20India/policy%20booklet-%20Final.pdf)

10.8 Summary

In this lesson, you have learned about SSEs and their importance in economic development. The chapter has mentioned differences among micro, small, and medium enterprises on the basis of investment ceilings. It has explained the characteristics and significance of SSEs. In addition, the lesson has discussed the condition of SSEs in Indian environment in detail. Further, it has detailed upon various political, economic, technological, and socio-cultural factors that influence SSEs. It has also described Industrial Policies and Strategies Related to Small-Scale Enterprises.

10.9. Glossary:
i) Small Industries Service Institutes (SISIs): Small Industries Service Institutes, which are also known as MSME development institutes, established for the development of small scale industries in the country. The SISI has wide spectrum of technological, management and administrative tasks to perform.

ii) National Small Industries Corporation (NSIC): The Government of India established NSIC in 1955, its aim is to promote, aid and foster the growth of SSIs in the country. It helps the SSIs through its various programmes and project.

iii) District Industries Centre (DICs): The District Industries Centres (DIC) Programme was launched on 1st May, 1978, with a view to providing an integrated administrative framework at the district level which would look at the problem of the industrialization in the district in a composite manner.

iv) Entrepreneurship Development Institute (EDI): Entrepreneurship Development Institute was set up in May 1933 at Ahmedabad by All India Financial Institutions like Industrial Development Bank of India, Industrial Credit & Investment Corporation of India, Industrial Finance Corporation of India and the State Bank of India.


10.10. Check your progress: Multiple Choice Questions

Q1. How many offices are operated under NSIC?
   a. 120  
   b. 150  
   c. 160  
   d. 110  
   Ans. a

Q2. Which of the following looks after the growth and development of the small-scale sector in India?
   a. Ministry of Education  
   b. Ministry of Health and Hygiene  
   c. Ministry of Rural Development  
   d. Ministry of Small Scale Industries  
   Ans. d

Q3. EOU stands for:
   a. Experience-Oriented Unit  
   b. Expert-Oriented Unit  
   c. Export-Oriented Unit  
   d. Expertise-Oriented Unit  

Ans.  c  

Q4. Which of the following is not a characteristic of an SSE?
   a. Affluent                b. Flexibility
   c. Labor Intensive        d. Innovative
   Ans.  a

Q5. Which of the following aims at keeping the equipment in a working order to reduce production losses due to equipment repairs, supports, and arrangements?
   a. TPM                    b. JIT
   c. ICT                    d. DIC
   Ans.  a

Q6. NSIC insures the export credits of SSEs by entering into strategic alliance with:
   a. MSME-DO                b. KVIC
   c. SDI                    d. ECGC
   Ans.  d

10.11. References & Suggested Readings:

10.12. Terminal and Model Questions:
1. Write a detailed note on the institutions providing technical assistance for developing entrepreneurial activities.
2. Discuss the characteristics, functions and objectives of Small Industries Service Institutes (SISIs).
3. Discuss the role of District Industries Centres (DIC) in the economic development of the country.

Lesson-11
Financial Schemes Offered by Various Financial Institutions and their Functions to support Entrepreneurs

11.1 Objectives
11.2 Introduction
11.3 Financial Intermediaries
   11.3.1 Banking Intermediaries
   11.3.2 Non-banking Intermediaries
11.4 Difference between banks and non-banking financial corporations
11.5 All India Financial Institutions (AIFI)
   11.5.1 IDBI
   11.5.2 IFCI
   11.5.3 SIDBI
   11.5.4 ICICI
11.6 Regulatory Institutions
   11.6.1 RBI
   11.6.2 CBDT
   11.6.3 Central Board of Excise and Customer
11.7 Investment Institutions
   11.7.1 LIC
   11.7.2 GIC
   11.7.3 UTI
11.8 Specialized Financial Institutions
11.9 State Level Institutions
   11.9.1 SFCs
   11.9.2 SIDCs
11.10 NABARD
11.11 NSIC
11.12 KVIC
11.13 Commercial Banks
11.14 Venture Capital Funding
11.15 Angel Capitalist
11.16 Summary
11.17 Glossary
11.20 Terminal and Model Questions

11.1 Objectives

**Dear Students after completing this lesson, you will be able:**

i) To understand the need for financial institutional support to entrepreneurs

ii) To know the types of financial institutions providing assistance to entrepreneurs

iii) Know the role and functions of various institutions at the National and State level

iv) Know the role of Commercial Banks to entrepreneurs

v) To understand the role of Regulatory Institutions

vi) To Differentiate between Banking and Non-Banking Intermediaries

11.2 INTRODUCTION

Entrepreneurial activities and growth of small scale industries have contributed immensely in economic development of India. Since the adoption of five year plans the government is also paying special attention to the growth of entrepreneurship development. It has implemented a large number of policies and programs along with several incentives and types of assistance to boost small and medium enterprises. The government has setup many financial institutions at the Central and State level to provide assistance to entrepreneurs. Entrepreneurs require finance for various activities at different phases starting from consultancy research and development till marketing of the products and also for modernization and expansion of their plant.
11.3 FINANCIAL INTERMEDIARIES

A financial intermediary is an institution that makes easy the flow of funds between lenders and borrowers indirectly. The lenders give funds to an intermediary institution (such as a bank) which is then passed on to the debtors in the form of loans or mortgages. Intermediaries are both banking and non-banking intermediaries.

11.3.1 Banking intermediaries:

- Central Bank
- Commercial Bank
- Specialized Bank
- Post office Saving Banks

11.3.2 Non-Banking intermediaries:

- Investment Firms
- Residuary Non-Banking Companies
- Mutual funds
- Micro financial Companies
- Housing Finance Companies
- Insurance Companies
- Stock Broking Companies
- Merchant Banking Companies

11.4 DIFFERENCES BETWEEN BANKS AND NON-BANKING FINANCIAL CORPORATION (NBFC)

<table>
<thead>
<tr>
<th>BASIS OF COMPARISON</th>
<th>BANKS</th>
<th>NBFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>Bank is a government authorized financial intermediary that aims at providing banking services to the general public.</td>
<td>NBFCs provide banking services without holding a bank license.</td>
</tr>
<tr>
<td>Incorporation</td>
<td>Banking Regulation Act, 1949</td>
<td>Companies Act, 1956</td>
</tr>
<tr>
<td>Demand deposit</td>
<td>Accepted</td>
<td>Not accepted</td>
</tr>
<tr>
<td>Foreign investment</td>
<td>Allowed up to 74% for private sector banks</td>
<td>Allowed up to 100%</td>
</tr>
<tr>
<td>Payment and settlement system</td>
<td>Integral part of the system</td>
<td>Not a part of the system</td>
</tr>
<tr>
<td>Maintenance of reserve Ratios</td>
<td>Compulsory</td>
<td>Not required</td>
</tr>
</tbody>
</table>
11.5 ALL INDIA FINANCIAL INSTITUTIONS (AIFIs)

11.5.1 Industrial Development Bank of India (IDBI)

IDBI Bank is an Indian government-owned financial service company, formerly known as Industrial Development Bank of India, headquartered in Mumbai, India. It was established in 1964 by an Act of Parliament to provide credit and other financial facilities for the development of the fledgling Indian industry. Central Government is the owner of this bank and employees will be called as Central Government Staffs.

Functions of IDBI

- Financial help for the arrangement of new venture and in addition for extension, enhancement, modernization, innovation, and upgradation of present industrial undertakings.
- It attempts special exercises for new business people, gives consultancy administration to small and medium undertakings, upgradation of innovation and projects for economic upliftment of the disadvantaged.
- TCOs give facilities to small and medium undertakings in the choice, detailing, and evaluation of ventures, their execution and review.
- It has likewise offered help to Science and Technology Entrepreneur's Park, Energy Preservation, Common Quality Testing Centers for small businesses.

It is at present the India's largest financial institution.

11.5.2 Industrial Finance Corporation of India (IFCI)

IFCI came into existence in 1948 under an Act of Parliament and was later on transformed into a corporation in 1993. It provides assistance only for productive purposes, such as purchase of machinery, building factory, buying land, new industrial project as well as development, diversification, renovation of existing units.

Functions of IFCI
- **Direct Financing** - These incorporate loans and advances, underwriting the issue of stock, shares, bonds and debentures of business concerns, subscribing to equity, preference share and debentures of firm, foreign currency loans etc.

- **New promotional activities** - These incorporate fourteen special plans, eight consultancy, fee subsidy plans, four interest subsidy plans and two business enterprise improvement plans.

The consultancy Fee Subsidy Schemes are meant for Village and Small Industries (VSI) through Technical Consultancy Organization (TCOs). The Interest Subsidy scheme provides encouragement for self-employment to youths, women entrepreneurs so that they adopt quality control measures and help in increasing use of indigenous technology. The Entrepreneurship Development Schemes help to provide self-employment in tourism related activities. It also helps to revive sick units to retain employees.

### 11.5.3 The Small Industries Development Bank of India (SIDBI)

SIDBI a wholly owned subsidiary of the IDBI was established in Oct. 1989 under a special Act of parliament and commenced its operations from April 2; 1990. The Credit Rating Information Services of India Ltd. has rated SIDBI with “AAA” grade for its unsecured bonds.

![SIDBI Products and Services](image)

**Fig. 3. SIDBI Products and Services**

**Functions of SIDBI**

- Indirect assistance is provided to SSIs through a large network of 913 PLIs in the country. Refinance is provided for development, technology up gradation, reconstruction, and quality promotion, diversification of existing units and rehabilitation of sick units. Refinance is also given for cyber cafes, nursing homes, industrial infrastructure and to promote hotel and tourism activities to qualified professional for self-employment.
• Direct assistance is provided through Regional Offices across the country. It includes setting up of new SSI units, technology upgradation and diversification, development of markets for SSI sector, discounting of bills/ exchange, manufacturing, pre-shipment and port-shipment credit and Export Bill Finance etc.

• Foreign currency loans to import equipment, loans to execute export orders, export bills financing in foreign currency.

• SIDBI's Venture Capital includes fund for Software and IT Industry, assistance for innovative indigenous technology and expertise.

• Support services and development services for rural industrialization, technology upgradation, market promotion, dissemination of information etc.

• SIDBI Foundation for Micro Credit was launched in January 1999 for channelizing funds to the poor.

11.5.4 Industrial Credit and Investment Corporation of India Ltd. (ICICI)

The Industrial Credit and Investment Corporation of India Ltd. was set up under the Indian Companies Act in January 1955. The principle objective is to meet the prerequisites of the business for perpetual and long term funds in the private sector. The other alternate intentions are; to help in the development of market, to give funds for restoration of mechanical units, and to help in financing of equipment.

Functions of ICICI

• It guarantees loans from other private investment sources.

• It provides other financial services such as deferred credit, leasing credit, installment sale, asset credit and venture capital.

11.6 REGULATORY INSTITUTIONS

11.6.1 Reserve Bank of India (RBI) - The preamble of the Reserve Bank of India Act (1934), under which it was constituted, specifies its objectivities "as to regulate the issue of Bank notes and keeping the reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage".

Functions of the RBI
• Monetary strategy
• Supervision and managing of the banking and non-banking financial institutions, including credit information companies
• Regulation of cash, forex and government securities markets
• Debt and cash administration for Central and State Governments
• Administration of foreign exchange reserves
• Banker to banks
• Banker to the Central and the State Governments
• Currency administration
• Developmental role

**Security and Exchange Board of India (SEBI)** - The SEBI Act was passed on 13\(^{th}\) January 1992 with the following objectives:

• To protect the interest of investors and the fixed flow of savings into the capital market.
• To control the securities market and ensure fair practices.
• To promote well-organized services by brokers, merchant bankers and financial intermediaries.

Functions of SEBI include both regulatory function and Developmental functions. Developmental functions are important from entrepreneur's point of view as it helps in training of entrepreneurs.

**11.6.2 Central Board of Direct Taxes (CBDT)** - The CBDT is a statutory authority functioning under the Central Board of Revenue Act, 1963.

**The essential functions of the CBDT include**

• Provision of vital inputs, ideas and requirements for planning and policy in India with regard to direct taxes.
• Helps in management of direct taxes through income tax department.
• Public grievances.
• To make sure that the cabinet decisions are implemented.

**11.6.3 Central Board of Excise and Customer** - renamed as Central Board of Indirect Taxes and Customs is the nodal agency responsible for administering Customs, Central Excise Services tax and Narcotics in India.

**11.7 INVESTMENT INSTITUTIONS**
11.7.1 Life Insurance Corporation of India (LIC)

The life Insurance Corporation of India, as a wholly-owned corporation of the Government of India, on nationalization of the life insurance industry in the country was set up under the LIC Act in 1956. LIC operates a variety of social security schemes for individuals and groups across various segments of society.

Objectives and functions of LIC

- Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes and providing them adequate financial cover against death at a reasonable cost.
- The funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
- Maximize mobilization of people's savings by making insurance-linked savings adequately attractive.
- Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.
- Act as trustees of the insured public in their individual and collective capacities.
- Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
- Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.
- Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction.

11.7.2 General Insurance Corporation

The entire general insurance business in India was nationalized by General Insurance Business (Nationalization) Act, 1972 (GIBNA). GIC was formed for the purpose of superintending, controlling and carrying on the business of general insurance. After a process of mergers among Indian insurance companies, and four companies were left as fully owned subsidiary companies of GIC.

- National Insurance Company Limited
- The New India Assurance Company Limited
- The Oriental Insurance Company Limited
11.7.3 Unit Trust of India (UTI)

The Unit Trust of India (UTI) was established under an Act of Parliament in 1964. Its subsidiaries include UTI Ventures, UTI Investment Advisory Services Ltd, UTI Investment Ltd, and UTI Capital. The number of investors on May 2017 is more than 7 lacs.

The main objectives are:

- To encourage and pool the saving funds of the middle and low salary group.
- To give help to the corporate area by method for term advances and endorsing membership to shares/debentures.
- To empower unit holders to share the advantages and wealth of the industrialization in the nation.

11.8 SPECIALIZED FINANCIAL INSTITUTIONS

EXPORT IMPORT BANK (EXIM)

The Exim Bank was set up on January 1, 1982 to promote India's foreign trade by providing financial help to exporters and importers.

Functions of EXIM

- It provides finance for joint ventures in foreign countries.
- It provides technical and administrative assistance to the parties engaged in export and import business.
- Dissemination of advisory services and advance information to the foreign governments and banks.
- The Bank offers buyer's credit and lines of credit to the foreign governments and banks.
- It undertakes merchant banking functions of companies engaged in foreign trade.

A cluster of Excellence Program was introduced to obtain ISO 9000 certification. Three schemes were introduced to promote exports. These are:

- Production Equipment Finance Program
- Export marketing finance
- Export Vendor Development Finance.
As on March 31, 2017, Bank has so far provided Finance to 587 Ventures set up by over 457 companies in 78 countries. Aggregate assistance for overseas investment: Rs 52,913.07 crore.

11.9 STATE LEVEL INSTITUTIONS

11.9.1 State Financial Corporations (SFCs)

The state financial corporations were set up under the state financial corporations Act, 1951. It provides medium and long term finance to small and medium industries. There are 18 SFCs functioning in different states of India. In order to get financial accommodation, the industrial concern must be engaged in one of the activities:

- Manufacturing, conservation or handling of merchandise;
- Mining;
- Hotel industry;
- Road transport;
- Generation or dispersion of power or some other type of energy;
- Expansion of any territory of land as an industrial estate;
- Providing shore offices for fishing or the produce thereof;
- Providing uncommon or specialized information or different administrations for the advancement of industrial development.

Functions of SFCs

- SFCs undertake the issue of stock, shares, bonds or debentures of industrial concerns and grant loans and advances to be repaid within a period not exceeding 20 years.
- Promising the loan raised by industrial concerns on such terms and conditions as may be mutually agreed upon, but they should be repayable within 20 years.
- SFCs guarantee deferred payments of the industrial concern which purchases capital goods within India.
- It undertakes the issue of stocks, bonds or debenture of industrial concern, subject to their being disposed of in the market within 7 years.
- It provides for discounting of bills of exchange.
- SFCs participate in the equity capital of the small scale industrial units being set up in rural areas.
SFCS also play the role of promotional agency by diversification of funds. Almost every state in India has its own SFC and renders the same function. Some of the examples are:

- Punjab Financial Corporation
- The Tamilnadu Industrial Investment Corporation (TIIC)
- Karnataka State Small Industries Development Corporation LTD. (KSSIDC)
- West Bengal Financial Corporation.
- Himachal Pradesh Financial Corporation etc.

11.9.2 State Industrial Development/ Investment Corporations (SIDCs/SIICs)

SIDCs, established under the Companies Act, 1956, work for the promotion and development of SSEs. These corporations are also engaged in developing industrial infrastructure, such as industrial estates and industrial parks as well as establishing industrial projects in various states. This helps prospective entrepreneurs in establishing enterprises. SIDCs provide technical and financial assistance to industrial units.

The major activities of SIDCs are as under:

- For the subscription of shares and debentures of enterprises for financial help.
- Giving term finance to all small, medium and large enterprises.
- Conducting feasibility studies and encouraging private entrepreneurs to establish their own enterprises in the state.
- Encouraging entrepreneurs by implementing scheme of Industrial Development Bank of India.
- Formation of industrial ventures in joint and assisted sector by collaborating with private entrepreneurs in the country.

11.10 THE NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

The national Bank for Agriculture and Rural Development came into existence on July 12, 1982. With its establishment, NABARD has taken over the Agricultural Refinance and Development Corporation and has taken over from the Reserve Bank of India its refinancing in relation to the State Co-operative Rural Banks.

NABARD provides two types of refinance:
• To Regional Rural Banks (RRBS) and apex institutions and State government,
• The refinance is extended to augment resources for ground level development to rural credit.

Schemes Offered by NABARD

11.10.1 Micro Finance

Assistance to Self Help Promoting Institutions (SHPIs) for promotion and linkage of SHGs.

• Micro Enterprise Development Program (MEDP) to provide support to upgrade skill and business acumen to SHG members for taking up fund increasing activities.
• Schemes for providing technical support for Non–governmental Organizations.
• Incentive for promotion of Joint Liability Groups (JLGs) of SF/MF/ Tenant Farmers and Share Croppers under farm sector.

11.10.2 Support under Financial inclusion fund (FIF) to meet developmental and promotional interventions.

11.10.3 Rural Entrepreneurship Development Programme (REDPs) for Non- farm sector. This includes skill development programme, Rural Haats, Solar Home lighting system, Credit linked Capital Subsidy Scheme (CLCSS) for technological up-gradation.

11.10.4 NABARD Promotional fund scheme for farm innovation (FIPF), Farmer's Technology Transfer Fund) (FTTF), Umbrella Program for Natural Resource Management (UPNRM), Tribal Development Fund (TDF), Watershed Development fund (WDF).

11.11 NATIONAL SMALL INDUSTRIES CORPORATION LTD. (NSIC)

Established in 1955, NSIC is an ISO 9001 certified institution with the objective of the promotion, growth and development of Small Scale Industries. Over five decades, NSIC has proved its worth within the country and abroad through its following contributions:

□ Promoting technological upgradation and modernization, and quality consciousness.
□ Strengthening linkage between large and medium enterprises.
□ Increasing export products from SSEs.

NSIC works through over 120 offices, supported by a team of more than 500 professionals spread across the country. This helps the small enterprises with a set of specially designed
schemes. Apart from this, NSIC gives the following services for technical support to small undertakings through its technical service and extension centers:

- Advising on application of new techniques.
- Providing facilities for material testing through accredited laboratories.
- Designing of products facilitation through Computer Aided Design (CAD).
- Giving energy and environment services at selected centers.
- Providing facilities for classroom and practical training for skill Upgradation.

NSIC also provides international consultancy services to SSEs. The areas of consultancy are:

- Capacity building
- Policy and institutional framework
- Entrepreneurship development
- Business development services

In addition, NSIC insures the export credits of small enterprises through entering into strategic alliance scheme with Export Credit Guarantee Corporation of India Limited.

**Achievements and Performance of NSIC**

Government of India has formed National Small Industries Corporation Ltd (NSIC) which is an undertaking under the aegis of Ministry of MSME and has gained record operational and financial performance in terms of gross volume of business and profitability in the current concluded financial year 2009-10. In this year the Corporation achieved new heights on all the selected parameters. There was a substantial improvement in enhancing the company’s outreach and its volume of operations after that year. New offices have opened and the institution has expanded its area and scope to serve larger number of MSMEs by making the total number of NSIC offices to 123. The Corporation’s turnover for the year increased to Rs. 4336 crore (pre-audited) over the previous year’s turnover of Rs. 3508 crore in the comparison of the data.

The institution continued with its efforts to give different raw materials like copper, paraffin wax, steel, aluminum, zinc to MSMEs by making the arrangements with bulk manufacturers of these materials and the quality is also taken care of. Moreover the Corporation also started supply of Coal to MSMEs in West Bengal region. The total distribution of raw material to MSMEs jumped from 302164 MTs in the year 2008-09 to 354725 MTs in the year 2009-10.

The Institution provided credit support of Rs. 1094 crore to MSMEs as against Rs. 688 crore provided during the previous financial year, registering a growth of 59 per cent.
During the year 2009-10, total 3327 new units were registered under Single Point Registration Scheme, while in the previous year 2677 units were registered in the country.

The revenue of the corporation from its above mentioned two membership schemes during the year 2009-10, increased to Rs. 5.52 crore from Rs. 4.12 Crore in the year 2008-09, recording the growth of 34 per cent.

Under B2B portal, total 3802 members were added during the year 2009-10, as against 2808 members made under Infomediary Services in the year 2008-2009.

NSIC’s Technical Centres also showed remarkable improvement in the year 2009-10. The aggregate income of the technical centres rose from Rs. 12.54 crore in the year 2008-09 to Rs. 17.15 crore in the year 2009-10, registering a growth of 37%.

As per the Performance & Credit Rating Scheme, total 7505 micro & small enterprises were rated during the year, as against 5011 units rated in the previous year.

If we talk about the overall improved performance, it has resulted in achievement of greater profits. During the year, the corporation achieved operating profit of Rs.17.17 crore (pre-audited), showing a jump of 86 per cent over the operating profit of Rs. 9.21 crore in the previous financial year. After amortization of VRS expenditure of Rs. 2.12 crore, the Corporation has earned a net profit (before tax) of Rs. 15.05 crore, as compared to Rs. 6.92 crore earned.

The important highlights of the achievements of the institution for the financial year 2009-10 are briefly summed up here-as follows:

As per the Performance & Credit Rating Scheme, total 7505 micro & small enterprises were rated during the year, as against 5011 units rated in the previous year.

The Corporation has organized 963 Marketing Promotion events including participation / organization / co-sponsoring of exhibitions, buyer-sellers meets and marketing campaigns as compared to 874 events in the previous year 2009-10. NSIC’s ‘Techmart 2009’ organized at the India International Trade Fair during November, 2009 was awarded ‘Gold Medal’ for outstanding display of the MSMEs technology and products.

NSIC continued its initiative to set up new Training-cum Incubation centers under Public-Private Partnership (PPP) mode for the purpose of inculcating entrepreneurial skills in the youth by way of skill development through which they become employable or create their own enterprises. So far, 45 such centers have been established at various locations in the country. These are in
addition to three incubation centers opened at our technical centers. During the year, 8364 candidates were trained.

![Diagram of NSIC activities](image)

Fig: Activities of NSIC
KVIC is a legal body which is formed by the Parliament Act in April, 1957. Following are some of the objectives of KVIC:

- Promoting and developing khadi and village industries
- Helping in eliminating various social problems, such as poverty, and improving living standards by providing employment
- Creating self-reliance among people and building up of a strong rural community spirit
Providing opportunity to the rural population to undertake creative and productive activities

KVIC generally organizes, plans, promotes, and helps in the formation and development of khadi and village industries in backward areas in association with other agencies engaged in rural development. The functions of KVIC are as follows:

- Establishing quality standards and ensuring that products of khadi and village industries adhere to the set standards.
- Maintaining reserves of raw material and distributing them to individuals engaged or likely to be engaged in production of handspun yarn, khadi, or village industries in India.
- Organizing and planning, training of individuals employed or seeking employment in khadi and village industries in the country.
- Assisting and encouraging in the creation of common service facilities for the processing of raw material or semi-finished goods.
- Issuing certificates or letters of recognition to industries meeting quality standards.
- Helping marketing and production of khadi goods or products manufactured by village industries.
- Encouraging research in the technology used in khadi and village industries.
- Enhancing the cooperative efforts among the manufacturers of khadi or individuals engaged in village industries in the country.

This agency is bound by directions given by central government in performing its functions and operations.

11.13 COMMERCIAL BANKS

Commercial Banks are the primary channel for working capital requirement all over the country. However, about 40% of the overall lending is compulsory for priority sectors include agriculture, small industries, export, etc. The banks apart from extending term loans provide all assistance at the stages of project conception, formulation and implementation.
11.14 **Venture Capital/ Venture Funding:** Venture capital is money provided by an outside investor to finance a new, growing, innovative or troubled business. The venture capitalist provides the funding knowing that there’s a significant risk associated with the company’s future profits and cash flow. Capital is invested in exchange for an equity stake in the business rather than given as a loan, and the investor hopes the investment will yield a better-than-average return. Thus, Venture Capital represents investment in a highly risky project with the object of earning a high rate of return.

Venture capital is an important source of funding for start-up and other companies that have a limited operating history and don’t have access to capital markets. A venture capital firm (VC) typically looks for new and small businesses with a perceived long term growth potential that will result in a large payout for investors. A venture capitalist is not necessarily just one wealthy financier. Most VCs are limited partnerships that have a fund of pooled investment capital with which to invest in a number of companies. They vary in size from firms that manage just a few million dollars worth of investments to much larger VCs that may have billions of dollars invested in companies all over the world. VCs may be a small group of investors or an affiliate or
subsidiary of a large commercial bank, investment bank, or insurance company that makes investments on behalf clients of the parent company or outside investors.

11.14.1 Venture Capital Funding in the Indian Scenario

Venture capitalists usually finance enterprises from early stages of their development till the time they establish themselves in the market. Most of these enterprises are new, high technology-oriented enterprises. In western countries, much of this venture capital is utilized for setting up technology and expanding business. Venture capitalists invest in high risk-return ventures with the purpose of yielding high return on their investments.

In India, funds raised from public had been used as a source of venture capital since long time. However, this source of funding depended a lot on market fluctuations. In addition, with an increase in the minimum capital required to get listed in the stock exchanges, it became difficult for small enterprises to raise funds from public despite having feasible projects. In India, the need for venture capital was acknowledged in the 7th Five Year plan and long-term fiscal policy of Government of India. The need of venture capital as a source of financing new entrepreneurs and technology was highlighted by a committee on development of small and medium enterprises in 1973. Venture capital funding actually started in India in 1988 with the formation of Technology Development and Information Company of India Ltd. (TDICI) and was promoted by ICICI and UTI. The Credit Capital Finance Corporation (CFC) sponsored the first private venture capital fund, named Credit Capital Venture Fund, which was promoted by Bank of India, Asian Development Bank, and Commonwealth Development Corporation. Gujarat Venture Finance Ltd. and APIDC Venture Capital Ltd. were also started at the same time by state level financial institutions. The venture capital funds are listed in Annexure I in India.

Venture capital fund is a fund established in the form of a trust or company registered with Security Exchange Board of India (SEBI). SEBI is a nodal agency that governs, registers, and regulates both domestic and overseas venture capital funds. It makes regulations to guide the establishment of venture capital funds both within and outside India, their management and organization structure, and the investment criteria of funds. A venture capital fund includes a body corporate, which has a dedicated pool of raised capital. It invests the raised capital in Venture Capital Undertakings (VCUs) in accordance with SEBI regulations. Venture capital
undertakings are enterprises, whose shares are not listed on the recognized stock exchanges in India.

A venture capital fund aims to support entrepreneurs in creating high potential business with sustainable growth while providing their contributors with exceptional returns on investment. Thus, it includes financing new and rapidly growing enterprises that are especially knowledge-based, sustainable and high growth potential enterprises. A venture capital fund helps enterprises in terms of purchasing equity/quasi-equity securities, assisting in the development of new products or services, adding value to the enterprise through active participation, taking higher risks with the expectation of higher rewards, and having a long term involvement.

In India, venture capital funds are categorized into the following groups:

- Central government controlled development finance institutions, such as ICICI Venture Funds Ltd., IFCI Venture Capital Funds Limited (IVCF), and SIDBI Venture Capital Limited (SVCL)
- State government controlled development finance institutions, such as Gujarat Venture Finance Limited (GVFL), Kerala Venture Capital Fund Pvt. Ltd., Punjab Infotech Venture Fund, and Hyderabad Information Technology Venture Enterprises Limited (HITVEL)
- Public bank promoted venture capital funds, such as Canbank Venture Capital Fund by Canara Bank, and SBI Capital Markets Limited by State Bank of India
- Private sector promoted venture capital funds, such as IL & FS Trust Company Limited, and Infinity Venture India Fund
- Overseas venture capital funds, such as Walden International Investment Group, SEAF India Investment & Growth Fund, and BIS India Private Equity Fund Limited

11.15 Angel Capitalist

“Angel investors are the grass-roots foundation of commerce. They are not exactly the same as venture capitalists, which also play an important role in the formation of businesses and commerce in the world. They may be individuals, often successful business people etc. who invest their personal funds in the potentially rewarding business opportunity. Most angel investors are private individuals; most venture capital comes from partnerships that pool funds from wealthy individuals, investment banks, endowments, pension funds, insurance
companies, various financial institutions and even other corporations. Fund-raising for venture capital is typically done by circulating a prospectus to potential investors who then agree to commit money to the fund.

Fund-raising with angel investors is typically done more casually, using networking and more verbal conversation. One of the most common and controversial characteristics of working with angel investors is that they may take active management roles and board seats in the companies in which they invest. This often means that entrepreneurs give up some control over their businesses. However, angel investors also can provide crucial managerial or technical expertise, particularly in areas where the entrepreneur is less confident. This is especially the case when the venture capitalist specializes in the angel investor's industry or niche. Nonetheless, angel investors must be willing to take significant long-term risks for what can be very high returns.”


11.16 Summary

So students let’s summarize now what we have learnt in this lesson. As discussed, Industrialization with special emphasis on small sector is the prime focus of Government of India. It has set up a number of institutions at the all India and State level. These institutions provide not only financial facilities but other types of assistance also, such as, obtainability of raw material, marketing of products, preparation of personnel, developing infrastructure and promoting exports. Commercial banks also play a vital role in developing infrastructure and facilitate financial support for the growth of entrepreneurship.

11.17 Glossary

i) Financial Intermediaries: A financial intermediary is an institution that makes easy the flow of funds between lenders and borrowers indirectly.

ii) Industrial Development Bank of India (IDBI)

IDBI Bank is an Indian government-owned financial service company, formerly known as Industrial Development Bank of India, headquartered in Mumbai, India. It was established in 1964 by an Act of Parliament to provide credit and other financial facilities for the development of the fledgling Indian industry.
iii) **Unit Trust of India (UTI)**

The Unit Trust of India (UTI) was established under an Act of Parliament in 1964. Its subsidiaries include UTI Ventures, UTI Investment Advisory Services Ltd, UTI Investment ltd, and UTI Capital. The number of investors on May 2017 is more than 7 lacs.

iv) **NABARD**

The national Bank for Agriculture and Rural Development came into existence on July 12, 1982. With its establishment, NABARD has taken over the Agricultural Refinance and Development Corporation and has taken over from the Reserve Bank of India its refinancing in relation to the State Co-operative Rural Banks.

11.18 Check Your Progress:

**MULTIPLE CHOICE QUESTIONS**

1) One of the following functions of IDBI is to assist other financial institution by ____ of loans granted for exports.
   a) planning    c) both (a) and (b)
   b) refinancing d) None of these

2) State level financial institutions are.
   a) SFCs    c) SIIC
   b) SIDC    d) All of the above

3) The primary objective of IDBI is to ____ regulate and supervise the working of other financial institutions like IFCI, SFCs, UTI.
   a) Co-ordinate c) planning
   b) Control d) none of the above

4) All Indian Financial Institutions are
   a) IDBI    c) ICICI
   b) IFCT    d) all of the above

5) Industrial Development Bank of India is ____
   a) wholly – owned government of India undertaking
   b) wholly – owned subsidiary of RBI
   c) corporation owned by public sector banks
   d) public limited company
6) The UTI was established in
   a) 1962    c) 1964
   b) 1963    d) 1965

7) The biggest commercial bank in India is ___
   a) RBI    c) IDBI
   b) SBI    d) EXIM Bank of India

8) Which is the open institution to provide credit facility to agriculture and rural development?
   a) NABARD  c) RBI
   b) SBI    d) National co-operative Bank of India

9) Which of the following all the quantitative techniques of RBI?
   a) CRR  c) Open Market Operations
   b) SLR  d) All of the above

10) The portion of total deposits of a commercial bank which it has to keep with RBI in the form of cash reserves is termed as.
    a) CRR  c) SLR
    b) bank rate  d) repo rate

11) SEBI is a
    a) regulatory authority  b) statutory authority
    b) both (a) and (b)  d) none of those

12) Who is the custodian of monetary reserves in India?
    a) SBI  c) NABARD
    b) SIDBI  d) RBI

13) Bank can avail refinance against loans made to industrial units from
    a) DICGC  c) ECGC
    b) NABARD  d) IDBI

14) SFCs provide finance to
    a) small and medium scale industries
    b) large scale industries
    c) cottage industries
15) SIDBI caters to the requirement of
   a) small scale sector
   b) large scale sector
   c) medium scale sector
   d) agricultural sector

16) The Khadi and Village Industries Commission (KVIC)
   1. was established by an act of parliament
   2. comes under ministry of rural development
   3. was established with basic objective to provide employment in rural areas.

Choose the correct answer
   a) only 1&3
   b) only 2&3
   c) only 3
   d) 1,2&3

17) _____ is the first development bank of the country
   a) ICICI       c) SFC
   b) IDBI       d) IFCI

18) SIDBI was set up as a subsidiary of _____
   a) IDBI       c) ICICI
   b) IFCI       d) SFC

19) Investment in which of the following is most risky?
   a) Equity       c) debentures
   b) Preference shares   d) land

11.19 References & Suggested Readings
11.20 Terminal Questions

1. Discuss the role of IDBI in financing small enterprises in the country.

2. What are the main functions of SIDBI? Discuss the various types of assistance it provides to small enterprises.

3. Give an account of financial assistance provided by IFCI to small entrepreneurs.

4. Why was EXIM Bank set up? Discuss the various kinds of assistances the Bank provides to the entrepreneurs involved in export and import business in India.

5. How do the SFCs contribute to the development of small entrepreneurs in the country? Discuss.

6. State the need for institutional finance for enterprises. Which are institutions providing finance to enterprises at the all India level?

7. What are the problems encountered by the small entrepreneurs in getting financial assistance from financial institutions in India?
Lesson-12
Role of Government in promoting Entrepreneurship

12.1 Objectives

Dear students after studying this lesson, you will be able to:
33. Understand the concepts of entrepreneurship development
34. Understand the protective and promotional measures for the growth of SSI
35. Describe the importance of Central Government Incentives for Setting up Business in Backward Areas
36. Understand the various financial institutions which are providing loans for the growth of the business

12.2 Introduction

New entrepreneurs start enterprises which are in small scale. The enterprise may a production unit or a service enterprise. In case of service enterprise the funds required for fixed investment is generally small and working capital requirement may be relatively high, whereas for a
production unit the fund requirement for fixed investment as well as working capital are sizeable. There are many challenges in successfully operating a small enterprise considering its limitations on, the finances, the technology adopted, market reach, level of skill that it can employ, the quality of product or service that it can deliver etc. Small enterprise has its own advantages of quick decision, low cost of production, low investment per employment created etc. They are the backbone of the economy; hence require all the support from the government.

The output of small scale industrial (SSI) sector contributes approximately 40 per cent of the gross Industrial value-added and 45 per cent of the total exports which are from India whether direct or indirect export. Entrepreneurship is a vital source of change in all the facets of society, empowering individuals to seek opportunity where others see insurmountable problems. The entrepreneurs possess innovative and different ideas to achieve their goals and help build a better environment in their own sectors of expertise. In order to make their plans successful there are different financing programmes made available for the new entrepreneurs who are about to start their business and also for the small business growths by the government. At the same time knowing government help is available there are certain entrepreneurs who are hesitant to get assistance from the government, which may be due to the fact that they are already financial sound and can manage their resources on their own. But with so much growth happening around and risk involved in new set ups the entrepreneurs should look into the aspect of government help and shall not hesitate and taking that. The government whether central or state will immediately provide the required capital assistance through the entrepreneur grants with which the entrepreneur shall be able to achieve a successful setup.

12.2.1 Central Government Policies

The various central government policies for Small Scale Industries are:

12.2.1.a GENERAL POLICIES

- Policy of Reservation
  - Price & Purchase Preference
  - Reservation of Items
- Licensing
- Trade Policy
- Foreign Investment Regulations
- Labour Policies
- Foreign Direct Investment Approval
- NRI Investment Approval
- Ministry of Steel: Steel products standard policy for Manufacturing (Notification No-414(E)/415(E) Dated 12/3/2012)

12.2.1.b INDUSTRIAL POLICIES

Priority Sector
- North Eastern Policy
- Women Entrepreneur
- Policy for Tiny Sector, Cottage & Village Industries, Handicrafts, Khadi & Handlooms
- Development of Backward Areas

Funding & Finance
- Taxation-Excise Duty
- Credit Policy

Modernization & Training
- Quality Standard Policy

Energy & Environment
- Pollution Control Measures
- Environmental Control

Government provides a lot of support for entrepreneurs who are wishing to set up their own business or who already have one. The government provides grant to those businesses that are located in areas that have low employment and very little growth in India, there are incentives being given by the state and central government. Many of the incentives are provided sector wise which are being given by the concerned ministry.
12.3 Benefits Given by Central Government for Setting up Business in Rural Areas

Indian central government and various state governments give numerous benefits and incentives to promote the basic manufacturing industries and for entrepreneurship development of rural areas. Both the state and central governments share the cost of some of the incentives provided. The main aims of such incentives are to develop rural and backward areas and enhance employment opportunities for local inhabitants of such areas. The following are the basic incentives:

- A subsidy at the rate of 15 per cent of the investment amount in plant and machinery is given under the capital investment subsidy scheme.
- Subsidies for transportation to promote industries in areas that are not easily accessible, like remote hilly areas. Under this scheme a subsidy of 50 to 90 per cent on transportation costs is available.
- A subsidy for interest relief is also provided at a rate of 3.5 per cent for new industrial units in some areas.

However, setting up an industry in India in the past was not an easy task because of bureaucratic requirements that needed to be fulfilled. The state and central governments have made efforts to improve some things.

12.4 Government Financial Institutions for providing Loans to start Industrial venture in India

Indian financial sector plays an important role in the overall development of the nation. Indian government, for the purpose of sufficient supply of credit to different sectors of Indian economy, has created a valuable structure of financial institutions in India. Depending upon the geographical coverage of their functions these financial institutions (FIs) can be classified into State level institutions and all India institutions. At the national level, FIs provide long term and medium term loans and advances at a very genuine interest rate. Their main functions are to underwrite public issue of shares, debenture issues of companies, guarantee loans and deferred payments etc. On the other hand, the State level institutions are basically linked with the development of medium and small scale institutions and they deliver the same type of financial help at the national level institutions.
There are two main national level financial institutions which provide loans to the entrepreneurs and these are:

- **Industrial Development Bank of India (IDBI):** Industrial Development Bank of India aims to create a principal institution for long term finance, to provide administrative and technical support to the industries, to coordinate the institutions which are working in this field for planned development of industrial sector and to conduct research and development activities for the benefit of industrial sector.

- **Industrial Finance Corporation of India (IFCI):** The government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in India to deal with the long-term finance needs of the industrial sector. The newly-established DFI were given low-cost funds through the central bank's Statutory Liquidity Ratio (SLR) which in turn enabled it to give advances and loans to the borrowers of corporate sector at concessional rates.

On the state level, loans as well as finance can be availed from:

- **State Financial Corporation (SFC):** Under the provision of the State Financial Corporation Act, 1952, the SFCs are established in the various states for giving loans and advances to small and medium scale industries. There are 18 SFCs operating in seventeen different states (including the Tamil Nadu Industrial Investment Corporation Ltd.) and Delhi (Union Territory). The SFCs are under the direct control of the relevant State Government and the IDBI. The SFCs have similar functions to those of the IFCI. Its main functions are to provide financial assistance in the form of advances and loans, underwriting of new issues, subscription to shares and debentures and guarantee of loans. But, in reality, they have concentrated mostly on advances and loans only. There is, therefore, a need for reorientation of their loans policy.

There are 18 State Financial Corporations (SFCs) in the country and these are:

1. Andhra Pradesh State Financial Corporation (APSFC)
2. Himachal Pradesh Financial Corporation (HPFC)
3. Madhya Pradesh Financial Corporation (MPFC)
4. North Eastern Development Financial Corporation (NEDFC)
5. Rajasthan Financial Corporation (RFC)
6. Tamil Nadu Industrial Investment Corporation Limited
7. Uttar Pradesh Financial Corporation (UPFC)
8. Delhi Financial Corporation (DFC)
9. Gujarat State Financial Corporation (GSFC)
10. The Economic Development Corporation of Goa (EDC)
11. Haryana Financial Corporation (HFC)
13. Karnataka State Financial Corporation (KSFC)
14. Kerala Financial Corporation (KFC)
15. Maharashtra State Financial Corporation (MSFC)
16. Orissa State Financial Corporation (OSFC)
17. Punjab Financial Corporation (PFC)
18. West Bengal Financial Corporation (WBFC)

- **State Industrial Development Corporation (SIDC):** The SIDCs came on the scene much after the SFCs. Besides giving finances, these types of institutions perform a variety of functions, viz. licenses for industrial units, arranging for land, power, roads, sponsoring the establishment of such units, especially in backward areas, etc. It also provides working capital margin to the entrepreneurs as term loan.

### 12.5 Government Schemes

The government schemes available for the industrial development of a state may be categorized as making available infrastructure at concessional or reduced rates and providing cash subsidy and incentives which amounts financial gains to the entrepreneur. These schemes are as follows:

- Loans and subsidies at very attractive rates of interest.
- Electric power supply at a reduced tariff.
- Land at subsidized prices or industrial sheds to set up small scale industrial units.
> Various tax concessions for a number of years. These may include exemption from sales tax, etc. for a set period of time.

1. **Providing Assistance for Acquiring Land:** In case the entrepreneur requires land in particular area suited for his type of industry, government will notify the land for industrial use and acquire it by paying compensation to the owners of the land, which may be less than the market price plus reducing the effort required to by promoter to deal with owners of the land and time involved.

2. **Providing Land in Industrial Area:** Government depending on its policy of dispersion of industries for uniform development of state develops industrial area by providing roads, drainage, power, water, telecommunication and civic amenities so that entrepreneurs can set up their industrial units in these fully developed industrial areas. Further certain industrial areas are developed to house specific type industries such as electronic industries, software industries, pharmaceutical industries etc., such industrial areas are equipped with facilities required by the target industries. The cost of the land in such location is at cost basis which is much less than the market price.

3. **Providing shed in Industrial Estates:** Government constructs industrial sheds of different sizes in the identified locations and allocates them to the entrepreneurs thus reducing the cost, time and effort involved. Such sheds are in fully developed estates/areas where roads, drains, power, water etc. are available.

4. The government schemes for making available financial incentives to entrepreneurs include the following:

   (i) **Providing Capital Subsidy:** The government depending on its policy of dispersion of industries all over the state for all round development provides capital subsidy to make it attractive for the entrepreneurs to set up their units in backward districts of the state. Even the industrial area and sheds are developed in the backward districts or taluks of the state.
(ii) **Concessions in the payment of stamp duty:** In order to encourage entrepreneurs, government has given concession on the stamp duty applicable while registering the industrial land, which is a financial gain to the entrepreneurs who register the industrial land in their name.

(iii) **Sales tax concessions/deferment:** New industrial units were given sales exemption to the extent of twice the amount of investment made in the industrial units set up in the state. There used to be a scheme which exempts sales tax payment/remittance by the unit for a period of three years.

(iv) **Interest Subsidy:** The government extends interest subsidy on the loan extended to certain class of entrepreneurs such as women entrepreneurs, ex-servicemen etc. the interest subsidy is in terms of a percent or less. There are schemes which require lesser contribution from women entrepreneurs in the equity contribution.

(v) **Export Subsidy:** Government charges reduced interest rates for the funds involved in exports to promote export and to make the export price competitive in the market.

(vi) **Funding the educational and industrial tours:** The government extends subsidy and assistance to entrepreneurs to undertake tour both within the country and abroad for visiting/participating in exhibitions.

(vii) **Income tax benefits:** Income Tax Act, 1961 under section 80 J, new industrial undertakings including small-scale industries (SSI), are exempted from the payment of income-tax on their profits which is subject to a maximum of 6 per cent per annum of their capital employed. The exemption in tax payment is allowed for the period of five years from the date of commencement of production. In order to avail this exemption facility, a small-scale industry has to satisfy the following two conditions;

- The unit should not have been formed by the reconstitution or splitting of an existing unit.
- The unit should employ ten or more workers in a manufacturing process with power, or at least twenty workers without power.

(viii) **Rehabilitation Allowance:** According to the section 33 B of Income Tax Act 1961 the rehabilitation allowance is allowed to small-scale industrial units and the
manufacturing small enterprises. The rehabilitation allowance is given to only those small businesses that had suffered because of the following reasons:

- Action taken in combating an enemy or action by an enemy.
- Cyclone, Flood, earthquake or other natural upheavals.
- Civil disturbance or riot, explosion or accident fire.

The rehabilitation allowance should be utilized within three years of the unit's re-establishment reconstruction of revival for the business purposes only. This allowance is allowed to the industrial undertaking equal to 60 per cent of the amount of the deduction allowable to the enterprise.

(ix) *Expenditure on Scientific Research:* Following deductions in respect of expenditure on scientific research are allowed under the section 35 of the Income Tax Act 1961:

- The capital expenditure (except land) incurred on scientific research must be related to the business of the assessee, but it is subjected to the provision of section 35(2) of the Income Tax Act, 1961.
- The revenue expenditure must be incurred on scientific research related to the business of the assessee in the current previous year.
- The sum that it pays to a scientific research association or a university, college, institutions or to a public company which must have its objective of scientific research.

(x) *Depreciation:* A small-scale industrial unit is entitled to a deduction on depreciation on block of assets at the rates which are given under section 32 of the Income Tax Act, 1961. Depreciation deduction from the actual cost of plant and machinery is allowed subject to a maximum of rupees 20 Lakhs in case of the small-scale industry. Diminishing balance method is used to calculate the amount of depreciation. In case of an asset acquired before the accounting period, depreciation is calculated on its written down value (WDV). An additional allowance called 'Extra Shift Allowance' is available for the plant and machinery that is used in manufacturing in double or triple shift. A small-scale industry
should fulfill the various conditions before it becomes eligible for claiming the deduction in depreciation:

- This deduction of depreciation is allowed only on fixed assets, viz. building, machinery, plant and furniture.
- The asset must be used actually in the business or profession of assessee.
- The asset must be owned by the assessee.
- The income tax officer must be satisfied with all the prescribed particulars as required under section 34(1) of the Income-Tax Act, 1961.

(xi) *Investment Allowance:* In 1976 the investment allowance was introduced in order to replace the initial depreciation allowance. This allowance is allowed at the rate of 25 per cent of the cost of acquisition of new plant or machinery installed as per section 31A of the Income-tax Act, 1961. Actually the investment allowance has been made available for the things or the articles except certain items of low priority initially, but, according to the 11th schedule of the Income Tax Act 1961, a special dispensation has been provided for the plant and machinery installed in small-scale industries. The important condition for claiming the investment allowance that the small scale industrial unit has put to use machinery or plant either in the immediate following year or in the year of installation, falling which the benefit will be forfeited.

The schemes of the government mentioned above are illustrative only. There are various schemes which would exempt industrial units from power cut, development loans given at very nominal rate of interest etc.

### 12.6 Scope for further improvement in extending financial support to the entrepreneurs by the government

While government has been instrumental in providing credit flows to the SMEs and has made available subsidies to encourage entrepreneurs to set up their ventures in the backward areas of the country, there is scope for further improvement in extending financial support to the entrepreneurs which are listed below:

1. Presently government subsidies are released over a period of time to SMEs. This can be made to set off against the taxes that are payable to the government. Thus the subsidy
amount is available to SMEs as soon as they start functioning which can be used to repay bridge loan availed by them. This can also be directly remitted to the loan account of entrepreneur.

2. Rope in the private sector banks to provide finance to SMEs in line with nationalized banks in respect of duration, debt equity ratio and interest rates.

3. Considering the limitations of the SMEs with regard to the size, technology and the skill of the employees that they can farner etc., schemes for reimbursing the portion of tax whether sales tax or vat paid them to the government can be withdrawn up.

4. Make available the concessions in excise duty on the purchase of commercial transport vehicles used for transporting employees.

5. The depreciation allowance which can be up to 100 per cent needs to be increased to the level of 150 per cent, taking into consideration the inflation factor which has reached double digit. Alternatively make available a formula for computing depreciation in which factor of inflation is embedded.

6. Fix a time limit for processing of loan applications of SMEs in Financial Institutions and Banks.

7. Create an agency to deal with the NPAs or closed industrial units to dispose of the asset and use the proceeds to repay the dues. A time limit can also be fixed say three years for a sick unit to recover beyond which it is referred to agency for disposing the unit. Thus idle assets/funds is put to productive use.

8. Attach SMEs to laboratories and institutions such as IISc, CPRI, NAL, IIMs etc., so as to enable SMEs to get technical advice, development of new products different strategy from competitive agency at a nominal amount of fee. Various Facilities available in the aided private educational institutions can also be used for this purpose.

9. Provide enough funds with the banks for financing the requirement of SMEs by increasing the percentage of loans to be extended to priority sector. Allow re-appropriation only during January to ensure ear marked funds is utilized for financing requirement of entrepreneur.

**12.7 Summary**
Dear students, let’s summarize what we have learnt in this lesson. As we have discussed entrepreneurship is a vital source of change in all the facets of society, empowering individuals to seek opportunity where others see insurmountable problems. The entrepreneurs possess innovative and different ideas to achieve their goals and help build a better environment in their own sectors of expertise. In order to make their plans successful there are different financing programmes made available for the new entrepreneurs who are about to start their business and also for the small business growths by the government. At the same time knowing government help is available there are certain entrepreneurs who are hesitant to get assistance from the government, which may be due to the fact that they are already financial sound and can manage their resources at their own.

12.8 Glossary:

xii. **Small Scale Industries (SSIs)**: The term small scale industry (SSI) indicates an individual undertaking industry in which the entire expenses on fixed assets don’t exceed more than Rs.1Crore but it is not certain and can be changed with government rules, this amount can be in form of ownership or hire purchase or it may be leased.

xiii. **Industrial Development Bank of India (IDBI)**: Industrial Development Bank of India aims to create a principal institution for long term finance, to provide administrative and technical support to the industries, to coordinate the institutions which are working in this field for planned development of industrial sector.

xiv. **Industrial Finance Corporation of India (IFCI)**: The government established The Industrial Finance Corporation of India (IFCI) on July 1, 1948, as the first Development Financial Institution in India to deal with the long-term finance needs of the industrial sector.

xv. **State Financial Corporation (SFC)**: Under the provision of the State Financial Corporation Act, 1952, the SFCs are established in the various states for giving loans and advances to small and medium scale industries. There are 18 SFCs operating in seventeen different states (including the Tamil Nadu Industrial Investment Corporation Ltd.) and Delhi (Union Territory).

xvi. **State Industrial Development Corporation (SIDC)**: SIDCs not only providing finance to SSIs but also performs a variety of functions, viz. licenses for industrial units,
arranging for land, power, roads, sponsoring the establishment of such units, especially in backward areas, etc.

12.9 Check your progress:

Pick the correct Answer.

ix. SFC refers to:
   
   c. State Finance Company       d. State Financial Company
   (Answer: a)

x. Which of the following is a short term source of finance?
   
a. Lease Finance               b. Hire Purchase
   c. Public Deposits            d. Trade Credit
   (Answer: d)

iii. How many SFCs are there in the country:
   
a. 18                           b. 20
   c. 16                           d. 19
   (Answer: a)

iv. Which of the following is not a national level agency?
   
a. IDBI                           b. IFCI
   c. NSIC                          d. SIDC
   (Answer: d)

v. Which of the following is not a personal barrier to an entrepreneur?
   
a. Lack of Sustained Motivation b. Practical Values
   c. Lack of Vision               d. Lack of Clear Perception
   (Answer: b)

State whether true or false-

i. New entrepreneurs start enterprises which are in small scale. (Answer- True)

ii. Indian Government does not provide any incentives and benefits to the small scale industries (Answer- False)

   iii. Andhra Pradesh State Financial Corporation (APSFC) is a State Financial Corporation (Answer- True)

   iv. Government do not charge reduced interest rates for the funds involved in exports to promote export (Answer- False)
v. An additional allowance called 'Extra Shift Allowance' is available for the plant and machinery that is used in manufacturing in double or triple shift. (Answer- True)

12.10 References & Suggested Readings:

Books
41. http://simdega.nic.in/fii.html
42. http://www.dcmsme.gov.in/policies/policies.htm

Web Resources
1) www.slideshare.net
2) www.nriinformation.com
3) www.ukessays.com
4) www.icsi.edu
5) www.plantdoctors.co.in
6) www.studymode.com
7) www.dcmsme.gov.in
8) www.highered.mcgraw-hill.com
9) www.yourarticlelibrary.com
10) www.ijbmer.com
11) www.xaviers.edu
12) www.smallindustryindia.com

12.11 Terminal and Model Questions:

19. Explain the concept of EDPs and its components.
20. Discuss the need and objectives of entrepreneurial development programmes in India.
21. What do you mean by EDP? Explain the various phases of EDP.

22. “Entrepreneurs are made, not born.” Comment on this statement and justify your answer.

12.12 Points to Ponder

i. New entrepreneurs start enterprises which are in small scale.

ii. Government provides a lot of support for entrepreneurs who are wishing to set up their own business or who already have one.

iii. At the national level, FIs provide long term and medium term loans at a very genuine rate of interest.

iv. The government extends subsidy and assistance to entrepreneurs to undertake tour both within the country and abroad for visiting/participating in exhibitions.